
**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, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-35468

CafePress Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-3342816

(I.R.S. Employer
Identification No.)

11909 Shelbyville Road, Louisville, KY

(Address of principal executive offices)

40243

(Zip Code)

Registrant's telephone number, including area code: (502)995-2229

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

Title of each class:

Common Stock, par value \$.0001 per share

Name of each exchange on which registered:

NASDAQ Global Select Market

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

None

(Title of class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$21,681,221 based upon the closing price of \$2.48 of such common stock on the NASDAQ Global Select Market on June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter). Shares of common stock held as of June 30, 2017 by each director and executive officer of the registrant, as well as shares held by each holder of 10% of the common stock known to the registrant, have been excluded for purposes of the foregoing calculation. This determination of affiliate status is not a conclusive determination for other purposes.

As of February 21, 2018, there were 16,947,264 shares of the common stock of the registrant outstanding.

Documents Incorporated By Reference

All or a portion of Items 10 through 14 in Part III of this Form 10-K are incorporated by reference to the Registrant's definitive proxy statement on Schedule 14A, which will be filed within 120 days after the end of the Registrant's fiscal year covered by this report on Form 10-K, or if the Registrant's Schedule 14A is not filed within such period, will be included in an amendment to this Report on Form 10-K which will be filed within such 120 day period.

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STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Except for the historical financial information contained herein, this annual report on Form 10-K (the "Report") contains certain forward-looking statements within the meaning of Section 27A of the Private Securities Litigation Reform Act of 1995, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by the Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by terms such as "may," "might," "will," "objective," "intend," "should," "could," "can," "would," "expect," "believe," "estimate," "predict," "potential," "plan," or the negative of these terms, and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements, include, but are not limited to, statements about: our strategy, including rebuilding the user experience, and the impact thereof, Retail Partner Channel expansion, third party printing and fulfillment and maintaining financial discipline, plans with respect to expanding storage capacity; our financial performance, including revenue, cost of revenue, operating expense, tax rates and the impact of the Tax Cuts and Jobs Act ("TCJA"); our plans for future services and enhancements of existing services; including our website rebuild to result in higher traffic and better search engine optimization; our facilities; the anticipated impact and benefits of streamlining our operations; seasonal fluctuations in our business and statements about our expectations as to the variability of our growth rates from period to period; anticipated trends and challenges in our business and the markets in which we operate; customer acquisition costs as a predictor of future growth; our expectations with respect to competition and our plans to address it and the pressures related thereto; our anticipated cash needs and our estimates regarding capital requirements; our investment plans, including our needs for additional financing and the potential dilutive effect thereof; our liability from user-generated content; our ability to recognize and remedy issues with internal controls; the impact of production issues and delayed orders; our responses to changing customer preferences, new technologies, requirements and industry standards; our anticipated growth strategies; our expectations with respect to raw materials, suppliers or inventory; our regulatory environment including the impact of the General Data Protection Regulation and the TCJA; benefit of non-GAAP financial measures; the impact of any legal proceedings to which we may become a party and the impact and timing of costs related thereto; our content acquisition strategy; plans with respect to dividends; marketing and selling products and services beyond our existing target markets and our ability to develop new products, services and sources of revenues; our ability to protect intellectual property and other trade secrets; risks associated with our efforts to streamline our business and operations; risks related to the volatility of our stock and the impact of a large sale of stock by our stockholders.

These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risks set forth throughout this Report, including under Item 1A, "Risk Factors."

These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q and 8-K reports filed with the Securities and Exchange Commission.

PART I

ITEM 1. Business

Overview

CafePress Inc. (the "Company," "we," "us," "our") is a provider of gifts and expressories. We take pride in helping to facilitate human connections by inspiring people to express themselves with the best assortment of engaging merchandise. We were founded in 1999 as a California corporation, we reincorporated in Delaware in 2005 and we completed our initial public offering in April 2012. Our common stock is listed on the Nasdaq Global Select Market under the symbol "PRSS".

We are a leading provider of personalized products offering a wide variety of expressive gifts and accessories, including t-shirts and apparel, mugs and drinkware and home goods such as custom shower curtains and bed coverings. We conduct most of our business on our primary United States-based domain, CafePress.com and operate CafePress branded websites for markets in the United Kingdom, Canada and Australia. We also sell CafePress branded products in the United States and various locations in Europe through our online retail partners such as Amazon and Walmart. Our products are customized with expressive designs

contributed through a variety of means, including crowd-sourced user generated content, stock art licenses and licensed content relationships with large entertainment companies and brands. Our distinctive items bring our customers' passions to life and connect people to each other.

Our production facility and fulfillment center in Louisville, Kentucky has innovative technology and manufacturing processes that enable us to provide high-quality customized products that are individually built to order. Our proprietary processes enable us to produce a broad range of merchandise efficiently and profitably. We also maintain a diverse network of contract manufacturers that give us the ability to broaden our manufacturing capabilities and produce in certain international locales.

Most of our net revenue is generated from sales of customized products through our e-commerce websites (collectively referred to as "CafePress.com"), associated Retail Partner Channel ("Retail Partner Channel") or through storefronts hosted by CafePress ("Shop"). In addition, we currently generate limited revenue from third-party printing and fulfillment services. Customized products include user-designed products as well as products designed by our content owners.

E-Commerce Platform Products and Services

We receive content from a wide variety of sources, including user-generated content, licensed content from various properties and content from stock photo sources. These products are digitally rendered for consumers onto a variety of base goods, and the combination of the content and base good creates the range of products offered on CafePress.com.

On CafePress.com, these products and the associated metadata are marketed to draw both search engine and direct traffic. Prices are established by us, and we control the marketing.

User-generated content can also be created on CafePress.com for self-purchase or to be sold. If user-generated content is to be sold to others, the content generator is called a Shopkeeper and may be paid a commission in one of two ways. The predominant way in which a commission is earned consists of Shopkeepers benefiting from a percentage of sales of their content sold on CafePress.com or through our Retail Partner Channel as determined by published terms and conditions. Commission rates typically range from 5% to 11% of sales. The Shopkeeper can also elect to create a Shop and can use a suite of tools to provide a unique e-commerce experience, establish their own markup above our standard product pricing and drive their own marketing. As Shopkeepers drive their own traffic and establish their own markup for their Shop, the commission is typically higher than that earned on CafePress.com.

Our Retail Partner Channel typically refers to the fact that we are generating revenue from sources other than CafePress.com or our related websites. Retail Partner refers to the distribution of our more popular content and products to other e-commerce retail websites such as Amazon and Walmart. During 2017, we increased our product catalog with Walmart and we expanded our Amazon partner channel into additional locations in Europe.

Whether sold on CafePress.com, through a Shop or through our Retail Partner Channel, the resulting order is electronically communicated to our fulfillment center in Louisville, Kentucky, and then routed to the appropriate location to be manufactured on-demand. Most of our goods are manufactured in Louisville, Kentucky, however we do have fulfillment arrangements with other third-parties with different product expertise, or geographical advantages such as operations in Europe, Australia and Canada. Products are then produced and shipped from the appropriate fulfillment location.

We generate the majority of revenue from CafePress.com. By controlling the production process in our manufacturing facility, we can produce high-quality products, innovate quickly, maintain a favorable cost structure and ensure timely shipments to customers during our peak periods of demand. We generate approximately 90% of our revenue from sales originating in the United States and our sales are seasonally driven as we generate approximately 40% of our total revenue during our fiscal fourth quarter.

Business and Marketing Strategy

Our goal is to help individuals establish connections and celebrate their identities, interests and affinities through unique products and content. The desire to personalize products and express affinity through the things individuals surround themselves with, whether they are decorating their apparel, their home or office, remains strong, and as we improve the quality of our execution and services, we believe we can eventually capture more of that demand. To reach new and existing customers, we rely on consumer awareness of our brand and use a variety of integrated marketing programs, including search engine marketing, search engine optimization, social media, e-mail and other forms of online marketing.

Key elements of our strategy, both in 2017 and going forward, to achieve this goal include:

- *Rebuild the User Experience.* A key aspect of our ability to improve our retention and customer counts is to provide a site that removes as much friction from the purchasing funnel as possible. Updates to the website began to be released in 2017, starting with a new homepage. We focused on refreshing stale content, updated XML sitemaps and streamlined our link architecture which will enhance crawlability for search engines. During 2018, we plan to complete our website rebuild with an upgrade to a fully encrypted HTTPS site and new search, product details, cart page and checkout pages. We believe the new website will result in higher traffic, conversion and revenue from search engine optimization channels.
- *Retail Partner Channel Expansion.* We intend to support growth in our Retail Partner Channel by further expanding into new marketplaces and geographies, focusing on product discoverability and an enhanced customer experience that includes detailed product descriptions, photographs, reviews and refined pricing and promotions. During 2017, we expanded into Germany, Italy, France and Spain domains through Amazon and launched our initial product catalog with Walmart.com. During 2018, we will expand further with Amazon into their Australian domain.
- *Third-Party Printing and Fulfillment.* In 2017, we implemented a \$1.5 million garment printing platform upgrade to improve throughput, drive efficiency and increase capacity. We believe we can leverage our manufacturing platform and excess capacity to enter into new fulfillment agreements with other third-party consumer-facing, on-demand, custom product providers. We are focused on acquiring new fulfillment customers to generate additional revenue for CafePress.
- *Maintain Financial Discipline.* We manage our business activities with a focus on profitability growth. In February of 2018, we announced a \$4 million cost reduction plan and we will align our cost structure to maintain discipline in our operations and conserve our cash balances.

Technology and Production Systems

We use a combination of proprietary and third-party technology, including the following:

- *Website System.* We have designed our website systems to be secure and highly available using cloud-based hosting and a virtualized server architecture. We can easily scale to increasing numbers of customers cost-effectively by adding capacity through this approach. We have a strong commitment to our privacy policy, and we utilize technologies such as firewalls and encryption technology for secure transmission of personal information between customers' computers and our website and intrusion detection systems.
- *Image Archive.* We store our customers' images in our image archive. Once a customer uploads a photo to our website, it is copied to multiple redundant systems. We continue to expand our storage capacity to meet increasing customer demand. Our innovative storage architecture is cost-effective, facilitates the safe and secure archiving of customers' images and delivers the speed and performance required to create products in real-time.
- *Image Review.* Our in-house system examines the content of an image and returns metadata that we utilize to run a product creation engine. This system produces the best quality image for the product selected.
- *Production System.* We operate our production facility in Louisville, Kentucky. Our single piece flow automated production system efficiently controls our production processes, including order management and pick, pack and shipping operations. Using proprietary algorithms, the production system analyzes thousands of orders daily and automates the workflow into our state-of-the-art digital printers. We also use third-party print on demand partners internationally to assist with the speed of delivery and to help control fulfillment costs.

Competition

The market for customized products and services is large, fragmented and intensely competitive and we expect competition to increase in the future. We face competition from a wide range of companies, including the following:

- Small, traditional offline printing, gifting and souvenir businesses for apparel, accessories, home, or other customized products;
- E-commerce companies, including large online retailers and marketplaces such as Amazon.com, Walmart.com, Target and eBay (who may also be part of our Retail Partner Channel);
- Online providers of customized products such as RedBubble Inc., CustomInk LLC, Spreadshirt Inc., TeeSpring or Zazzle Inc. as well as providers of distinctive goods like Etsy, Inc. or Uncommon Goods LLC;

- Online providers allowing users to customize goods in specific vertical markets, such as Cimpress N.V. for small businesses and Shutterfly, Inc. for photographic products;
- Physical and catalog retailers of personalized merchandise such as Red Envelope and Things Remembered; and
- Small, but numerous, online providers who address niche customization services and product offerings, enabled by advances in digital printing technologies.

We also indirectly compete with Internet portals and shopping search engines that are involved in e-commerce or sell products or services either directly or in collaboration with other retailers, and our reliance on Internet portals and other sources of Internet and referral traffic, such as Facebook, impacts both the way we do business and our performance against competitors. Changes to their practices could drive traffic to our competitors and away from our e-commerce sites in ways we may not anticipate or that will cause us to expend further resources to successfully compete. The shift to mobile site access prevalence presents challenges as we cope with adapting our site to shifting traffic patterns and the different use characteristics, which include lower average order size, amongst others. Furthermore, to the extent that other companies are able to replicate our processes or if advances in print-on-demand technologies reduce any technological or other early mover leads we may have, our business, prospects, financial condition and results of operations could be harmed.

Some of our current and potential competitors may have significantly greater financial, marketing, technology and other resources than us, including significant brand recognition, sales volume and customer bases. In addition, other online retailers may be acquired by, receive investment from or enter into strategic relationships with, well-established and well-financed companies or investors that would help enhance their competitive positions. Some of our competitors may be able to secure goods and raw materials from suppliers on more favorable terms, devote greater resources to marketing activities and promotional campaigns, adopt more aggressive pricing policies and devote substantially more resources to website and system development than us. Increased competition may reduce our operating margins, market share and brand recognition, or force us to incur losses. We may not be able to compete successfully against current and future competitors, and competitive pressures may harm our business, prospects, financial condition and results of operations.

We believe the principal competitive factors in our industry include:

- Competitive pricing;
- Technological expertise;
- Quality, breadth and type of the products sold and services offered;
- Ease of use and convenience of our services;
- Effective marketing and distribution;
- Ability to anticipate and quickly adapt to changing customer demands and customer service needs;
- Ability to source products efficiently and cost effectively; and
- Favorable brand recognition and trust.

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

Intellectual Property

We rely primarily on a combination of patents, trade secrets, trademarks and copyrights, as well as employee and third-party confidentiality and invention agreements to safeguard our intellectual property. As of December 31, 2017, we had seven issued patents and one patent application pending in the United States generally covering our e-commerce services or proprietary printing and decorating services and our online platform for designing and generating framed products. We continually assess appropriate occasions for seeking patent protection for those aspects of our technology, designs and methodologies and processes that we believe may ultimately provide significant competitive advantages.

As of December 31, 2017, we held 19 U.S. trademark registrations (some of which are registered in multiple classes), which include, among others, CAFEPRESS.COM, CAFEPRESS, and the "cafepress" logo. We are in the process of registering additional trademarks supporting our business and we also claim common law trademark rights in numerous trademarks. We have registered our CAFEPRESS.COM and CAFEPRESS trademarks in numerous countries in Africa, Asia, Australia, Europe and North America.

Our patents expire at various times between November 2025 and June 2031. In addition, in accordance with U.S. federal trademark law, our registered trademarks are registered for an initial period of 10 years, subject to subsequent 10-year renewal periods. We currently intend to maintain the registration of our trademarks indefinitely. We also register trademarks in dozens of international jurisdictions and likewise plan to renew our trademark registrations indefinitely wherever we conduct business. In the ordinary

course of our business, we enter into hundreds of license agreements with content partners for the license of published entertainment content and consumer brands. We are not dependent on any specific content license agreement in the conduct of our business. We also license various forms of third-party technologies in the provision of our e-commerce services. We believe we have multiple sources for third-party technologies used in our business, and if we were to change licensors for any reasons, it would result in minimal disruption to our operations, if any.

Our standard content license agreement is typically for a term of three years, subject to termination in the event of an uncured material breach of either party and renewable for one year terms thereafter. Our third-party technology licenses are typically for a term of one to two years, with optional renewal clauses upon mutual agreement of the parties.

We also rely upon certain unpatented proprietary manufacturing expertise, licensed third-party technologies, continuing technological innovation and other trade secrets to develop and maintain our competitive position. For certain of our proprietary know-how and processes, we rely on trade secret protection and confidentiality and invention agreements to safeguard our interests. We believe that many elements of our system, including technical processes, equipment and system designs, algorithms and procedures, which relate to our software controls, manufacturing process and methods of system design involve proprietary know-how, technology or data that are not covered by patents or patent applications. We have taken security measures to protect these elements. For example, all of our research and development personnel are required to enter into proprietary information and inventions agreements with us. These agreements address intellectual property protection issues and require our employees to assign to us all of the inventions, designs and technologies they develop during the course of employment with us. We also require our customers and business partners to enter into non-disclosure agreements before we disclose any sensitive aspects of our technology, proprietary processes, sales data or business plans.

Government Regulation

The legal environment of the Internet is evolving rapidly in the United States and around the world. 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, are often unclear in many cases. 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, defamation, pricing, credit card fraud, advertising, taxation, sweepstakes, promotions, content regulation, quality of products and services and intellectual property ownership and infringement.

The nature of our user-generated content business models presents legal challenges to our business and operations. Our content usage policy and policies surrounding infringement of intellectual property rights or the rights of third parties, such as rights of privacy and publicity, play a key role in our business operations and the systems and practices that support them are particularly important to our business, operations and reputation. Both in the United States and internationally, we must monitor and comply with a host of legal concerns regarding the content-based nature of our business. As an e-commerce platform, the scope of liability for third-party content uploaded to our site for sale on printed products requires analysis of varying definitions of political speech, hate speech, pornography, profanity and obscenity, among other speech-related concerns. We likewise must monitor our e-commerce platform for potential and alleged intellectual property infringement and violation of rights of privacy and publicity that can vary widely between countries and regions, and, accordingly, we frequently must navigate the legal and regulatory schemes of numerous countries outside the United States. Our ability to employ processes to quickly remove infringing or offending content from our automated upload website is an important tool in protecting us from exposure for the potentially infringing activities of our users worldwide.

Numerous laws and regulatory schemes have been adopted at the national and state level in the United States, and in some cases internationally, have a direct impact on our business and operations. These laws include the following:

- The Copyright Act of 1976 and all of the statutes and regulations associated with and enforced by the United States Patent and Trademark Office which protect the rights of third parties from infringement by users of our service. We maintain an automated service whereby users can upload any content they designate for use in creating customized products, but we likewise maintain content usage policies that prohibit intellectual property rights infringement or infringement of the rights of others, including rights of privacy and publicity. We maintain a robust Intellectual Property Rights policy and a proactive support operation which responds to and manages take-down requests and other concerns relating to third-party intellectual property that might appear on our sites despite policies forbidding the practice. As our business expands to other countries, we must respond to regional and country-specific intellectual property considerations, including take down and cease and desist notices in foreign languages and we must continue to build infrastructure to support these processes globally.
- The Digital Millennium Copyright Act, which provides relief for claims of infringement as it relates to circumvention of copyright protected technologies, but also includes a safe harbor 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. We

maintain DMCA-complaint practices for notice and take-down as well as other required practices such as repeat offender management.

- The CAN-SPAM Act of 2003 and similar laws adopted by a number of states, which 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, the guidelines of the Federal Trade Commission imposes responsibilities upon us for communications with respect to consumers and imposes fines and liability for failure to comply with rules with respective advertising or marketing practices they may deem misleading or deceptive. Further, the European Union, or the E.U., 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.
- Numerous product safety and environmental regulations that apply to the manufacture, sale and distribution of products and apply to our products and services to varying degrees based on the individual types of products sold through our portfolio of e-commerce websites and the inks used in our decorating processes. These regulations include, without limitation, the Consumer Product Safety Act, The Fair Packaging and Labeling Act, the Federal Food, Drug and Cosmetic Act, California Proposition 65, the California Transparency in Supply Chains Act of 2010, as well as a number of other federal and state product safety and environmental regulatory schemes. Product safety regulations applicable to the E.U. in particular, where the majority of our international sales is currently shipped, are often more stringent than those in the United States and we therefore must evaluate and test applicable products to E.U. standards with respect to products intended for distribution in those markets.
- The Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act) and other state laws and regulations that relate to credit card and gift certificate use fairness, including expiration dates and fees, as well as state laws surrounding escheat and abandonment of unclaimed property.
- In the United States and internationally, we must evaluate tax liabilities from transactions on our portfolio of e-commerce websites and maintain finance infrastructure to support the collection and remittance of applicable sales taxes. In the United States, sales tax nexus issues with respect to Internet sales to consumers in states where we do not have a physical presence, which create potential nexus through affiliate program marketing activities and other nascent efforts to imply tax nexus on royalties payable on content licenses. This regulation continues to be an area of great uncertainty and legal scrutiny both on a federal and state level, with over 27 states evaluating or imposing new legislation on various e-commerce activities or engaging in lawsuits with e-retailers. In Europe, we must comply with regulations with respect to customs, duties and V.A.T. as they apply to our business, sometimes on a country-by-country basis, which requires complex tracking and remittance processes.
- The Communications Decency Act of 1996, which gives statutory protection to online service providers for claims against interactive computer services providers who distribute third-party content.
- The Children's Online Privacy Protection Act of 1998, which restricts the distribution of certain materials deemed harmful to children and imposes additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.
- Data privacy and security with respect to the collection of personally identifiable consumer information continues to be a focus of worldwide legislation and compliance review. Examples include statutes adopted by the State of California that require online services to report certain breaches of the security of personal data, and to report to California customers when their personal data might be disclosed to direct marketers.
- Foreign governments are raising similar privacy and data security concerns. In particular, the E.U. has enacted a new General Data Protection Regulation ("GDPR") that will replace the current Data Protection Directive in May 2018. The GDPR will tighten regulation of the collection, use and security of personal data and will continue to restrict the trans-border flow of such data while increasing the potential fines for non-compliance. Several European countries have issued new guidelines under the E.U. e-Privacy (Cookie) Directive that require robust disclosures and consumer choice before a user can be tracked online. The European Commission has proposed a new e-Privacy Regulation ("e-PR") that would supersede the existing Directive and is intended to become effective at the same time as the GDPR. If adopted, the new e-PR would require extensive privacy warnings about third party tracking tools and would establish express consent as the only valid basis for third party processing of personal data for advertising or cross-domain analytics. European industry has implemented a self-regulatory regime for online behavioral advertising that is largely consistent with the U.S. self-regulatory framework. It is unclear how compliance with the GDPR will affect our business and it is not possible to predict whether the e-PR will be enacted as proposed. Canada, Australia, Russia, China, Japan and other countries in South/Latin America and Asia are also strengthening their privacy laws and the enforcement of privacy and data security requirements.

We expect and plan for new laws and regulations to be adopted over time that will be directly applicable to the Internet and to our activities. Any existing or new legislation applicable to our business could expose us to substantial liability, including significant expenses necessary to comply with such laws and regulations and potential penalties or fees for non-compliance, and could negatively impact the growth in the use of the Internet in general and our services in particular. We may also run the risk of retroactive application of new laws to our business practices that could result in liability or losses. As we continue to expand further into international territories, we expect the above-noted regulatory issues to also apply to such expansion as well as new issues to arise. Although we cannot presently anticipate all of the laws and regulations that might be applicable in new countries that we enter, we expect that legal issues applicable to our business in those countries will continue to arise as we assess and evaluate the scope of our operations in such countries.

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, Federal Trade Commission requirements or other privacy-related laws and regulations could result in proceedings by governmental or regulatory bodies that could potentially harm our business, results of operations and financial condition. In this regard, there are a large number of legislative proposals before the United States Congress and various state legislative bodies regarding privacy issues related to 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 user registrations and revenue. These decreases could be caused by, among other possible provisions, the required use of disclaimers or other requirements before users can utilize our services.

Due to the global nature of the Internet, it is possible that the governments of other states and foreign countries might attempt to change previous regulatory schemes or choose to regulate its transmissions or prosecute us for violations of their laws. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments could harm our business, operating results and financial condition. We may be subject to legal liability for our online services. The law relating to the liability of providers of these online services for activities of their users is currently unsettled both within the United States and abroad. Due to the nature of our content-rich automated upload service, claims are frequently alleged or asserted against us for trademark and copyright infringement and violation of rights of publicity to which we rapidly and expeditiously respond. We maintain content usage review systems that, through a combination of manual and automated blocks, monitor potentially infringing content of which we become aware. Nevertheless, claims may continue to be brought and threatened against us for negligence, copyright or trademark infringement, or other theories based on the nature and content of information, its origin and its distribution and there is no guarantee that we will be able to resolve any such claims quickly and without damage to us, our business model, our reputation or our operations.

Raw Materials and Suppliers

We work with a wide range of suppliers that provide raw materials, primarily ink and blank inventory for customization. We have multiple sources for the various types of raw materials and blank inventory used in our business, and are therefore not dependent on a single source. We have historically worked with, and currently expect to continue to work with, two primary suppliers for apparel inventory, Hanesbrands, Inc. and Sun Apparel, but have access to many additional and alternative apparel suppliers. With respect to raw materials used in the printing process, we work with a number of suppliers, primarily digital printing equipment manufacturers, for the inks used in our digital printing processes, and have access to multiple alternate suppliers for ink. We have a three-year term supply agreement with Hanesbrands, Inc. but do not have a long-term supply agreement with Sun Apparel.

We believe the successful management of our supplier relationships is a key aspect of our business. We source our blank products from domestic and foreign manufacturers and distributors. Our current suppliers may not continue to sell merchandise to us on terms acceptable to us, and we may be unable to establish new or extend current supplier relationships to ensure a steady supply of blank inventory in a timely and cost-efficient manner. Under some of our current supply agreements for blank inventory, we enjoy flexible policies for returning the unsold items to our suppliers. If we are unable to accurately predict demand for the products that we are committed to purchase, we will be responsible for covering the cost of the products that we are unable to sell.

Employees

As of December 31, 2017, we had 298 full-time employees. Below is a summary of employees by function:

Cost of revenue	138
Technology and development	63
Sales and marketing	64
General and administrative	33
Total	298

During the peak holiday season, we hire contract workers on a temporary basis from third-party outsourcing firms. In the fourth quarter of 2017, we used approximately 800 temporary workers to assist in our production and fulfillment operations. None of our employees are represented by labor unions or covered by a collective bargaining agreement. We have never experienced any employment-related work stoppages and consider our employee relations to be good.

In January of 2018, as part of a cost reduction initiative, we reduced headcount by approximately 5%.

Available information

Our website is www.cafepressinc.com and our website's investor relations page is investor.cafepress.com. We make available free of charge, on or through our website's investor relations page, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, if any, or other filings filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934, or the Exchange Act, as soon as reasonably practicable after electronically filing or furnishing these reports with the Securities and Exchange Commission, or SEC. Information contained on our website is not a part of this report. We have adopted a code of ethics applicable to our senior financial officers which is available free of charge, on or through our website's investor relations page.

The SEC maintains an Internet site at <http://www.sec.gov> that contains our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, if any, or other filings filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, proxy and information statements. All reports that we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC, 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

This Report contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risk factors set forth below, and this Report should be read in conjunction with such risk factors. The risks and uncertainties described in this Report are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe are immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occur, they could have a material adverse effect on our business, our financial condition and results of operations.

Risks related to our business

Our results of operations are subject to significant quarterly and other fluctuations due to a number of factors that could adversely affect our business and, as a result, the trading price of our common stock.

Our revenue and operating results may fluctuate from period to period and are likely to continue to fluctuate due to a variety of factors, some beyond our control. Factors relating to our business and its operations that may contribute to these fluctuations include the following:

- Seasonality of our revenue, including shifts in the timing and length of holiday selling seasons;
- Macroeconomic cycles and consumer discretionary spending;
- Demand for our user-designed products and services and the growth rate of the print-on-demand and e-commerce industry overall;
- Fluctuations in sales and marketing costs, including website traffic acquisition costs and our ability to maintain or increase such traffic cost-effectively;
- Market acceptance and competitiveness of our products and services on quality and pricing, and current competitors and new competitive entrants to the market for customized goods in our channels of distribution and marketing;
- The gain, loss, success, or delay of significant strategic relationships and partner programs;

- The development of, or changes to, new technologies and platforms for Internet use, such as mobile, and evolving marketing methods such as social media, flash promotions and any changes in website traffic acquisition algorithms, policies or practices supporting such development;
- Conversion rates of website traffic, including the impact on conversion rates from increased traffic from mobile devices as compared to desktops or tablets;
- Our ability to provide accurate search results and recommendations and to deliver long-tail content to our e-commerce partners;
- Litigation and associated risks and expenses, including extraordinary expenses related to litigation and settlement costs;
- Concerns about the data security of consumer personal information run through our e-commerce services and their vulnerability to attack and intrusions;
- Any production issues which may in turn result in delayed orders or increased costs; and
- Fluctuations in the cost of raw materials and inventory.

As a result of these and other factors, the results of any prior quarterly or annual periods should not be relied upon as indications of our future revenue or operating performance. In particular, due to the seasonality of our business, our revenue in the first three quarters of each year are generally substantially lower than our revenue in the fourth quarter of the preceding year, and we expect this trend to continue for the foreseeable future.

We may not achieve or sustain profitability or avoid net losses in the future. Our growth rates in the future, if any, may fluctuate or not be sustainable or may decrease. In addition, in order to be profitable in the foreseeable future, we must control our costs and operating expenses and achieve adequate pricing or scale in a highly competitive environment. We have incurred in the past, and expect to continue to incur in future periods, stock-based compensation expense, which will reduce our net income and may result in future losses. If we fail to increase revenue at the rate we anticipate or if our costs and operating expenses increase without a commensurate increase in our revenue, our business, financial condition and results of operations will be negatively affected.

If we are not profitable in the future, we may be unable to continue our operations.

Although we recorded net income for the year ended December 31, 2015, we have otherwise incurred operating losses each year since we went public in 2012. If and when we achieve profitability depends upon a number of factors, including our ability to execute on our strategy and grow our business. We cannot assure our investors that we will ever achieve profitability. If we are not profitable in the future, we may be unable to continue our operations.

If our recently announced internal cost reduction initiatives do not have the intended effects, we could experience increased volatility in our stock price and our results of operations could suffer.

As part of a cost reduction initiative that will be implemented during 2018, we reduced our workforce by 5%. We expect this cost reduction will allow us to gain financial efficiencies, however we may not be able to realize the full amount of the estimated savings from the cost reduction program, in a timely manner, or at all. This cost reduction will make it more difficult to predict our financial performance, which could cause increased volatility in our stock price. In addition, we could face challenges in retaining personnel, business disruption or decreased productivity as a result of this cost reduction, and our results of operations could suffer.

We depend heavily on the continued success of our core business of selling user-designed products on CafePress.com, and any event that adversely affects our sales of user-designed products could harm our business and results of operations.

A significant proportion of our revenue is derived from the online sale of user-designed products through CafePress.com and through distribution channels derived therefrom. As a result, the continued performance of CafePress.com is dependent on continued flow of user-generated content into the creation of products. We expect that the sales of user-generated design products will continue to comprise a majority of the revenue of our business. Our users rarely exclusively use our e-commerce platform to sell their designs. Users who design products may choose not to use our e-commerce platform to create and sell their designs, and choose other platforms, thereby reducing the number of designs available through our websites and thus affecting future growth of our revenue generated from CafePress.com. Customers who purchase user-designed products on our websites may also purchase other fulfillment and partner products through our e-commerce services as well, which aid the growth of our services. Our tools and platform offerings may not remain competitive with those of our competitors. If competitive services increase and/or we cannot successfully attract or retain users to design and sell products through our e-commerce platform or if we are unable to attract and retain our customers for user-designed and other products, our operating results may suffer. If we are unable to grow

our core business or otherwise grow the core business through the additional e-commerce services noted, our business and our operating results could be harmed.

The seasonality of our business increases strain on our operations and if we are unable to scale sufficiently to support our operations during periods of peak demand, our business could suffer.

A significant portion of our net revenue and operating cash flows have historically been realized during the period from November through December each year, primarily due to increased retail activity during the holiday seasons. Disruption in our ability to process, produce and fulfill customer orders in the fourth quarter could have a negative effect on our quarterly and annual operating results. As described in Item 7. "Management's Discussion & Analysis of Financial Condition and Results of Operations," in anticipation of increased fourth quarter sales activity, we typically incur significant incremental expenses prior to and during peak selling seasons, particularly October through December, including the costs associated with hiring a substantial number of temporary employees to supplement our existing workforce. If we are unable to hire enough qualified employees to support our production or customer service operations or if there is a disruption in the labor we hire from our third-party providers, our business, financial condition and results of operations could be adversely affected. In addition, if too many customers access our websites within a short period of time due to increased holiday demand or other periods of peak demand, we may experience system delays or interruptions that make our websites unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. This issue in turn could harm our business, operating results and reputation. Any disruption in our business operations or other factors that could lead to a material shortfall compared to our expectations for the fourth quarter could then result in a material shortfall compared to our expectations for the full year, have a disproportionate effect on our operating results and cause our stock price to decline.

Intense competitive pressures, particularly failure to meet consumers' price expectations, may harm our business and results of operations.

Demand for our products and services may be impacted by consumer price sensitivity. Many external factors, including our production and personnel costs, the cost of raw materials, particularly the price of cotton, content selection or consumer sentiment or spending, available product mix and our competitors' pricing and marketing strategies, can significantly impact our pricing strategies. If we fail to meet consumers' price expectations, we could lose customers or fail to attract new customers, which would harm our business and results of operations.

Changes in our pricing strategies across channels have had, and may continue to have, a significant impact on our revenue and net income. We frequently make changes to our pricing structure in order to remain competitive, but that may result in lower profit margins. Most of our products are also offered by our competitors. In particular, competitive offerings in apparel have put pressure on pricing and increasingly impacted sales performance in that product category. If in the future, we significantly reduce prices on our products without a corresponding increase in volume or decrease in cost of goods sold, or raise prices without maintaining the volume of goods sold, our pricing strategies could negatively impact our revenue and could adversely affect our gross margins and overall profitability.

We generate a portion of our revenue from the fees we collect from shipping our products. We frequently offer discounted or free shipping, with minimum purchase requirements during promotional periods, to attract and retain customers. We also frequently offer coupons, promotional marketing giveaways and free or discounted products and services as a method to attract and retain customers, and such instances are generally unable to recoup shipping costs in such programs. In the future, if we continue to increase these coupon practices and discounted shipping offers to attract and retain customers and/or in response to actions taken by our competitors, our results of operations may be harmed.

We face intense competition and if we do not compete successfully against existing and new competitors, we may lose market share and customers.

The market for customized products and services is large, fragmented and intensely competitive and we expect competition to continue to increase in the future. Demand for customized products has increased, but so have competitive offerings in all of our product categories. We face competition from a wide range of companies, including the following:

- Small traditional offline printing businesses;
- E-commerce companies, including large online retailers such as Amazon.com, Inc., Walmart.com, Target and eBay Inc. (who may also serve as our distribution partners);

- Online providers of customized products such as Custom Ink LLC, RedBubble, Inc., Spreadshirt, Inc., Teespring, or Zazzle Inc. and online providers of distinctive goods like Etsy, Inc. or Uncommon Goods LLC;
- Online providers allowing users to customize goods in specific vertical markets, such as Cimpres N.V. for small businesses and Shutterfly, Inc., for photographic products;
- Physical and catalog retailers of personalized merchandise such as Red Envelope and Things Remembered; and
- Small, but numerous, online providers who address niche customization service and product offerings, enabled by advances in digital printing.

We also indirectly compete with Internet portals and shopping search engines that are involved in e-commerce or sell products or services either directly or in collaboration with other retailers. If more companies move into the customized products space, we will face further direct competition. Our reliance on Internet search engines and other sources of Internet and referral traffic to our e-commerce sites, such as Google, Bing and Facebook, impacts both the way we do business and our performance against competitors. Changes to their practices could drive traffic to our competitors and away from our e-commerce sites in ways we may not anticipate or that will cause us to expend further resources to successfully compete. The shift to mobile site access for e-commerce sites also presents challenges for us as we cope with shifting traffic patterns. Some of our current and potential competitors have significantly greater financial, marketing and other resources than us, including significant brand recognition, sales volume and customer bases. In addition, other online retailers may be acquired by, receive investment from or enter into strategic relationships with well-established and well-financed companies or investors which would strengthen their competitive positions.

Some of our competitors may be able to secure licensing deals, goods and raw materials from suppliers on more favorable terms, devote greater resources to marketing activities and promotional campaigns, adopt more aggressive pricing policies and devote substantially more resources to website and system development than us. Increased competition may reduce our operating margins, market share and brand recognition, or force us to incur losses. We may not be able to compete successfully against current and future competitors. Competitive pressures may harm our business, prospects, financial condition and results of operations.

Our business depends heavily on the market recognition and reputation of our services, and any harm to our brand or failure to maintain and enhance our brand recognition may materially harm our business, financial condition and results of operations.

We believe that maintaining and enhancing the recognition and reputation of the level of services associated with our brand is critical to our success and ability to compete. Many factors, some of which are beyond our control, are important to maintaining and enhancing our services and may negatively impact our reputation if not properly managed, such as:

- Our ability to maintain a convenient and reliable user experience as consumer preferences evolve for varying multi-channel experiences;
- Our ability to increase brand awareness among existing and potential strategic distribution channels, corporate partners and consumers through various means of marketing and promotional activities;
- Our ability to retain and expand our network of buyers and sellers through developing Internet communication methods, such as mobile platforms and social media channels;
- The efficiency, reliability and quality of our products, services and retail website experiences; and
- Our ability to protect personally identifiable information and credit card data and perceived weaknesses in data privacy or security practices or product quality problems of our service or other e-commerce websites.

If we are unable to maintain our reputation, further enhance our brand recognition and increase positive awareness of our websites, our results of operations and business may suffer.

If we are unable to attract customers or increase Internet traffic to our websites and manage changes in the manner by which customers access our websites in a cost-effective manner or at all, our business and results of operations could be harmed.

Our success depends on our ability to attract customers to our websites. We rely on a variety of methods to draw visitors to our websites and promote our products and services, such as Internet search engine marketing, email marketing, affiliate networks, social media outlets and flash deal promotions through various new types of group and socially curated e-commerce websites. We pay providers of online services, search engines and other websites and e-commerce businesses to provide content, marketing links, advertising banners and other links that direct customers to our websites. If these providers modify or terminate their relationship with us or increase the price they charge us or if our competitors offer them greater fees for traffic, our expenses could rise and traffic to our websites could decrease, which in turn would harm our revenue and results of operations.

We also devote substantial resources to optimizing our websites to increase the likelihood of our products and services appearing in unpaid search engine results; however, there can be no assurance that these efforts will be successful. If our products and services receive low placement or do not appear within the listings of search engine results in response to relevant search queries, this could result in fewer customers clicking through to our websites, requiring us to resort to other more costly resources to replace this traffic. Search engines including Google, Yahoo! and Bing frequently refine and modify their search algorithms that determine placement of our relevant search queries. During 2017, our results were adversely impacted by changes in search engine algorithms that had a negative impact on our search visibility and traffic on our websites. If we are unable to maintain or increase traffic to our websites, including through accurate search results and recommendations, our products or services receive low placement or do not appear due to changes in search engine algorithms, such changes could negatively impact the effectiveness of our search engine optimization or search engine marketing, and our business and financial performance would be adversely affected, potentially very materially. If our conversion rates decline, whether due to increased traffic from mobile devices or otherwise, our business and operating results could suffer.

We also promote our products and special offers through emails targeted to potential customers and our site members. However, if our customers deem such emails and other promotions to be intrusive, we could be forced to discontinue or significantly curtail our email marketing activities.

We continue to develop ways to optimize the consumer experience on our websites, products and services through mobile devices, which provide particular challenges given the graphics intensive user experience involved in shopping, creating and selling content based products online. If we are not able to successfully translate our websites for mobile use and traffic from mobile devices continues to accelerate at current rates, our results of operations may be impacted.

Lastly, we have terminated a number of affiliate marketing partners in states that have imposed sales tax nexus for such marketing activities, and to the extent we determine it prudent to continue to do so, we may be unable to achieve our strategic goals in those channels. If we are unable to develop or maintain an effective and cost efficient means of reaching content providers and consumers, if the costs of attracting customers using these methods significantly increase, or if we are unable to develop new cost-effective means to obtain customers, then our ability to attract new and repeat customers would be harmed, traffic to our websites would be reduced and our business and results of operations would be harmed.

Our strategy with respect to content acquisition may adversely affect our financial condition and future financial results.

We obtain content for our websites and our products from multiple sources, including our user designers, to whom we may pay fees on any subsequent sales of products created with such content. We also rely on entertainment, publishing and corporate content provider sources to generate content for our products and services. Due to designer relationship issues, including compensation provided by us compared to that provided by our competitors, users may decrease or cease providing content to our websites in the future. We face challenges in managing the payment infrastructure and taxation implications of these transactions and expect to continue to do so in the future as competitive pressures or new regulatory or other issues arise.

In connection with obtaining entertainment and other media content, we sometimes enter into multi-year, royalty-based licenses with content owners and production organizations for film and television and other media distributors. Our competitors may be successful in obtaining exclusive licenses for content we wish to obtain for our site, making such content unavailable to us now or in the future. We may also, as we have in the past, enter into agreements with content providers that contain exclusivity provisions that may restrict our ability to sell certain products or in certain geographies or to partner with certain content providers. In order to compete effectively for these licenses, we could be forced to pay higher royalties or agree to significant advance payments. Our results of operations could be adversely affected as a result of these content licensing payment commitments in the event that sales or revenue growth do not meet our expectations. In addition, our flexibility in planning for, or reacting to, changes in our business and the market segments in which we operate could be limited.

In connection with the selection and popularity of specific content, we employ licensing and business development professionals and Internet traffic analysts who evaluate popular culture trends and potential properties to support the content on our site and drive traffic to our websites. To the extent they are unsuccessful in identifying or obtaining content sources that will be popular with consumers and that will generate sales of our products, our results could be materially harmed. To the extent the content we do choose to obtain proves unpopular or unsuccessful and we have agreed to contractual minimums, we may not achieve the planned return on royalty advances and may incur losses or impairment charges.

If any of the above circumstances increase the cost of obtaining content, our margins may suffer.

If we are unable to market and sell products and services beyond our existing target markets and develop new products and services to attract new customers and new strategic partnerships and business relationships, our results of operations may suffer.

We believe we will need to address additional markets and sales channels, and attract new business partners, content providers and consumers to grow our business. To access new sales channels, we must build and maintain new processes in which to feed our product catalogues to corporate distribution partners. To access new markets and consumers, we will need to develop, market and sell new products and services. There is no guarantee we will be successful in this expansion. We continually seek to offer our array of e-commerce customization and products and services to new customers in existing channels and to expand the reach of our distribution channel partnerships. If we are unsuccessful in expanding the scope of those relationships, we may not grow our operations and businesses as fast as we would like.

Any failure to develop new products and services, or a lack of adoption of the new products and services we do develop to expand our business beyond our existing target markets or to address additional market opportunities could harm our business, financial condition and results of operations.

As we continue to expand our new strategic and sales channel partnerships, our dependence on third parties for the generation of significant revenue growth increases. Partners may make changes to their technology or product road maps or choose to enter the customization business themselves and we thus may have little control over those strategic choices.

If we are unable to manage scale or growth of our business or to execute our strategies effectively, our business and prospects may be materially and adversely affected.

We anticipate that we will need to continue to implement new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting, legal and other internal management and control systems. We will need to continue to recruit, train, manage and motivate our workforce and manage our relationships with existing and new business partners, suppliers, third-party service providers and content providers. Our strategies also include streamlining our product and service offerings, which will require us to work with different groups of suppliers and address the needs of different kinds of consumers. All of these endeavors involve risks and require substantial management effort and significant additional expenditures. We cannot assure you that we will be able to manage our growth or execute our strategies effectively, and any failure to do so may have a material adverse effect on our business and prospects, as well as our operating results.

Our business may be adversely affected by transitions in our senior management team or by our inability to effectively handle any future succession planning.

We are highly dependent on the executive leadership of members of our senior management and key employees as our success depends, in large part, on their continued contributions and strategic vision. In addition, we have not entered into long-term employment agreements or non-compete agreements with members of our senior management team. Our employees can terminate their employment with us at any time. The loss of members of our senior management team or key personnel could harm our ability to implement our business strategy and respond to the rapidly changing market conditions in which we operate.

If we are unable to attract, train, integrate and retain qualified personnel with relevant corporate, industry and operational expertise, we may be unable to effectively execute our business plan or maintain or, in the future, expand our operations, which in turn would harm our business.

Our future success will depend in part on our ability to retain key managers or employees and to identify, hire and retain additional personnel to support our business and its growth. Our finance, legal and engineering staff are key to the maintenance of our compliance and public company status. Our retail e-commerce sites depend on the sales and marketing talent of our retail operations staff. Our production facilities also depend on skilled personnel trained in our proprietary printing and production techniques and

others knowledgeable about back end operations of the online retail industry. Our future success depends, to a significant extent, on our ability to attract, train, integrate and retain qualified personnel with relevant experience and skill sets. Recruiting and retaining capable personnel, particularly those with expertise in the retail, e-commerce and printing industries, is vital to our success. If we are unable to attract and retain qualified personnel for each of our e-commerce sites, our business may suffer.

We may not realize the anticipated benefits of future acquisitions, which in turn could materially and adversely affect our business, financial condition and prospects.

We have previously engaged in acquisition opportunities, including businesses of which we have subsequently divested. We may be unable to successfully integrate any businesses that we may acquire in the future or may fail to realize the anticipated benefits of any such acquisitions. The successful integration of any acquired business as well as the retention of personnel require significant attention from our management and could divert resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not achieve the anticipated benefits we expect due to a number of factors including: unanticipated costs or liabilities associated with the acquisition, incurrence of acquisition-related costs, harm to our relationships with existing customers as a result of the acquisition, harm to our brand and reputation, the loss of key employees in the acquired businesses, use of resources that are needed in other parts of our business, and use of substantial portions of our available cash to consummate the acquisition. In addition, our ability to impose appropriate internal controls, including accurate forecasting, accounting integration of inventory, costs and reporting, to successfully manage these businesses requires significant investments of resources and management time. Finally, acquisitions could result in the use of substantial amounts of cash, earn-outs, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. In some of our prior acquisitions, earn-out targets were not achieved and in some instances either disputes occurred or modifications were made. We may enter into other modifications or settlements of certain acquisition terms over time which could result in cash payments, potentially dilutive issuances, goodwill impairment charges and other potential unknown liabilities. Failure to realize the anticipated benefits of our divestitures, or of any prior or future acquisitions, could materially and adversely affect our business, financial condition and prospects.

If we fail to successfully identify and respond to constantly changing consumer preferences, adopt new technologies or adapt our websites and systems to customer requirements or emerging industry standards, our business, prospects and financial results may be materially and adversely affected.

The e-commerce and retail industries as well as the content-provider industry are subject to ever changing trends and consumer preferences. Consequently, we must anticipate emerging consumer trends for customized retail merchandise that will appeal to existing and potential consumers both with base products and licensed and user-generated content. If our consumers cannot find their desired products on or service through our websites, our customers may stop visiting our websites, visit less often or stop purchasing products on our websites or seek out our competitors' services. If we do not anticipate, identify and respond effectively to consumer preferences and changes in consumer trends at an early stage, we may not be able to generate the desired level of sales. Likewise, we must anticipate and capitalize on trends in user-generated content and popular culture that will continue to drive consumer interest in our websites.

Internet business models and the online content distribution generally are characterized by rapid technological evolution, changes in user requirements and preferences, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practices. To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our websites and systems. Such systems include complex interactions of our proprietary software tools, such as designer and builder software and content review tools, data storage and reporting, order management and plant printing automation software. Like all systems, failures or errors made in the maintenance or operation of those systems could lead to operational and logistics challenges or lost, cancelled or delayed orders, which in turn could lead customers to make alternative choices in a provider of custom goods. The development of our websites and other proprietary technology entails significant technical and business risks. We may be unable to use new technologies or systems to effectively adapt our websites, proprietary technologies and transaction-processing systems to customer requirements or emerging industry standards. If we are unable to adapt in a cost-effective and timely manner in response to changing market conditions or customer requirements, whether for technical, legal, financial or other reasons, our business, prospects, financial condition and results of operations would be materially adversely affected.

If we are unable to successfully address the rapidly evolving market for transactions on mobile devices, our results of operations may suffer.

Mobile devices are increasingly used for e-commerce transactions. A significant and growing portion of our users access our platforms through mobile devices. We may lose users if we are not able to continue to meet our users' mobile and multi-screen experience expectations. The variety of technical and other configurations across different mobile devices and platforms increases the challenges associated with this environment. In addition, a number of other companies with significant resources and a number of innovative startups have introduced products and services focusing on mobile markets.

Our ability to successfully address the challenges posed by the rapidly evolving market for mobile transactions is crucial to our continued success, and any failure to continuously increase the volume of mobile transactions effected through our platforms could harm our business.

Our business model focuses on user-generated content and as a result, controversial political and social expressions appear on our site that may impact our brand name or with which current or potential customers or business partners may not wish to be associated.

We have built our business by providing consumers an outlet for self-expression through unique or customized goods that they can share with their friends, their communities and the world. Our service is often used for the expression of political and cause-related issues that may generate strong opinions on many sides of a given issue, including in other customers and potentially with the business partners who supply us with content or inventory and to those who choose to invest in our company. As a result, our websites frequently attract the attention of media outlets that may not understand the user-generated nature of our business model and attribute sentiments expressed by our users to our company or its management team. Additionally, because our service provides a platform for the expression of controversial ideas and humor, our site could be the target of negative social media or petition campaigns, computer attacks or boycotts by well-organized special interest groups or filtered by foreign countries, which may adversely impact our growth and operations. Our distribution and channel partners may likewise become uncomfortable with aspects of our user-generated content business model in light of their own content usage policies and may cut back or refuse to display our products or otherwise limit our merchandising opportunities thus impacting our results of operations. We believe we must maintain a balance among the encouragement of self-expression in our users that creates a content-rich experience, the needs and concerns of our business partners and our mutual desire to protect our brand and our companies. If we fail to maintain this balance and lose partners, customers, or potential customers due to judgments made about the content on our websites, or conversely if we alienate corporate partners or businesses who wish to employ our customization services for their content or products without fear of negative reflection on their brand images, we risk damage to our brand and reputation and ultimately our business and results of operations.

Because our sales and revenue rely on consumer spending of discretionary income, uncertain macroeconomic conditions in the United States and world economies may materially and adversely affect our financial results.

The majority of our revenue is generated from sales through our consumer e-commerce websites and our customized products are largely found in categories of consumer goods that would be deemed non-essentials. As a result, our sales are driven largely by discretionary consumer spending habits and preferences. Historically, consumer purchasing on discretionary items declines during economic downturns and periods of uncertainty regarding future economic prospects or when disposable income or consumer lending is lower. While not always directly related to actual consumer behavior, macro-economic conditions such as global currency and debt concerns, stock market volatility, levels of unemployment, increased fuel or commodity prices and transportation costs, and conditions in the commercial consumer lending and housing markets, among other factors, fuel uncertainty over future macro-economic conditions and prospects of a prolonged recessionary spending climate. Many other factors contribute to economic conditions in the U.S., including taxation and distribution concerns. Deterioration of macroeconomic conditions in the near term or long term, or the perception that such deterioration might occur, could reduce demand for our products either temporarily or in the long term. Our revenue could likewise decline and our results could be materially and adversely affected by such trends. Our ability to anticipate, identify and respond quickly to consumer spending pressures and prevailing economic conditions will be challenged if such economic uncertainties continue or particularly during peak periods for our sales that historically have occurred in our fiscal fourth quarter.

The proper functioning of our websites is essential to our business and any failure to maintain the satisfactory performance, security and integrity of our websites will materially and adversely affect our business, reputation, financial condition and results of operations.

The satisfactory performance, reliability and availability of our websites, our marketing activities, our transaction-processing systems and our network infrastructure are critical to our success. Our revenue depends on the number of visitors who shop on our websites and the volume of orders we fulfill. Any system delays, interruptions or disruptions to our servers caused by telecommunications failures, computer viruses, physical break-ins, domain attacks, hacking or other attempts to harm our systems

or servers that result in the unavailability or slowdown of our websites, loss of data or reduced order fulfillment performance would reduce the volume of products sold and the attractiveness of product offerings on our websites. We may also experience interruptions caused by reasons beyond our control.

We use internally developed systems for all aspects of transaction processing, including order management, content review and purchasing and inventory management. We rely on third-party providers for debit card and credit card processing services, other payment services and shipping. We periodically upgrade and expand our systems, and in the future, we intend to further upgrade and expand our systems and to integrate newly developed or purchased software with our existing systems to support increased transaction volume. Any inability to add additional software and hardware or to develop and upgrade our existing technology, transaction-processing systems or network infrastructure to accommodate increased traffic on our websites or increased sales volume through our transaction-processing systems may cause unanticipated system disruptions, slower response time, degradation in levels of customer service and impaired quality and speed of order fulfillment, which would cause our business, reputation, financial condition and results of operations to suffer.

If our production and fulfillment operations are interrupted for any significant period of time or either facility where our computer and communications software or hardware is located fails, our business and results of operations would be substantially harmed.

Our success depends on our ability to successfully receive, produce and fulfill orders and to promptly and securely deliver our products to our customers, which in turn depends in part on the efficient and uninterrupted operation of our computer and communications systems. Our production, inventory management, packaging, labeling and shipping processes are performed in a single production and fulfillment center located in Louisville, Kentucky and such single location reliance presents risks. In addition, substantially all of the computer hardware necessary to operate our principal websites is located at third-party hosting facilities in Las Vegas, Nevada and hosted through Amazon AWS. These facilities are susceptible to damage or interruption from human error, fire, flood, ice storms, power loss, insufficient power availability, telecommunications failure, terrorist attacks, acts of war, break-ins, earthquakes and similar events. In addition, Louisville, Kentucky, our production site, is particularly susceptible to flooding and extreme weather patterns. Our production operations are dependent on order management and other automation software systems that may be especially subject to human error in programming.

Any catastrophic loss to our facility would likely disrupt our operations, delay production, shipments and revenue and result in significant expenses to repair or replace the facility. Our business interruption insurance may be insufficient to compensate us for losses that may occur, which is not covered under our current policy. Any interruptions in our production, fulfillment center or systems operations, particularly for any significant period of time, could damage our reputation and brand and substantially harm our business and results of operations.

Shipment of merchandise sold on CafePress.com or through our Retail Partner Channel could be delayed or disrupted by factors beyond our control and we could lose buyers and sellers.

We largely rely upon third-party carriers such as Federal Express, Inc., or FedEx, and United Parcel Service, or UPS, for timely delivery of our merchandise shipments, particularly in the United States where the majority of our sales occur. As a result, we are subject to carrier disruptions and increased costs due to factors that are beyond our control, including labor difficulties, inclement weather, terrorist activity and increased fuel costs. We do not have a long-term agreement with any other third-party carriers, and we cannot be sure that our relationships with FedEx or UPS will continue on terms favorable to us, if at all. If our shipping relationships are terminated or impaired or if our carriers are unable to deliver merchandise for us, we would be required to use alternative carriers for the shipment of products to our buyers. We may be unable to engage alternative carriers on a timely basis or on terms favorable to us, if at all. Potential adverse consequences include:

- Reduced visibility of integrated order status and package tracking;
- Delays in merchandise receipt and delivery;
- Increased cost of shipment; and
- Reduced shipment quality, which may result in damaged merchandise.

Any failure to receive merchandise at our distribution centers or deliver products to our buyers in a timely and accurate manner could lead to client dissatisfaction and cause us to lose sellers and buyers.

Many of our suppliers are located in regions that are subject to weather instability, earthquakes and other natural disasters.

The facilities of our third-party suppliers are subject to risk of catastrophic loss due to fire, flood or other natural or man-made disasters. The majority of our suppliers are located in the United States and China in areas with above-average catastrophic weather instability and seismic activity and which are subject to typhoons, tsunamis and other natural disasters. Additionally, since a significant portion of our revenue is attributed to cotton apparel and because we do not currently engage in any cotton or other commodity-related hedging activities, we are particularly susceptible to issues affecting the cotton growing and production industry. Any catastrophic loss to any of these facilities or disruptions in the production of cotton would likely disrupt our operations, delay production and shipments, and result in a delay or loss of revenue or cause us to incur significant expenses to repair or replace the facility or to purchase critical inventory for creation of our products.

We face risks such as unforeseen costs and potential liability in connection with content we acquire, produce, print, license and/or distribute through our service.

As an Internet service provider that prints content provided by others, we face allegations related to, and potential liability for, negligence, copyright or trademark infringement or other claims related to the goods created from user-generated uploads to our service. Intellectual property law for secondary liability for copyright infringement is particularly uncertain in many jurisdictions. We also may face allegations related to, and potential liability for, content uploaded from our users in connection with claims of defamation, racism, hate speech, obscenity or pornography that may be embodied in user expression. As globally available websites, we also receive inquiries about content that may be illegal or insensitive to cultural norms not only in the United States but worldwide, and those sensitivities may differ widely.

As we expand and start to create more internally generated content and/or designs, and do more than just print content by others on products through our service, if we do not anticipate costs or mitigate risk, or if we become liable for content we produce, the litigation to defend against claims could be costly and expenses and damages arising from liability could harm our results of operations.

Despite our status as a service provider and not a publisher, we also face allegations of infringement and potential liability for negligence, copyright, patent or trademark infringement or other claims based on the nature and content of materials that we distribute. In addition, a number of our entertainment, publishing and corporate content providers impose limitations and conditions on our use of their licensed content, and our failure to implement and abide by these terms could result in our loss of these licenses, damages to our reputation and potential liability for breach of contract and copyright or trademark infringement. In particular, any legislative developments or litigation outcomes in copyright law under the Digital Millennium Copyright Act that negatively impact our protections from liability for infringement could have consequences for us in our operations and increase litigation costs for the defense of any litigation that might arise due to such changes or developments.

We maintain strict content usage policies that are frequently evaluated and updated and we maintain processes that review uploaded content for compliance with our terms of service and other policies. We also require users uploading content to attest that they have all necessary rights to upload content to our service and further require such users to indemnify us in the event that claims are made against us relating to such content. We maintain a content review process that includes evaluation and take-down of uploaded content on our site that fails to meet our policies and compliance with all safe harbors under relevant laws. Nevertheless, we receive significant volumes of cease and desist demands on a regular basis with respect to claims of intellectual property infringement and violation of the rights of third parties, such as rights of privacy and publicity, and expect this may grow with the volume of content made available through our service. We maintain an active dispute resolution process for intellectual property rights claimants so that allegations of infringement can be resolved expeditiously. Notwithstanding our efforts to monitor and manage content and promptly resolve all issues, these measures may not be effective in removing violative content nor sufficient to shield us from potential liability, including situations where users do not have the financial ability to fully indemnify us against liabilities.

Despite our status as a service provider and not a publisher, we are exposed to risks associated with varying laws in other jurisdictions, including heightened risk of secondary liability on defamation suits in the United Kingdom and increased statutory penalties available for alleged trademark infringement in Germany. Further, we maintain relationships with law enforcement agencies to manage issues related to child pornography or other illegal uses of our service and must monitor our services for such impermissible, unauthorized and illegal activities. We also may be subject to subpoenas or other law enforcement or regulatory requests for information about our users or our website's services and the handling of such information requests may expose us to risk of suit from our users if not correctly and consistently managed in light of applicable law and consumer expectations of data privacy and judicial action or regulatory enforcement is not processed with appropriate alacrity.

Failure to protect confidential or personally identifiable information of our customers and our network against security breaches or failure to comply with privacy and security laws and regulations could damage our reputation and brand and substantially harm our business and results of operations.

A significant challenge to e-commerce and communications is the secure transmission of confidential information over public networks. Our failure to prevent security breaches could damage our reputation and brand and substantially harm our business and results of operations. A majority of our sales are billed to our customers' credit card accounts directly, orders are shipped to a customer's address, and customers log on using their email address. In addition, some online payments for our products are settled through third-party online payment services. In such transactions, maintaining complete security for the transmission of confidential information on our websites, such as customers' credit card numbers and expiration dates, personal information and billing addresses, is essential to maintain consumer confidence. We have limited influence over the security measures of third-party online payment service providers. In addition, we hold certain private information about our customers, such as their names, addresses, phone numbers and browsing and purchasing records.

We rely on encryption and authentication technology licensed from third parties to effect the secure transmission of certain confidential information, including credit card numbers and personally identifiable customer information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology used by us to protect customer transaction data. In addition, any party who is able to illicitly obtain a user's password could potentially access the user's transaction data or personal information. We may not be able to prevent third parties, such as hackers or criminal organizations, from stealing information provided by our customers to us through our websites. In addition, our third-party merchants and delivery service providers may violate their confidentiality obligations and disclose information about our customers. Any compromise of our security could damage our reputation and brand and expose us to a risk of loss or litigation and possible liability, which would substantially harm our business and results of operations. In addition, anyone who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations.

Significant capital and other resources may be required to protect against security breaches or to alleviate problems caused by such breaches. While we maintain insurance coverage at levels we deem reasonable to manage liabilities relating to potential cyber-security risks, such coverage may be inadequate to cover all losses with respect to an actual breach. The methods used by hackers and others engaged in online criminal activity are increasingly sophisticated and constantly evolving. Even if we are successful in adapting to and preventing new security breaches, any perception by the public that e-commerce and other online transactions, or the privacy of user information, are becoming increasingly unsafe or vulnerable to attack could inhibit the growth of e-commerce and other online services generally, which in turn may reduce the number of orders we receive. Any failure, or perception of failure, to protect the confidential information of our customers or our network could damage our reputation and harm our business.

We maintain industry standard privacy policies and practices with respect to the personally identifiable information of our users that we maintain. Any failure or perceived failure by us to comply with our privacy policies or privacy-related obligations to customers, sellers or other third parties may result in Federal or state governmental enforcement actions, litigation, or negative public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business.

We accept payment by a variety of methods and a substantial majority of our net revenue is derived from credit card sales. These methods, in turn, exposes us to increased risks of dependence on third-party payment processing service providers, as well as risks associated with higher transaction fees, compliance matters and fraud.

We accept payments for our products and services on our websites by a variety of methods, including credit card, debit card and other payment services. As we offer new payment options to our customers, we may be subject to additional fees, additional regulations, compliance requirements and fraud. To date, the substantial majority of our net revenue has been derived from credit card sales. As a result, we believe our business is vulnerable to any disruption in our customer payment processing capabilities and third-party processor disruptions. In most geographic regions, we rely on three or four third-party companies to provide payment processing services, including the processing of credit cards, debit cards and other payment services. If any of these companies became unwilling or unable to provide these services to us, then we would need to find and engage replacement providers. We may not be able to do so on terms that are acceptable to us or at all, or to process the payments ourselves, which could be costly and time consuming. Additionally, as we typically experience increased activity from November through December each year due to increased retail activity during the holiday season, any disruption in our ability to process customer payments in the fourth quarter could have a significant and disproportionate negative impact on our business.

For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our profit margins or require that we charge our customers more for our products. We are also subject to payment card association and similar operating rules and requirements, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules and requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers or facilitate other types of online payments, and our business and operating results could be materially and adversely affected.

If we fail to manage our relationships with our suppliers, our business and prospects may suffer.

To address customer demand for a wider range of customizable products, we intend to continue to expand our merchandise selection. This in turn increases our reliance on suppliers of such merchandise. Additionally, our business and reputation depend in large part on our ability to process and ship orders quickly, including during unanticipated or seasonal periods of increased demand. As a result, we believe the successful management of our supplier relationships is a key aspect of our business and our ability to compete. We source our blank products from domestic and foreign manufacturers and distributors. Maintaining good relationships with suppliers that compete with each other can be difficult. For example, suppliers of similar products may compete for more prominent placement on our websites. Our current suppliers may not continue to sell merchandise to us on terms acceptable to us, and we may be unable to establish new or extend current supplier relationships to ensure a steady supply of blank inventory in a timely and cost-efficient manner. If we are unable to develop and maintain good relationships with suppliers, it may inhibit our ability to offer products demanded by our customers or to offer them in sufficient quantities and at prices acceptable to them. In addition, if our suppliers cease to provide us with favorable pricing or payment terms or return policies, our working capital requirements may increase and our operations may be materially and adversely affected. In addition, we subcontract certain activities to third-party vendors. Any deterioration in our supplier or subcontractor relationships, or a failure to resolve disputes with, or complaints from, our suppliers in a timely manner, could materially and adversely affect our business, prospects and results of operations.

We may suffer losses if we are unable to efficiently manage our inventory risks.

We must anticipate the popularity of products and purchase blank inventory and secure sufficient supplies before customizing and selling them to our customers. Across our businesses, we must manage differing demand and inventory controls to accurately forecast and protect against risks. If we fail to adequately predict demand and experience an unexpected peak in production, our production times will suffer, which may result in damage to our reputation and business. For example, if we do not have an adequate supply of ink due to periods of unexpected peak demand, our ability to print and deliver products may be delayed. Conversely, any over purchase of ink or other supplies exposes us to risks of obsolete or excess inventory. Some of our contracts with suppliers contain restrictions on our ability to return products, such as caps on the amount of products that can be returned, and we may lose preferential pricing terms for such products if we exceed these caps, which could materially affect our profit margins. If we are unable to correctly predict demand for the products that we are committed to purchase, we will be responsible for covering the cost of the products that we are unable to sell, and our financial condition and results of operations would likely suffer.

We largely depend on overseas suppliers for blank inventory and if we do not appropriately manage the risks related to product safety and quality, we may face regulatory actions or recalls and our operating results will be harmed.

Manufacturers in China are the source of much of the blank inventory we utilize in the creation of customized products for sale on our websites, whether sourced from vendors directly by our supply managers or purchased through our business or fulfillment partners. Regulatory oversight of manufacturing in China is not subject to the same standards of product safety or supply chain scrutiny as may be expected in the United States. One or more of our vendors might not adhere to U.S. quality or legal standards, and we might not identify the deficiency before merchandise ships to our customers. As an example, the *Transparency in Supply Chains Act of 2010 in California* requires us to audit our vendors with respect to risks of human trafficking and slavery and mitigate these risks in our operations. Any failure to disclose issues or other non-compliance could subject us to action by the California Attorney General or other regulatory authorities. Our distribution partners also maintain global sourcing policies with which we must comply in order to maintain business relationships. Such policies require us to monitor our supply chain and there is no guarantee we will be able to do so consistently and successfully over time and secure a price that is not otherwise damaging to our business. In addition, our vendors may have difficulty adjusting to our changing demands and growing business. Our vendors' failure to manufacture or import quality merchandise in a timely and effective manner could damage our reputation and brand, and could lead to an increase in customer litigation against us and an increase in our routine litigation costs. We rely on indemnities from suppliers and manufacturers with respect to the goods we customize and that protection may or may not be enough to shield us from liability for quality deficiencies. Further, any merchandise that we receive, even if it meets our quality standards, could become subject to a later recall, which could damage our reputation, our brand and our customers' brands and harm our business.

While we have never been subject to a product recall, there can be no guarantee that we will not face one in the future and the costs associated with such a recall may be substantial. Recently enacted legislation has given the United States Consumer Product Safety Commission increased regulatory and enforcement power, particularly with regard to children's safety, among other areas. As a result, companies such as ours may be subject to more product recalls and incur higher recall-related expenses. Any recalls or other safety issues could harm our business and operating results.

Our failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights or defend against third-party allegations of infringement may be costly and time-consuming.

Protection of our proprietary technology is critical to our business. Failure to protect and monitor the use of our existing intellectual property rights could result in the loss of valuable technologies and prevent us from maintaining a leading market position. We rely primarily on patents, trademarks, trade secrets, copyrights and other contractual restrictions to protect our intellectual property. As of December 31, 2017, we had seven issued patents and one patent pending in the United States, which relate to our e-commerce services, and our proprietary printing and decorating services. We may have, on occasion, disclosed inventions prior to making the relevant filings, which may make our patent applications and any resulting issued patents vulnerable to validity challenges. Our pending patent applications may not result in issued patents, or if patents are issued to us, such patents may not provide meaningful protection against competitors or against competitive technologies.

We also rely upon certain unpatented proprietary manufacturing expertise and modeling methods and designs, licensed third-party technologies, continuing technological innovation and other trade secrets to develop and maintain our competitive position. While we enter into confidentiality and invention assignment agreements with our employees and third parties to protect our intellectual property, certain confidentiality and invention assignment agreements may be limited in duration or deemed by a court to be unenforceable. Moreover, these confidentiality and invention assignment agreements could be breached, potentially in ways that we may not immediately detect, and thus may not provide meaningful protection for our trade secrets or proprietary manufacturing expertise. Adequate remedies may not be available in the event of unauthorized use or disclosure of our trade secrets and manufacturing expertise. In addition, others may obtain knowledge of our trade secrets through independent development or legal means. The failure of our patents or confidentiality agreements to protect our processes, equipment, technology, trade secrets and proprietary manufacturing expertise, methods of system design, other methods and materials could have a material adverse effect on our business. In addition, effective patent, trademark, copyright and trade secret protection may be unavailable or limited in some foreign countries. In some countries where we operate, we have not applied for patent, trademark or copyright protection.

Third parties may infringe or misappropriate our proprietary technologies or other intellectual property rights, which could harm our business, financial condition or operating results. Policing unauthorized use of proprietary technology can be difficult and expensive and potentially subjects our intellectual property rights to validity and enforceability challenges. Also, litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. We cannot assure you that the outcome of such potential litigation will be in our favor. Such litigation may be costly and time-consuming and may divert management attention and other resources away from our business. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation.

We may face infringement or misappropriation claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards or prohibit us from conducting our business.

Our success depends largely on our ability to use and develop our technology and know-how without infringing or misappropriating the intellectual property rights of third parties. The validity and scope of claims relating to business process patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. We have been and may continue to be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties, including allegations of patent infringement asserted by patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents may therefore provide little or no deterrence. E-commerce companies and divisions have been particularly the target of speculative patent infringement claims in recent years. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time-consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, which may not be available on reasonable terms, or at all, pay ongoing royalties, or subject us to injunctions prohibiting the use of our technologies. Protracted litigation could also result in our customers or potential partner customers of our products or services deferring, limiting or ceasing their purchase or use of our website services until resolution of such litigation.

We may be involved in legal proceedings that may result in adverse outcomes.

In addition to the potential infringement claims described above, we may be involved in claims, suits, government investigations, and regulatory proceedings arising in the ordinary course of our business, including actions with respect to privacy, data protection, law enforcement, taxes, labor and employment claims as well as stockholder derivative actions, class actions lawsuits and other matters.

Regardless of the outcome, such legal proceedings can have an adverse impact on us because of the legal defense costs, diversion of our Board of Directors, management and other personnel's time and resources, and other factors and expenses. In addition, it is possible that resolution of one or more such proceedings could result in liability, penalties or sanctions, as well as judgments, penalties, consent decrees or orders preventing us from offering certain features in our product offerings or services, requiring changes in our business practices or revenue models, or damaging our reputation with customers, business partners or investors, any of which in turn could adversely affect our business, operating results, and financial condition.

We are a "smaller reporting company" and, as a result of the reduced disclosure and governance requirements applicable to smaller reporting companies, our common stock may be less attractive to investors.

We are a "smaller reporting company," meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a "smaller reporting company," and had a public float of less than \$75 million during the most recently completed fiscal year. As a "smaller reporting company," we are subject to lesser disclosure obligations in our SEC filings compared to other issuers. Specifically, "smaller reporting companies" are able to provide simplified executive compensation disclosures in their filings, are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting and have certain other decreased disclosure obligations in their SEC filings, including, among other things, only being required to provide two years of audited financial statements in annual reports. Decreased disclosures in our SEC filings due to our status as a "smaller reporting company" may make it harder for investors to analyze our operating results and financial prospects.

We are subject to, and may in the future be subject to additional regulatory compliance requirements, including Section 404 of the Sarbanes-Oxley Act of 2002, which cause us to incur significant legal, accounting and other expenses.

We incur significant legal, accounting and other expenses as a public company and may incur additional expense in the future to the extent we cease to be a "smaller reporting company." In addition, the Sarbanes-Oxley Act and the Dodd-Frank Act of 2010, as well as rules subsequently implemented by the SEC and the Nasdaq Stock Market, or Nasdaq, impose a number of requirements on public companies, including requiring changes in corporate governance practices. The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. While the Jumpstart Our Business Startups Act, also known as the JOBS Act, enacted in April 2012, provided us with additional time through the year ended December 31, 2016 to achieve full compliance, the regulations surrounding Section 404 of the Sarbanes-Oxley Act has required us to, and will continue to, incur substantial accounting expense and expend significant management time on compliance-related issues. Moreover, these rules and regulations will continue to increase our legal, accounting and financial compliance costs and will make some corporate activities more time-consuming and costly than private company compliance. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our board committees or as executive officers and will make securing directors' and officers' liability insurance more expensive.

If we are unable to successfully improve internal controls, or detect weaknesses or errors in our internal controls, our ability to report our financial results on a timely and accurate basis may be adversely affected as well as our ability to attract investors in our stock.

We have implemented and continue to adopt measures to improve our internal controls. If the procedures we have adopted and implemented are insufficient, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and our operating results may be harmed. For example, we identified a material weakness in our internal controls over financial reporting as of December 31, 2016 which we believe was remediated in the first quarter of 2017. In addition, we have in the past experienced deficiencies in internal controls, and while the dollar amounts involved were not material and we believe we have remediated these deficiencies, there can be no assurance that similar or other significant deficiencies or material weaknesses in our financial reporting will not occur in the future. Any failure to maintain or implement required new or improved controls, or difficulties we encounter in their implementation, could result in significant deficiencies or material weaknesses, cause us to fail to meet our future reporting obligations or cause our financial statements to contain material misstatements. Internal

control deficiencies could also result in a revision or restatement of our financial statements in the future or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

If we fail to maintain effective and appropriate internal controls over financial reporting processes or modify them as necessary to maintain such controls, investors could lose confidence in the accuracy and completeness of our financial reports. If we fail to properly manage internal operational controls across our businesses and our websites, confidence in our business and results of operations may suffer and the price of our common stock may decline. If the reliability of our internal control over financial reporting is in question, the price of our common stock may decline or be otherwise adversely affected. Such doubts about the efficacy of internal controls could also impair our ability to attract new investors and may adversely affect our ability to continue our growth and meet our forecasts.

If our management of internal controls is not effective, there may be errors in our financial information that could require a restatement or delay our SEC filings, and investors may lose confidence in our reported financial information or significantly increased costs in rectifying such issues, which could lead to a decline in our stock price.

We have incurred and may continue to incur high corporate governance costs to ensure our controls practices meet the required standards. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could cause us to fail to meet our periodic reporting obligations, or result in material misstatements in our financial information or cause us to incur material increase in the costs associated with our corporate governance. Any such delays or restatements could cause investors to lose confidence in our reported financial information and lead to a decline in our stock price. Any dramatic increased costs could impact our results in operations and stock price could be materially adversely impacted.

Risks related to our industry

Uncertainties regarding the growth and sustained profitability of business-to-consumer e-commerce could adversely affect our revenue and business prospects and the trading price of our common stock.

The long-term viability and prospects of e-commerce remain relatively uncertain. Our future operating results will depend on numerous industry-related factors, including:

- The trust and confidence level of consumers in online shopping, as well as changes in consumer demographics and consumers' tastes and preferences;
- Concerns about buying customized and personalized products without face-to-face interaction with sales personnel;
- Our ability to provide high-quality customization capabilities and printing output, including design tools, resolution quality, color and sizing accuracy of images;
- The selection, price and popularity of products that we and our competitors offer on websites;
- Whether alternative retail channels or business models that better address the needs of consumers emerge;
- The impact of new technology platforms for Internet access, such as mobile, and methods of marketing, such as social media;
- The development of fulfillment, payment and other ancillary services associated with online purchases; and
- General economic conditions, particularly economic conditions affecting discretionary consumer spending.

A decline in the popularity of shopping on the Internet in general or a shift in the devices used that are not optimal for viewing our sites, a decline in interest in customized goods as a retail trend or any failure by us to adapt our websites and improve the online shopping experience of our customers in response to consumer requirements and tastes, will harm our revenue and business prospects.

Our international sales and operations subject us to additional risks that may materially and adversely affect our business and operating results.

We maintain websites localized to the markets in the United Kingdom, Australia and Canada. Additionally, we utilize contract manufacturing operations through partners in the Czech Republic and Australia. In connection with our international presence we are subject to a variety of risks including:

- The need to develop new production, supplier and customer relationships;
- Difficulties in enforcing contracts, collecting accounts receivables and longer payment cycles;
- Regulatory, political or contractual limitations on our ability to operate and sell in certain foreign markets, including trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses as well as tax nexus issues for royalties paid to non-U.S. content providers;
- Varying and more extensive data privacy and security laws and regulations in other countries;
- Challenges of international delivery and customs requirements;
- Varying product safety requirements and content restrictions in other countries;
- Difficulties of language translations, increased travel, infrastructure and legal compliance and enforcement costs associated with international operations;
- Currency transaction risk, which may negatively affect our revenue, cost of net revenue and gross margins, and could result in exchange losses;
- Difficulty with managing widespread international operations and fulfillment partnerships;
- Reduced protection for intellectual property rights in some countries;
- The need to defend against intellectual property infringement claims against us in unfamiliar foreign legal regimes and to comply with unfamiliar foreign regulatory schemes and laws;
- Lower per capita Internet usage and lack of appropriate infrastructure to support widespread Internet usage as well as broadband connections on which our content-rich services depend;
- Heightened exposure to political instability, war and terrorism; and
- Changes in the general economic and political conditions.

Our success globally will depend on our ability to anticipate and effectively manage these and other risks associated with our international presence. Our failure to manage any of these risks successfully could harm our international reputation and reduce our international sales, adversely affecting our business, operating results and financial condition.

If use of the Internet, particularly with respect to e-commerce, decreases or does not increase, our business and results of operations will be harmed.

Our future revenue is substantially dependent upon the continued growth in the use of the Internet as an effective medium of business and communication by our target customers. Internet use may not continue to develop at historical rates and consumers may not continue to use the Internet and other online services as a medium for commerce for several reasons including the following:

- Actual or perceived lack of security of information or privacy protection;
- Attacks on or attempts to hijack our domain or website traffic or similar damage to our domains or servers;
- Possible disruptions, computer viruses, spyware, phishing, attacks or other damage to the Internet servers, service providers, network carriers and Internet companies or to users' computers; and
- Excessive governmental regulation and new taxation measures.

Our success will depend, in large part, upon third parties maintaining the Internet infrastructure to provide a reliable network backbone with the speed, data capacity, security and hardware necessary for reliable Internet access and services. Our business, which relies on contextually rich websites that require the transmission of substantial secure data, is also significantly dependent upon the availability and adoption of broadband Internet access and other high speed Internet connectivity technologies.

Taxation risks could subject us to liability for past sales and cause our future sales to decrease.

United States Supreme Court precedents currently restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet. However, in recent years, a number of states, as well as the U.S. Congress, have attempted or are considering adoption of initiatives that limit or supersede the Supreme Court's position regarding sales and use taxes on Internet sales or with respect to affiliate marketing programs we employ to generate sales on our websites. If these initiatives are successful, we could be required to collect sales taxes in additional states or change our business practices and we may be exposed to retroactive liability on sales. The imposition of a Federal tax scheme or the imposition by individual state and local governments of taxes upon Internet commerce or affiliate programs could create administrative burdens for us in the future that may pose operational challenges. We currently collect sales tax in states in which we believe we have established sales tax

nexus based on our operations and physical presence and in compliance with existing law. We have elected to discontinue affiliate marketing programs residing in states that have enacted affiliate sales tax nexus statutes. Under some of our agreements, another company is the seller of record, but we are nevertheless obligated to collect sales tax on transactions. We may enter into additional agreements requiring similar tax collection obligations. We expect the complexity of the application of various taxation schemes to continue to pose challenges to our business on a go forward basis.

We also make payments to our users where they upload content and license to us for the creation of online products and/or storefronts. We believe it is our content owners' obligation to pay taxes on their percentage of proceeds from such sales. In the U.S., we issue appropriate tax forms disclaiming the withholding on taxes on such sales. U.S. law remains unsettled on taxation of sales made in the U.S. for which we may owe payments to licensors who reside outside the U.S., and we are continuing to evaluate potential withholding obligations in connection with those sales. There is no guarantee that such procedures will be appropriate to disclaim taxable nexus in every state and foreign country in the future and we continually review such positions on a regular basis for recent developments.

We comply with tax liability obligations, including value added tax and provincial sales tax, in foreign jurisdictions as applicable but additional foreign countries may seek to impose sales or other tax collection obligations on us and as our international sales grow and we expand localized language sites our exposure to liability likewise grows.

A successful assertion of taxable nexus with respect to any of our sales, affiliate marketing or user royalty payment activity by one or more states or foreign countries that we should collect sales or other taxes on the sale of merchandise could result in substantial tax liabilities for past sales, decrease our ability to compete with traditional retailers or competitors, negatively impact our financial position or otherwise harm our business.

Changes in U.S. tax laws or in the tax laws of other jurisdictions in which we operate could adversely impact us .

Tax laws may change in ways that adversely impact us. Changes such as lower corporate tax rates, repatriation allowances, removal of the interest expense deduction or the introduction of a border adjustment tax could impact us as a U.S. taxpayer. Federal or state tax legislation could be enacted in connection with deficit reduction or various types of fundamental tax reform that would lessen or eliminate some or all of the tax advantages currently benefiting us and therefore could materially and adversely impact our results of operations.

On December 22, 2017, President Trump signed Public Law 115-97, informally referred to as the Tax Cuts and Jobs Act (the "TCJA") into law. The TCJA contains significant changes to U.S. federal corporate income taxation, including reduction of the corporate tax rate from 35% to 21% for US taxable income, resulting in a one-time remeasurement of deferred taxes to reflect their value at a lower tax rate of 21%, limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, deemed repatriation, resulting in one-time taxation of offshore earnings at reduced rates, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), and immediate deductions for certain new investments instead of deductions for depreciation expense over time. Effective January 1, 2018, the new legislation contains several key tax provisions that will impact us including the reduction of the corporate income tax rate to 21%. ASC 740, *Income Taxes* requires us to recognize the effect of the tax law change in the period of enactment. The lower tax rate requires us to remeasure our deferred tax assets and liabilities as of December 31, 2017. The total amount of our deferred tax assets before valuation allowance decreased by \$5.4 million as a result of the decrease in the federal tax rate.

Risks related to ownership of our common stock

Our stock price has been volatile, may continue to be volatile and may decline regardless of financial performance.

The market price for our common stock has fluctuated and may continue to fluctuate in response to a number of factors, including:

- Actual or anticipated fluctuations, including seasonal variations, in our financial condition and operating results;
- Changes in the economic performance or market valuations of other e-commerce companies or companies perceived by investors to be comparable to us;
- Our announcement of actual results for a fiscal period that are higher or lower than projected results, our announcement of revenue or earnings guidance that is higher or lower than expected, our withdrawal of previously issued guidance or our decision not to provide guidance;
- Loss of a significant amount of existing business;
- Issuance of new or updated research reports by securities analysts, including the publication of unfavorable reports or changes in recommendation or downgrading of ratings on our common stock;

- Actual or anticipated fluctuations in our competitors' operating results or changes in their growth rates;
- Lack of coverage of us by industry or securities analysts;
- Regulatory developments in our target markets affecting us, our customers or our competitors;
- Fluctuations in the supply and prices of materials used in our products, such as cotton;
- Share price and volume fluctuations attributable to inconsistent or low trading volume levels of our shares, to erratic or unpredictable investor activity, or to purchases or sales of large amounts of our stock, including by institutional or other investors;
- Commencement of, or our involvement in, litigation;
- Terrorist attacks or natural disasters or other such events impacting countries where we or our customers have operations; and
- General economic and market conditions.

For example, from March 29, 2012 through December 31, 2017, our stock price has fluctuated from a high of \$22.69 on March 29, 2012 to a low of \$1.74 on November 10, 2017. As of December 31, 2017 and December 31, 2016, our stock price closed at \$1.85 and \$2.94, respectively.

We have a relatively small public float, which may further contribute to volatility in our stock price.

We have a relatively small public float due to the ownership percentage of our executive officers and directors and greater than 10% stockholders. In addition, in April 2016, our Board of Directors approved the extension of our existing share repurchase program that authorized the purchase of up to 20% of the outstanding shares of our common stock or an aggregate of 3.5 million shares of our common stock. In February 2017, our Board of Directors terminated the program. As a result of our small public float, our common stock may be less liquid and have greater stock price volatility than the common stock of companies with broader public ownership. In addition, the trading of a relatively small volume of shares of our common stock may result in significant volatility in our stock price. If and to the extent ownership of our common stock becomes more concentrated, whether due to increased ownership by our directors and executive officers or other significant stockholders, any future repurchase of our common stock, or other factors, our public float would further decrease, which in turn would likely result in increased stock price volatility.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may cause the market price of shares of our common stock to decline. As an e-commerce company, we believe our stock price may be particularly susceptible to volatility as the stock prices of technology and e-commerce companies have often been subject to wide fluctuations. Additionally, because a large amount of our stock is closely held, we may experience low trading volume or large fluctuations in share price and volume due to large sales by institutional investors.

In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We have been in the past, and in the future may be, the target of this type of litigation. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

Anti-takeover provisions in our amended and restated certificate of incorporation, amended and restated bylaws and in Delaware law generally contain provisions that could discourage a takeover.

In addition to the effect that the concentration of ownership by our officers, directors and significant stockholders may have, our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that may enable our management to resist a change of control. These provisions may discourage, delay or prevent a change in our ownership or a change in our management. In addition, these provisions could limit the price that investors would be willing to pay in the future for shares of our common stock. Such provisions as set forth in our amended and restated certificate of incorporation or amended and restated bylaws include:

- Our Board of Directors is authorized, without prior stockholder approval, to create and issue preferred stock, commonly referred to as “blank check” preferred stock, with rights senior to those of common stock;
- Advance notice is required of stockholders to nominate candidates to serve on our Board of Directors or to propose matters that can be acted upon at stockholder meetings;
- Stockholder action by written consent is prohibited;
- Special meetings of the stockholders will be permitted to be called only by a majority of our Board of Directors, the chairman of our Board of Directors or our chief executive officer;
- Newly created directorships resulting from an increase in the authorized number of directors or vacancies on our Board of Directors will be filled only by majority vote of the remaining directors, even though less than a quorum is then in office, or by a sole remaining director;
- The requirement that the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for certain derivative and other actions;
- Our Board of Directors is expressly authorized to modify, alter or repeal our amended and restated bylaws; and
- Stockholders will be permitted to amend our amended and restated bylaws only upon receiving at least two-thirds of the votes entitled to be cast by holders of all outstanding shares then entitled to vote generally in the election of directors, voting together as a single class.

We are also subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our amended and restated certificate of incorporation, our amended and restated bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our Board of Directors or initiate actions that are opposed by our then-current Board of Directors, including delaying or impeding a merger, tender offer or proxy contest involving us. Any delay or prevention of a change of control transaction or changes in our Board of Directors could cause the market price of our common stock to decline.

Our stock price has been volatile historically, and may continue to be volatile. Further, sales of our common stock by stockholders with significant holdings may cause the price of our common stock to decrease.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements by us or our competitors, including announcements relating to strategic decisions or key personnel, service disruptions, changes in financial estimates and recommendations by security analysts, the operating and stock price performance of other companies that investors may deem comparable to us, volatility in the financial markets and news reports relating to trends in our markets or general economic conditions. The impact of these events and factors on our stock price is amplified by the relatively low number of our shares on the market.

In addition, several of our stockholders own significant portions of our common stock. If these stockholders were to sell all or a large portion of their holdings of our common stock, the market price of our common stock could be negatively impacted. The effect of such sales, or of significant portions of our stock being offered or made available for sale, could result in strong downward pressure on our stock price. Investors should be aware that they could experience significant short-term volatility in our stock if such stockholders decide to sell all or a portion of their holdings of our common stock at once or within a short period of time.

ITEM 1B. Unresolved Staff Comments

Not applicable.

ITEM 2. Properties

Facilities

As of February 28, 2018, our properties consisted of the following locations:

Principal use	Location	Square footage	Lease expiration
Corporate offices ⁽¹⁾	Louisville, Kentucky	24,968	N/A
Production facility ⁽²⁾	Louisville, Kentucky	195,745	July 31, 2021

We believe that our current facilities are sufficient to meet our needs for the foreseeable future and should additional space be needed, such space can be leased on commercially reasonable terms to accommodate any future growth.

- (1) Office building located on 1.61 acres of land which we own and was occupied in May, 2016.
- (2) Leased real property. Financial information about this lease is set forth in Item 8. "Financial Statements and Supplementary Data Note 10 - Commitments and Contingencies."

ITEM 3. Legal Proceedings

None

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 for our common equity

After the pricing of our initial public offering on March 29, 2012, our common stock has traded on the NASDAQ Global Select Market under the symbol "PRSS." Prior to that date, there was no public market for our common stock. The following table sets forth the high and low closing sale prices of our common stock as reported by NASDAQ for the periods indicated:

Fiscal Year 2017	High		Low	
First Quarter	\$	3.49	\$	2.91
Second Quarter	\$	2.98	\$	2.43
Third Quarter	\$	2.52	\$	1.75
Fourth Quarter	\$	2.15	\$	1.74

Fiscal Year 2016	High		Low	
First Quarter	\$	3.99	\$	3.11
Second Quarter	\$	3.83	\$	2.97
Third Quarter	\$	3.32	\$	2.90
Fourth Quarter	\$	3.18	\$	2.80

On February 21, 2018, the last sale price for our common stock on NASDAQ was \$1.51 per share.

Stockholders

As of February 21, 2018, according to the records of our transfer agent, there were approximately 69 registered holders of our Common Stock excluding stockholders whose shares were held in nominee or street name by brokers.

Dividends

We have never declared or paid any cash dividends on shares of our capital stock. Our Board of Directors will determine whether to declare any future dividends, if any, in its discretion subject to applicable laws. Any such determination will depend on our financial condition, results of operations, capital requirements, bank covenants, general business conditions and any other factors our Board of Directors may deem relevant.

Securities authorized for issuance under equity compensation plans

Information regarding the securities authorized for issuance under our equity compensation plans can be found under Item 12 of this Annual Report on Form 10-K.

Unregistered sales of equity securities

None.

Issuer purchases of equity securities

In April, 2016, our Board of Directors approved the extension of our existing stock repurchase program that authorized the purchase of up to 20% of the outstanding shares of our common stock or an aggregate of 3.5 million shares of our common stock. Under the stock repurchase program, any stock repurchase could be made through open market and privately negotiated transactions, or as otherwise determined by management, at times and in such amounts as management deemed appropriate and could be made pursuant to one or more Rule 10b5-1 trading plans adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The timing and amount of stock repurchased under the program depended on a variety of factors including stock price, market conditions, corporate and regulatory requirements (including applicable securities laws and regulations and the rules of the NASDAQ Stock Market), any additional constraints related to material inside information the Company may have possessed and capital availability. In February, 2017, the Company's Board of Directors terminated the repurchase program.

During 2017, we repurchased 18,861 shares of our common stock at an average cost of \$3.10 per share for a total cost of \$0.1 million. There were no shares of common stock repurchased during the three months ended December 31, 2017.

ITEM 6. Selected Financial Data

Not applicable.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Business

We are a leading provider of personalized products offering a wide variety of expressive gifts and accessories, including t-shirts and apparel, mugs and drinkware and home goods such as custom shower curtains and bed coverings. We conduct most of our business on our primary United States-based domain, CafePress.com and operate CafePress branded websites for markets in the United Kingdom, Canada and Australia. We also sell CafePress branded products in the United States and various locations in Europe through our online retail partners such as Amazon and Walmart. Our products are customized with expressive designs contributed through a variety of means, including crowd-sourced user generated content, stock art licenses and licensed content relationships with large entertainment companies and brands. Our distinctive items bring our customers' passions to life and connect people to each other.

Our production facility and fulfillment center in Louisville, Kentucky has innovative technology and manufacturing processes that enable us to provide high-quality customized products that are individually built to order. Our proprietary processes enable us to produce a broad range of merchandise efficiently and profitably. We also maintain a diverse network of contract manufacturers that give us the ability to broaden our manufacturing capabilities and produce in certain international locales.

Most of our net revenue is generated from sales of customized products through our e-commerce websites (collectively referred to as "CafePress.com"), associated Retail Partner Channel ("Retail Partner Channel") or through storefronts hosted by CafePress ("Shop"). In addition, we currently generate limited revenue from third-party printing and fulfillment services. Customized products include user-designed products as well as products designed by our content owners.

An important revenue driver is customer acquisition, primarily through online marketing efforts, including paid and natural search, email, social, affiliate and an array of other channels, as well as the acquisition efforts of our content owners. As a result, our sales and marketing expense is our largest operating expense.

Our consumers and content owner customers are increasingly accessing e-commerce sites from their mobile devices. This shift to mobile devices presents challenges for us as we cope with changing traffic patterns, and we have experienced lower conversion rates on traffic from mobile devices. We expect that this shift to mobile site access will continue for the foreseeable future.

Seasonal and cyclical influences impact our business volume. A significant portion of our sales are realized in conjunction with traditional retail holidays with the largest sales volume occurring during in the fourth quarter of each calendar year. Our offering of custom gifts for the holidays combined with consumers' continued shift to online purchasing drive this trend. As a result of this seasonality, our revenue in each of the first three quarters of the year are generally substantially lower than our revenue in the fourth quarter of each year, and we expect this to continue for the foreseeable future.

In 2017, we accomplished the following:

- We continued to streamline our current website which involved refreshing stale content, updating XML sitemaps and cleaning up link architecture, all which will serve to enhance crawlability for search engines.
- We added new products to our merchandising assortment including drinkware, phone cases, and bedding and launched new apparel products, including t-shirts featuring tri-blend fabrics and comfort colors.
- We added Walmart.com to our Retail Partner Channel and expanded our Amazon partner channel into domains in Germany, Italy, France and Spain.
- We implemented a \$1.5 million garment printing platform upgrade which improved efficiencies and created additional production capacity.

As we enter 2018, our strategy will be focused on the following:

- *Rebuild the User Experience* - During 2018, we plan to complete our website rebuild with the demolition of the old website and modernization of the new CafePress.com website. We will upgrade to a fully encrypted HTTPS site and release new search, product detail, cart and checkout pages. We believe the new website will result in higher traffic, conversion and revenue from search engine optimization channels.
- *Retail Partner Channel Expansion* - We intend to support growth in our Retail Partner Channel by further expanding into new marketplaces and geographies, focusing on product discoverability and an enhanced customer experience that includes detailed product descriptions, photographs, reviews and refined pricing and promotions. During 2018, we will expand further with Amazon into their Australian domain.
- *Third-Party Printing and Fulfillment* - We believe we can leverage our manufacturing platform and excess capacity to enter into new fulfillment agreements with other third-party consumer-facing, on-demand, custom product providers. We are focused on acquiring new customers to generate additional revenue for CafePress.

As a result of these changes, in January of 2018, as part of a cost reduction initiative, we reduced headcount by approximately 5%.

Basis of presentation

Net Revenue

We generate revenue from online transactions through CafePress.com and our Retail Partner Channel.

We recognize revenue associated with an order when all revenue recognition criteria have been met. Revenue is recorded at the gross amount when we are the primary obligor in a transaction, are subject to inventory and credit risk and have latitude in establishing prices and selecting suppliers. For transactions where we act as principal and record revenue on a gross basis, applicable royalty payments to our content owners are recorded in cost of net revenue.

Cost of Net Revenue

Cost of net revenue includes materials, labor, royalties, depreciation and other fixed overhead costs related to our manufacturing facilities, as well as outbound shipping and handling costs. The cost of materials may vary based on revenue as well as the price we are able to negotiate. Shipping fluctuates with volume as well as the method of shipping and fuel surcharges. Labor varies primarily by volume and product mix, and to a lesser extent, based on whether the employee is an hourly or a salary employee. We rely on temporary employees to augment our permanent staff particularly during periods of peak demand. Our royalty expense is comprised of fees we pay to our content owners for the use of their content on our products. Additionally, we pay commissions to shopkeepers for the use of their content on our products. Such fees vary based primarily on sales channel and volume. Royalty-based obligations and commissions are expensed to cost of net revenue at the contractual rate for the relevant product sales.

Operating Expense

Operating expense consists of sales and marketing, technology and development, general and administrative expense, impairment charges and restructuring costs.

Sales and Marketing

Sales and marketing expense consists primarily of customer acquisition costs, personnel costs and costs related to customer support, order processing, third-party platform fees and other marketing activities. Customer acquisition, customer support, third party platform fees and third-party payment processor and credit card fees are variable and historically have represented the majority of our overall sales and marketing expense.

Our customer acquisition costs consist of various online media programs, such as paid search engine marketing, email, display advertising and affiliate channels. We believe this expense is a key lever that we can use within our business as we adjust volumes to our target return on investment. We expect to continue to invest in sales and marketing expense in the foreseeable future to fund new customer acquisition, increase focus on driving repeat customer purchases, and build our brand.

Technology and Development

Technology and development expense consists of costs incurred for engineering, network operations, and information technology, including personnel expense, as well as the costs incurred to operate our websites. Technology and development costs are expensed as incurred, except for certain costs related to the development of internal use software and website development, which are capitalized and amortized over the estimated useful lives, which is two years.

General and Administrative

General and administrative expense consists of personnel, professional services and facilities costs related to our executive, finance, human resources and legal functions. Professional services consist primarily of outside legal and accounting services. General and administrative expense also include headcount and related costs for operations related to our content usage and fraudulent review personnel.

Our Critical Accounting Policies

Our financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") and are based upon certain critical accounting policies. These policies may require management to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our Company and the industry as a whole and information available from outside sources. Our estimates affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results may differ from those initial estimates.

Our critical accounting policies are:

- Revenue recognition;
- Property and equipment;
- Inventory; and
- Income tax expense.

Our significant accounting policies and recently adopted accounting policies are more fully described in Item 8. "Financial Statements and Supplementary Data Note 1 - Basis of Presentation and Summary of Significant Accounting Policies" contained within this report.

Revenue Recognition

We derive our revenue primarily from CafePress.com and associated Retail Partner Channel. We recognize revenue from product sales, net of estimated returns based on historical experience, when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or the service has been provided; (3) the selling price or fee revenue earned is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured.

We evaluate principal or agent considerations to determine whether it is appropriate to record platform fees paid to our Retail Partner Channel as an expense or as a reduction to revenue. Platform fees are recorded as sales and marketing expense and are not recorded as a reduction to revenue because we are responsible for fulfilling the order in the transaction, are subject to inventory and credit risk and have latitude in establishing prices and selecting suppliers.

Product sale and shipping revenue is recognized net of promotional discounts, rebates, and return allowances. Revenue from product sales and services rendered are recorded net of sales and consumption taxes. We periodically provide incentive offers to

customers to encourage purchases. Such offers include current discount offers such as percentage discounts off current purchases and other similar offers. Current discount offers, when used by customers, are treated as a reduction of revenue. We maintain an allowance for estimated future returns and credit card chargebacks based on current period revenue and historical experience.

Deferred revenue includes funds received in advance of product fulfillment and is deferred until applicable revenue recognition criteria is met. Direct and incremental costs associated with deferred revenue are deferred, classified in deferred costs and recognized in the period revenue is recognized.

Property and Equipment

Property and equipment, which includes property and equipment acquired under capital leases, are stated at historical cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets and are allocated between cost of net revenue and operating expense.

Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded in the statement of operations. Major additions and improvements are capitalized, while replacements, maintenance and repairs that do not extend the lives of the assets are charged to expense as incurred.

We review the carrying value of our property and equipment used in our operations whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from estimated future undiscounted cash flows expected to result from its use and eventual disposition. Adverse industry or economic trends, lower projections of profitability, or a significant, adverse change in legal factors or in the business climate, among other items, may be indications of potential impairment issues. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, an impairment is recorded based on the excess of carrying value over the fair value of the asset.

Inventory

Inventory is comprised primarily of raw materials and is stated at lower of cost or net realizable value using the first-in, first-out ("FIFO") method. The cost of excess or obsolete inventory is written down to net realizable value when we determine inventories to be slow moving, obsolete or excess, or where the selling price of the product is insufficient to cover product costs and selling expense. This evaluation takes into account expected demand, historical usage, product obsolescence and other factors. Recoveries of previously written down inventory are recognized only when the related inventory is sold and revenue has been recognized.

Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial statement and tax basis of assets and liabilities, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to an amount we estimate is more likely than not to be realized.

We follow the authoritative accounting guidance prescribing a threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides for de-recognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition. The guidance utilizes a two-step approach for evaluating uncertain tax positions. Step one, recognition, requires a company to determine if the weight of available evidence indicates that a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. If a tax position is not considered, "more likely than not" to be sustained, then no benefits of the position are to be recognized. Step two, measurement, is based on the largest amount of benefit, which is more likely than not to be realized on ultimate settlement. There was no unrecognized tax benefit for any period presented.

We recognize interest and/or penalties related to all tax positions in income tax expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. No interest or penalties have been accrued for any period presented.

We have elected to use the "with and without" approach in determining the order in which tax attributes are utilized. As a result, we will only recognize a tax benefit for stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to us have been utilized.

Results of Operations

The following table presents the components of our statement of operations as a percentage of net revenue:

	Year Ended December 31,	
	2017	2016
Net revenue	100.0 %	100.0 %
Cost of net revenue	61.3	59.1
Gross profit	38.7	40.9
Operating expense:		
Sales and marketing	25.1	22.7
Technology and development	14.1	12.5
General and administrative	11.8	10.0
Impairment charges	—	20.4
Restructuring costs	—	2.1
Total operating expense	51.0	67.7
Loss from operations	(12.3)	(26.8)
Interest income	0.2	0.1
Interest expense	—	—
Other income	0.1	0.4
Loss before income taxes	(12.0)	(26.3)
Provision (benefit) for income taxes	—	(0.4)
Net loss	(12.0)%	(25.9)%
Effective tax rate	— %	1.5 %

We monitor several key operating metrics including:

	Year Ended December 31,			
	2017	2016	Variance	% Variance
(in thousands, except for percentages and average order size data)				
CafePress.com orders	1,607	2,070	(463)	(22)%
Retail Partner Channel orders	1,114	1,018	96	9 %
Total orders	2,721	3,088	(367)	(12)%
CafePress.com average order size	\$ 38.46	\$ 39.35	\$ (0.89)	(2)%
Retail Partner Channel average order size	\$ 21.63	\$ 20.25	\$ 1.38	7 %
Total average order size	\$ 31.57	\$ 33.06	\$ (1.49)	(5)%
CafePress.com revenue	\$ 61,756	\$ 81,558	\$ (19,802)	(24)%
Retail Partner Channel revenue	23,929	20,650	3,279	16 %
Total revenue	\$ 85,685	\$ 102,208	\$ (16,523)	(16)%

	Three Months Ended							
	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017	Dec. 31, 2017
	(in thousands, except average order size data)							
CafePress.com orders	384	426	422	838	353	368	295	591
Retail Partner Channel orders	152	163	196	507	228	195	217	474
Total orders	536	589	618	1,345	581	563	512	1,065
CafePress.com average order size	\$ 39.84	\$ 40.02	\$ 38.06	\$ 39.43	\$ 38.78	\$ 37.09	\$ 37.13	\$ 39.80
Retail Partner Channel average order size	\$ 21.00	\$ 20.74	\$ 17.72	\$ 20.85	\$ 20.43	\$ 20.91	\$ 20.29	\$ 23.12
Total average order size	\$ 34.50	\$ 34.70	\$ 31.61	\$ 32.42	\$ 31.59	\$ 31.49	\$ 29.99	\$ 32.37

Total Number of Orders

Total number of orders represents the number of individual transactions that are made during the period. We monitor the total number of orders as a leading indicator of revenue trends. For the year ended December 31, 2017, the total number of orders was 2.7 million, a decrease of 0.4 million, or 12%, compared to the prior year. The decrease in orders was primarily the result of lower visitations to CafePress.com across all traffic sources that we believe is related to changes in search engine algorithms that occurred earlier in the year as well as a continued competitive online retail environment. Declines in orders at CafePress.com were partially offset by the growth in business volumes within our Retail Partner Channel related to the continued expansion of our catalogs.

Average Order Size

Average order size is calculated as billings for a given period based on order date divided by the total number of associated orders in the same period. We recognize revenue when delivery has occurred or the service has been provided. Due to timing of meeting revenue recognition criteria, billings may not be recognized as revenue until the following period. We closely monitor the average order size as it relates to changes in order volume, product pricing and product mix. For the year ended December 31, 2017, the decrease in CafePress.com average order size of 2% as compared to the prior year was primarily related to a change in product mix as well as a reduction to our economy shipping pricing that occurred during the first half of 2017. The increase in Retail Partner Channel average order size of 7% was due to a focus on pricing that maintains a desired margin level as well as the fact that a free shipping promotion was conducted during the second half of 2016 that resulted in lower prices.

Comparison of the Years Ended December 31, 2017 and December 31, 2016

The following table presents our statements of operations for the periods indicated:

	Year Ended December 31,			
	2017	2016	\$ Change	% Change
	(in thousands, except for percentages)			
Net revenue	\$ 85,685	\$ 102,208	\$ (16,523)	(16)%
Cost of net revenue	52,503	60,406	(7,903)	(13)
Gross profit	33,182	41,802	(8,620)	(21)
Operating expense:				
Sales and marketing	21,514	23,167	(1,653)	(7)
Technology and development	12,062	12,825	(763)	(6)
General and administrative	10,110	10,192	(82)	(1)
Impairment charges	—	20,899	(20,899)	(100)
Restructuring costs	—	2,103	(2,103)	(100)
Total operating expense	43,686	69,186	(25,500)	(37)
Loss from operations	(10,504)	(27,384)	16,880	62
Interest income	181	179	2	1
Interest expense	(11)	(66)	55	83
Other income	81	411	(330)	(80)
Loss before income taxes	(10,253)	(26,860)	16,607	62
Provision (benefit) for income taxes	4	(390)	394	U
Net loss	\$ (10,257)	\$ (26,470)	\$ 16,213	61%

U:> 100% unfavorable F:> 100% favorable

Net Revenue

Net revenue decreased \$16.5 million, or 16%, in 2017 as compared to 2016. The change in revenue was driven by lower revenue from our CafePress.com domains which more than offset growth from our Retail Partner Channel. The decline in revenue from CafePress.com of \$19.8 million, or 24%, was primarily driven by declines in visits and conversion from most traffic sources. We believe the reduction in traffic was driven by changes in search engine algorithms. Furthermore, there was one less sale day during the year ended December 31, 2017, and we experienced a decline in sales of political merchandise as 2016 benefited from the presidential election cycle. Within our Retail Partner Channel, revenue increased \$3.3 million, or 16%, primarily as a result of higher order volumes from our retail partners driven by the continued merchandising expansion of our catalogs and to a lesser extent, by the contribution of the Walmart marketplace, which launched during the last half of 2017. Retail Partner Channel revenue was adversely impacted from the loss of a portion of content sold through one partner during the fourth quarter of 2017.

Cost of Net Revenue

Cost of net revenue decreased \$7.9 million, or 13%, in 2017 compared to 2016. As a percentage of net revenue, cost of net revenue was 61.3% in 2017, compared to 59.1% in 2016. The cost of materials increased as a percentage of net revenue by approximately 1.5 percentage points primarily as a result of changes in product mix away from lower cost categories. In addition, the cost of shipping increased as a percentage of net revenue by approximately 0.5 percentage points, which was primarily attributed to an increase in the number of shipments through our Retail Partner Channel where the average number of units per order is much lower than that experienced on CafePress.com. This increase was partially offset by fewer shipping upgrades during our 2017 peak holiday season and free shipping promotions that occurred in 2016 but did not recur in 2017. Labor costs as a percentage of net revenue also increased by 0.5 percentage points as the decline in volume resulted in lower labor efficiencies in our plant operations. Plant overhead costs, including depreciation and amortization, declined as a percentage of net revenue by 0.2 percentage points driven by a reduction in our plant footprint. Finally, content commission costs also decreased as a percentage of net revenue by approximately 0.1 percentage points. An increase in revenue in 2017 from our internally produced content, which lowered

commission expense was partially offset by the establishment of a commission forfeiture program for inactive shopkeepers in the prior year that resulted in a one-time reduction in commission expense during 2016 of \$0.4 million. On a per unit basis, excluding the impact of the one-time reduction in commission expense in 2016, total cost of net revenue was \$10.98, which is approximately 4% higher than the prior year. The 5% decline in average order size also negatively impacted our cost of net revenue as a percentage of net revenue.

Sales and Marketing

Sales and marketing expense decreased \$1.7 million, or 7%, in 2017 compared to 2016. Sales and marketing expense was 25.1% of net revenue in 2017 compared to 22.7% in 2016. The decrease in absolute dollars in sales and marketing expense consisted of a \$1.6 million decline in fixed expenses and a \$0.1 million decrease in variable expenses. Lower fixed costs were primarily driven by reductions in personnel-related costs associated with the 2016 closure of our California office as well as expense reductions from outside agencies. Cafepress.com variable costs decreased \$1.1 million as a decrease in credit card fees and customer service expense were partially offset by higher paid search advertising costs. Retail Partner Channel variable expenses increased \$1.0 million from an increase in platform fees and advertising of \$0.7 million and \$0.3 million, respectively.

Technology and Development

Technology and development expense decreased \$0.8 million, or 6%, in 2017 compared to 2016. Technology and development expense was 14.1% of net revenue in 2017 compared to 12.5% in 2016. Personnel-related, consulting, recruiting and other technology infrastructure costs declined \$1.6 million primarily from the 2016 closure of our California office. Partially offsetting this decline was an increase of \$0.8 million in depreciation expense.

General and Administrative

General and administrative expense decreased \$0.1 million, or 1%, in 2017 compared to 2016. General and administrative expense was 11.8% of net revenues in 2017 compared to 10.0% in 2016. Personnel-related costs and rent costs decreased \$0.6 million, partially driven by the closure of our California office. In addition, professional service fees decreased \$0.5 million primarily due to a reduction in legal fees. Finally, insurance expense declined \$0.1 million as we experienced favorable insurance renewals during the last half of 2017. These decreases were partially offset by an increase of \$0.4 million in stock compensation expense and one-time expense reductions of \$0.7 million in the prior year. One-time items in 2016 reflected a decrease of other taxes of \$0.4 million as we had a reduction in sales and use tax liabilities during 2016 as well as a decrease of corporate expenses of \$0.3 million as penalties and interest recorded for escheatment issues during 2015 were favorably reversed in 2016.

Impairment Charges

Impairment charges decreased \$20.9 million in 2017 as compared to 2016 as the prior year expense consisted of a non-cash charge related to the impairment of goodwill.

Restructuring Costs

Restructuring costs decreased \$2.1 million in 2017 as compared to 2016 as the prior year expense consisted of severance charges of \$1.8 million and a charge of \$0.3 million for the abandonment of our office space in Hayward, California, which represented the net present value of the remaining minimum lease payments less expected sub-lease proceeds.

Other Income

Other income decreased \$0.3 million in 2017 as compared to 2016 as the prior year consisted primarily of one-time commission forfeiture income due to the write-off of outstanding shopkeeper checks that did not qualify for escheatment.

Provision (Benefit) for Income Taxes

We recorded a \$0.4 million benefit for income taxes during 2016. Our effective tax rate was a 1.5% benefit in 2016. For 2016, the effective tax rate was different than our statutory rate primarily due to the net loss while maintaining a valuation allowance against substantially all of our deferred tax assets and the tax impact of the goodwill impairment.

Quarterly trends

Our business is subject to seasonal fluctuations. In particular, we generate a significant portion of our revenues during the fourth quarter primarily due to increased retail activity during the holiday seasons. During the fourth quarter, we typically see our largest increases in orders and customers. As a result of this seasonality, our revenue in the first three quarters of each year are generally substantially lower than our revenue in the fourth quarter of each year, and we expect this to continue for the foreseeable future.

Consolidated Balance Sheet

The following table is a summary of our overall financial position:

	December 31,		'17 vs. '16
	2017	2016	Change
	(in thousands)		
Total assets	\$ 51,172	\$ 62,920	\$ (11,748)
Total liabilities	15,241	18,452	(3,211)
Total stockholders' equity	35,931	44,468	(8,537)

- Total assets decreased \$11.7 million in 2017 driven by a reduction in current assets due to the utilization of cash and short-term investments for the 2017 payment of production, advertising, royalty and commission liabilities related to retail holiday activity during the fourth quarter of 2016. In addition, cash balances were adversely impacted during 2017 from the declines in business levels.
- Total liabilities decreased \$3.2 million in 2017 primarily from the decrease in sales volume during the fourth quarter of 2017 as compared to the fourth quarter of 2016 which resulted in lower production, royalty and commission liabilities.
- Total stockholders' equity decreased \$8.5 million in 2017 primarily driven by our net loss of \$10.3 million partially offset by \$1.8 million of stock-based compensation expense.

Liquidity and Capital Resources

As of December 31, 2017, cash, cash equivalents, short-term investments and restricted cash totaled \$32.4 million.

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

	Year Ended December 31,		'17 vs. '16
	2017	2016	Change
	(in thousands)		
Cash Flows from:			
Operating activities	\$ (6,426)	\$ (1,846)	\$ (4,580)
Investing activities	13,275	(12,673)	25,948
Financing activities	(392)	(1,581)	1,189

Cash flows from operating activities

Our primary source of cash from operating activities is cash collections from our customers and partners. The substantial majority of our net revenue is generated from credit card transactions and credit card accounts receivable and are typically settled between one and five business days. Our primary uses of cash for operating activities are for settlement of accounts payable to vendors and personnel-related expenditures. Our quarterly cash flows from operations are impacted by the seasonality of our business. We generate a significant portion of our cash flow from operations in the fourth quarter, and cash flows in the first three to nine months have generally been negative due to the timing of settlements of accounts payable and accrued liabilities related to our fourth quarter holiday business, and to a lesser extent, operating losses. We expect that cash provided by (used in) operating activities may fluctuate in future periods due to a number of factors, including volatility in our operating results, seasonality,

accounts receivable collections performance, inventory and supply chain management, and the timing and amount of personnel-related payments.

Cash used in operating activities increased \$4.6 million primarily due to an increase in payments in 2017 related to the satisfaction of accounts payable and accrued liabilities related to retail holiday activity from the fourth quarter of 2016 as compared to the prior year partially offset by a decrease in prepayments for business insurance renewals that occurred in June of 2017 and timing of the collections of cash related to credit card settlements during 2017 as compared to the prior year.

Cash flows from investing activities

Cash provided by investing activities increased \$25.9 million driven by an increase in the net sale of short-term investments. During 2017, as certificates of deposits matured, we did not reinvest the proceeds due to declines in business levels and due to maintaining cash balances to satisfy fourth quarter peak holiday liabilities during the first quarter of 2018.

Cash flows from financing activities

Cash used in financing activities decreased \$1.2 million as we repurchased less stock under our stock repurchase program compared to the prior year. During the first quarter of 2017, we terminated the stock repurchase program.

Our future capital requirements may vary materially from those currently planned and will depend on many factors, including, among other things, market acceptance of our products, our growth, and our operating results, as well as any potential investments or acquisitions. We anticipate that our current cash and cash equivalent balances and potential cash generated from future operations will be sufficient to meet our strategic and working capital requirements for at least the next twelve months.

Credit Facility and Indebtedness

Our loan and security agreement that provided for a revolving credit facility of \$6.5 million to fund acquisitions, share repurchases and other general corporate needs expired on June 30, 2017 and was not renewed. On September 15, 2017, the Letter of Credit provided to the landlord under our production facility and fulfillment center lease was replaced by an escrow agreement. Pursuant to the terms of the escrow agreement, we deposited \$1.5 million in a non-interest bearing account, representing the maximum amount owed to the landlord, only to be drawn on by the landlord should we exercise our right to terminate the production facility and fulfillment center lease prior to the expiration of the term.

If we require additional capital resources to grow our business or to acquire complementary technologies and businesses at any time in the future, we may seek to sell additional equity or raise funds through debt financing or other sources. The sale of additional equity could result in additional dilution to our stockholders. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operating flexibility and would also require us to incur interest expense. We can provide no assurance that additional financing will be available at all or, if available, that we would be able to obtain financing on terms favorable to us.

In April 2016, our Board of Directors approved the extension of our existing stock repurchase program that authorized the purchase of up to 20% of the outstanding shares of our common stock or an aggregate of 3.5 million shares of our common stock. As of December 31, 2017, we had used \$5.3 million of excess cash to repurchase 1,266,028 shares of our common stock. In February 2017, our Board of Directors terminated the repurchase program.

Non-GAAP financial measures

Regulation G, conditions for use of non-generally accepted accounting principles, or Non-GAAP, financial measures and other SEC regulations define and prescribe the conditions for use of certain Non-GAAP financial information. In addition, to disclosing financial results that are determined in accordance with GAAP, we also disclose certain non-GAAP financial information, including Adjusted EBITDA and Cash Contribution Margin, as further explained below. Analysis of results on a non-GAAP basis should be used as a compliment to, and in conjunction with, data presented in accordance with GAAP. Additionally, because our non-GAAP measures are not calculated in accordance with GAAP, the measures may not necessarily be comparable to similarly titled measures employed by other companies.

Adjusted EBITDA

We closely monitor Adjusted EBITDA which meets the definition of a Non-GAAP financial measure. We define Adjusted EBITDA as net income (loss) less interest and other (income) expense, provision for (benefit from) income taxes, depreciation and amortization, stock-based compensation, acquisition-related costs, restructuring costs and impairment charges.

We use Adjusted EBITDA as a key performance measure because we believe it facilitates operating performance comparisons from period to period by excluding potential differences caused by variations in capital structures (affecting net interest expense), tax positions (such as the impact on periods of changes in effective tax rates or fluctuations in permanent differences or discrete quarterly items), the impact of depreciation and amortization, stock-based compensation, acquisition-related costs, restructuring costs and impairment charges. Because Adjusted EBITDA facilitates internal comparisons of our historical operating performance on a more consistent basis, we also use Adjusted EBITDA for business planning purposes and to incentivize and compensate our management personnel.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider this measure in isolation or as a substitute for analysis of our results as reported under GAAP as the excluded items may have significant effects on our operating results and financial condition. When evaluating our performance, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP results.

The following table presents a reconciliation of Adjusted EBITDA to net loss, the most comparable GAAP measure, for each of the periods indicated:

	Year Ended December 31,	
	2017	2016
(in thousands)		
Net loss	\$ (10,257)	\$ (26,470)
Non-GAAP adjustments:		
Interest and other income	(251)	(524)
Provision (benefit) for income taxes	4	(390)
Depreciation and amortization	4,709	4,256
Stock-based compensation	1,769	1,607
Impairment charges	—	20,899
Restructuring costs	—	2,103
Adjusted EBITDA	<u>\$ (4,026)</u>	<u>\$ 1,481</u>

The following shows the Adjusted EBITDA as a percentage of net revenue, for each of the periods indicated:

	Year Ended December 31,	
	2017	2016
(in thousands, except for percentages)		
Net revenue	\$85,685	\$102,208
Non-GAAP Adjusted EBITDA	(4,026)	1,481
% of net revenue	(4.7)%	1.4%

Cash Contribution Margin

Cash contribution margin (a non-GAAP financial measure that we reconcile to "Gross profit" in our consolidated statements of comprehensive loss) consists of gross profit plus stock-based compensation and depreciation and amortization included in cost of net revenue less variable sales and marketing expense.

When viewed together with our GAAP results, we believe cash contribution margin provides management and users of the financial statements information about our ability to cover our operating costs, such as Technology and Development and General and Administrative expense. Cash contribution margin is used in addition to and in conjunction with results presented in accordance

with GAAP and should not be relied upon to the exclusion of GAAP financial measures. You should review our financial statements and publicly-filed reports in their entirety and not rely on any single financial measure. One material limitation associated with the use of cash contribution margin is that it is an incomplete measure of profitability as it does not include all operating expense or non-operating income and expense. Management compensates for these limitations when using this measure by looking at other GAAP measures such as operating income and net income.

The following table presents the calculation of cash contribution margin for the periods indicated (in thousands, except for percentages):

	Year Ended December 31,			
	2017		2016	
	(in thousands, except for percentages)			
Net revenue	\$ 85,685	100.0 %	\$ 102,208	100.0 %
Cost of net revenue	52,503	61.3	60,406	59.1
Gross profit	<u>33,182</u>	<u>38.7</u>	<u>41,802</u>	<u>40.9</u>
Non-GAAP adjustments:				
Add: Stock-based compensation	15	—	49	0.1
Add: Depreciation and amortization	1,571	1.8	1,926	1.9
Less: Variable sales and marketing costs	(16,620)	(19.4)	(16,717)	(16.4)
Cash contribution margin	<u>\$ 18,148</u>	<u>21.2 %</u>	<u>\$ 27,060</u>	<u>26.5 %</u>

Off-balance sheet arrangements

We do not have any relationships with unconsolidated entities or financial partnerships such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, and we have not entered into any synthetic leases. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Table of Contractual Obligations:

Our commitments to make future payments as of December 31, 2017, are summarized as follows:

	Payments due by period				
	2018	2019-2020	2021-2022	Thereafter	Total
	(in thousands)				
Operating lease obligations	\$ 719	\$ 1,493	\$ 447	\$ —	\$ 2,659
Minimum royalty obligations	194	119	—	—	313
Purchase obligations	1,728	—	—	—	1,728
Total	<u>\$ 2,641</u>	<u>\$ 1,612</u>	<u>\$ 447</u>	<u>\$ —</u>	<u>\$ 4,700</u>

Recent accounting pronouncements

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09, *Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting*. ASU 2017-09 will clarify and reduce both (i) diversity in practice and (ii) cost and complexity when applying the guidance in Topic 718, to a change to the terms and conditions of a share-based payment award. This guidance will become effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. We do not believe this update will have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows - Restricted Cash a consensus of the FASB Emerging Issues Task Force*. ASU 2016-18 requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows under a retrospective transition approach. We early adopted this guidance as of September 30, 2017, and the adoption of this accounting standard resulted in a \$3.4 million impact to investing cash flows for the year ended December 31, 2016.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 24,924	\$ 19,980
Restricted cash	1,513	—
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 26,437</u>	<u>\$ 19,980</u>

Previously, we had an outstanding letter of credit of \$1.5 million ("Letter of Credit"), secured by our existing operating cash, as required under the terms of our production facility and fulfillment center lease. As of December 31, 2017, as further disclosed in Item 8. "Financial Statements and Supplementary Data Note 5 - Escrow Agreement", amounts included in restricted cash represent funds set aside and required by the production facility and fulfillment center lease and corresponding escrow agreement negotiated with our landlord to replace the Letter of Credit.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The retrospective transition method, requiring adjustment to all comparative periods presented, is required unless it is impracticable for some of the amendments, in which case those amendments would be prospectively as of the earliest date practicable. The guidance will become effective for annual periods beginning after December 15, 2017. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to make an accounting policy election to either estimate forfeitures on stock-based payment awards as previously required, or to recognize forfeitures as they occur, as well as certain classifications on the statement of cash flows. We adopted this ASU on January 1, 2017 and elected to recognize forfeitures as they occur, and the impact of that change in accounting was recorded as a \$0.2 million cumulative effect adjustment to increase additional paid-in-capital and accumulated deficit. The other provisions of this accounting standard did not have a material impact on our consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products*. The ASU exempts prepaid gift certificates from the guidance on extinguishing financial liabilities. The gift certificates will be subject to breakage accounting consistent with the new revenue standard, see below. Breakage should only be recognized to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. The ASU is effective for fiscal years beginning after December 15, 2017, and is applied either using a modified retrospective transition method or retrospectively. Early adoption is permitted. We do not expect the adoption of the standard to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and ASU 2014-9, *Revenue from Contracts with Customers (Topic 606)*. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease

liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2018. Our preliminary analysis indicates that for our one remaining operating lease that will be in effect, upon adoption of Topic 842, we will record an estimated lease right of use asset of \$2.1 million and a corresponding lease liability of \$2.1 million. We anticipate electing the practical expedient in Accounting Standards Codification ("ASC") 842 and will not separate the nonlease components from the lease component. We are still evaluating the qualitative and quantitative disclosures that will be required when we adopt the standard.

In July 2015, the FASB issued ASU 2015-11, *Inventory - Simplifying the Measurement of Inventory (Topic 330)*. ASU 2015-11 requires inventory to be subsequently measured using the lower of cost and net realizable value, thereby eliminating the market value approach. Net realizable value is defined as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation." We adopted ASU 2015-11 on January 1, 2017, and the standard did not have a material impact on our consolidated financial statements and footnote disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We will adopt the requirements of the new standard on January 1, 2018 and anticipate using the full retrospective transition approach. We do not expect the adoption of the new standard to significantly impact the timing and measurement of revenue recognized. Revenue related to our Retail Partner Channel will continue to be recognized on a gross basis as we control the goods before the goods are transferred to the customer. We completed our implementation of the quantitative and qualitative disclosures and will continue to disaggregate our revenue between CafePress.com and Retail Partner Channel as well as to customers located in the United States and to customers located outside of the United States. We determined that disaggregating revenue into these categories achieves the disclosure objectives for ASC 606 to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. As discussed in Item 8. "Financial Statements and Supplementary Data Note 12 - Segment Information", our business consists of one reportable segment. All disaggregated revenue is recorded within the one operating segment. Revenue by geography is based on the location to where the product was shipped.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include risk related to interest rate, foreign currency exchange rate sensitivities and inflation.

Interest rate sensitivity

We had cash and cash equivalents and short-term investments of \$30.9 million and \$43.8 million as of December 31, 2017 and December 31, 2016, respectively. These amounts were held primarily in cash deposits, money market funds, corporate debt securities, government securities and certificates of deposit. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. Due to the short-term nature of these instruments, a change in market interest rates would not be expected to have a material impact on our financial condition or our results of operations.

Foreign currency exchange rate sensitivity

Our sales to international customers are denominated in multiple currencies, including the United States dollar, the British Pound, the Euro, the Canadian dollar and the Australian dollar. As the substantial majority of our sales are charged to credit cards, accounts receivables are generally settled in short time duration and accordingly, we have limited exposure to foreign currency exchange rates on our accounts receivable. To date, our operating costs have been denominated primarily in United States dollars. As a result of our limited exposure to foreign currency exchange rates, we do not currently enter into foreign currency hedging transactions. If our international operations increase, our exposure to foreign currency exchange rate fluctuations may increase.

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Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

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ITEM 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of CafePress Inc.
Louisville, KY

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of CafePress, Inc. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years ended December 31, 2017 and 2016, and the related notes and financial statement schedule listed in the index appearing under Item 15(c) (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, 2017 and 2016, and the results of its operations and its cash flows for the two years in the period ended December 31, 2017 and 2016, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the 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 consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2015.

Chicago, Illinois
February 28, 2018

CAFEPRESS INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value amounts)

	December 31,	
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 24,924	\$ 19,980
Short-term investments	6,007	23,808
Accounts receivable	1,496	1,288
Inventory, net	3,128	3,119
Deferred costs	781	798
Prepaid expenses and other current assets	2,412	2,310
Total current assets	38,748	51,303
Property and equipment, net	10,679	10,936
Restricted cash	1,513	—
Other assets	232	681
TOTAL ASSETS	\$ 51,172	\$ 62,920
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,351	\$ 1,803
Accrued royalties payable	2,872	3,623
Accrued liabilities	8,693	11,765
Deferred revenue	1,020	748
Capital lease obligation, current	—	347
Total current liabilities	14,936	18,286
Other long-term liabilities	305	166
TOTAL LIABILITIES	15,241	18,452
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value: 10,000 shares authorized as of December 31, 2017 and 2016; none issued and outstanding	—	—
Common stock, \$0.0001 par value: 500,000 shares authorized; 16,932 and 16,643 outstanding as of December 31, 2017 and 2016, respectively	2	2
Additional paid-in capital	101,697	99,756
Accumulated other comprehensive loss	(4)	—
Accumulated deficit	(65,764)	(55,290)
TOTAL STOCKHOLDERS' EQUITY	35,931	44,468
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 51,172	\$ 62,920

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

CAFEPRESS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands, except per share amounts)

	Year Ended December 31,	
	2017	2016
	(in thousands, except per share data)	
Net revenue	\$ 85,685	\$ 102,208
Cost of net revenue	52,503	60,406
Gross profit	33,182	41,802
Operating expense:		
Sales and marketing	21,514	23,167
Technology and development	12,062	12,825
General and administrative	10,110	10,192
Impairment charges	—	20,899
Restructuring costs	—	2,103
Total operating expense	43,686	69,186
Loss from operations	(10,504)	(27,384)
Interest income	181	179
Interest expense	(11)	(66)
Other income	81	411
Loss before income taxes	(10,253)	(26,860)
Provision (benefit) for income taxes	4	(390)
Net loss	\$ (10,257)	\$ (26,470)
Net loss per share of common stock:		
Basic	\$ (0.61)	\$ (1.58)
Diluted	\$ (0.61)	\$ (1.58)
Shares used in computing net loss per share of common stock:		
Basic	16,771	16,709
Diluted	16,771	16,709
Other comprehensive loss:		
Unrealized holding losses on available-for-sale securities, net of tax	(4)	—
Other comprehensive loss	(4)	—
Comprehensive loss	\$ (10,261)	\$ (26,470)

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

CAFEPRESS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common stock		Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount					
Balance as of December 31, 2015	16,766	\$2	\$(203)	\$99,344	\$—	\$(28,820)	\$70,323
Issuance of common stock upon exercise of stock options and vesting of restricted stock units	192	—	—	5	—	—	5
Repurchase of common stock	(315)	—	203	(1,224)	—	—	(1,021)
Stock-based compensation expense	—	—	—	1,631	—	—	1,631
Net loss	—	—	—	—	—	(26,470)	(26,470)
Other comprehensive loss	—	—	—	—	—	—	—
Balance as of December 31, 2016	16,643	2	—	99,756	—	(55,290)	44,468
Cumulative-effect adjustment from adoption of ASU 2016-09	—	—	—	217	—	(217)	—
Issuance of common stock upon exercise of stock options and vesting of restricted stock units	308	—	—	13	—	—	13
Repurchase of common stock	(19)	—	—	(58)	—	—	(58)
Stock-based compensation expense	—	—	—	1,769	—	—	1,769
Net loss	—	—	—	—	—	(10,257)	(10,257)
Other comprehensive loss	—	—	—	—	(4)	—	(4)
Balance as of December 31, 2017	16,932	\$2	\$—	\$101,697	\$(4)	\$(65,764)	\$35,931

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

CAFEPRESS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,	
	2017	2016
Cash Flows from Operating Activities:		
Net loss	\$ (10,257)	\$ (26,470)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,709	4,256
(Gain) loss on disposal of fixed assets	(31)	2
Stock-based compensation	1,769	1,607
Impairment charges	—	20,899
Deferred income taxes	92	(338)
Changes in operating assets and liabilities:		
Accounts receivable	(138)	(608)
Inventory	(9)	731
Prepaid expenses, deferred costs and other current assets	211	(76)
Other assets	(9)	19
Accounts payable	548	(2,105)
Accrued royalties payable	(751)	(669)
Accrued and other liabilities	(2,832)	1,022
Deferred revenue	272	(116)
Net cash used in operating activities	<u>(6,426)</u>	<u>(1,846)</u>
Cash Flows from Investing Activities		
Purchase of short-term investments	(7,995)	(23,808)
Proceeds from maturities of short-term investments	25,792	17,610
Purchase of property and equipment	(2,138)	(4,089)
Capitalization of software and website development costs	(2,430)	(2,415)
Proceeds from disposal of fixed assets	46	29
Net cash provided by (used in) investing activities	<u>13,275</u>	<u>(12,673)</u>
Cash Flows from Financing Activities:		
Principal payments on capital lease obligations	(347)	(565)
Proceeds from exercise of common stock options	13	5
Repurchase of common stock	(58)	(1,021)
Net cash used in financing activities	<u>(392)</u>	<u>(1,581)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	6,457	(16,100)
Cash, cash equivalents and restricted cash—beginning of period	19,980	36,080
Cash, cash equivalents and restricted cash—end of period	<u>\$ 26,437</u>	<u>\$ 19,980</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 32	\$ 44
Income taxes paid (refunded) during the period	—	(13)
Non-cash Investing and Financing Activities:		
Accrued purchases of property and equipment	\$ —	\$ 103

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

CAFEPRESS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

Nature of Operations

CafePress Inc. (the "Company," "we," "us," "our") is a provider of gifts and expressories. We take pride in helping to facilitate human connections by inspiring people to express themselves with the best assortment of engaging merchandise. We were founded in 1999 as a California corporation, we reincorporated in Delaware in 2005 and we completed our initial public offering in April 2012.

We are a leading provider of personalized products offering a wide variety of expressive gifts and accessories, including t-shirts and apparel, mugs and drinkware and home goods such as custom shower curtains and bed coverings. We conduct most of our business on our primary United States-based domain, CafePress.com and operate CafePress branded websites for the markets in the United Kingdom, Canada and Australia. We also sell CafePress branded products through other online retail partners such as Amazon and Walmart. Our products are customized with expressive designs contributed through a variety of means, including crowd-sourced user generated content, stock art licenses and licensed content relationships with large entertainment companies and brands. Our distinctive items bring our customers' passions to life and connect people to each other.

Our production facility and fulfillment center in Louisville, Kentucky has innovative technology and manufacturing processes that enable us to provide high-quality customized products that are individually built to order. Our proprietary processes enable us to produce a broad range of merchandise efficiently and profitably. We also maintain a diverse network of contract manufacturers that give us the ability to broaden our manufacturing capabilities and produce in certain international locales.

Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

Our financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") and are based upon certain critical accounting policies. These policies may require management to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our Company and the industry as a whole and information available from outside sources. Our estimates affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results may differ from those initial estimates. Our most critical estimates relate to revenue recognition, property and equipment, inventory and income taxes.

Revenue Recognition

We derive our revenue primarily from our e-commerce websites (collectively referred to as "CafePress.com") and associated Retail Partner Channel (collectively referred to as "Retail Partner Channel"). We recognize revenue from product sales, net of estimated returns based on historical experience, when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or the service has been provided; (3) the selling price or fee revenue earned is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured.

We evaluate principal or agent considerations to determine whether it is appropriate to record platform fees paid to our Retail Partner Channel as an expense or as a reduction to revenue. Platform fees are recorded as sales and marketing expense and are not recorded as a reduction to revenue because we are responsible for fulfilling the order in the transaction, are subject to inventory and credit risk and have latitude in establishing prices and selecting suppliers.

Product sale and shipping revenue is recognized net of promotional discounts, rebates, and return allowances. Revenue from product sales and services rendered are recorded net of sales and consumption taxes. We periodically provide incentive offers to customers to encourage purchases. Such offers include current discount offers such as percentage discounts off current purchases and other similar offers. Current discount offers, when used by customers, are treated as a reduction of revenue. We maintain an allowance for estimated future returns and credit card chargebacks based on current period revenue and historical experience.

Deferred revenue includes funds received in advance of product fulfillment and is deferred until applicable revenue recognition criteria is met. Direct and incremental costs associated with deferred revenue are deferred, classified in deferred costs and recognized in the period revenue is recognized.

Property and Equipment

Property and equipment, which includes property and equipment acquired under capital leases, are stated at historical cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets and are allocated between cost of net revenue and operating expense.

The useful lives of the property and equipment are as follows:

Building	39 years
Office furniture and computers	3 years
Computer software	2 to 3 years
Production equipment	3 to 7 years
Leasehold improvement	Shorter of lease term or estimated useful life

Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded in the statement of operations. Major additions and improvements are capitalized, while replacements, maintenance and repairs that do not extend the lives of the assets are charged to expense as incurred.

We review the carrying value of our property and equipment used in our operations whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from estimated future undiscounted cash flows expected to result from its use and eventual disposition. Adverse industry or economic trends, lower projections of profitability, or a significant, adverse change in legal factors or in the business climate, among other items, may be indications of potential impairment issues. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, an impairment is recorded based on the excess of carrying value over the fair value of the asset.

Inventory

Inventory is comprised primarily of raw materials and is stated at lower of cost or net realizable value using the first-in, first-out ("FIFO") method. The cost of excess or obsolete inventory is written down to net realizable value when we determine inventories to be slow moving, obsolete or excess, or where the selling price of the product is insufficient to cover product costs and selling expense. This evaluation takes into account expected demand, historical usage, product obsolescence and other factors. Recoveries of previously written down inventory are recognized only when the related inventory is sold and revenue has been recognized.

Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial statement and tax basis of assets and liabilities, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to an amount we estimate is more likely than not to be realized.

We follow the authoritative accounting guidance prescribing a threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides for de-recognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition. The guidance utilizes a two-step approach for evaluating uncertain tax positions. Step one, recognition, requires a company to determine if the weight of available evidence indicates that a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. If a tax position is not considered, "more likely than not" to be sustained, then no benefits of the position are to be recognized. Step two, measurement, is based on the largest amount of benefit, which is more likely than not to be realized on ultimate settlement. There was no unrecognized tax benefit for any period presented.

We recognize interest and/or penalties related to all tax positions in income tax expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. No interest or penalties have been accrued for any period presented.

We have elected to use the “with and without” approach in determining the order in which tax attributes are utilized. As a result, we will only recognize a tax benefit for stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to us have been utilized.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit in overnight deposit accounts and investments in money market accounts with an original maturity of 90 days or less at the time of purchase.

Short-Term Investments

We classify short-term investment, which consist of marketable securities with original maturities in excess of 90 days as available-for-sale. Short-term investments are reported at fair value with unrealized gains and losses on such securities reflected, net of tax, as other comprehensive income (loss) in accumulated deficit in the Consolidated Balance Sheets. Realized gains and losses on investments are included in other income (loss) and are derived using the specific identification method for determining the cost of securities sold.

Short-term investments are reviewed quarterly to identify possible other-than-temporary impairment. When evaluating the investments, we review factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, our intent to sell, or whether it would be more likely than not that we would be required to sell the investments before the recovery of their amortized cost basis.

Accounts Receivable

Accounts receivable consist primarily of uncleared credit card transactions at period end and trade amounts due from customers. Accounts receivable are recorded at invoiced amounts and do not bear interest. We have not experienced significant credit losses from our accounts receivable. We perform a regular review of our customers’ payment histories and associated credit risks, and we do not require collateral from our customers.

Internal Use Software and Website Development Costs

We capitalize eligible costs associated with website development and for software developed or obtained for internal use. We expense all costs that relate to the planning associated with website development and for the post-implementation phases of development as product development expense. Payroll and payroll-related costs incurred in the development phase are capitalized and amortized over the product’s estimated useful life of two years. Costs associated with repair or maintenance are expensed as incurred. For the years ended December 31, 2017 and 2016, we capitalized \$2.4 million in each year respectively, of website development costs and software development costs related to software for internal use. Capitalized internal use software is included in property and equipment, net.

Fair Value of Assets and Liabilities

We record our financial assets and liabilities at fair value. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Certain financial instruments are carried at cost on the Consolidated Balance Sheets, which approximates fair value due to their short-term, highly liquid nature. The carrying amounts of cash and cash equivalents, money market accounts, accounts receivable and accounts payable approximate fair value due to the short-term nature of such instruments.

Concentration of Credit Risk and Other Risks and Uncertainties

We continually monitor our position with, and the credit quality of, the financial institutions that are counterparties to our financial instruments.

Our products and services are concentrated in the e-commerce industry, which is highly competitive and rapidly changing.

Our net revenue is settled primarily through credit cards, and to a lesser extent, amounts invoiced to fulfillment services customers and group-buying service providers. For all periods presented, the substantial majority of net revenue were settled through payments by credit card and for the years ended December 31, 2017 and 2016, no customer accounted for more than 10% of total net revenue. Credit card receivables settle relatively quickly, and we maintain allowances for potential credit losses based on historical experience. To date, such losses have not been material and have been within management's expectations.

Our trade accounts receivable is derived primarily from customers located in the United States and consist primarily of amounts due from partners and group-buying service providers. We perform an initial credit evaluation at the inception of a contract and regularly evaluate our ability to collect outstanding customer invoices. No customers accounted for more than 10% of total accounts receivable as of December 31, 2017 and 2016.

Our accounts payable is settled based on contractual payment terms with our suppliers. One supplier accounted for 10% of accounts payable as of December 31, 2017 and 2016.

Minimum Royalty and Content License Commitments

We pay royalties to branded content owners for the use of their content on our products. Royalty-based obligations are generally either paid in advance and capitalized on the balance sheet as prepaid royalties or accrued as incurred and subsequently paid. Royalty-based obligations paid in advance are generally non-refundable. Royalty-based obligations are expensed to cost of net revenue at the contractual royalty rate for the relevant product sales on a per transaction basis.

Our contracts with some licensors include minimum guaranteed royalty payments, which are payable regardless of the ultimate volume of sales. When no significant performance remains with the licensor, we initially record each of these guarantees as an asset and as a liability at the contractual amount. We record an asset for the right to use the content on its merchandise because it represents a probable future economic benefit. When significant performance remains with the licensor, we record prepaid royalty payments as an asset when actually paid. We recorded royalty assets of \$0.4 million and \$0.5 million as of December 31, 2017 and 2016, respectively. We recorded a minimum guaranteed liability of \$0.3 million and \$0.4 million as of December 31, 2017 and 2016, respectively. We classify accrued minimum royalty obligations as current liabilities to the extent they are contractually due within twelve months.

Each quarter, we evaluate the realization of our royalty assets as well as any unrecognized guarantees not yet paid to determine amounts that we deem unlikely to be realized through product sales. We use estimates of future revenue in determining the projected net cash flows to evaluate the future realization of royalty assets and guarantees. This evaluation considers the term of the agreement and current and anticipated sales levels, as well as other qualitative factors such as the success of similar content deals. To the extent that this evaluation indicates that the remaining royalty assets and guaranteed royalty payments may not be recoverable, we record an impairment charge to cost of net revenue in the period impairment is indicated.

Cost of Net Revenue

Cost of net revenue includes materials, shipping, labor, royalties, depreciation and other fixed overhead costs related to manufacturing facilities, as well as outbound shipping and handling costs, including those related to promotional free shipping and subsidized shipping and handling. Royalty payments or commission expense to content owners for transactions where we act as principal and record revenue on a gross basis are included in cost of net revenue and accrued in the period revenue is recognized. Such royalty and commission payments included in cost of net revenue were \$5.1 million and \$6.2 million for the years ended December 31, 2017 and 2016, respectively.

Technology and Development

Technology and development costs consist of costs related to engineering, network operations, and information technology, including personnel expenses of employees involved in these roles. Technology and development costs are expensed as incurred

except for certain costs relating to the development of internal use software and website development, which are capitalized and amortized over two years.

Restructuring Costs

We record restructuring costs when expenses are incurred. We accrue for lease termination costs when the restructuring event takes place. We accrue for severance costs once the total severance expense has been calculated, approved and communicated. We also accelerate depreciation using a revised economic life of the leasehold improvement assets. Financial information about the \$2.1 million restructuring costs recorded during the year ended December 31, 2016 is discussed in Note 8 - Restructuring in the accompanying Notes to Consolidated Financial Statements.

Advertising Expense

The costs of producing advertisements are expensed at the time production occurs and the cost of communicating advertising is expensed in the period during which the advertising space is used. Internet advertising expenses are recognized based on the terms of the individual agreements, which is primarily on a pay-per-click basis. Advertising expenses totaled \$9.6 million and \$9.4 million during the years ended December 31, 2017 and 2016, respectively.

Stock-Based Compensation

We measure stock based awards at fair value and recognize compensation expense for all share-based payment awards made to our employees and directors, including employee stock options and restricted stock awards.

We estimate the fair value of stock options and performance stock options granted using the Black-Scholes valuation model. This model requires us to make estimates and assumptions including, among other things, estimates regarding the length of time an employee will retain vested stock options before exercising them and the estimated volatility of our common stock price. We recognize forfeitures as they occur. The fair value is then amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Compensation expense associated with performance based options is recognized using an attribution model and is based on whether or not satisfaction of the performance criteria is probable.

The cost of restricted stock awards is determined using the fair value of our common stock on the date of grant. Compensation expense is recognized for restricted stock awards on a straight-line basis over the requisite service period.

Sales taxes

When sales and other taxes are billed, such amounts are recorded as accounts receivable with a corresponding increase to sales taxes payable. The balances are then removed from the balance sheet as cash is collected from the customer and is remitted to the tax authority.

Net (Loss) Income Per Share

Basic net (loss) income per share of common stock is calculated by dividing the net (loss) income by the weighted-average number of shares of common stock outstanding for the period.

Diluted net (loss) income per share of common stock is computed by giving effect to all potential dilutive common stock outstanding during the period, including stock options and awards. The computation of diluted net (loss) income does not assume conversion or exercise of potentially dilutive securities that would have an anti-dilutive effect on earnings. The dilutive effect of outstanding stock options and awards is computed using the treasury stock method.

Recent Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09, *Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting*. ASU 2017-09 will clarify and reduce both (i) diversity in practice and (ii) cost and complexity when applying the guidance in Topic 718, to a change to the terms and conditions of a share-based payment award. This guidance will become effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. We do not believe this update will have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows - Restricted Cash a consensus of the FASB Emerging Issues Task Force*. ASU 2016-18 requires restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows under a retrospective transition approach. We early adopted this guidance as of September 30, 2017, and the adoption of this accounting standard resulted in a \$3.4 million impact to investing cash flows for the year ended December 31, 2016.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 24,924	\$ 19,980
Restricted cash	1,513	—
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 26,437</u>	<u>\$ 19,980</u>

Previously, we had an outstanding letter of credit of \$1.5 million ("Letter of Credit"), secured by our existing operating cash, as required under the terms of our production facility and fulfillment center lease. As of December 31, 2017, as further disclosed in Note 5 - Escrow Agreement, amounts included in restricted cash represent funds set aside and required by the production facility and fulfillment center lease and corresponding escrow agreement negotiated with our landlord to replace the Letter of Credit.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The retrospective transition method, requiring adjustment to all comparative periods presented, is required unless it is impracticable for some of the amendments, in which case those amendments would be prospectively as of the earliest date practicable. The guidance will become effective for annual periods beginning after December 15, 2017. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to make an accounting policy election to either estimate forfeitures on stock-based payment awards as previously required, or to recognize forfeitures as they occur, as well as certain classifications on the statement of cash flows. We adopted this ASU on January 1, 2017 and elected to recognize forfeitures as they occur, and the impact of that change in accounting was recorded as a \$0.2 million cumulative effect adjustment to increase additional paid-in-capital and accumulated deficit. The other provisions of this accounting standard did not have a material impact on our consolidated financial statements and footnote disclosures.

In March 2016, the FASB issued ASU 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products*. The ASU exempts prepaid gift certificates from the guidance on extinguishing financial liabilities. The gift certificates will be subject to breakage accounting consistent with the new revenue standard, see below. Breakage should only be recognized to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. The ASU is effective for fiscal years beginning after December 15, 2017, and is applied either using a modified retrospective transition method or retrospectively. Early adoption is permitted. We do not expect the adoption of the standard to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and ASU 2014-9, *Revenue from Contracts with Customers (Topic 606)*. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating

leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2018. Our preliminary analysis indicates that for our one remaining operating lease that will be in effect, upon adoption of Topic 842, we will record an estimated lease right of use asset of \$2.1 million and a corresponding lease liability of \$2.1 million. We anticipate electing the practical expedient in Accounting Standards Codification ("ASC") 842 and will not separate the nonlease components from the lease component. We are still evaluating the qualitative and quantitative disclosures that will be required when we adopt the standard.

In July 2015, the FASB issued ASU 2015-11, *Inventory - Simplifying the Measurement of Inventory (Topic 330)*. ASU 2015-11 requires inventory to be subsequently measured using the lower of cost and net realizable value, thereby eliminating the market value approach. Net realizable value is defined as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation." We adopted ASU 2015-11 on January 1, 2017, and the standard did not have a material impact on our consolidated financial statements and footnote disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. This ASU is based on the principle that revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We will adopt the requirements of the new standard on January 1, 2018 and anticipate using the full retrospective transition approach. We do not expect the adoption of the new standard to significantly impact the timing and measurement of revenue recognized. Revenue related to our Retail Partner Channel will continue to be recognized on a gross basis as we control the goods before the goods are transferred to the customer. We completed our implementation of the quantitative and qualitative disclosures and will continue to disaggregate our revenue between CafePress.com and Retail Partner Channel as well as to customers located in the United States and to customers located outside of the United States. We determined that disaggregating revenue into these categories achieves the disclosure objectives for ASC 606 to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. As discussed in Note 12 - Segment Information, our business consists of one reportable segment. All disaggregated revenue is recorded within the one operating segment. Revenue by geography is based on the location to where the product was shipped.

2. Short-term Investments and Fair Value of Financial Instruments

Our investment policy is consistent with the definition of available-for-sale securities. We do not buy and hold securities principally for the purpose of selling them in the near future. Our policy is focused on the preservation of capital, liquidity and return. From time to time, we may sell certain securities but the objectives are generally not to generate profits on short-term differences in price. The following tables summarize, by major security type, our assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy and where they are classified on the Consolidated Balance Sheets (in thousands):

	December 31, 2017						
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated Fair Value	Cash and cash equivalents	Short-term investments	Non-current assets (1)
Cash	\$17,675	\$—	\$—	\$17,675	\$17,675	\$—	\$1,513
Level 1 securities:							
Money market funds	7,249	—	—	7,249	7,249	—	—
Level 2 securities:							
Corporate debt securities	2,212	—	(6)	2,206	—	2,206	—
Government securities	3,549	3	(1)	3,551	—	3,551	—
Certificate of deposit	250	—	—	250	—	250	—
Total	<u>\$30,935</u>	<u>\$3</u>	<u>\$(7)</u>	<u>\$30,931</u>	<u>\$24,924</u>	<u>\$6,007</u>	<u>\$1,513</u>

	December 31, 2016						
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated Fair Value	Cash and cash equivalents	Short-term investments	Non-current assets (1)
Cash	\$8,854	\$—	\$—	\$8,854	\$8,854	\$—	\$—
Level 1 securities:							
Money market funds	11,126			11,126	11,126	—	—
Level 2 securities:							
Corporate debt securities	—	—	—	—	—	—	—
Government securities		—	—	—	—	—	—
Certificate of deposit	23,808	—	—	23,808	—	23,808	—
Total	\$43,788	\$—	\$—	\$43,788	\$19,980	\$23,808	\$—

(1) Restricted cash represents funds set aside and required by the production facility and fulfillment center lease and corresponding escrow agreement negotiated with our landlord.

Fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. The hierarchy level assigned to each security in our available-for-sale portfolio and cash equivalents is based on its assessment of the transparency and reliability of the inputs used in the valuation of such instrument at the measurement date. The fair value of available-for-sale securities and cash equivalents included in the Level 1 category is based on quoted prices that are readily and regularly available in an active market. The fair value of available-for-sale securities included in the Level 2 category is based on observable inputs, such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. These values were obtained from an independent pricing service and were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well-established independent pricing vendors and broker-dealers.

Because we do not intend to sell the investments that are in an unrealized loss position and it is not likely that we will be required to sell any investments before recovery of their amortized cost basis, we do not consider those investments with an unrealized loss to be other-than-temporarily impaired at December 31, 2017. There were no material other-than-temporary impairments or credit losses related to available-for-sale securities in the years ended December 31, 2017 and 2016, respectively.

There were no material gross realized gains or losses from the sale of available-for-sale investments in the years ended December 31, 2017 and 2016. Realized gains and losses and interest income are included in other income (expense) on the Consolidated Statements of Operations.

The following table summarize the short-term investment activity (in thousands):

	Year Ended December 31,	
	2017	2016
Proceeds from sale of short-term investments	\$ —	\$ —
Proceeds from maturities and calls of short-term investments	\$ 25,792	\$ 17,610
Purchases of short-term investments	\$ 7,995	\$ 23,808
Gross realized gains (losses) on sales of short-term investments	\$ —	\$ —

The estimated fair value of short-term investments by contractual maturity as of December 31, 2017 is as follows (in thousands):

Due within one year	\$	5,666
Due after one year and through five years		341
Total short-term investments	\$	<u>6,007</u>

3. Balance Sheet Items

Inventory, net

The following table shows the components of inventory, net (in thousands):

	December 31,	
	2017	2016
Raw materials	\$ 3,404	\$ 3,422
Less: reserve for obsolescence	(276)	(303)
Inventory, net	<u>\$ 3,128</u>	<u>\$ 3,119</u>

Property and equipment, net

The following table shows the components of property and equipment, (in thousands):

	December 31,	
	2017	2016
Land and building	\$ 3,675	\$ 3,675
Computer equipment and office furniture	7,897	7,678
Computer software	1,925	1,795
Internal use software and website	14,270	11,207
Internal use software and website development in progress	204	849
Production equipment	14,435	13,685
Leasehold improvements	3,061	3,003
Total property and equipment	45,467	41,892
Less: accumulated depreciation and amortization	(34,788)	(30,956)
Property and equipment, net	<u>\$ 10,679</u>	<u>\$ 10,936</u>

Effective as of December 31, 2015, we completed the purchase of approximately 1.6 acres of land and an on-site building with approximately 25,000 square feet located in Louisville, Kentucky, to be used for our corporate offices. The total cash purchase price at the closing on December 31, 2015 was \$1.8 million. We moved our corporate functions into the newly purchased building in May 2016.

Depreciation and amortization expense was \$4.7 million and \$4.3 million for the years ended December 31, 2017 and 2016, respectively.

Accrued liabilities

The following table shows the components of accrued liabilities (in thousands):

	December 31,	
	2017	2016
Production costs	\$ 4,037	\$ 5,323
Payroll and employee related expense	1,382	1,337
Accrued advertising	1,323	1,616
Accrued sales and business taxes	919	1,072
Professional services	226	564
Unclaimed royalty payments	207	433
Other accrued liabilities	204	332
Royalties-minimum guarantee	194	299
Allowance for sales returns and chargebacks	181	219
Restructuring	20	570
Accrued liabilities	<u>\$ 8,693</u>	<u>\$ 11,765</u>

Allowance for sales returns and chargebacks

The following table presents the changes in the allowance for sales returns and chargebacks (in thousands):

	December 31,	
	2017	2016
Allowance for sales returns and chargebacks:		
Balance, beginning of period	\$ 219	\$ 232
Add: provision	2,469	2,662
Less: deductions and other adjustments	(2,507)	(2,675)
Balance, end of period	<u>\$ 181</u>	<u>\$ 219</u>

4. Related Party Transactions

On September 1, 2015, we sold our EZ Prints business, which provided a suite of enterprise class deployable software products and services focused on private label e-commerce customization services, pursuant to an asset purchase agreement with EZZP Holdings. Vincent Sarrecchia, the chief executive officer of EZZP Holdings, was previously serving as the interim chief executive officer of the EZ Prints business pursuant to a consulting agreement with us. Total consideration for the sale was \$0.6 million, of which \$0.1 million has been received by us and \$0.5 million is in the form of a non-interest bearing note receivable due on or before December 31, 2018. The \$0.5 million note receivable is still outstanding at December 31, 2017.

5. Escrow Agreement

On September 15, 2017, the Letter of Credit provided to the landlord under our production and fulfillment center lease was replaced by an escrow agreement. Pursuant to the terms of the escrow agreement, we deposited \$1.5 million in a non-interest bearing account, representing the maximum amount owed to the landlord, only to be drawn on by the landlord should we exercise our right to terminate the production facility and fulfillment center lease prior to the expiration of the term.

6. Stockholders' Equity

Stock repurchase program

In April 2016, our Board of Directors approved the extension of our existing stock repurchase program that authorized the purchase of up to 20% of the outstanding shares of our common stock or an aggregate of 3.5 million shares of our common stock. Under the stock repurchase program, any stock repurchase could be made through open market and privately negotiated transactions, or as otherwise determined by management, at times and in such amounts as management deemed appropriate and could be made pursuant to one or more Rule 10b5-1 trading plans adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The timing and amount of stock repurchased under the program depended on a variety of factors including stock price, market conditions, corporate and regulatory requirements (including applicable securities laws and regulations and the rules of the NASDAQ Stock Market), any additional constraints related to material inside information the Company may have possessed and capital availability. In February 2017, our Board of Directors terminated the stock repurchase program.

During 2017, we repurchased 18,861 shares of our common stock at an average cost of \$3.10 per share for a total cost of \$0.1 million.

During 2016, we repurchased 315,503 shares of our common stock at an average cost of \$3.22 per share for a total cost of \$1.0 million

Stock option plan

The Company adopted stock option plans in 1999, 2004 and 2012 under which 4,534,239 options have been authorized but not issued as of December 31, 2017. The total remaining available to be granted as of December 31, 2017 is 1,524,304 shares.

The plans are administered by the Board of Directors, which identifies optionees and determines the terms of options granted, including exercise price, number of shares subject to the option and exercisability thereof, except in the case of options granted to officers, directors and consultants under the 1999 Plan which options shall become exercisable at a rate of no less than 20% per year. The 1999 Plan provides for incentive stock options and stock appreciation rights to be issued to employees of the Company and non-statutory stock options, stock bonuses, and rights to purchase restricted stock to be issued to employees, directors, and consultants of the Company. The 2004 Plan provides for incentive stock options to be issued to employees of the Company and nonqualified stock options to be issued to employees, consultants, and outside directors of the Company. The 2012 Stock Plan provides for the granting of stock options, restricted stock, stock units and stock appreciation rights.

Exercise prices for incentive stock options shall be no less than 100% of the fair market value of the common stock on the grant date. Exercise prices for non-statutory and nonqualified stock options may not be less than 85% of the fair market value of the common stock on the date of grant and are determined by the Board of Directors. Stock option awards generally vest with respect to 25% of the shares one year after the options' vesting commencement date, and the remainder ratably on a monthly basis over the following three years.

Employee Stock Purchase Plan

In August 2011, the Company's Board of Directors approved the reservation for future issuance under the Company's Employee Stock Purchase Plan, or the ESPP, of a total of 250,000 shares of common stock. The ESPP became effective immediately prior to the completion of the IPO. The price of stock purchased under the ESPP shall not be lower than 85% of the fair market value per share of the Company's common stock on either the last trading day preceding the applicable offering period or on the last day of the purchase period, whichever is less. There have been no purchases under the ESPP in 2017 or 2016.

Stock option activity

The following table summarizes stock option activity related to shares of common stock (in thousands, except weighted average exercise price):

	Number of stock options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Outstanding—December 31, 2016	2,147	\$ 4.79	6.35	\$ 8
Granted	604	2.90		
Exercised	(6)	2.12		
Forfeited	(475)	6.24		
Outstanding—December 31, 2017	2,270	\$ 3.99	6.81	\$ —
Options vested and expected to vest—December 31, 2017	2,270	\$ 3.99	6.81	\$ —
Options exercisable—December 31, 2017	905	\$ 4.83	5.05	\$ —

The total intrinsic value of options exercised during the years ended December 31, 2017 and 2016 was \$0.0 million and \$0.1 million, respectively.

The following table summarizes information regarding stock options outstanding at December 31, 2017:

Exercise prices	Options outstanding			Options vested and exercisable	
	Number of stock options outstanding (in thousands)	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Shares subject to stock options (in thousands)	Weighted average exercise price per share
\$2.08-\$3.08	230	9.13	\$ 2.50	15	\$ 3.08
\$3.09-\$3.09	92	8.84	\$ 3.09	25	\$ 3.09
\$3.13-\$3.13	470	9.19	\$ 3.13	88	\$ 3.13
\$3.25-\$3.27	254	8.33	\$ 3.26	68	\$ 3.26
\$3.74-\$3.74	257	8.00	\$ 3.74	—	\$ —
\$4.14-\$4.14	147	7.38	\$ 4.14	95	\$ 4.14
\$4.30-\$4.30	267	4.37	\$ 4.30	172	\$ 4.30
\$4.66-\$4.66	103	4.86	\$ 4.66	54	\$ 4.66
\$5.07-\$5.07	247	3.59	\$ 5.07	206	\$ 5.07
\$5.58-\$18.80	203	2.07	\$ 7.08	182	\$ 7.26
\$2.08-\$18.80	2,270	6.81	\$ 3.99	905	\$ 4.83

Included in the stock options outstanding as of December 31, 2017 are 380,632 non-statutory stock options that have both three-year service criteria and vesting contingent on financial performance measures at the end of a three-year performance period ending December 31, 2018. The performance criteria for these awards consist of the following financial measures during the performance period: (i) revenue during each period, (ii) cumulative Adjusted EBITDA; and (iii) cumulative free cash flow, which we define as cash flows from operations minus capital expenditures. Compensation cost associated with these performance-based stock options is recognized using an attribution model and ultimately based on whether or not satisfaction of the performance criteria is probable. The total compensation cost we recognize under these option awards will be based upon the results of the financial measures. As of December 31, 2017, we have estimated that it is not probable that the performance criteria will be met and, accordingly, no stock compensation expense for the performance shares has been recorded. At December 31, 2017, we had \$0.8 million of unrecognized compensation expense related to these performance awards.

Restricted stock unit activity

We may grant restricted stock units, or RSUs, to our employees, consultants or outside directors under the provisions of the 2012 Stock Plan. The cost of RSUs is determined using the fair value of our common stock on the date of grant. RSUs typically vest 25% one year after the RSUs' vesting commencement date, and the remainder ratably on a quarterly basis over the following three years. Compensation cost is amortized on a straight-line basis over the requisite service period.

Restricted stock award and restricted stock unit activity is summarized as follows (unit numbers in thousands):

	Number of units outstanding	Weighted average grant date fair value per unit
Awarded and unvested at December 31, 2016	440	\$ 3.69
Granted	702	3.00
Vested	(302)	3.42
Forfeited and canceled	(100)	3.13
Awarded and unvested at December 31, 2017	740	\$ 3.22

Included in the restricted stock units granted as of December 31, 2017 are 184,026 performance-based restricted stock units ("PSUs") that have both three-year service criteria and vesting contingent on financial performance measures at the end of a three-year performance period ended December 31, 2019. The performance criteria for these awards consist of the following financial measures during the performance period: (i) cumulative Adjusted EBITDA and (ii) cumulative free cash flow, which we define as cash flows from operations minus capital expenditures. Compensation cost associated with these PSUs will be recognized based on whether satisfaction of the performance criteria is probable. The total compensation cost we recognize under these awards will be based upon the results of the financial measures. As of December 31, 2017, we have estimated that it is not probable that the performance criteria will be met and, accordingly, no stock compensation expense for the PSU has been recorded. At December 31, 2017, we had \$0.6 million of unrecognized compensation expense related to the PSUs.

Stock-based compensation expense

The fair value of the option awards was calculated using the Black-Scholes option valuation model with the following assumptions:

	Year Ended December 31,	
	2017	2016
Expected term (in years)	4.4	6.0
Risk-free interest rate	1.91%	1.40%
Expected volatility	54%	57%
Expected dividend rate	0%	0%

The expected term of all options granted now gives consideration to historical exercises, assumed forfeitures when they occur and the options' contractual terms. The risk-free rate is based on the rates in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to each grant's expected life. The expected volatility is based on our historical stock price. A dividend yield of zero is applied since we have not historically paid dividends and has no intention to pay dividends in the near future.

The weighted-average fair value of options granted was \$1.30 and \$1.86 for the years ended December 31, 2017 and 2016, respectively.

Employee stock-based compensation expense recorded is calculated and recorded based on awards ultimately expected to vest and as described in Note 1 - Basis of Presentation and Summary of Significant Accounting Policies, we adopted ASU 2016-09 and will recognize forfeitures when they occur.

Cost of net revenue and operating expense includes stock-based compensation as follows (in thousands):

	Year Ended December 31,	
	2017	2016
Cost of net revenue	\$ 15	\$ 49
Sales and marketing	85	269
Technology and development	31	81
General and administrative	1,638	1,208
Total stock-based compensation expense	\$ 1,769	\$ 1,607

Capitalizable stock-based compensation relating to inventory or deferred cost of revenues was not significant for any period presented. We capitalized \$0 and \$24 thousand of stock-based compensation relating to software developed for internal use, including website development costs during the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017, we had \$3.0 million of total unrecognized compensation expense related to stock option and restricted stock plans that will be recognized over a weighted-average period of approximately two years.

7. Income Taxes

The components of the provision (benefit) for income taxes are as follows (in thousands):

	Year Ended December 31,	
	2017	2016
Current (benefit) tax expense:		
Federal	\$ (92)	\$ (67)
State	4	15
Total current	(88)	(52)
Deferred tax (benefit) expense:		
Federal	92	(321)
State	—	(17)
Total deferred	92	(338)
Total provision (benefit) for income taxes	\$ 4	\$ (390)

The (provision) benefit for income taxes differs from the federal statutory income tax rate as follows:

	Year Ended December 31,	
	2017	2016
Federal statutory tax rate	34.0 %	34.0 %
State taxes	0.9	0.3
Federal tax reform - deferred rate change	(52.7)	—
Goodwill impairment	—	(25.1)
Change in valuation allowance	17.8	(7.5)
Stock-based compensation	(0.1)	(0.1)
Meals, entertainment and other	0.1	(0.1)
Total	— %	1.5 %

Deferred tax assets (liabilities) consist of the following (in thousands):

	Year Ended December 31,	
	2017	2016
Deferred tax assets:		
Net operating loss and credit carryforwards	\$ 8,290	\$ 9,369
Deferred loss on asset sale	1,298	2,008
Stock-based compensation	559	867
Reserves and accruals	518	809
Research and other credits	—	92
Fixed assets and intangibles	(272)	(491)
Total gross deferred tax assets	10,393	12,654
Less: Valuation allowance	(10,393)	(12,562)
Total deferred tax assets	\$ —	\$ 92

We have weighed both positive and negative evidence and determined that there is a need for a valuation allowance due to the existence of three years of historical cumulative losses which we considered significant verifiable negative evidence. The valuation allowance decreased by \$2.2 million and \$1.2 million during the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, we maintain a valuation allowance on all of our deferred tax assets.

At December 31, 2017, we had approximately \$34.4 million of Federal and \$20.7 million of State operating loss carryforwards available to reduce future taxable income. The federal net operating loss carryforwards begin to expire in 2034 and the various state net operating loss carryforwards begin to expire in 2023.

We follow the authoritative accounting guidance prescribing a threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance requires that the tax effects of a position be recognized only if it is "more likely than not" to be sustained based solely on its technical merits as of the reporting date. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

We currently have no liability recorded as of December 31, 2017 for unrecognized income tax benefits. Our policy is to recognize interest and penalties related to income taxes in income tax expense. We are subject to tax in the United States and certain other jurisdictions. We are subject to examination by tax authorities for the years including and after 2013 for the United States and for other jurisdictions. Although timing or resolution value of any examination is highly uncertain, we believe it is reasonably possible that the unrecognized tax benefits would not materially change in the next twelve months.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cut and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affects our 2017 deferred tax asset balances and establishes new tax laws that will affect 2018 and after, including a reduction in the U.S. federal corporate income tax rate from 35% to 21%.

On December 22, 2017, the SEC issued staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740, *Income Taxes*. In accordance with SAB 118, we completed our analysis and have reflected the income tax effects of those aspects of the Tax Act.

As a result of the reduction of the federal corporate income tax rate, we have revalued our net deferred tax assets as of December 31, 2017. Based on this revaluation, the total amount of our deferred tax assets before valuation allowance decreased by \$5.4 million as a result of the decrease in the federal tax rate.

As discussed in Note 1 - Basis of Presentation and Summary of Significant Accounting Policies, we adopted ASU 2016-09, *Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of accounting for share-based payment transactions, including the income tax consequences. We adopted this ASU on January 1, 2017 and elected to recognize forfeitures as they occur, and recognized the cumulative impact on that change through retained earnings and adjusted the related deferred tax asset. Adoption of ASU 2016-09 did not have a material impact on our income tax expense or our deferred tax asset balance as of December 31, 2017.

8. Restructuring

Restructuring costs were \$2.1 million in the year ended December 31, 2016 and are included in “Restructuring costs” in the accompanying Condensed Consolidated Statements of Operations. During 2016, we completed a plan to transition portions of the remaining workforce in Hayward, California to our corporate headquarters in Louisville, Kentucky. This plan created efficiencies and streamlined our operations. In 2016, this expense consisted of severance charges of \$1.8 million and a charge of \$0.3 million for the abandonment of our office space in Hayward, California, which represented the net present value of the remaining minimum lease payments less sub-lease proceeds.

The change in the restructuring liability is summarized as follows (in thousands):

	December 31,	
	2017	2016
Accrued restructuring balance, beginning of period	\$ 570	\$ —
Employee severance	—	1,789
Lease related	(53)	314
Cash payments	(497)	(1,533)
Accrued restructuring balance, end of period	<u>\$ 20</u>	<u>\$ 570</u>

9. Net Loss per Share of Common Stock

Basic net loss per share is computed by dividing the net loss income attributable to common shares for the period by the weighted average number of common shares outstanding during the period.

Diluted net loss per share attributed to common shares is computed by dividing the net loss attributable to common shares for the period by the weighted average number of common and potential common shares outstanding during the period if the effect of each class of potential common shares is dilutive. Potential common shares include restricted stock units and incremental shares of common stock issuable upon the exercise of stock options.

The following table sets forth the computation of our basic and diluted net loss per share of common stock (in thousands, except for per share amounts).

	Year Ended December 31,	
	2017	2016
Numerator:		
Net loss	\$ (10,257)	\$ (26,470)
Denominator used in computing net loss per share of common stock:		
Basic	16,771	16,709
Diluted	16,771	16,709
Net loss per share of common stock:		
Basic	<u>\$ (0.61)</u>	<u>\$ (1.58)</u>
Diluted	<u>\$ (0.61)</u>	<u>\$ (1.58)</u>

The following outstanding shares of potentially dilutive securities were excluded from the computation of diluted net loss per share of common stock for the periods presented because including them would have been antidilutive (in thousands):

	Year Ended December 31,	
	2017	2016
Stock options to purchase common stock and restricted stock units	64	56

10. Commitments and Contingencies

Leases

Lease agreements are accounted for as either operating or capital leases depending on certain defined criteria. We lease certain of our facilities and equipment under capital and operating leases with various expiration dates through 2021. Certain of the operating lease agreements contain rent holidays and rent escalation provisions. Rent holidays and rent escalation provisions are considered in determining straight-line rent expense to be recorded over the lease term. The lease term begins on the date of initial possession of the lease property for purposes of recognizing rent expense on a straight-line basis over the term of the lease.

In 2005, we entered into a capital lease agreement for a production facility in Louisville, Kentucky consisting of 126,352 square feet. The lease was amended in May 2007 to lease an additional 20,000 square feet. The capital lease had an interest rate of 6.5% and expired in 2017.

In August 2012, pursuant to an amendment, we added 184,813 square feet under an operating lease. On August 1, 2014, we further amended our primary facility lease ("Facility Lease Amendment") to extend the term related only to the 184,813 square feet of leased production and office space from July 31, 2014 to July 31, 2021. In connection with the Facility Lease Amendment, we also entered into an option to terminate the lease in its entirety on or after July 31, 2018. In the case of such early lease termination, we would be required to pay a termination fee dependent upon the effective date of an early lease termination, as follows:

- (i) For a termination effective as of July 31, 2018: \$1,512,679
- (ii) For a termination effective as of July 31, 2019: \$934,814
- (iii) For a termination effective as of July 31, 2020: \$429,736.

Under the terms of the Facility Lease Amendment, we established an escrow agreement for which we may be liable under the terms of the Facility Lease Amendment. See Note 5 - Escrow Agreement in the accompanying Notes to Consolidated Financial Statements.

In July 2015, we entered into an operating lease for office space in Hayward, California. During 2016, we abandoned this office space and recorded restructuring charges of \$0.3 million. See Note 8 - Restructuring in the accompanying Notes to Consolidated Financial Statements.

On November 5, 2014, in connection with a purchase agreement, Phoenix Online LLC assumed a capital lease associated with our InvitationBox.com business. We provided a corporate guaranty for this capital lease for a period of five years from the effective date of the asset purchase agreement. During 2017, we amended our corporate guaranty with Phoenix Online LLC for an additional five years.

Future minimum lease payments under our non-cancelable operating lease as of December 31, 2017 is as follows:

<u>Years Ended December 31,</u>	<u>Operating lease</u>
2018	\$ 719
2019	737
2020	756
2021	447
2022	—
Thereafter	—
Total minimum lease payments	<u>\$ 2,659</u>

Rent expense for the years ended December 31, 2017 and 2016 was \$0.9 million and \$1.1 million, respectively.

Purchase commitments

As of December 31, 2017, our non-cancelable purchase obligations totaled \$1.7 million, primarily related to inventory, goods and other services.

Royalty commitments

As of December 31, 2017, our royalty commitments related to our branded content owners totaled \$0.2 million and \$0.1 million for the years ended 2018 and 2019 respectively.

Contingencies

From time to time, third parties assert patent and trademark infringement claims against us. We are currently engaged in several legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, patents, copyrights and other intellectual property rights. Litigation is inherently unpredictable and the outcome of any litigation cannot be predicted with certainty. Further, as the costs, outcome and status of these types of claims and proceedings have varied significantly in the past, including with respect to whether claims ultimately result in litigation, we believe our past experience does not provide any additional visibility or predictability to estimate the additional loss or range of reasonably possible losses that may result. Based on the foregoing, we believe that an estimate of the additional loss or range of reasonably possible losses cannot be made at this time due to the inherent unpredictability of litigation and any potential settlements outside of court.

Indemnification

In the normal course of business, we enter into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. Our exposure under these agreements is unknown because it involves future claims that may be made against us, but have not yet been made. To date, we have not paid any material claims or been required to defend any actions related to its indemnification obligations. However, we may record charges in the future as a result of these indemnification obligations. In addition, we have indemnification agreements with certain of our directors and executive officers that require it, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers with us.

11. Employee Benefit Plans

We sponsor a 401(k) defined contribution plan covering all employees. A management committee determines matching contributions made by us annually. Matching contributions are made in cash and were \$0.4 million and \$0.5 million under this plan for the years ended December 31, 2017 and 2016.

12. Segment Information

Operating segments are defined as components of an enterprise that engage in business activities for which separate financial information is available and evaluated by the chief operating decision maker in deciding how to allocate resources and assessing performance. Our chief operating decision maker is our chief executive officer.

The chief executive officer reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. We have one business activity, and we operate as a single operating and reportable segment.

Our revenues by geographic region, based on the location to where the product was shipped, are summarized as follows (in thousands):

	Year Ended December 31,	
	2017	2016
United States	\$ 77,462	\$ 90,900
International	8,223	11,308
Total	\$ 85,685	\$ 102,208

All of our long-lived assets are located in the United States.

13. Selected Quarterly Data (Unaudited)

Summarized unaudited consolidated quarterly information for the years ended December 31, 2017 and 2016 is provided below (in thousands, except per common share data).

	For the Three Months Ended,			
	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017
	(In thousands, except per share amounts)			
Net revenue	\$ 18,289	\$ 17,853	\$ 15,349	\$ 34,194
Gross profit	6,961	6,989	6,071	13,161
Net loss	(3,373)	(3,154)	(3,640)	(87)
Net loss per basic and diluted common share	\$ (0.20)	\$ (0.19)	\$ (0.22)	\$ (0.01)

	For the Three Months Ended,			
	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016
	(In thousands, except per share amounts)			
Net revenue	\$ 18,519	\$ 20,304	\$ 19,658	\$ 43,727
Gross profit	7,876	8,682	8,437	16,807
Net (loss) income	(2,981)	(22,979)	(3,413)	2,903
Net (loss) income per basic and diluted common share	\$ (0.18)	\$ (1.37)	\$ (0.20)	\$ 0.17

14. Subsequent Event

On January 9, 2018, as part of a cost reduction initiative, we reduced headcount by approximately 5%. The reduction happened during January of 2018 and we expect to incur restructuring costs of approximately \$0.2 million.

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**

We maintain "disclosure controls and procedures" as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer), as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving their objectives. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on management's evaluation, with the participation of our Chief Executive Officer and our Chief Financial Officer, as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2017, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017 using the criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under the COSO framework, management has concluded that our internal controls over financial reporting is effective 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.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Our internal control over financial reporting is not subject to attestation by the company's independent registered public accounting firm due to the Company's status as a smaller reporting company.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 with respect to our directors and executive officers is incorporated by reference from the information set forth under the captions “Election of Directors — Directors and Nominees” and Executive Officers and Directors” and “Corporate Governance — Corporate Governance Principles and Practice” in the Proxy Statement.

Item 405 of Regulation S-K calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16(a) of the Exchange Act. This information is incorporated by reference from the section called “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement.

We have adopted a Code of Ethics for Senior Financial Officers that applies to our chief executive officer (our principal executive officer), chief financial officer (our principal financial officer and principal accounting officer), controller, and any person performing similar functions, and certain employees. The Code of Ethics for Senior Financial Officers is available on our web site, free of charge, at investor.cafepress.com. We will disclose on our web site amendments to, or waivers from, our Code of Ethics for Senior Financial Officers applicable to our executive officers, including our chief executive officer (our principal executive officer) and our chief financial officer (our principal financial officer and principal accounting officer), our controller and certain employees, in accordance with applicable laws and regulations.

We have an audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the audit committee are Tony Allen (chairperson), Kenneth McBride, Mary Ann Arico and Roger Shannon. All of such members meet the independence standards established by The NASDAQ Stock Market for serving on an audit committee. SEC regulations require us to disclose whether a director qualifying as an “audit committee financial expert” serves on our audit committee. Our Board of Directors has determined that each of Tony Allen, Kenneth McBride, Mary Ann Arico and Roger Shannon qualifies as an “audit committee financial expert” within the meaning of such regulations.

ITEM 11. Executive Compensation

The information required by Item 11 is incorporated by reference from the information set forth under the captions “Executive Compensation,” “Corporate Governance — Compensation Committee Interlocks and Insider Participation” and “Compensation of Directors” in the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 with respect to security ownership of certain beneficial owners and management is incorporated by reference from the information set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

The following chart sets forth certain information as of December 31, 2017, with respect to our equity compensation plans, specifically our 1999 Equity Incentive Plan, or the 1999 Stock Plan, our 2004 Amended and Restated Stock Incentive Plan, or the 2004 Stock Plan, and our Amended and Restated 2012 Stock Incentive Plan, or the 2012 Stock Plan. Each of the 1999 Stock Plan, 2004 Stock Plan and the 2012 Stock Plan has been approved by our stockholders.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Awards, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Awards, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	3,009,935	\$ 3.01	1,524,304
Equity compensation plans not approved by security holders	—	—	
Total	3,009,935	\$ 3.01	1,524,304 (1)

(1) The 2012 Stock Plan provides for the grant of options to purchase shares of common stock, restricted stock, stock appreciation rights and stock unit awards. The number of shares reserved for issuance under the 2012 Stock Plan is increased on January 1st of each year by the lesser of (i) 1,250,000 shares, (ii) four percent (4%) of the number of shares of our common stock outstanding on the last day of the immediately preceding fiscal year or (iii) the number of shares determined by the Board of Directors. In January 2017, the Board determined not to increase the number of shares reserved for issuance under the 2012 Stock Plan. In addition, the number of shares reserved for issuance under the 2012 Stock Plan is increased from time to time in an amount equal to the number of shares subject to outstanding options under the 1999 Stock Plan and 2004 Stock Plan that are subsequently forfeited or terminate for any reason before being exercised and unvested shares that are forfeited pursuant to the 1999 Stock Plan and 2004 Stock Plan.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated by reference from the information set forth under the captions “Certain Relationships and Related Person Transactions” and “Corporate Governance — Director Independence” in the Proxy Statement.

ITEM 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated by reference from the information set forth under the caption “Ratification of the Appointment of Independent Registered Public Accountants — Audit and Non-Audit Fees” in the Proxy Statement.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) Financial Statements

[Financial Statements](#). The financial statements filed as part of this report are identified in the Index to Consolidated Financial Statements on page 45.

Financial Statement Schedules. See Item 15(c) below.

Exhibits. See Item 15(b) below

(b) Exhibits

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the Securities and Exchange Commission. CafePress shall furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request.

Exhibit Number	Description	Where Located				Filed herewith
		Form	File No.	Exhibit No.	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of the Company	10-Q	001-35468	3 (i)	5/15/2012	
3.2	Amended and Restated Bylaws of the Company	10-Q	001-35468	3 (ii)	5/15/2012	
4.1	Specimen Common Stock Certificate	S-1	333-174829	4.1	3/28/2012	
4.2	Investors' Rights Agreement dated as of January 21, 2005, as amended	S-1	333-174829	4.2	3/28/2012	
10.1+	CafePress Inc. 1999 Equity Incentive Plan and related form agreement	S-1	333-174829	10.1	3/28/2012	
10.2+	CafePress Inc. 2004 Amended and Restated Stock Incentive Plan and related form agreements	S-1	333-174829	10.2	3/28/2012	
10.3+	CafePress Inc. Amended and Restated 2012 Stock Incentive Plan and related form agreements	S-1	333-174829	10.3	3/28/2012	
10.4+	CafePress Inc. Employee Stock Purchase Plan	S-1	333-174829	10.10	3/28/2012	
10.5+	Form of Indemnification Agreement between the Company and its officers and directors	S-1	333-174829	10.4	3/28/2012	
10.6+	Form of Amended and Restated Change in Control Agreement with Senior Management	10-K	001-35468	10.6	3/31/2014	
10.7+	Offer Letter with Fred E. Durham III	8-K	001-35468	10.1	8/4/2014	
10.8+	Change of Control Agreement with Fred E. Durham III	8-K	001-35468	10.2	8/4/2014	
10.9+	Lease Agreement between the Company and Riverport Group, LLC dated as of May 3, 2005, including amendments thereto	S-1	333-174829	10.8	3/28/2012	
10.10+	Second Amendment and Modification to the Lease Agreement between the Company and Riverport Group, LLC, dated as of August 1, 2012	10-Q	001-35468	10.1	11/4/2012	
10.11+	Purchase Agreement, dated as of October 9, 2015, by and between Hameron Properties I LLC and the Company	8-K	001-35468	10.1	10/13/2015	

Exhibit Number	Description	Where Located				Filed herewith
		Form	File No.	Exhibit No.	Filing Date	
10.12+	First Amendment to Purchase Agreement, dated as of October 16, 2015 by and between Hameron Properties I LLC and the Company	8-K	001-35468	10.1	10/21/2015	
10.13+	2016 Cash Bonus Plan	8-K	001-35468	10.1	3/8/2016	
10.14+	Form of EEIP Restricted Stock Unit Agreement	8-K	001-35468	10.1A	4/26/2016	
10.15+	Form of EEIP Performance Based Stock Option Agreement	8-K	001-35468	10.1B	4/26/2016	
10.16+	Offer Letter with Phillip L. Milliner, Jr.	8-K	001-35468	10.1	7/20/2016	
10.17+	Change of Control Agreement with Phillip L. Milliner, Jr.	8-K	001-35468	10.2	7/20/2016	
10.18+	2017 Cash Bonus Plan	8-K/A	001-35468	10.1	3/16/2017	
10.19+	Form of Restricted Stock Unit	8-K/A	001-35468	10.1A	3/16/2017	
10.20+	Form of Nonstatutory Stock Option Agreement	8-K/A	001-35468	10.1B	3/16/2017	
10.21+	Form of Performance-Restricted Stock Unit Agreement	8-K/A	001-35468	10.1C	3/16/2017	
10.22+	Form of Retention Award Agreement	8-K	001-35468	10.1	8/17/2017	
21.1	List of Subsidiaries	10-K	001-35468	21.1	3/10/2017	X
23.1	Consent of BDO USA, LLP, independent registered public accounting firm					X
24.1	Power of Attorney (see signature page)					X
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)					X
31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)					X
32.1(1)	Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)					X
32.2(1)	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Schema Linkbase Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Label Linkbase Document					X
101.PRE	XBRL Taxonomy Presentation Linkbase Document					X

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[Index to Financial Statements](#)

- + Management contract, compensatory plan or arrangement.
- (1) The material contained in Exhibit 32.1 and Exhibit 32.2 is not deemed "filed" with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing, except to the extent that the Company specifically incorporates it by reference.

(c) Financial Statement Schedules

CAFEPRESS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions	Other	Balance at End of Year
			(in thousands)		
Deferred Tax Valuation Allowance:					
Year Ended December 31, 2017	\$ 12,562	\$ (2,169)	\$ —	\$ —	\$ 10,393
Year Ended December 31, 2016	11,373	1,189	—	—	12,562

All other schedules have been omitted because they are either inapplicable or the required information has been provided in the consolidated financial statements or in the notes thereto.

ITEM 16. Form 10-K Summary

Not applicable.

