

CHANNELADVISOR CORP  
Form 10-Q  
August 09, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q

---

(Mark one)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-35940

---

CHANNELADVISOR CORPORATION  
(Exact name of registrant as specified in its charter)

---

Delaware	56-2257867
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

---

3025 Carrington Mill Boulevard, Morrisville, NC 27560	27560
(Address of principal executive offices)	(Zip Code)
(919) 228-4700	
(Registrant's telephone number, including area code)	

N/A  
(Former name, former address and former fiscal year, if changed since last report)

---

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

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

Edgar Filing: CHANNELADVISOR CORP - Form 10-Q

Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, as of the close of business on July 24, 2018 was 27,282,599.

---

TABLE OF CONTENTS

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2018 (unaudited) and December 31, 2017</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2018 and 2017</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017</u>	<u>5</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
<u>Item 4. Controls and Procedures</u>	<u>31</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>32</u>
<u>Item 1A. Risk Factors</u>	<u>32</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>47</u>
<u>Item 6. Exhibits</u>	<u>47</u>
<u>Signatures</u>	<u>48</u>

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## CHANNELADVISOR CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 50,912	\$ 53,422
Accounts receivable, net of allowance of \$607 and \$609 as of June 30, 2018 and December 31, 2017, respectively	21,210	27,452
Prepaid expenses and other current assets	14,384	16,462
Total current assets	86,506	97,336
Property and equipment, net	12,871	10,877
Goodwill	23,486	23,486
Intangible assets, net	2,198	2,503
Deferred contract costs, net of current portion	9,235	—
Long-term deferred tax assets, net	4,792	5,550
Other assets	1,342	759
Total assets	\$ 140,430	\$ 140,511
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 4,892	\$ 7,243
Accrued expenses	12,022	12,611
Deferred revenue	26,023	27,143
Other current liabilities	4,410	4,477
Total current liabilities	47,347	51,474
Long-term capital leases, net of current portion	1,555	641
Lease incentive obligation	2,541	3,328
Other long-term liabilities	2,561	3,157
Total liabilities	54,004	58,600
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding as of June 30, 2018 and December 31, 2017	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 27,278,649 and 26,601,626 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	27	27
Additional paid-in capital	266,222	262,805
Accumulated other comprehensive loss	(1,271 )	(789 )
Accumulated deficit	(178,552 )	(180,132 )
Total stockholders' equity	86,426	81,911
Total liabilities and stockholders' equity	\$ 140,430	\$ 140,511

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



Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenue	\$32,660	\$ 30,004	\$64,105	\$ 58,333
Cost of revenue (1)	6,975	7,144	14,328	14,840
Gross profit	25,685	22,860	49,777	43,493
Operating expenses:				
Sales and marketing (1)	15,974	15,003	30,864	30,188
Research and development	5,737	5,147	11,639	10,118
General and administrative	6,708	6,678	13,159	15,208
Total operating expenses	28,419	26,828	55,662	55,514
Loss from operations	(2,734 )	(3,968 )	(5,885 )	(12,021 )
Other income (expense):				
Interest income (expense), net	106	54	231	82
Other income (expense), net	(1 )	13	(20 )	70
Total other income (expense)	105	67	211	152
Loss before income taxes	(2,629 )	(3,901 )	(5,674 )	(11,869 )
Income tax expense	135	84	247	172
Net loss	\$(2,764 )	\$(3,985 )	\$(5,921 )	\$(12,041 )
Net loss per share:				
Basic and diluted	\$(0.10 )	\$(0.15 )	\$(0.22 )	\$(0.46 )
Weighted average common shares outstanding:				
Basic and diluted	27,180,432	26,380,031	26,961,102	26,219,348

(1) Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications had no impact on reported operating loss or net loss for the period. Refer to Note 2, "Significant Accounting Policies," for further detail.

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

Table of Contents

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

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Net loss	\$(2,764)	\$(3,985)	\$(5,921)	\$(12,041)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(591 )	325	(482 )	535
Total comprehensive loss	\$(3,355)	\$(3,660)	\$(6,403)	\$(11,506)

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

Table of Contents

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

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net loss	\$(5,921 )	\$(12,041 )
Adjustments to reconcile net loss to cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	2,959	3,436
Bad debt expense	532	113
Stock-based compensation expense	5,049	6,292
Deferred income taxes	190	155
Other items, net	(390 )	(434 )
Changes in assets and liabilities, net of effects from acquisition:		
Accounts receivable	5,550	(2,157 )
Prepaid expenses and other assets	4,373	1,193
Deferred contract costs	(3,586 )	—
Accounts payable and accrued expenses	(5,398 )	276
Deferred revenue	(2,326 )	3,070
Cash and cash equivalents provided by (used in) operating activities	1,032	(97 )
Cash flows from investing activities		
Purchases of property and equipment	(656 )	(543 )
Payment of internal-use software development costs	(290 )	(159 )
Acquisition, net of cash acquired	—	(2,177 )
Cash and cash equivalents used in investing activities	(946 )	(2,879 )
Cash flows from financing activities		
Repayment of capital leases	(1,837 )	(2,439 )
Proceeds from exercise of stock options	1,004	339
Payment of statutory tax withholding related to net-share settlement of restricted stock units	(1,569 )	(2,494 )
Cash and cash equivalents used in financing activities	(2,402 )	(4,594 )
Effect of currency exchange rate changes on cash and cash equivalents	(194 )	29
Net decrease in cash and cash equivalents	(2,510 )	(7,541 )
Cash and cash equivalents, beginning of period	53,422	65,420
Cash and cash equivalents, end of period	\$50,912	\$57,879
Supplemental disclosure of cash flow information		
Cash paid for interest	\$19	\$93
Cash paid for income taxes, net	\$58	\$144
Supplemental disclosure of noncash investing and financing activities		
Accrued statutory tax withholding related to net-share settlement of restricted stock units	\$1,067	\$—
Accrued capital expenditures	\$77	\$557
Capital lease obligations entered into for the purchase of fixed assets	\$4,217	\$567

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



Table of ContentsCHANNELADVISOR CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. DESCRIPTION OF THE BUSINESS

ChannelAdvisor Corporation ("ChannelAdvisor" or the "Company") was incorporated in the state of Delaware and capitalized in June 2001. The Company began operations in July 2001. ChannelAdvisor is a provider of software-as-a-service, or SaaS, solutions and its mission is to connect and optimize the world's commerce. ChannelAdvisor's e-commerce cloud platform helps retailers and brands worldwide improve their online performance by expanding sales channels, connecting with consumers around the world, optimizing their operations for peak performance and providing actionable analytics to improve competitiveness. The Company is headquartered in Morrisville, North Carolina and maintains sales, service, support and research and development offices in various domestic and international locations. Please refer to the Company's website at [www.channeladvisor.com](http://www.channeladvisor.com) for a complete list of its domestic and international office locations.

## 2. SIGNIFICANT ACCOUNTING POLICIES

## Principles of Consolidation

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

## Interim Condensed Consolidated Financial Information

The accompanying condensed consolidated financial statements and footnotes have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") for interim financial information. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of financial position, the results of operations, comprehensive loss and cash flows. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results for the full year or the results for any future periods. These unaudited interim financial statements should be read in conjunction with the audited financial statements and related footnotes for the year ended December 31, 2017 ("fiscal 2017"), which are included in the Company's Annual Report on Form 10-K for fiscal 2017. Except for the adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts from Customers (Topic 606) ("ASC 606"), there have been no material changes to the Company's significant accounting policies from those described in the footnotes to the audited financial statements contained in the Company's Annual Report on Form 10-K for fiscal 2017. Refer to Note 6, "Revenue from Contracts with Customers" for a description of changes to the Company's revenue recognition and contract costs accounting policies as a result of the adoption of ASC 606.

## Reclassification

Certain prior period amounts included in the unaudited condensed consolidated statements of operations have been reclassified to conform to the current period's presentation. The Company has revised the classification of certain employee-related and other operating expenses to better align the income statement line items with departmental responsibilities and the management of operations. These reclassifications had no effect on the Company's reported operating loss or net loss for the three and six months ended June 30, 2017.

The table below summarizes the financial statement line items impacted by these reclassifications (in thousands):

	Three Months Ended June 30, 2017		
	As	Reclassification	As
	Previously		Reclassified
	Reported		
Cost of revenue	\$6,520	\$ 624	\$ 7,144
Gross profit	23,484	(624)	22,860
Sales and marketing	15,627	(624)	15,003
Total operating expenses	27,452	(624)	26,828



Table of Contents

Six Months Ended June 30, 2017

	As Previously Reported	Reclassification	As Reclassified
--	------------------------------	------------------	--------------------

Cost of revenue	\$ 13,362	\$	1,478
-----------------	-----------	----	-------