

CHANNELADVISOR CORP
Form 10-Q
August 03, 2017
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, 2017

OR

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

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

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

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

| | |
|---|------------|
| 3025 Carrington Mill Boulevard, Morrisville, NC | 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

Exchange Act. x

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 x

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 20, 2017 was 26,431,333.

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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, 2017 (unaudited) | December 31, 2016 |
|---|---------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 57,879 | \$ 65,420 |
| Accounts receivable, net of allowance of \$362 and \$594 as of June 30, 2017 and December 31, 2016, respectively | 21,779 | 19,445 |
| Prepaid expenses and other current assets | 9,752 | 10,972 |
| Total current assets | 89,410 | 95,837 |
| Property and equipment, net | 11,782 | 13,252 |
| Goodwill | 23,486 | 21,632 |
| Intangible assets, net | 2,821 | 2,660 |
| Long-term deferred tax assets, net | 5,423 | 5,244 |
| Other assets | 694 | 533 |
| Total assets | \$ 133,616 | \$ 139,158 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,598 | \$ 4,709 |
| Accrued expenses | 11,315 | 11,067 |
| Deferred revenue | 25,974 | 23,474 |
| Other current liabilities | 5,564 | 4,450 |
| Total current liabilities | 45,451 | 43,700 |
| Long-term capital leases, net of current portion | 1,047 | 1,262 |
| Lease incentive obligation | 3,767 | 4,206 |
| Other long-term liabilities | 3,723 | 2,993 |
| Total liabilities | 53,988 | 52,161 |
| 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, 2017 and December 31, 2016 | — | — |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 26,430,495 and 25,955,759 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively | 26 | 26 |
| Additional paid-in capital | 256,295 | 252,158 |
| Accumulated other comprehensive loss | (1,077) | (1,612) |
| Accumulated deficit | (175,616) | (163,575) |
| Total stockholders' equity | 79,628 | 86,997 |
| Total liabilities and stockholders' equity | \$ 133,616 | \$ 139,158 |

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

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------|------------------|-------------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Revenue | \$30,004 | \$ 27,098 | \$58,333 | \$ 53,445 |
| Cost of revenue | 6,520 | 6,863 | 13,362 | 13,776 |
| Gross profit | 23,484 | 20,235 | 44,971 | 39,669 |
| Operating expenses: | | | | |
| Sales and marketing | 15,627 | 15,743 | 31,666 | 29,240 |
| Research and development | 5,147 | 4,410 | 10,118 | 8,565 |
| General and administrative | 6,678 | 6,822 | 15,208 | 13,243 |
| Total operating expenses | 27,452 | 26,975 | 56,992 | 51,048 |
| Loss from operations | (3,968) | (6,740) | (12,021) | (11,379) |
| Other income (expense): | | | | |
| Interest income (expense), net | 54 | (1) | 82 | (22) |
| Other income (expense), net | 13 | (8) | 70 | 47 |
| Total other income (expense) | 67 | (9) | 152 | 25 |
| Loss before income taxes | (3,901) | (6,749) | (11,869) | (11,354) |
| Income tax expense (benefit) | 84 | (22) | 172 | (64) |
| Net loss | \$(3,985) | \$(6,727) | \$(12,041) | \$(11,290) |
| Net loss per share: | | | | |
| Basic and diluted | \$(0.15) | \$(0.26) | \$(0.46) | \$(0.44) |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 26,380,03 | 25,520,847 | 26,219,348 | 25,406,626 |

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

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

| | Three Months | | Six Months Ended | |
|--|----------------|-----------|------------------|------------|
| | Ended June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net loss | \$(3,985) | \$(6,727) | \$(12,041) | \$(11,290) |
| Other comprehensive gain (loss): | | | | |
| Foreign currency translation adjustments | 325 | (237) | 535 | (102) |
| Total comprehensive loss | \$(3,660) | \$(6,964) | \$(11,506) | \$(11,392) |

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

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

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2017 | 2016 |
| Cash flows from operating activities | | |
| Net loss | \$(12,041) | \$(11,290) |
| Adjustments to reconcile net loss to cash and cash equivalents (used in) provided by operating activities: | | |
| Depreciation and amortization | 3,436 | 4,055 |
| Bad debt expense | 113 | 395 |
| Stock-based compensation expense | 6,292 | 7,342 |
| Other items, net | (279) | (530) |
| Changes in assets and liabilities, net of effects from acquisition: | | |
| Accounts receivable | (2,157) | (5) |
| Prepaid expenses and other assets | 1,193 | 2,232 |
| Accounts payable and accrued expenses | 276 | (358) |
| Deferred revenue | 3,070 | 4,321 |
| Cash and cash equivalents (used in) provided by operating activities | (97) | 6,162 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (543) | (732) |
| Payment of internal-use software development costs | (159) | (151) |
| Acquisition, net of cash acquired | (2,177) | — |
| Cash and cash equivalents used in investing activities | (2,879) | (883) |
| Cash flows from financing activities | | |
| Repayment of capital leases | (2,439) | (1,463) |
| Proceeds from exercise of stock options | 339 | 417 |
| Payment of contingent consideration | — | (236) |
| Payment of statutory tax withholding related to net-share settlement of restricted stock units | (2,494) | (1,904) |
| Cash and cash equivalents used in financing activities | (4,594) | (3,186) |
| Effect of currency exchange rate changes on cash and cash equivalents | 29 | (197) |
| Net (decrease) increase in cash and cash equivalents | (7,541) | 1,896 |
| Cash and cash equivalents, beginning of period | 65,420 | 60,474 |
| Cash and cash equivalents, end of period | \$57,879 | \$62,370 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | \$93 | \$88 |
| Cash paid for income taxes, net | \$144 | \$90 |
| Supplemental disclosure of noncash investing and financing activities | | |
| Accrued capital expenditures | \$557 | \$192 |
| Capital lease obligations entered into for the purchase of fixed assets | \$567 | \$— |

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

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CHANNELADVISOR CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying 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, 2017 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, 2016 ("fiscal 2016"), which are included in the Company's Annual Report on Form 10-K for fiscal 2016. 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 2016.

Recent Accounting Pronouncements

Standard Description Effect on the Financial Statements or Other Significant Matters

Standards that the Company has not yet adopted

Revenue Recognition:

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| | | |
|---|--|--|
| <p>Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606)</p> <p>The Company's adoption date: January 1, 2018</p> | <p>The standard will replace existing revenue recognition standards and provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard.</p> | <p>The Company formed a project team to evaluate and direct the implementation of the new revenue recognition standard and related amendments. The project team developed an implementation plan centered around specific functional areas that may be impacted by the standard and its amendments, including accounting and reporting, information technology ("IT"), internal audit and contracts and legal, among others. This team has recently completed certain IT updates to the Company's accounting system to support recognition and disclosure under the new standard, and is continuing to make additional updates to facilitate the standard's adoption. The project team completed an initial contract assessment on a sample of contracts and analyzed the Company's contract portfolio and associated contract costs. The team is finalizing the Company's accounting positions under ASU 2014-09, as amended, including the significant judgments and estimates required, and is assessing the potential changes to internal controls. The project team has reported the findings and progress of the implementation plan to management and to the Audit Committee on a frequent basis over the last two years and will continue to do so as the effective date of the new standard approaches.</p> |
| <p>ASU 2016-08, Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)</p> <p>The Company's adoption date: January 1, 2018</p> | <p>The standard clarifies implementation guidance on principal versus agent considerations in ASU 2014-09.</p> | <p>The Company anticipates that the adoption of the new standard will impact the timing of revenue recognition of fixed fees for its contracts, as well as the accounting for costs to obtain contracts. For managed-service contracts, the Company currently defers revenue until the completion of the implementation services, at which point the Company recognizes a cumulative catch-up adjustment equal to the revenue earned during the implementation period but previously deferred. The remaining balance of these fixed fees is recognized ratably over the remaining term of the contract. Under the new standard, the Company expects revenue recognition for the managed-service subscription and implementation fees to begin on the launch date and to be recognized over time through the contract end date, with no cumulative catch-up adjustment on the launch date. Further, the Company currently expenses sales commissions and related bonuses as incurred. Under the new standard, the Company will be required to defer and amortize a portion of these contract costs.</p> |
| <p>ASU 2016-10, Identifying Performance Obligations and Licensing</p> <p>The Company's adoption date: January 1, 2018</p> | <p>The standard clarifies implementation guidance on the identification of performance obligations and the licensing implementation guidance in ASU 2014-09.</p> | <p>The Company intends to adopt the new standard using the modified retrospective transition method effective January 1, 2018. The Company continues to evaluate the provisions of the new standard to identify further potential impacts to its consolidated financial statements.</p> |
| <p>ASU 2016-12, Narrow-Scope Improvements and Practical Expedients</p> <p>The Company's adoption date:</p> | <p>The standard clarifies the guidance on assessing collectability, presentation of sales taxes, noncash consideration and completed contracts and contract modifications at transition.</p> | |

January 1, 2018

ASU 2016-20,
Technical
Corrections and
Improvements to
Topic 606

The standard clarifies certain narrow aspects of ASU 2014-09.

The Company's
adoption date:
January 1, 2018

Leases:

ASU 2016-02,
Leases (Topic
842)

The standard requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. The standard also

The Company is currently evaluating the impact the adoption of the standard will have on its consolidated financial

The Company's
adoption date:
January 1, 2019

requires improved disclosures to help statements. users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases.

Financial Instruments:

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| | | |
|---|---|---|
| <p>ASU 2016-13, Financial Instruments - Credit Losses (Topic 326)</p> <p>The Company's adoption date: January 1, 2020</p> <p>Cash Flow:</p> <p>ASU 2016-18, Restricted Cash</p> <p>The Company's adoption date: January 1, 2018</p> <p>Standards that the Company has recently adopted Stock-Based Compensation:</p> <p>ASU 2016-09, Improvement to Employee Share-Based Payment Accounting (Topic 718)</p> <p>The Company's adoption date: January 1, 2017</p> | <p>The standard replaces the incurred loss impairment methodology in current U.S. GAAP (defined below) with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more useful information about expected credit losses.</p> <p>The standard requires that entities show the changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows. Transfers between cash, cash equivalents and restricted cash should not be presented as cash flow activities on the statement of cash flows.</p> <p>This standard is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows.</p> | <p>The Company is currently evaluating the impact the adoption of the standard will have on its consolidated financial statements.</p> <p>The Company is currently evaluating the impact the adoption of the standard will have on its consolidated financial statements.</p> <p>The Company adopted this standard effective January 1, 2017. As a result of this adoption, the Company recognized \$8.2 million of deferred tax assets attributable to accumulated excess tax benefits that under the previous guidance could not be recognized until the benefits were realized through a reduction in income taxes payable. This adjustment was applied using a modified retrospective method with a cumulative-effect adjustment to the accumulated deficit for the excess tax benefits not previously recognized. However, given the full valuation allowance of \$8.2 million placed on the additional deferred tax assets, the recognition upon adoption had no impact on the Company's accumulated deficit as of January 1, 2017. Further, the Company has elected to con</p> |
|---|---|---|