CAFEPRESS INC.
Form 10-Q
August 04, 2016

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

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
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	94-3342816
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

11909 Shelbyville Road, Louisville, KY 40243
(502)-995-2258
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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 or the Exchange Act 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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
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 ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
The number of shares outstanding of the registrant's common stock as of August 1, 2016 was 16,689,356 shares.

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PART I. FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements
CAFEPRESS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value amounts)
(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$15,330	$ 32,663
Short-term investments	23,066	17,610
Accounts receivable	614	680
Inventory, net	2,793	3,850
Deferred costs	626	619
Restricted cash	—	3,417
Prepaid expenses and other current assets	3,360	2,413
Total current assets	45,789	61,252
Property and equipment, net	10,055	8,624
Goodwill	—	20,899
Other assets	705	608
TOTAL ASSETS	$56,549	$ 91,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$1,387	$ 3,938
Accrued royalties payable	2,290	4,292
Accrued liabilities	6,457	10,701
Deferred revenue	929	864
Capital lease obligation, current	583	565
Total current liabilities	11,646	20,360
Capital lease obligation, non-current	50	347
Other long-term liabilities	218	353
TOTAL LIABILITIES	11,914	21,060
Stockholders' Equity:		
Preferred stock, $0.0001 par value: 10,000 shares authorized as of June 30, 2016 and December 31, 2015; none issued and outstanding	—	—
Common stock, $0.0001 par value — 500,000 shares authorized and 16,707 and 16,766 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	2	2
Treasury stock; 50 shares at December 31, 2015	—	(203)
Additional paid-in capital	99,413	99,344
Accumulated deficit	(54,780)	(28,820)
TOTAL STOCKHOLDERS' EQUITY	44,635	70,323
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$56,549	$ 91,383

See the accompanying notes to the condensed consolidated financial statements.

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CAFEPRESS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenues	$19,841	$21,764	$37,919	$45,340
Cost of net revenues	11,622	12,876	22,265	27,750
Gross profit	8,219	8,888	15,654	17,590
Operating expenses:				
Sales and marketing	4,320	4,195	8,932	9,611
Technology and development	3,316	2,792	6,500	5,989
General and administrative	3,036	3,194	5,672	6,341
Impairment charges	20,899	—	20,899	—
Restructuring costs	—	526	—	526
Total operating expenses	31,571	10,707	42,003	22,467
Loss from operations	(23,352)	(1,819)	(26,349)	(4,877)
Interest income	41	17	74	22
Interest expense	(12)	(13)	(26)	(27)
Other (expense) income, net	(58)	23	(63)	65
Loss before income taxes	(23,381)	(1,792)	(26,364)	(4,817)
Benefit from income taxes	(402)	(718)	(404)	(1,413)
Net loss from continuing operations	(22,979)	(1,074)	(25,960)	(3,404)
(Loss) income from discontinued operations, net of tax	—	(7,704)	—	6,808
Net (loss) income	$(22,979)	$(8,778)	$(25,960)	$3,404
Net (loss) income per share of common stock:				
Basic:				
Continuing operations	$(1.37)	$(0.06)	$(1.55)	$(0.19)
Discontinued operations	$—	$(0.44)	$—	$0.39
Diluted:				
Continuing operations	$(1.37)	$(0.06)	$(1.55)	$(0.19)
Discontinued operations	$—	$(0.44)	$—	$0.39
Shares used in computing net (loss) income per share of common stock:				
Basic	16,742	17,455	16,775	17,468
Diluted	16,742	17,455	16,775	17,531

See the accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended June 30, 2016	2015
Cash Flows from Operating Activities:		
Net (loss) income	$(25,960)	$3,404
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	2,140	3,816
Amortization of intangible assets	—	1,229
(Gain) loss on disposal of fixed assets	(16)	217
Stock-based compensation	746	891
Goodwill impairment	20,899	—
Impairment charges - assets held for sale	—	7,311
Gain on sale of businesses	—	(17,062)
Deferred income taxes	(350)	(140)
Changes in operating assets and liabilities, net of effect of divestitures:		
Accounts receivable	66	2,215
Inventory	1,057	1,858
Prepaid expenses and other current assets	(954)	957
Other assets	7	124
Accounts payable	(2,668)	(6,717)
Partner commissions payable	—	(2,003)
Accrued royalties payables	(2,002)	(2,404)
Accrued and other liabilities	(4,146)	(5,757)
Assets and liabilities held for sale	—	(1,849)
Deferred revenue	65	(1,153)
Net cash used in operating activities	(11,116)	(15,063)
Cash Flows from Investing Activities:		
Purchase of short-term investments	(9,920)	(14,424)
Proceeds from maturities of short-term investments	4,464	—
Purchase of property and equipment	(2,263)	(377)
Capitalization of software and website development costs	(1,172)	(1,349)
Proceeds from disposal of fixed assets	29	—
Change in restricted cash	3,417	(3,417)
Proceeds from sale of businesses, net of expenses paid	—	37,653
Net cash (used in) provided by investing activities	(5,445)	18,086
Cash Flows from Financing Activities:		
Principal payments on capital lease obligations	(279)	(223)
Proceeds from exercise of common stock options	5	390
Repurchases of common stock	(498)	(2,287)
Net cash used in financing activities	(772)	(2,120)
Change in cash of discontinued operations	—	424
Net (decrease) increase in cash and cash equivalents	(17,333)	1,327
Cash and cash equivalents — beginning of period	32,663	26,971
Cash and cash equivalents — end of period	$15,330	$28,298

Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$26	$43
Income taxes paid during the period	17	81
Non-cash Investing and Financing Activities:		
Accrued purchases of property and equipment	160	2

See the accompanying notes to the condensed consolidated financial statements.

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CAFEPRESS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business and Summary of Significant Accounting Policies
Business
CafePress Inc., or the Company, formerly CafePress.com, Inc., was incorporated under the laws of the State of California on October 18, 1999. On January 19, 2005, the Company was reincorporated under the laws of the State of Delaware. On June 7, 2011, the name of the Company was changed to CafePress Inc.
The Company is a leading online retailer 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. The Company conducts most of its business on its primary United States based domain, CafePress.com and also operates CafePress branded websites for the markets in the United Kingdom, Canada, and Australia. The Company also sells CafePress branded products through other online retail partners. The Company’s 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.
The Company’s facility in Louisville, Kentucky has innovative technology and manufacturing processes that enable the Company to provide high-quality customized products that are individually built to order. The Company’s proprietary processes enable the Company to produce a broad range of merchandise efficiently, cost effectively and quickly. The Company also maintains a diverse network of contract manufacturers that gives the Company the ability to broaden its manufacturing capabilities and produce in certain international locales.
Basis of Presentation
The accompanying unaudited condensed financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany transactions and balances have been eliminated.
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and follow the requirements of the Securities and Exchange Commission, or SEC, for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These financial statements have been prepared on the same basis as the Company’s annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments that are necessary for a fair statement of the Company’s financial information. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 or for any other interim period or for any other future year. The balance sheet as of December 31, 2015 has been derived from audited financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements.
The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2015 included in the Company’s Annual Report on Form 10-K as filed on March 30, 2016 with the SEC.
Segments
The Company’s chief operating decision maker is its Chief Executive Officer, who manages the Company’s operations on a consolidated basis for purposes of allocating resources. As a result, the Company has a single operating segment which is the Company’s single reportable segment. All of the Company’s principal operations and decision-making functions are located in the United States.
Discontinued operations
Prior year financial statements have been recast to reflect the sale of the Company’s Art and Groups businesses in the first quarter of 2015 and the sale of EZ Prints, Inc. assets in the third quarter of 2015 in accordance with the Financial Accounting Standards Board Accounting Standards Codification 205-20-55 within discontinued operations. Results of discontinued

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operations are excluded from the accompanying notes to the consolidated financial statements for all periods presented, unless otherwise noted. See Note 4, Discontinued Operations, in the accompanying Notes to Consolidated Financial Statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including but not limited to those related to revenue recognition, provisions for doubtful accounts, credit card chargebacks, sales returns, inventory write-downs, stock-based compensation, legal contingencies, depreciable lives, asset impairments, accounting for business combinations, and income taxes including required valuation allowances. The Company bases its estimates on historical experience, projections for future performance and other assumptions that it believes to be reasonable under the circumstances. Actual results could differ materially from those estimates.

Revenue Recognition

The Company recognizes revenues 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.

The Company evaluates whether it is appropriate to record the gross amount of product sales and related costs as product revenues or the net amount earned as fulfillment revenues. Revenues are recorded at the gross amount when the Company is the primary obligor in a transaction, is subject to inventory and credit risk, has latitude in establishing prices and selecting suppliers, or has most of these indicators. When the Company is not the primary obligor and does not take inventory risk, revenues will be recorded at the net amount received by the Company as fulfillment revenues. Product sales and shipping revenues are recognized net of promotional discounts, rebates, and return allowances. Revenues from product sales and services rendered are recorded net of sales and consumption taxes. The Company periodically provides 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 revenues. The Company maintains an allowance for estimated future returns and credit card chargebacks based on current period revenues and historical experience.

The Company accounts for flash deal promotions through group-buying websites as gift certificates. Deferred revenue is recorded at the time of the promotion based on the gross fee payable by the end customer as the Company considers it is the primary obligor in the transaction. The Company defers the costs for the direct and incremental sales commission retained by group-buying websites and records the associated expense as a component of sales and marketing expense at the time revenue is recognized. Revenue is recognized on redemption of the offer and delivery of the product to the Company’s customers.

The Company recognizes gift certificate breakage from flash deal promotions, its internally managed voucher promotions, and gift certificate sales as a component of revenues. The Company monitors historical breakage experience and when sufficient history of redemption exists, the Company records breakage revenue in proportion to actual gift certificate redemptions. When the Company concludes that insufficient history of redemption and breakage experience exists, breakage revenue is recognized upon expiration of the flash deal promotion or in the period the Company considers the obligation for future performance related to such breakage to be remote. Changes in customers’ behavior could impact the amounts that are ultimately redeemed and could affect the breakage recognized as a component of revenues.

Deferred revenues include funds received in advance of product fulfillment, deferred revenue for flash deal promotions and gift cards and amounts deferred until applicable revenue recognition criteria are met. Direct and incremental costs associated with deferred revenue are deferred, classified as deferred costs and recognized in the period revenue is recognized.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed related to a business combination. Goodwill is presumed to have an indefinite life and is not subject to amortization. The Company conducts a quantitative test for the impairment of goodwill at least annually, as of July 1 of each year, and also whenever events or changes in circumstances indicate that the carrying value of the goodwill may not be fully recoverable. The quantitative

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impairment test is a two-step process. The first step is a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. If this step indicates impairment, then the Company needs to proceed with Step 2 where the potential impairment loss is measured as the excess of recorded goodwill over its implied fair value.

The Company determined its reporting units for goodwill impairment testing by identifying those components at, or one level below, the operating segments that (1) constitute a business, (2) have discrete financial information available, and (3) are regularly reviewed by segment management.

As of the dates of the Company's annual goodwill impairment test and other goodwill impairment analyses, it had one operating segment and one reporting unit.

In performing the Company's quantitative impairment tests, it determines the fair value of its reporting unit through a combination of the income and market approaches. Under the income approach, the Company estimates fair value based on a discounted cash flow model using a discount rate determined by management to be commensurate with the risk inherent in the Company's current business model. Under the market approach, the Company estimates the fair value of its overall business based on its current market capitalization, market comparables, or other objective evidence of fair value.

In the first quarter of 2015, the Company closed the sale of its Art and Groups businesses and in the second quarter of 2015 classified its EZ Prints business as "Assets Held for Sale" and "Liabilities Held for Sale" in accordance with FASB Accounting Standards Codification ("ASC") 205-20-55, Presentation of Financial Statements and ASC 360, Property, Plant, and Equipment. The Company considered these items to be triggering events, and accordingly, performed goodwill impairment tests as of March 31, 2015 and June 30, 2015. These tests resulted in estimated excess fair value over carrying value of 3% and 6%, respectively. Accordingly, the Company concluded that step two of the goodwill impairment tests was not required at either of these dates and no impairment was recorded.

In the third quarter of 2015, the Company performed its annual impairment test as of July 1, 2015 and, subsequently, performed an impairment test as of September 1, 2015 upon the sale of its EZ Prints business assets, which it considered a triggering event. These tests resulted in estimated excess fair value over carrying value of 6% and 7%, respectively. Accordingly, the Company concluded that step two of the goodwill impairment tests was not required at either of these dates and no impairment was recorded.

As of March 31, 2016, the Company's market capitalization was approximately $61.8 million compared to its carrying value of $67.5 million, which did not, in management's view, suggest that the fair value estimates used in its previous impairment assessment required any adjustment as this shortfall is considered to be a temporary event. In addition, since September 1, 2015, the date of its last goodwill impairment analysis, there have been no material changes to its operations or financial forecasts.

In the second quarter of 2016, the Company's common stock price experienced a further, sustained decline resulting in a diminished market capitalization. The common stock fell to a low of $3.10 per share on May 12, 2016 and had an average closing price of $3.21 from the date following the earnings release through May 31, 2016, the end of its fiscal month. On May 31, 2016, the Company's market capitalization was $55.8 million compared to its carrying value of $66.0 million. Over the same time period, market capitalizations of peer group companies and the overall U.S. stock market recovered. Based upon the Company's declining market capitalization and shortfall from financial targets, the Company concluded that a triggering event had occurred and proceeded with an interim goodwill impairment test as of May 31, 2016. In performing the impairment test, the Company determined the fair value of its single reporting unit using an average of the income and market approaches. Under the income approach, the Company estimated fair value based on a discounted cash flow model using a 19% discount rate determined by management to be commensurate with the risk inherent in the Company's current business model. A long term cash flow growth rate of 5% was used to determine the terminal value. Under the market approach, the Company calculated its fair value using a control premium of 20%. The control premium was not applied to its cash and short term investment assets. Based upon the Company's latest financial forecasts, and market capitalization, the step one analysis indicated that an impairment was likely and proceeded with a step two analysis.

The Company, with the assistance of a third party valuation firm, performed step two of the goodwill impairment test which is a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the Company was being acquired in a business combination in a non-taxable transaction as applied in the first step, including any significant increases in the fair value of tangible property and intangible assets. Assessing the fair value of goodwill includes making assumptions about future cash flows, discount rates and asset lives using then best available information. These assumptions are subject to a high degree of complexity and judgment. As part of the step two analysis, significant unrecorded intangible assets were identified, which included developed technology intangibles. Based on the Company’s step two analysis, the implied fair value

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of the Company's goodwill was zero. As a result, the Company recorded a $20.9 million non-cash goodwill impairment charge in the second quarter of fiscal 2016, which was reflected as Impairment charges in the consolidated statements of operations. The goodwill impairment charge did not adversely affect the Company’s cash flow, liquidity or compliance with financial covenants.

The change in the carrying amount of goodwill is as follows:

	Carrying Amount
Balance at December 31, 2015	$20,899
Impairment of goodwill	(20,899)
Balance at June 30, 2016	$—

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 the Company estimates is more likely than not to be realized.

The Company follows 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.

The Company recognizes 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.

The Company has elected to use the “with and without” approach in determining the order in which tax attributes are utilized. As a result, the Company 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 the Company have been utilized.

The Company has weighed both positive and negative evidence and has determined that there is a need for a valuation allowance due to the existence of three years of historical cumulative losses which the Company considered significant verifiable negative evidence. As of June 30, 2016, the Company maintains a valuation allowance on substantially all of its deferred tax assets.

Recent accounting pronouncements

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. Adoption of the standard is not expected to have a material impact on the 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

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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. The Company is currently in the process of evaluating the impact of adoption of ASU 2016-02 on our financial statements.

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." ASU 2015-11 is effective for reporting periods beginning after December 15, 2016 and is applied prospectively. Early adoption is permitted. The Company is evaluating the impact, if any, of adopting this new accounting guidance on its financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), that requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard will be effective for the Company beginning January 1, 2018. Early application is not permitted. The new standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating adoption methods and whether this standard will have a material impact on its financial statements and related disclosures.

2. Investments and Fair Value of Financial Instruments

The components of the Company's cash equivalents and short-term investments, including unrealized gains and losses associated with each are as follows (in thousands):

	June 30, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Cash equivalents:				
Money market funds	$6,623	$ —	$ —	$ 6,623
Short-term investments:				
Certificates of deposit, 90 days or greater	23,066	—	—	23,066
Total cash equivalents and short-term investments	$29,689	$ —	$ —	$ 29,689

	December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Cash equivalents:				
Money market funds	$24,116	$ —	$ —	$ 24,116
Short-term investments:				
Certificates of deposit, 90 days or greater	17,610	—	—	17,610

Total cash equivalents and short term investments	$41,726	$ —	$ —	$ 41,726

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The following table represents the Company's fair value hierarchy for its financial assets and liabilities (in thousands):

	June 30, 2016	
	Fair Value	Level I
Cash equivalents:		
Money market funds	$6,623	$6,623
Total financial assets	$6,623	$6,623

	December 31, 2015	
	Fair Value	Level I
Cash equivalents:		
Money market funds	$24,116	$24,116
Total financial assets	$24,116	$24,116

The Company holds money market funds that invest primarily in high-quality short-term money market instruments, including certificates of deposit, banker's acceptances, commercial paper, and other money market securities. Investments in these funds are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

As of June 30, 2016, the Company held certificates of deposits, classified as cash equivalents or short-term investments, based on the original term. A certificate of deposit is a time deposit with a fixed term that is commonly offered by banks, thrifts, and credit unions. As of June 30, 2016, the certificates of deposit held by the Company had a term of 365 days or less. All certificates of deposit held by the Company were within the insured limits of the FDIC.

3. Balance Sheet Items

Inventory, net are comprised of the following (in thousands):

	June 30, 2016	December 31, 2015
Raw materials	$3,136	$ 4,118
Finished goods	—	38
Inventory in-transit	27	29
Less: reserve for obsolescence	(370)	(335)
Inventory, net	$2,793	$ 3,850

Property and equipment, net are comprised of the following (in thousands):

	June 30, 2016	December 31, 2015
Building	$3,601	$ 1,816
Computer equipment and office furniture	7,374	13,401
Computer software	1,549	2,405
Internal use software and website development	10,829	9,638
Production equipment	18,532	18,595
Leasehold improvements	2,872	2,851
Total property and equipment	44,757	48,706
Less: accumulated depreciation and amortization	(34,702)	(40,082)
Property and equipment, net	$10,055	$ 8,624

Depreciation and amortization expense was $1.0 million and $1.6 million for the three months ended June 30, 2016 and 2015, respectively, and $2.1 million and $3.3 million for the six months ended June 30, 2016 and 2015, respectively.

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Accrued liabilities consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Payroll and employee related expense	$ 1,922	$ 2,374
Production costs	1,105	3,245
Accrued sales and business taxes	844	1,180
Unclaimed royalty payments	830	830
Professional services	626	548
Other accrued liabilities	554	747
Accrued advertising	427	1,427
Royalties - minimum guarantee	99	118
Allowance for sales returns and chargebacks	50	232
Accrued liabilities	$ 6,457	$ 10,701

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	$60	$109	$232	$294
Add: provision	518	554	992	1,396
Less: deductions and other adjustments	(528)	(556)	(1,174)	(1,583)
Balance, end of period	$50	$107	$50	$107

4. Discontinued Operations

In the first quarter of 2015, in order to improve the Company’s core business and further enhance stockholder value, the Company entered into definitive agreements to divest its Art and Groups businesses for a total of approximately $40.2 million in cash. The Art and Groups asset sales closed in the first fiscal quarter of 2015. The Company has classified the assets and liabilities associated with the Art and Groups businesses as assets and liabilities held for sale in the Company’s consolidated balance sheet at December 31, 2014 in accordance with ASC 360-10-45 which was prior to January 1, 2015, the effective date of the new accounting standards in relation to discontinued operations reporting. See Note 1. Business and Summary of Significant Accounting Policies, Recent Accounting Pronouncements. Therefore, the Company did not apply the new accounting standard to the divestitures of Art and Groups businesses although the businesses were disposed of after the effective date.

In the second quarter of 2015, the Company committed to a plan to divest its EZ Prints business. Certain assets and liabilities of the EZ Prints business have been classified as assets and liabilities held for sale in accordance with ASC 205-20-55 in the Company's Consolidated Balance Sheets and have been included in discontinued operations for all periods presented. In addition, condensed cash flow information for all periods presented is included. In the second quarter of 2015, the Company reviewed the carrying value of the EZ Prints assets as compared to the fair value of such assets as measured by the offers received. Accordingly, as prescribed by ASC 360, Impairment or Disposal of Long-Lived Assets, the Company recorded an impairment charge of $7.3 million to lower the carrying value of the assets to fair value, which is included in the operating section of “Discontinued Operations” in the Consolidated Statement of Operations. The Company completed the sale of its EZ Prints business in the third quarter of 2015 and recorded a gain on the sale of $0.3 million which is included in the "Other (income)\expense" section of “Discontinued Operations” in the Consolidated Statement of Operations.

Income (loss) from discontinued operations, net of tax, in the Company’s Consolidated Statements of Operations, represents the net income from the disposal of assets and liabilities associated with the sale of Art and Groups in the first quarter of 2015, the impairment charge associated with the writedown of EZ Prints net assets to fair value in the second quarter of 2015, the gain on disposal of the EZ Prints business in the third quarter of 2015, as well as the historical operations of the Art, Groups, and EZ Prints businesses for all periods presented in accordance with ASC 205-20-55.

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EZ Prints business asset sale

On September 1, 2015, the Company sold its 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 EZ Prints Holdings, Inc. (“EZP Holdings”). Vincent Sarrecchia, the chief executive officer of EZP Holdings, was previously serving as the interim chief executive officer of the EZ Prints business pursuant to a consulting agreement with the Company. Total consideration for the sale was $0.6 million, of which $0.1 million has been received and $0.5 million is in the form of a note receivable due on or before December 31, 2018. As part of the closing of the sale, the Company paid a current obligation of $1.25 million to one of the Company's current customers. The Company also entered into a transition services agreement with EZP Holdings for a maximum period of one year from the closing date, a license agreement whereby the Company continues to have the right to use certain software, and cross fulfillment agreements whereby each party agrees to fulfill certain products for the other party. The Company's management is required to estimate the expected continuing cash flows against the cash flows of the disposed business in order to determine if discontinued operations presentation is applicable. Management has estimated the expected future cash flows in relation to the transition services agreement, the license agreement, and the cross fulfillment agreements on a gross basis in relation to the expected cash flows of the disposed business and has concluded that these cash flows will be insignificant to the disposed business. The Company will have no involvement in the management of EZP Holdings. As a result, management has applied discontinued operations presentation to the EZ Prints business asset sale in accordance with the ASC 205-20-55.

Art business asset sale

On March 1, 2015, the Company sold its Art business, which enabled users to transform photographs and images into canvas works of art, pursuant to an asset purchase agreement with Circle Graphics, Inc. (“Circle Graphics”). The Company received proceeds of $28.5 million, net of expenses, of which $2.4 million was placed in escrow for its indemnification obligations pursuant to an escrow agreement between the Company, Circle Graphics and the escrow agent. The amount in escrow was released in its entirety in June 2016.

The Company also entered into a transition services agreement with Circle Graphics for a period of one year from the closing date, and a commercial agreement whereby certain products purchased on the Company’s websites will be exclusively fulfilled by Circle Graphics for a period of three years following the closing date. There is no material relationship between the Company and Circle Graphics. Management is required to estimate the expected continuing cash flows against the cash flows of the disposed business in order to determine if discontinued operations presentation is applicable. Management has estimated the expected future cash flows in relation to the commercial agreement and the transition services agreement on a gross basis in relation to the expected cash flows of the disposed business and has concluded that these cash flows will be insignificant to the disposed business. The Company will have no involvement in the management of Circle Graphics. As a result, management has applied discontinued operations presentation to the Art business asset sale in accordance with the ASC 205-20-55.

Groups business asset sale

On March 6, 2015, the Company sold its Groups business, which provided personalized apparel and merchandise for groups and organizations through its e-commerce websites, pursuant to an asset purchase agreement with Logo Sportswear Inc. (“Logo Sportswear”). The Company received proceeds of $9.2 million, net of expenses, of which $1.0 million was placed in escrow for its indemnification obligations pursuant to an escrow agreement between the Company, Logo Sportswear and the escrow agent. The amount in escrow was released in its entirety in June 2016.

In connection with the sale of the Groups business, the Company also entered into a transition services agreement for a period of one year from the closing date and referral agreement with Logo Sportswear for a period of two years following the closing date. There is no material relationship between the Company and Logo Sportswear. Management is required to estimate the expected continuing cash flows against the cash flows of the disposed business in order to determine if discontinued operations presentation is applicable. Management has estimated the expected future cash flows in relation to the referral agreement and the transition services agreement on a gross basis in relation to the expected cash flows of the disposed business and has concluded that these cash flows will be insignificant to the disposed business. The Company will have no involvement in the management of Logo Sportswear. As a result, management has applied discontinued operations presentation to the Groups business asset sale in accordance with the ASC 205-20-55.

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Financial information for the combined discontinued operations is summarized as follows (in thousands):

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Net revenues	$3,888	$19,840
Cost of net revenues	2,892	12,888
Gross profit	996	6,952
Operating expenses:		
Sales and marketing	373	4,638
Technology and development	1,153	2,567
General and administrative	413	1,093
Impairment charges	7,311	7,311
Total operating expenses	9,250	15,609
Loss from operations	(8,254)	(8,657)
Interest expense	(8)	(17)
Gain on sale of assets	62	17,062
Income before income taxes	(8,200)	8,388
Provision for income taxes	(496)	1,580
Net income from discontinued operations	$(7,704)	$6,808

Condensed cash flow information for EZ Prints discontinued operations is summarized as follows (in thousands):

	Six Months Ended June 30, 2015
Cash Flows from Operating Activities:	
Net loss	$(8,111)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	555
Amortization of intangible assets	1,229
Stock-based compensation	32
Impairment charge	7,311
Change in operating assets and liabilities	(1,265)
Net cash used in operating activities	(249)
Cash Flows from Investing Activities:	
Purchase of property and equipment	(48)
Capitalization of software and website development costs	(127)
Net cash used in investing activities	(175)
Net decrease in cash and cash equivalents	(424)
Cash and cash equivalents — beginning of period	3,678
Cash and cash equivalents — end of period	$3,254

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5. Line of Credit

The Company has a credit agreement which provides for a revolving credit facility of $6.5 million to fund acquisitions, share repurchases and other general corporate needs. The credit line is available through June 2017 and bears interest at either the London Inter Bank Offer Rate +1.75% or the bank's prime rate +.75%. This credit agreement requires the Company to comply with various financial covenants, all of which the Company was in compliance with at June 30, 2016 and December 31, 2015, and is secured by all assets of the Company. In connection with the Company's facility lease in Louisville, Kentucky, the Company is required to have a $1.5 million letter of credit to guarantee the lease. The letter of credit bears interest at 1.5% per annum and will expire no later than September 15, 2020. Excluding the $1.5 million letter of credit, there were no draws against the facility as of June 30, 2016 and $5.0 million remained available.

6. Stock-Based Compensation

Stock option activity

The following table summarizes stock option activity related to shares of common stock (in thousands, except the 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, 2015	2,168	$ 6.48	5.20	$ 118
Granted	723	3.61		
Exercised	(1)	3.20		
Forfeited	(234)	10.68		
Outstanding — June 30, 2016	2,656	$ 5.33	6.44	$ 27
Vested and expected to vest - June 30, 2016	1,771	$ 5.97	5.65	$ 21
Options exercisable — June 30, 2016	887	$ 7.53	4.30	$ 11

Restricted stock unit activity

The Company may grant restricted stock units, or RSUs, to its employees, consultants or outside directors under the provisions of the Company's Amended and Restated 2012 Stock Incentive Plan. The cost of RSUs is determined using the fair value of the Company's common stock on the date of grant. Compensation cost is amortized on a straight-line basis over the requisite service period.

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, 2015	329	$ 4.40
Granted	493	3.56
Vested	(86)	4.24
Forfeited and canceled	(15)	4.60
Awarded and unvested at June 30, 2016	721	$ 3.84

Stock-based compensation expense

The Company estimated the fair value of each option award on the date of grant using the Black-Scholes option-pricing model and the assumptions noted in the following table. In the three and six months ended June 30, 2016, the Company calculated volatility using its historical volatility as it had sufficient public trading history. In all prior periods, expected volatility is based upon the volatility of a group of publicly traded industry peer companies.

The expected term of options granted gave consideration to historical exercises, post-vesting cancellations and the options' contractual term. In all prior periods, expected term was calculated using the simplified method. For all periods presented, the risk-free rate is based on the rates in effect at the

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time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to each grant's expected life and a dividend yield of zero is applied since the Company has not historically paid dividends and has no intention to pay dividends in the near future.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expected term (in years)	6.2	4.9	6.2	4.9
Risk-free interest rate	1.5%	1.3%	1.5%	1.3%
Expected volatility	58 %	47 %	58 %	47 %
Expected dividend rate	0.0%	0.0%	0.0%	0.0%

Included in the stock option grants for the six months ended June 30, 2016 are 623,000 non-statutory stock options that have both performance criteria tied to the Company's 2016 financial performance and three year service criteria. 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. If in the future, situations indicate that the performance criteria are not probable, then no further compensation cost will be recorded and any previous costs will be reversed. As of June 30, 2016, the Company has 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.

Cost of net revenues and operating expenses include stock-based compensation as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of net revenues	$12	$42	$36	$82
Sales and marketing	78	100	137	194
Technology and development	29	32	58	103
General and administrative	349	249	515	473
Total stock-based compensation expense	$468	$423	$746	$852

Capitalizable stock-based compensation relating to software development was not significant for any period presented.

7. Stock Repurchase Program

In May 2015, the Company's Board of Directors approved a stock repurchase program of up to 20% of the outstanding shares of its common stock or an aggregate of 3.5 million shares of the Company's common stock, whichever is less, over a period of one year. Any stock repurchases may be made through open market and privately negotiated transactions, or as otherwise may be determined by management, at times and in such amounts as management deems appropriate, and may or may not be made pursuant to one or more Rule 10b5-1trading plans adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Under a Rule 10b5-1trading plan, the Company may repurchase its shares regardless of any subsequent possession of material nonpublic information. The timing and amount of stock repurchased, if any, will depend 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 possess, and capital availability. This repurchase program was extended indefinitely by the Board of Directors in April 2016, however it can be terminated at any time.

Share repurchase activity was as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Total number of shares repurchased	98	489	146	489
Aggregate cost of shares repurchased	$322	$2,287	$498	$2,287
Average cost per share	$3.28	$4.67	$3.41	$4.67

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8. Net Income (Loss) per Share of Common Stock

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

Diluted net income (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 the Company's basic and diluted net income (loss) per share of common stock (in thousands, except for per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net loss from continuing operations	$(22,979)	$(1,074)	$(25,960)	$(3,404)
(Loss) income from discontinued operations, net of tax	—	(7,704)	—	6,808
Net (loss) income	$(22,979)	$(8,778)	$(25,960)	$3,404
Shares used in computing net (loss) income per share of common stock:				
Basic	16,742	17,455	16,775	17,468
Diluted	16,742	17,455	16,775	17,531
Net (loss) income per share of common stock:				
Basic:				
Continuing operations	$(1.37)	$(0.06)	$(1.55)	$(0.19)
Discontinued operations	$—	$(0.44)	$—	$0.39
Total	$(1.37)	$(0.50)	$(1.55)	$0.19
Diluted:				
Continuing operations	$(1.37)	$(0.06)	$(1.55)	$(0.19)
Discontinued operations	$—	$(0.44)	$—	$0.39
Total	$(1.37)	$(0.50)	$(1.55)	$0.19

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

	June 30,	
	2016	2015
Stock options to purchase common stock	2,656	2,321
Restricted stock units	721	391

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9. Geographic Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2015	2014
United States	$17,709	$19,127	$33,918	$39,835
International	2,132	2,637	4,001	5,505
Total	$19,841	$21,764	$37,919	$45,340

All of the Company’s long-lived assets are located in the United States.

10. Related Party Transaction

On September 1, 2015, the Company sold its 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 EZP Holdings. Vincent Sarrecchia, the chief executive officer of EZP Holdings, was previously serving as the interim chief executive officer of the EZ Prints business pursuant to a consulting agreement with the Company. Total consideration for the sale was $0.6 million, of which $0.1 million has been received by the Company and $0.5 million is in the form of a non-interest bearing note receivable which is outstanding at June 30, 2016 and it is due on or before December 31, 2018.

11. Subsequent Events

On August 1, 2016, the Company initiated a plan to transition portions of the remaining workforce in Hayward, California to our headquarters in Louisville, Kentucky. This is an effort to continue to find efficiencies in our operations and streamline the company. The California office has approximately 34 employees in various roles related to marketing, technology, legal and accounting. Approximately 17 employees were terminated on August 1, transition plans for five others were set in place, and the remainder will work remotely for the foreseeable future. No immediate plans have been established for the physical office in Hayward, California. The financial impact is not fully determinable at this time, but charges including severance, recruiting costs, paid benefits, and lease breakage are expected to be recorded as a restructuring charge in the third and fourth quarters. At this time, the Company does not believe the transition will be material to our ongoing efforts to revitalize the operation.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion in conjunction with our condensed consolidated financial statements (unaudited) and related notes included elsewhere in this report. Except for the historical financial information contained herein, this quarterly report on Form 10-Q 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 t 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 recent divestitures and potential impacts and anticipated benefits and consequences thereof and our ongoing obligations under the terms of the related agreements; our plans regarding any future divestitures; our plans for future services and enhancements of existing services; the benefits of our services, technology and manufacturing processes; our expectations regarding our expenses and revenue, including statements about our expectations as to the variability of our revenues and growth rates from period to period and our valuation allowances; our expectations regarding the effect of seasonality and cyclicality on our business; critical accounting policies and the impact of any recent accounting pronouncements; customer acquisition costs as a driver of future growth; statements regarding continuing customer desire for custom products; the impairment of goodwill; anticipated trends and challenges in our business and the markets in which we operate; the payment of any contingent consideration from our divestiture transactions; quarterly trends; our liquidity position and cash flows; anticipated cash needs and our capital requirements and our needs for additional financing and the potential impact; our expectations regarding our ability to meet our financial covenants under our credit agreement; our ability to recognize and remedy issues with internal controls and accounting treatment thereof; benefits of non-GAAP financial results; our investment plans; our anticipated growth strategies; our expectations with respect to raw materials and suppliers; the impact of production issues and delayed orders; our expectations regarding the volatility of cash provided by operating activities and the causes thereof; our ability to retain and attract customers and drive traffic to our websites; our expectations regarding the shift to mobile site access and the projected impact of such shift on our business; our regulatory environment; our legal proceedings and related risks and impact and timing of costs related thereto; our expectations with regard to how changes in market interest rates would affect us; our exposure to foreign currency exchange rate fluctuations; the impact of inflationary pressures; intellectual property; competition; sources of new revenue; management's beliefs regarding the Company's market capitalization; expectations with regard to meeting the financial covenants of our credit agreement; and expectations regarding our share repurchase program. 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.

Recent Strategic Transactions

EZ Prints business asset sale

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 EZ Prints Holdings, Inc. ("EZP Holdings"). Vincent Sarrecchia, the chief executive officer of EZP Holdings, was previously serving as the interim chief executive officer of the EZ Prints business pursuant to a consulting agreement. Total consideration for the sale was $0.6 million, of which $0.1 million has been received and $0.5 million is in the form of a non-interest bearing note receivable due on or before December 31, 2018. As part of the closing of the sale, we paid a current obligation of $1.25 million to one of EZ Prints' current customers.

In connection with the EZ Prints asset purchase agreement, we entered into a transition services agreement with EZP Holdings for a maximum period of one year from the closing date, a license agreement whereby we continue to have the right to use certain software, and cross fulfillment agreements whereby each party agrees to fulfill certain products for the other party.

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Groups business asset sale

On March 6, 2015, we completed the sale of our Groups business, which provided personalized apparel and merchandise for groups and organizations through our e-commerce websites ("Groups"), pursuant to an asset purchase agreement with Logo Sportswear Inc. ("Logo Sportswear"). We received proceeds of $9.2 million, net of expenses, of which $1.0 million was placed in escrow for our indemnification obligations pursuant to an escrow agreement between us, Logo Sportswear and the escrow agent. The amount in escrow was released in its entirety in June 2016.

In connection with the Groups business asset purchase agreement, we also entered into a transition services agreement and a referral agreement with Logo Sportswear. The transition services agreement with Logo Sportswear provides certain corporate support services that our Groups business has historically received from us, is effective as of the closing date, and certain services can be provided for up to one year after close. Under the referral agreement we will continue to promote Logo Sportswear product types on our websites and redirect potential customers from our websites to a Logo Sportswear website. The initial term of the referral agreement is for a period of two years following the closing date.

Art business asset sale

On March 1, 2015, we sold our Art business, which enabled users to transform photographs and images into canvas works of art, pursuant to an asset purchase agreement with Circle Graphics, Inc. ("Circle Graphics"). We received proceeds of $28.5 million, net of expenses, of which $2.4 million was placed in escrow for its indemnification obligations pursuant to an escrow agreement between Circle Graphics, the escrow agent, and us. The amount in escrow was released in its entirety in June 2016.

In connection with the Art business asset purchase agreement, we also entered into a transition services agreement and a commercial agreement with Circle Graphics. The transition services agreement with Circle Graphics provides certain corporate support services that our Art business has historically received from us, is effective as of the closing date, and certain services can be provided for up to one year after close. The commercial agreement permits us to continue to sell Art products on our websites. If the fulfillment price provided by Circle Graphics is consistent with market prices, the Art products we sell on our websites must be exclusively fulfilled by Circle Graphics, provided that Circle Graphics meets certain pricing criteria. The initial term of the commercial agreement is for a period of three years following the closing date.

The consolidated statements of operations for all periods presented have been recast to reflect the sale of our Art and Groups business assets in the first fiscal quarter of 2015, and the sale of our EZ Prints business assets in the third fiscal quarter of 2015 within discontinued operations. Results of discontinued operations are excluded from Management's Discussion and Analysis of Financial Condition and Results of Operations for all periods presented, unless otherwise noted. See Note 4, Discontinued Operations, in the accompanying Notes to Consolidated Financial Statements.

As previously disclosed, our Board of Directors authorized the review of various strategic alternatives to streamline our
operations, unlock shareholder value and strengthen our balance sheet, and retained Raymond James & Associates as our
exclusive independent financial advisor to assist the Board of Directors in this review. The closed divestitures of our Art and Groups businesses are the successful result of our formal strategic evaluations process, which is now complete. Additionally, we divested our EZ Prints business in September 2015 using internal management resources as this divestiture was not part of the scope of our agreement with Raymond James. There are no additional planned divestitures being considered by management.

Our Business

We are a leading online retailer 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 also operate CafePress branded websites for the markets in the United Kingdom, Canada, and Australia. We also sell CafePress branded products though other online retail partners. 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 facility 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, cost effectively and quickly. We also maintain a network of third-party contract manufacturers to produce customized products on our behalf to satisfy demand for certain product lines or for geographic considerations.

The majority of our net revenues are generated from sales of customized products through our e-commerce websites, associated partner websites or through storefronts hosted by CafePress. In addition, we generate revenues from fulfillment services,

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including print and production services provided to third parties. 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 expenses are our largest operating expense.
Our consumers and content owner customers are increasingly accessing e-commerce sites from their mobile devices. This shift to mobile site access presents challenges for us as we cope with shifting 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 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 revenues in each of the first three quarters of the year are generally substantially lower than our revenues in the fourth quarter of the preceding year, and we expect this to continue for the foreseeable future.
On July 18, 2016, Garett Jackson provided notice of his resignation from his position as Chief Financial Officer effective August 26, 2016, in order to accept a leadership role in another company. Phillip L. Milliner, Jr., 40, has been appointed Chief Financial Officer of the Company, effective August 29, 2016. Mr. Milliner will report to the Company's Chairman and Chief Executive Officer, Fred E. Durham, III. Mr. Jackson will remain with the Company through August to assist and facilitate a smooth transition.
We monitor several key operating metrics from continuing operations including:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Key operating metrics:				
Total number of orders	589,0[illegible]	608,956	1,124,[illegible]	1,2[illegible]5,894
Average order size	$ 34	$ 36	$ 34	$ 36

Total number of orders
Total number of orders represents the number of individual transactions that are shipped during the period. We monitor the total number of orders as a leading indicator of revenue trends. For the three and six month periods ended June 30, 2016, the decrease in orders is primarily the result of a decline in business volumes within our CafePress.com marketplace and in our retail partner channel.
Average order size
Average order size is calculated as billings for a given period based on shipment date divided by the total number of associated orders in the same period. Due to timing of meeting revenue recognition criteria, billings may not be recognized as revenues until the following period. We closely monitor the average order size as it relates to changes in order volume, product pricing and product mix. The year-over-year decrease in average order size is primarily due to changes in our product category mix as we are selling higher volumes from categories such as Drinkware and Hobbies, which typically carry lower average unit prices, and lower volumes from categories such as Home and Wall Art, which typically carry higher average unit prices.

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Basis of presentation

Net revenues

We generate revenues from online transactions through our e-commerce websites and through our partners' websites. We recognize revenues associated with an order when all revenue recognition criteria have been met. Revenues are recorded at the gross amount when we are the primary obligor in a transaction, are subject to inventory and credit risk, have latitude in establishing prices and selecting suppliers, or have most of these indicators. For transactions where we act as principal and record revenues on a gross basis, applicable royalty payments to our content owners are recorded in cost of net revenues.

We have entered into arrangements with certain customers to provide fulfillment services under which we are not the primary obligor. These arrangements constitute a smaller component of our business. We consider ourselves as acting as an agent in such transactions. The net fees received on such transactions are recorded as revenues.

Cost of net revenues

Cost of net revenues includes materials, labor, royalties and fixed overhead costs related to our manufacturing facilities, as well as outbound shipping and handling costs. The cost of materials may vary based on revenues 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 expenses are comprised of fees we pay to our content owners for the use of their content on our products. Such fees vary based primarily on sales channel and volume. Certain sales transactions under our create & buy program do not incur royalties. Royalty-based obligations are expensed to cost of net revenues at the contractual rate for the relevant product sales.

Operating expenses

Operating expenses consist of sales and marketing, technology and development, general and administrative expenses, impairment charges, and restructuring costs.

Sales and marketing

Sales and marketing expenses consist primarily of customer acquisition costs, personnel costs and costs related to customer support, order processing and other marketing activities. Customer acquisition, customer support and order processing expenses are variable and historically have represented the majority of our overall sales and marketing expenses.

Our customer acquisition costs consist of various online media programs, such as paid search engine marketing, email, flash deal promotions through group-buying and social websites, 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 expenses consist of costs incurred for engineering, network operations, and information technology, including personnel expenses, 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 ranging from two to three years. We expect heightened investments in technology and development, which are both capitalized and expensed, to continue for the foreseeable future.

General and administrative

General and administrative expenses consist 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 expenses also include headcount and related costs for operations related to our content usage and fraudulent review personnel.

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Critical accounting policies and estimates

The discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies and estimates are discussed in our Annual Report on Form 10-K filed on March 30, 2016 with the SEC. We update our critical accounting policies and estimates in our periodic reports on Form 10-Q when they are modified or expected to be modified.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed related to a business combination. Goodwill is presumed to have an indefinite life and is not subject to amortization. We conduct a quantitative test for the impairment of goodwill at least annually, as of July 1 of each year, and also whenever events or changes in circumstances indicate that the carrying value of the goodwill may not be fully recoverable. The quantitative impairment test is a two-step process. The first step is a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. If this step indicates impairment, then the loss is measured as the excess of recorded goodwill over its implied fair value, or the excess of the fair value of the reporting unit over the fair value of all identified assets and liabilities.

We determine our reporting units for goodwill impairment testing by identifying those components at, or one level below, our operating segments that (1) constitute a business, (2) have discrete financial information available, and (3) are regularly reviewed by segment management.

As of the date of our annual goodwill impairment tests in 2015, we determined we had one operating segment and one reporting unit, which is consistent with 2014.

In performing our quantitative impairment tests, we determine the fair value of our reporting unit through a combination of the income and market approaches. Under the income approach, we estimate fair value based on a discounted cash flow model using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Under the market approach, we estimate the fair value of our overall business based on our current market capitalization, market comparables, or other objective evidence of fair value.

In the first quarter of 2015, we closed the sale of our Art and Groups businesses and in the second quarter of 2015 classified our EZ Prints business as “Assets Held for Sale” and “Liabilities Held for Sale” in accordance with ASC 205-20-55, Presentation of Financial Statements and ASC 360, Property, Plant, and Equipment. We considered these items to be triggering events, and accordingly, performed goodwill impairment tests as of March 31, 2015 and June 30, 2015. These tests resulted in estimated excess fair value over carrying value of 3% and 6%, respectively. Accordingly, we concluded that step two of the goodwill impairment tests was not required at either of these dates and no impairment was recorded.

In the third quarter of 2015, we performed our annual impairment test as of July 1, 2015 and, subsequently, performed an impairment test as of September 1, 2015 upon the sale of our EZ Prints business, which we considered a triggering event. These tests resulted in estimated excess fair value over carrying value of 6% and 7%, respectively. Accordingly, we concluded that step two of the goodwill impairment tests was not required at either of these dates and no impairment was recorded.

As of March 31, 2016, our market capitalization was approximately $61.8 million compared to our carrying value of $67.5 million, which did not, in management’s view, suggest that the fair value estimates used in our previous impairment assessment required any adjustment as this shortfall is considered to be a temporary event. In addition, since September 1, 2015, the date of our last goodwill impairment analysis, there have been no material changes to our operations or financial forecasts.

In the second quarter of 2016, our common stock price experienced a further, sustained decline resulting in a diminished market capitalization. The common stock fell to a low of $3.10 per share on May 12, 2016 and had an average closing price of $3.21

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from the date following the earnings release through May 31, 2016, the end of our fiscal month. On May 31, 2016, the Company's market capitalization was $55.8 million compared to its carrying value of $66.0 million. Over the same time period, market capitalizations of peer group companies and the overall U.S. stock market recovered. Based upon our declining market capitalization and shortfall from our financial targets, we concluded that a triggering event had occurred and proceeded with an interim goodwill impairment test as of May 31, 2016. In performing the impairment tests, we determined the fair value of our single reporting unit using an average of the income and market approaches. Under the income approach, we estimated fair value based on a discounted cash flow model using a 19% discount rate determined by management to be commensurate with the risk inherent in our current business model. A long term cash flow growth rate of 5% was used to determine the terminal value. Under the market approach, we calculated fair value using a control premium of 20%. The control premium was not applied to our cash and short term investment assets. Based upon our latest financial forecasts, and market capitalization, the step one analysis indicated that an impairment was likely and proceeded with a step two analysis.

With the assistance of a third party valuation firm, we performed step two of the goodwill impairment test which is a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the Company was being acquired in a business combination in a non-taxable transaction as applied in the first step, including any significant increases in the fair value of tangible property and intangible assets. Assessing the fair value of goodwill includes making assumptions about future cash flows, discount rates and asset lives using then best available information. These assumptions are subject to a high degree of complexity and judgment. As part of the step two analysis, significant unrecorded intangible assets were identified, which included developed technology intangibles. Based on our step two analysis, the implied fair value of our recorded goodwill was zero. As a result, we recorded a $20.9 million non-cash goodwill impairment charge in the second quarter of fiscal 2016, which was reflected as Impairment charges in the consolidated statements of operations. The goodwill impairment charge did not adversely affect our cash flow, liquidity or compliance with financial covenants.

We evaluate our finite-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset is impaired or the estimated useful lives are no longer appropriate. Intangible assets resulting from the acquisition of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets received. Our intangible assets have an economic useful life and/or expire after a specified period of time and thus are classified as finite-lived intangible assets on our balance sheets. Amortization of finite-lived intangible assets is computed using the straight-line method over the estimated economic life of the assets which range from three years to eight years. If indicators of impairment exist and the undiscounted projected cash flows associated with such assets are less than the carrying amount of the asset, an impairment loss is recorded to write the asset down to its estimated fair value. Fair value is estimated based on discounted future cash flows. Factors that could result in an impairment review include, but are not limited to, significant underperformance relative to projected future operating results, significant negative industry or economic trends and changes in the planned use of assets.

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Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenues	100 %	100 %	100 %	100 %
Cost of net revenues	59	59	59	61
Gross profit	41	41	41	39
Operating expenses:				
Sales and marketing	22	19	24	21
Technology and development	17	13	17	13
General and administrative	15	15	15	14
Impairment charges	105	—	55	—
Restructuring	—	2	—	1
Total operating expenses	159	49	111	50
Loss from operations	(118)	(8)	(69)	(11)
Interest income	—	—	—	—
Interest expense	—	—	—	—
Other (expense) income	—	—	—	—
Loss before income taxes	(118)	(8)	(70)	(11)
Benefit from income taxes	(2)	(3)	(1)	(3)
Net loss from continuing operations	(116)%	(5)%	(68)%	(8)%
Effective tax rate	1.7 %	40.1 %	1.5 %	29.3 %

Comparison of the Three Months Ended June 30, 2016 and 2015

The following table presents our statements of operations for the periods indicated (in thousands, except for percentages):

	Three Months Ended June 30,			
	2016	2015	$ Change	% Change
Net revenues	$19,841	$21,764	$(1,923)	(9)%
Cost of net revenues	11,622	12,876	(1,254)	(10)
Gross profit	8,219	8,888	(669)	(8)
Operating expenses:				
Sales and marketing	4,320	4,195	125	3
Technology and development	3,316	2,792	524	19
General and administrative	3,036	3,194	(158)	(5)
Impairment charges	20,899	—	20,899	NM
Restructuring	—	526	(526)	(100)
Total operating expenses	31,571	10,707	20,864	195
Loss from operations	(23,352)	(1,819)	(21,533)	NM
Interest income	41	17	24	141
Interest expense	(12)	(13)	1	(8)
Other (expense) income, net	(58)	23	(81)	(352)
Loss before income taxes	(23,381)	(1,792)	(21,589)	NM
Benefit from income taxes	(402)	(718)	316	(44)
Net loss from continuing operations	$(22,979)	$(1,074)	$(21,905)	NM

NM = Not meaningful

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Net revenues

Net revenues decreased $1.9 million, or 9%, for the three months ended June 30, 2016 compared to the same period in 2015. The decrease in revenue resulted from lower order volumes across both our CafePress.com domains and our retail partner channel. The decline in revenue has largely moderated as compared to previous quarters as the company has achieved increased stability with changes to our marketing focus and increased contribution margin levels. Within CafePress.com, lower revenue from our create and buy and shops platforms were the most significant contributors to the overall decline. Within our retail partner channel, lower revenue from our corporate shops platform was the most significant contributor to the overall decline. Our net revenues have historically varied from period to period and we expect this trend to continue.

Cost of net revenues

Cost of net revenues decreased $1.3 million, or 10%, for the three months ended June 30, 2016 compared to the same period in 2015. Cost of net revenues was 59%, as a percentage of net revenues, for the three months ended June 30, 2016 and the same period in 2015. Within cost of net revenues, the variable components of materials and commissions collectively decreased as a percentage of net revenues by approximately 2.9 percentage points. This was partially offset by an increase in the cost of order shipping of approximately 2.3 percentage points. The resulting improvement of approximately 0.6 percentage points in gross profit margin is driven by increased stability in our pricing and promotional strategy and continued improvements in the optimization of our manufacturing processes.

Sales and marketing

Sales and marketing expenses increased $0.1 million, or 3%, for the three months ended June 30, 2016 compared to the same period in 2015. Sales and marketing expenses were 22% of net revenues for the three months ended June 30, 2016 compared to 19% for the same period in 2015. The increase in absolute dollars in sales and marketing expenses consists of a $0.1 million increase in fixed costs while variable costs remained flat. Within fixed costs, the increase is primarily driven by expenses associated with our new customer marketing database. Personnel costs also increased moderately and were offset by reductions in other discretionary expenses. Within variable costs we were able to maintain efficiency with our advertising spend and achieve return on investment levels similar to last year.

Technology and development

Technology and development expenses increased $0.5 million for the three months ended June 30, 2016 as compared to the same period in 2015. Technology and development expenses were 17% of net revenues in the three months ended June 30, 2016 compared to 13% in the same period in 2015. Within technology and development expenses, personnel-related costs increased by $0.5 million as we have increased headcount to support strategic investments in our technology platforms. Additionally our hosting, data, and software license costs increased by $0.3 million. Partially offsetting these increases was a $0.3 million decrease in depreciation expense.

General and administrative

General and administrative expenses decreased $0.2 million, or 5%, for the three months ended June 30, 2016 compared to the same period in 2015. General and administrative expenses were 15% of net revenues in the three months ended June 30, 2016 and in the same period in 2015. The decrease in absolute dollars was primarily due to reductions in professional services fees of $0.2 million, namely lower legal and external audit expenses. Additionally, facilities costs declined by $0.1 million, primarily due to a reduction in rent expense from the relocation of the company's California office. These decreases were partially offset by a $0.1 million increase in stock-based compensation expense.

Impairment charges

Impairment charges were $20.9 million for the three months ended June 30, 2016. This expense consists of a non-cash charge related to the impairment of Goodwill. There were no impairment charges in 2015. See "Critical accounting policies and estimates".

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Restructuring costs

There were no restructuring charges in in the three months ended June 30, 2016. Restructuring costs were $0.5 million for the three months ended June 30, 2015. This expense consisted of charges related to the downsizing of our San Mateo, California operations, including a $0.3 million charge for the early termination of its lease for office space and a $0.2 million charge for severance payments to employees.

Benefit from income taxes

We recorded a $0.4 million and $0.7 million benefit from income taxes for the three months ended June 30, 2016 and 2015, respectively. Our effective tax rate was 1.7% and 40.1% for the three months ended June 30, 2016 and 2015, respectively. For the three months ended June 30, 2016, the effective tax rate was different than the statutory tax rate primarily due to the net loss generated while maintaining a valuation allowance against substantially all of our deferred tax assets and the tax impact of the goodwill impairment. We intend to maintain the valuation allowance until sufficient positive evidence exists to support reversal. For the three months ended June 30, 2015, a benefit from the utilization of the deferred tax assets, resulting from income in discontinued operations, was recognized as part of the annual estimated tax rate applied to the year-to-date income (loss) from continuing operations. The related income tax expense was recorded in discontinued operations. This benefit was reversed in the third quarter of 2015.

Our income tax rate may fluctuate from quarter to quarter as a result of factors such as changes in tax law, change in the valuation allowance, and the impact of discrete items.

Comparison of the Six Months Ended June 30, 2016 and 2015

The following table presents our statements of operations for the periods indicated (in thousands, except for percentages):

	Six Months Ended June 30,			
	2016	2015	$ Change	% Change
Net revenues	$37,919	$45,340	$(7,421)	(16)%
Cost of net revenues	22,265	27,750	(5,485)	(20)
Gross profit	15,654	17,590	(1,936)	(11)
Operating expenses:				
Sales and marketing	8,932	9,611	(679)	(7)
Technology and development	6,500	5,989	511	9
General and administrative	5,672	6,341	(669)	(11)
Impairment charges	20,899	—	20,899	NM
Restructuring costs	—	526	(526)	(100)
Total operating expenses	42,003	22,467	19,536	87
Loss from operations	(26,349)	(4,877)	(21,472)	440
Interest income	74	22	52	236
Interest expense	(26)	(27)	1	(4)
Other (expense) income, net	(63)	65	(128)	(197)
Loss before income taxes from continuing operations	(26,364)	(4,817)	(21,547)	447
Provision (benefit) for income taxes	(404)	(1,413)	1,009	(71)
Net loss from continuing operations	$(25,960)	$(3,404)	$(22,556)	663 %

NM = Not meaningful

Net revenues

Net revenues decreased $7.4 million, or 16% in the six months ended June 30, 2016 compared to the same period in 2015. The change in revenue resulted from lower order volumes across both our CafePress.com domains and our retail partner channel. The decline in revenue from CafePress.com is primarily attributable to changes to our pricing and promotional strategy and a

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reduction in our variable advertising expenses designed to increase contribution margin levels. Within CafePress.com, lower revenue from our Marketplace was the most significant contributor to the overall decline. Within our retail partner channel, lower revenue from our feed partnerships was the most significant contributor to the overall decline. Our net revenues have historically varied from period to period and we expect this trend to continue.

Cost of net revenues

Cost of net revenues decreased $5.5 million, or 20% in the six months ended June 30, 2016 compared to the same period in 2015. As a percentage of net revenues, cost of net revenues was 59% in the six months ended June 30, 2016 and 61% in the same period in 2015. Within cost of net revenues, materials and commission expense decreased by approximately 4.0 percentage points while shipping, labor, and plant overhead costs increased by approximately 2.0 percentage points. Changes to our pricing and promotional strategy and improvements in the optimization of our manufacturing processes have yielded improvements in gross profit margin.

Sales and marketing

Sales and marketing expenses decreased $0.7 million, or 7%, in the six months ended June 30, 2016 compared to the same period in 2015. Sales and marketing expenses were 24% of net revenues in the six months ended June 30, 2016 compared to 21% in the same period in 2015. The decrease in absolute dollars in sales and marketing expenses consists of a $0.9 million decline in variable expenses, partially offset by a $0.2 million increase in fixed expenses. The decline in variable expenses was primarily due to reductions in keyword and online advertising expenses in the first quarter of the year as we changed the focus of our advertising programs to achieve higher levels of return on investment. To a lesser extent, variable expenses also declined due to lower customer service costs, and a decrease in credit card processing fees. The increase in fixed costs is due primarily to expenses associated with our new customer marketing database and higher personnel-related costs.

Technology and development

Technology and development expenses increased $0.5 million, or 9%, in the six months ended June 30, 2016 compared to the same period in 2015. Technology and development expenses were 17% of net revenues in the six months ended June 30, 2016 compared to 13% in the same period in 2015. The increase in absolute dollars is primarily to support the company's strategic investments in its technology platforms, including a $0.8 million increase in personnel-related costs and a $0.3 million increase in our co-location facility hosting and data costs, partially offset by a $0.6 million decrease in depreciation expense.

General and administrative

General and administrative expenses decreased $0.7 million, or 11%, in the six months ended June 30, 2016 compared to the same period in 2015. General and administrative expenses were 15% of net revenues in the six months ended June 30, 2016 compared to 14% in the same period of 2015. The decrease in absolute dollars was primarily due to a $0.4 million decline in personnel-related costs, a $0.3 million reduction in professional services fees, and $0.2 million reduction in facilities costs. Partially offsetting these reductions was a $0.2 million increase in other operating expenses, primarily insurance costs.

Impairment charges

Impairment charges were $20.9 million for the six months ended June 30, 2016. This expense consists of a non-cash charge related to the impairment of Goodwill. There were no impairment charges in 2015. See "Critical accounting policies and estimates".

Restructuring costs

There were no restructuring charges in the six months ended June 30, 2016. Restructuring costs were $0.5 million for the six months ended June 30, 2015. This expense consisted of charges related to the downsizing of our San Mateo, California operations, including a $0.3 million charge for the early termination of its lease for office space and a $0.2 million charge for severance payments to employees.

Provision (benefit) for income taxes

We recorded a $0.4 million and a $1.4 million benefit for income taxes for the six months ended June 30, 2016 and 2015, respectively. Our effective tax rate was 1.5% and 29.3% for the six months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016, the effective tax rate was different than our statutory rate primarily due to the net loss from

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continuing operations while maintaining a valuation allowance against substantially all of our deferred tax assets and the tax impact of the goodwill impairment. For the six months ended June 30, 2015, a benefit from the utilization of the deferred tax assets, resulting from income in discontinued operations, was recognized as part of the annual estimated tax rate applied to the year-to-date income (loss) from continuing operations. The related income tax expense was recorded in discontinued operations. This benefit was reversed in the third quarter of 2015.

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 revenues in the first three quarters of each year are generally substantially lower than our revenues in the fourth quarter of the preceding year, and we expect this to continue for the foreseeable future.

Liquidity and Capital Resources

As of June 30, 2016, we had cash, cash equivalents, and short-term investments totaling $38.4 million. In the first quarter of 2015, we completed the asset sales of our Art and Groups businesses for a total of $37.7 million, net of expenses. $3.4 million of which was placed in escrow. In June 2016 we received the full amount of the escrow.

We currently have a loan and security agreement which provides for a revolving credit facility of $6.5 million to fund acquisitions, share repurchases and other general corporate needs through June 2017 and the loan bears interest at either the London Inter Bank Offer Rate +1.75% or the bank’s prime rate +.75%.

Excluding a $1.5 million letter of credit outstanding in connection with our Louisville, Kentucky facility lease, there were no draws against the facility as of June 30, 2016 and $5.0 million remained available. This credit agreement requires us to comply with various financial covenants, including the maintenance of a 1.5 to 1 liquidity to debt ratio, all of which we were in compliance with at June 30, 2016, and is secured through all of our assets. With our current cash levels and forecasts, we expect to continue to meet this covenant. 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. The Board's approval extends the program indefinitely, however, the Board reserves the right to terminate the program at any time. As of June 30, 2016, we have used $4.7 million of cash to repurchase 1,077,816 shares of our common stock. The stock repurchase program may be modified, extended or terminated by our Board of Directors at any time and there is no guarantee as to the exact number of shares that will be repurchased under the program. The stock repurchase program is expected to be funded by available working capital.

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, acquisitions or stock repurchases. We anticipate that our current cash and cash equivalent balances and cash generated from operations, and cash available from our credit line will be sufficient to meet our strategic and working capital requirements for at least the next twelve months.

The following table summarizes our cash flows for the six months ended June 30, 2016 and 2015 (in thousands):

	Six Months Ended June 30,

	2016	2015
Net cash used in operating activities	$(11,116)	$(15,063)
Net cash (used in) provided by investing activities	$(5,445)	$18,086
Net cash used in financing activities	$(772)	$(2,120)

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 revenues are generated from credit card transactions and credit card accounts receivable and are typically settled within 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 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.
In the six months ended June 30, 2016, net cash used in operations was $11.1 million, primarily due to a $2.5 million net loss after adjusting for non-cash items, primarily the goodwill impairment charge, depreciation and stock based compensation, and an $8.6 million change in working capital items. Working capital decreased primarily due to the seasonal decrease in accounts payable, accrued liabilities, and royalties payable that we experience in the first quarter of the calendar year when we settle our payables related to higher levels of revenue and variable expenses in the preceding fourth quarter. As a result of the sale of the EZ Prints business and a change in terms with one of our partners, there were no partner commissions payable in the first six months of 2016, compared to a $2.0 million net use of cash in the first six months of 2015.
In the six months ended June 30, 2015, net cash used in operations was $15.1 million, primarily due to a $14.7 million change in working capital items. Working capital decreased primarily due to the seasonal decrease in accounts payable, partner commissions payable and accrued royalties payable that we experience in the first half of the calendar year when we settle our payables related to higher levels of revenue and variable expenses in the preceding fourth quarter.
Cash flows from investing activities
In the six months ended June 30, 2016, net cash used in investing activities was $5.4 million, consisting primarily of $5.5 million in net purchases of short-term investments and $3.4 million in capital expenditures, offset by the release of the entire amount remaining in escrow, $3.4 million, related to the divestitures of our Art and Groups businesses in 2015.
In the six months ended June 30, 2015, net cash provided by investing activities was $18.1 million, consisting primarily of the proceeds from the sale of the Art and Groups businesses of $37.7 million, of which $3.4 million was placed in escrow and classified as restricted cash. This was partially offset by $1.7 million in capital expenditures and purchase of short term investments of $14.4 million.
Cash flows from financing activities
In the six months ended June 30, 2016, net cash used in financing activities was $0.8 million, due to $0.5 million in repurchases of common stock and $0.3 million in payments on capital lease obligations.
In the six months ended June 30, 2015, net cash used in financing activities was $2.1 million, primarily due to $2.3 million in repurchases of common stock and $0.2 million in payments on capital lease obligations, partially offset by the proceeds received from the exercise of stock options of $0.4 million.

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.
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, amortization of intangible assets, acquisition-related costs, stock-based compensation 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

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differences or discrete quarterly items), the impact of depreciation and amortization, amortization of intangible assets, restructuring costs, stock-based compensation 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 shows the trend of Adjusted EBITDA as a percentage of net revenue, for each of the periods indicated (in thousands, except for percentages):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net Revenues	$19,841	$21,764	$37,919	$45,340
Non-GAAP Adjusted EBITDA	$(953)	$723	$(2,564)	$(240)
% of net revenues	(4.8)%	3.3%	(6.8)%	(0.5)%

The following table presents a reconciliation of Adjusted EBITDA to net loss from continuing operations, the most comparable GAAP measure, for each of the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss from continuing operations	$(22,979)	$(1,074)	$(25,960)	$(3,404)
Non-GAAP adjustments:				
Interest and other (income) expense	29	(27)	15	(60)
Benefit from income taxes	(402)	(718)	(404)	(1,413)
Depreciation and amortization	1,032	1,593	2,140	3,259
Stock-based compensation	468	423	746	852
Impairment charges	20,899	—	20,899	—
Restructuring costs	—	526	—	526
Adjusted EBITDA	$(953)	$723	$(2,564)	$(240)

Contribution Margin

Contribution margin (a non-GAAP financial measure which we reconcile to “Gross profit” in our consolidated statements of operations) consists of gross profit plus stock-based compensation included in cost of net revenues less variable sales and marketing expenses and reflects an additional way of viewing our results. When viewed together with our GAAP results, we believe 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 expenses. 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 contribution margin is that it is an incomplete measure of profitability as it does not include all operating expenses or non-operating income and expenses. Management compensates for these limitations when using this measure by looking at other GAAP measures, such as operating income and net income.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
Net revenues	$19,841	100 %	$21,764	100 %	$37,919	100 %	$45,340	100 %
Cost of net revenues	11,622	59	12,876	59	22,265	59	27,750	61
Gross profit	8,219	41	8,888	41	15,654	41	17,590	39
Non-GAAP adjustments:								
Add: Stock-based compensation	12	—	42	—	36	—	82	—
Less: Variable sales and marketing costs	(2,506)	(13)	(2,521)	(12)	(5,086)	(13)	(5,995)	(13)
Contribution margin (from continuing operations)	$5,725	29 %	$6,409	29 %	$10,604	28 %	$11,677	26 %

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. Therefore, we are not currently exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

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ITEM 3. 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 $38.4 million and $50.3 million as of June 30, 2016 and December 31, 2015, respectively. These amounts were held primarily in cash deposits, money market funds 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.

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.

ITEM 4. 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 principal executive officer and 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.

Evaluation of Disclosure Controls and Procedures

As of June 30, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer) have concluded that, as of June 30, 2016, our disclosure controls and procedures were effective at the reasonable assurance level.

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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We may be subject to lawsuits, claims and proceedings incident to the ordinary course of business, particularly with respect to content that appears on our website. Any claims against us, whether material, meritorious or not, could be time consuming, result in costly litigation, require significant amounts of legal resources, management time and result in the diversion of significant operational resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. We are not currently a party to any other litigation matters that, individually or in the aggregate, are expected to have a material adverse effect on our business, financial condition or results of operations.

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 and have a material adverse effect on our business, our financial condition and results of operations could be seriously harmed.

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 revenues 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 revenues, 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 revenues or operating performance. In particular, due to the seasonality of our business, our revenues in the first three quarters of each year are generally substantially lower than our revenues 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, our ability to be profitable depends in the foreseeable future on our ability to control our costs and operating expenses. 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 revenues at the rate we anticipate or if our costs and operating expenses increase without a commensurate increase in our revenues, our business, financial condition and results of operations will be negatively affected.

A future downturn in our business, slow or no growth of new business opportunities may result in an impairment of long-lived assets, which could adversely affect our results of operations.

We evaluate our finite-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset is impaired or the estimated useful lives are no longer appropriate. The impairment of a long-lived asset is only deemed to have occurred if the sum of the forecasted undiscounted future cash flows related to the asset is less than the carrying value of the asset we are testing for impairment.

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 our marketplace 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 marketplace revenue. 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 revenues 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 our Management’s Discussion & Analysis, 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 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

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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 revenues 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, it would negatively impact our revenues and could adversely affect our gross margins and overall profitability.

We generate a portion of our revenues 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, Threadless.com, or Zazzle Inc. and online providers of distinctive goods like Etsy, Inc. or Uncommon Goods;
- online providers allowing users to customize goods in specific vertical markets, such as Vistaprint N.V. for small businesses and Shutterfly, Inc., or SmugMug, Inc., for photographic products, or Minted, Inc., Smilebox Inc. or Blurb, Inc. for specific stationery and book products, and Art.com for wall art products;
- physical and catalog retailers of personalized merchandise such as American Stationery, 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.

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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 websites, or marketplace, 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.

In developing our strategic distribution model, we have relied heavily on the reputation and brand awareness of the company's historic operations. In relying on such distribution partners to fuel revenue growth, we are in turn relying on the continued impact of our brand with such retail and corporate partners.

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 of 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. 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. In addition, we engage in flash promotions through websites, such as Amazon Local and LivingSocial. Such promotions involve significantly discounted product offers to customers with the goal of driving traffic to our websites for customer acquisitions and repeat purchases. Due to the low profit margin associated with the deep discounts offered to purchasers of such offers and the widespread availability of similar group buy offers by other e-commerce competitors, the flash promotions we choose to implement may not accomplish our long-term goal of customer acquisition in a cost-effective manner.

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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 and expect to continue to terminate 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. To date, we have largely been able to obtain those licenses without paying significant advance royalty payments but there is no guarantee that these licensors will renew their license agreements on the same or reasonable terms. 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 it. 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 materially be 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.

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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 expand, 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. We may incur significant costs in trying to expand our offerings into these new areas or fail to successfully execute the roll-out of these new offerings. 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 our recent divestitures or of any prior or future divestitures or acquisitions, which in turn could materially and adversely affect our business, financial condition and prospects.

We completed the divestitures of our Arts and Groups businesses in March 2015 and our EZ Prints business in September 2015 as part of our previously announced review of strategic alternatives. We may not fully realize the anticipated benefits, if any, of these divestitures, such as streamlining our business and enabling us to focus more resources on strengthening our core business.

In addition, we have previously engaged in acquisition opportunities, including businesses of which we have subsequently divested ourselves as discussed above. 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, they 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 revenues 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 revenues are 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 revenues 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 revenues depend 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. A significant portion of 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 principal 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.

We also maintain offices and operations in Northern California, an area where the risk of an earthquake is significant due to the proximity of major earthquake fault lines. Any catastrophic loss to any of these facilities would likely disrupt our operations, delay production, shipments and revenues 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, particularly from interruption due to an earthquake, 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 in our marketplaces could be delayed or disrupted by factors beyond our control and we could lose buyers and sellers as a result.

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 revenues are 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 revenues or cause us to incur significant expenses to repair or replace the facility or to purchase critical inventory for creation of our products.

If we become subject to liability for content that we print and distribute through our service, our results of operations would be adversely affected.

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.

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

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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 revenues are derived from credit card sales. This 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 revenues have 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,

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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 June 30, 2016, 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

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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 revenues 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 are 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 subject to, and will soon be subject to additional regulatory compliance requirements, including Section 404 of the Sarbanes-Oxley Act of 2002, and our management has limited experience managing a public company.

We have limited experience as a public company and will incur significant legal, accounting and other expenses, particularly after we cease to be an “emerging growth company” that we did not incur as a private company. The individuals who constitute our management team have limited experience managing a publicly traded company, and limited experience complying with the increasingly complex and changing laws pertaining to public companies. Our management team and other personnel will need to devote a substantial amount of time to compliance initiatives and we may not successfully or efficiently manage our transition into a public 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 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.

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We have previously disclosed a material weakness in our internal control over financial reporting which management believes has been fully remediated. Should we have inadequately remediated this material weakness or should we otherwise fail to maintain effective internal control over financial reporting and disclosure controls and processes, our ability to report our financial condition and results of operations accurately and on a timely basis could be adversely affected.

In connection with the preparation of our consolidated financial statements for the year 2014, we identified a material weakness in our internal control over financial reporting, as defined in the standards established by the Public Company Accounting Oversight Board of the U.S.A. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The identified material weakness related to improper reconciliation procedures that did not identify the incorrect processing of certain accounts payable, prepaid inventory and receiving procedures mostly related to additional charges on international orders, such as freight and import duty, which led to the balances in certain liability accounts being understated, certain asset accounts being overstated, and costs of goods sold expenses being understated in prior years. Our independent registered public accounting firm did not and was not required to perform an evaluation of our internal control over financial reporting as of and for the years ended December 31, 2013 and 2014 in accordance with the provisions of the JOBS Act.

We believe that as of December 31, 2014 the balances are properly stated. After detecting the material weakness, additional close procedures were performed, including a full review of the vendors associated with the misstatement, (which are an isolated subset of the total population relating to international vendors) and an updated reconciliation process. Management has specifically tested the revised processes and key controls over accounts payable for all four quarters of 2015 and concludes those processes are effectively operating as of December 31, 2015, therefore, management has concluded the previously reported material weakness has been remediated. However, we cannot be certain that other material weaknesses and control deficiencies will not be discovered in the future. If other material weaknesses or control deficiencies occur in the future, we may be unable to report our financial results accurately or on a timely basis, which could cause our reported financial results to be materially misstated and result in the loss of investor confidence or delisting and cause the trading price of our common stock to decline. As a result of such failures, we could also become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, and become subject to litigation from investors and stockholders, which could harm our reputation, financial condition or divert financial and management resources from our core business.

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. As discussed above, we had identified a material weakness in our internal controls over financial reporting for the years ended December 31, 2013 and December 31, 2014, which was remediated as of December 31, 2015. 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.

Since we are an "emerging growth company," as defined by the JOBS Act and for as long as we maintain such status, we are not required at this time to include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Such report will be required with the filing of our 2017 Annual Report on

Form 10-K. 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.

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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 revenues 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 revenues 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;

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- currency translation and transaction risk, which may negatively affect our revenues, cost of net revenues 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.

We have ceased providing translated sites in Germany, Spain, France, Ireland and New Zealand as part of our efforts to better focus on growing our business in our core international regions including the UK, Canada and Australia. 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 revenues are 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.

If we do not properly account for our unredeemed gift certificates, gift cards, merchandise credits and flash deal promotions through group-buying websites, our operating results will be harmed.

We account for unredeemed gift cards, gift certificates, and flash deal promotions through group-buying websites and merchandise credits based on historical redemption data. In the event that our historical redemption patterns change in the future, our estimates for redemption would change, which would affect our financial position or operating results. Further, in the event that a state or states were to require that the unredeemed amounts be escheated to such state or states, our business and operating results would be harmed. As mentioned above, we also participate in flash deal promotions through group-buying websites such as Amazon Local. Due to the emerging development of this business model, the terms and conditions of these programs continue to evolve and the taxation, legal and other potential regulatory implications of these sales activities have yet to be fully settled. Based on the terms of the agreements that we have entered into to date, and based on management’s judgment in the evaluation of the criteria in the authoritative accounting guidance, we have concluded that we are the primary obligor in these transactions and have recorded revenues on a gross basis and the fees retained by the group-buying website as sales and marketing expense. We will continue to evaluate changes in the terms and conditions of these programs, or changes in accounting guidance in determining our accounting for these programs. There can be no guarantee that the legal, accounting and customer service approaches we have taken to these programs will be deemed appropriate in the future. Changes in the terms and conditions of these programs or our evaluation of our performance obligations and associated tax, escheatment and other obligations associated with these programs could have a material adverse effect on our business, operating results or financial position or otherwise harm our business.

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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 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. In recent years, numerous bills have been introduced in the U.S. Congress, including the Marketplace Equity Act and the Marketplace Fairness Act, reintroduced in 2013, which covered similar subject matters. That bill passed the U.S. Senate in May 2013, then stalled in the House and committee and no further action was taken by the 113th Congress. In March of 2015, the Marketplace Fairness Act of 2015 (a slightly modified version of the 2013 Act) was again introduced in the Senate. That Bill was referred to the Committee on Finance and no further Action has been taken by the 114th Congress. On June 15, 2015 an analogous bill - The Remote Transactions Parity Act of 2015 - was introduced in the House of Representatives. In July 2015, the House Bill was referred to the House Subcommittee on Regulatory Reform, Commercial and Antitrust Law and no further action has yet been taken. We expect similar bills to continue to be introduced in the future covering similar subject matters. 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 from 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.

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 revenues 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;

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- 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 or large amounts of our stock, including by institutional or other investors;
- commencement of, 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 June 30, 2016, our stock price has fluctuated from a high of $22.69 on March 29, 2012 to a low of $1.95 on December 15 and 16, 2014. As of June 30, 2016 and December 31, 2015, our stock price closed at $3.10 and $3.84, 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, the Company's Board of Directors approved the extension of its 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. The Board's approval extends the program indefinitely, however, the Board reserves the right to terminate the program at any time. Through June 30, 2016, we have repurchased 1,077,816 shares, and 2,422,184 shares remained available for purchase under the extended program. As a result, 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 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.

We are an “emerging growth company,” and we intend to comply with reduced public company reporting requirements applicable to emerging growth companies, which could make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act and, for as long as we continue to be an “emerging growth company,” we may choose to take advantage of exemptions from various reporting requirements afforded to such companies, including, but not limited to, exemptions from compliance with the auditor attestation requirements of Section 404 of the Sarbanes- Oxley Act of 2002, or the Sarbanes Oxley Act, exemptions from certain of the disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal controls over financial reporting until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an “emerging growth company." At such time, our independent registered accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or are operating.

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We cannot predict if investors will find our common stock less attractive because we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.
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.

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Repurchases of our common stock or other investments we may make may not prove to be the best use of our cash resources.

We have and plan to continue to opportunistically repurchase shares of our common stock. Since the inception of our stock repurchase program in 2015, we have repurchased an aggregate of 1,077,816 shares for a total of $4.7 million. We are authorized to repurchase up to 3.5 million shares of common stock under the repurchase program.

These repurchases and any repurchases we may make in the future may not prove to be at optimal prices and our use of cash for the stock repurchase program may not prove to be the best use of our cash resources and may adversely impact our future liquidity.

In addition, we have used in the past, and may use in the future, our cash and cash equivalents to make investments in certain businesses and ventures as our management thinks appropriate. These investments may decline in value after they are made or we may entirely lose the cash associated with the investment.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In May 2015, the Company’s Board of Directors approved a stock repurchase program of up to 20% of the outstanding shares of its common stock or an aggregate of 3.5 million shares of the Company’s common stock, whichever is less, over a period of one year. In April 2016, the Company's Board of Directors approved an extension of this program. The Board's approval extends the term of the program indefinitely, however, the Board reserves the right to terminate the program at any time. Any stock repurchases may be made through open market and privately negotiated transactions, or as otherwise may be determined by management, at times and in such amounts as management deems appropriate. The Company’s share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. Share repurchase activity during the three months ended June 30, 2016 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)
April 1 - 30, 2016	21,089	$ 3.84	21,089	$ 11,319
May 1 - 31, 2016	1,387	$ 3.72	1,387	$ 11,314
June 1 - 30, 2016	75,818	$ 3.11	75,818	$ 11,078
Total	98,294	$ 3.28	98,294	

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ITEM 6. EXHIBITS

(A) Exhibits:

Exhibit number	Description
3(i)(1)	Amended and Restated Certificate of Incorporation of the Company.
3(ii)(2)	Amended and Restated Bylaws of the Company.
10.1A(3)	Form of EEIP Restricted Stock Unit Agreement
10.1B(3)	Form of EEIP Performance Based Stock Option Agreement
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.1(4)	Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
32.2(4)	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101.INS	XBRL Instance Document.
101.SCH	XBRL Schema Document.
101.CAL	XBRL Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Definition Linkbase Document.
101.LAB	XBRL Label Linkbase Document.
101.PRE	XBRL Presentation Linkbase Document.

(1) Previously filed as Exhibit 3(i) to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-35468), filed with the Securities and Exchange Commission on May 15, 2012, and incorporated by reference herein.

(2) Previously filed as Exhibit 3(ii) to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-35468), filed with the Securities and Exchange Commission on May 15, 2012, and incorporated by reference herein.

(3) Previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K (File No. 001-35468), filed with the Securities and Exchange Commission on April 26, 2016, and incorporated by reference herein.

(4) 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 registrant specifically incorporates it by reference.

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 4, 2016 CAFEPRESS INC.

By: /s/ Fred E. Durham III
Fred E. Durham III

Chief Executive Officer
(Duly Authorized Officer, Principal Executive Officer) and Director

By: /s/ Garett Jackson
Garett Jackson

Chief Financial Officer
(Duly Authorized Officer, Principal Financial and Accounting Officer)

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