UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number 001-35468

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) 995-2229

(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 ☒ 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 ☒ No ☐

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

Large accelerated filer	☐		Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☒
			Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares outstanding of the registrant's common stock as of July 24, 2018 was 17,108,655 shares.

CAFEPRESS INC.

TABLE OF CONTENTS

Table of Contents

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, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,766	$ 24,924
Short-term investments	7,413	6,007
Accounts receivable	746	1,496
Inventory, net	2,180	3,128
Deferred costs	410	781
Prepaid expenses and other current assets	2,694	2,412
Total current assets	27,209	38,748
Property and equipment, net	9,052	10,679
Restricted cash	1,513	1,513
Other assets	136	232
TOTAL ASSETS	$ 37,910	$ 51,172
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,013	$ 2,351
Accrued royalties payable	1,464	2,872
Accrued liabilities	3,003	8,693
Deferred revenue	573	1,020
Total current liabilities	6,053	14,936
Other long-term liabilities	272	305
TOTAL LIABILITIES	6,325	15,241
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $0.0001 par value: 10,000 shares authorized as of June 30, 2018 and December 31, 2017; none issued and outstanding	—	—
Common stock, $0.0001 par value — 500,000 shares authorized and 17,104 and 16,932 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	2	2
Additional paid-in capital	102,394	101,697
Accumulated other comprehensive loss	(9)	(4)
Accumulated deficit	(70,802)	(65,764)
TOTAL STOCKHOLDERS' EQUITY	31,585	35,931
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 37,910	$ 51,172

See the accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenue	$ 14,389	$ 17,853	$ 28,939	$ 36,142
Cost of net revenue	7,907	10,864	17,088	22,192
Gross profit	6,482	6,989	11,851	13,950
Operating expense:				
Sales and marketing	3,626	4,785	7,206	9,195
Technology and development	2,331	3,084	4,809	6,060
General and administrative	1,976	2,336	4,378	5,293
Restructuring costs	32	—	637	—
Total operating expense	7,965	10,205	17,030	20,548
Loss from operations	(1,483)	(3,216)	(5,179)	(6,598)
Interest income	85	37	132	79
Interest expense	—	(4)	—	(10)
Other (expense) income, net	(37)	29	9	3
Loss before income taxes	(1,435)	(3,154)	(5,038)	(6,526)
Provision for income taxes	—	—	—	1
Net loss	$ (1,435)	$ (3,154)	$ (5,038)	$ (6,527)
Net loss per share of common stock:				
Basic	$ (0.08)	$ (0.19)	$ (0.30)	$ (0.39)
Diluted	$ (0.08)	$ (0.19)	$ (0.30)	$ (0.39)
Shares used in computing net loss per share of common stock:				
Basic	17,042	16,739	16,994	16,689
Diluted	17,042	16,739	16,994	16,689
Other comprehensive loss:				
Unrealized holding losses on available-for-sale securities, net of tax	(10)	—	(5)	—
Other comprehensive loss	(10)	—	(5)	—
Comprehensive loss	$ (1,445)	$ (3,154)	$ (5,043)	$ (6,527)

See the accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash Flows from Operating Activities:		
Net loss	$ (5,038)	$ (6,527)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,312	2,269
Loss on disposal of fixed assets	86	11
Stock-based compensation	697	879
Bond (accretion) amortization	(20)	—
Changes in operating assets and liabilities:		
Accounts receivable	750	760
Inventory	948	827
Prepaid expenses and other current assets	89	191
Other assets	96	43
Accounts payable	(1,338)	(634)
Accrued royalties payables	(1,408)	(1,831)
Accrued and other liabilities	(5,723)	(6,851)
Deferred revenue	(447)	(89)
Net cash used in operating activities	(8,996)	(10,952)
Cash Flows from Investing Activities:		
Purchase of short-term investments	(5,504)	(1,984)
Proceeds from maturities of short-term investments	4,113	10,168
Purchase of property and equipment	(83)	(896)
Capitalization of software and website development costs	(973)	(1,222)
Proceeds from disposal of fixed assets	285	3
Net cash (used in) provided by investing activities	(2,162)	6,069
Cash Flows from Financing Activities:		
Principal payments on capital lease obligations	—	(297)
Proceeds from exercise of common stock options	—	6
Repurchases of common stock	—	(58)
Net cash used in financing activities	—	(349)
Net decrease in cash, cash equivalents and restricted cash	(11,158)	(5,232)
Cash, cash equivalents and restricted cash — beginning of period	26,437	19,980
Cash, cash equivalents and restricted cash— end of period	$ 15,279	$ 14,748
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 93	$ 30
Income taxes paid during the period	4	1

See the accompanying notes to the condensed consolidated financial statements.

CAFEPRESS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business and Summary of Significant Accounting Policies

Business

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

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

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

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

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

Our consumers and content owner customers are increasingly accessing e-commerce sites from their mobile devices. This shift to mobile 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 seasonality, our revenue in each of the first three quarters of the year are generally substantially lower than our revenue in the fourth quarter of each year, and we expect this to continue for the foreseeable future.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and follow the requirements of the Securities and Exchange Commission ("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 our 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 our financial information. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any other interim period or for any other future year. The balance sheet as of December 31, 2017 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, 2017 included in the Company's Annual Report on Form 10-K as filed on February 28, 2018 with the SEC. Our critical accounting policies are revenue recognition, property and equipment, inventory and income taxes. Our significant accounting policies are more fully described in Note 1 to the Consolidated Financial Statements included in Item 8. "Financial Statements and Supplementary Data" of our Annual Report on Form 10-K.

Segments

Our Chief Executive Officer manages our operations on a consolidated basis for purposes of allocating resources. Thus, we operate as a single segment which is our single reportable segment. Our principal operations and decision-making functions are in the United States.

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, we evaluate our 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 and income taxes, including required valuation allowances. We base our estimates on historical experience, projections for future performance and other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from those estimates.

Revenue recognition

We derive our revenue primarily from our e-commerce websites (collectively referred to as "CafePress.com") and other third-party marketplaces (collectively referred to as "Retail Partner Channel"). Revenue is recognized when control of the goods is transferred to our customers upon receipt, in an amount that reflects the consideration to which we expect to be entitled in exchange for delivering these goods. We recognize revenue when the following revenue recognition criteria are met: (1) identification of the contract with a customer; (2) identification of the performance obligation in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligation in the contract; and (5) recognition of revenue when we satisfy a performance obligation.

CafePress.com and Retail Partner Channel revenue primarily consist of the sale of customized products such as t-shirts and apparel, mugs and drinkware and home goods such as shower curtains and bed coverings. Each item included in orders from CafePress.com or our Retail Partner Channel is a separate performance obligation because our customers can benefit from each item individually on its own, and we sometimes fulfill an order in multiple shipments. As control transfers to the customer upon delivery, we account for shipping as a fulfillment cost, and, therefore, fees received for shipping are included in our transaction price.

Revenue is recognized at the point in time when the customer receives the goods and is recorded net of promotional discounts and return allowances. Revenue is also recorded net of sales and consumption taxes following the practical expedient in Accounting Standards Codification ("ASC") 606. We periodically provide incentive offers to customers to encourage purchases. Such offers include current discount offers such as percentage discounts off current purchases and other similar offers. Current discount offers, when used by customers are treated as a reduction of revenue. We maintain an allowance for estimated returns and credit card chargebacks under the expected value method based on current period revenue, judgement and historical experience. Because of the seasonality of our business, our allowance is further reviewed during the fourth quarter to determine whether the liability is sufficient for returns processed after the holiday season. Our net revenue is settled through credit cards and PayPal, and our accounts receivable primarily consists of credit card receivables that settle in less than 7 days. Sales settled through PayPal are collected within one business day of the customer order.

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

Deferred revenue includes funds received in advance of product fulfillment and is deferred until the customer receives the shipped goods. Direct and incremental costs such as materials, shipping, labor and platform fees associated with deferred revenue are classified as deferred costs and recognized in the period revenue is recognized.

Net revenue is summarized as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
CafePress.com revenue	$ 9,387	$ 13,747	$ 19,163	$ 27,398
Retail Partner Channel revenue	5,002	4,106	9,776	8,744
Total revenue	$ 14,389	$ 17,853	$ 28,939	$ 36,142

We disaggregate our revenue between CafePress.com and our Retail Partner Channel as well as to customers located in the United States and to customers located outside of the United States. We determined that disaggregating revenue into these categories achieves the disclosure objectives for ASC 606 to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. As discussed in Note 1 - Business and Summary of Significant Accounting Policies - Segments, our business consists of one reportable segment. All disaggregated revenue is recorded within the one operating segment. Revenue by geography is based on the location to where the product was shipped and is summarized in Note 8 - Geographic Information.

Cash, cash equivalents and restricted cash

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

	June 30, 2018	December 31, 2017
Cash and cash equivalents	$ 13,766	$ 24,924
Restricted cash	1,513	1,513
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 15,279	$ 26,437

Previously, we had an outstanding letter of credit of $1.5 million ("Letter of Credit"), secured by our existing operating cash, as required under the terms of our production facility and fulfillment center lease. As of June 30, 2018, as further disclosed in Note 4, amounts included in restricted cash represents funds set aside and required by the production facility and fulfillment center lease and corresponding escrow agreement negotiated with our landlord to replace the Letter of Credit.

Income taxes

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

There was no unrecognized tax benefit for any period presented.

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

We have weighed both positive and negative evidence and have determined that there is a need for a valuation allowance due to the existence of three years of historical cumulative losses, which we considered significant verifiable negative evidence. As of June 30, 2018, we maintain a valuation allowance on all of our deferred tax assets.

Recent accounting pronouncements

In July 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-09 *Codification Improvements*. This standard does not prescribe any new accounting guidance, but instead makes minor improvements and clarifications of several different FASB Accounting Standards Codification areas based on comments and suggestions made by various stakeholders. Certain updates are applicable immediately while others provide for a transition period and will be effective for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of thus updated standard on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*. ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects from the Tax Act. This guidance will become effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The amendments in this ASU should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. We are currently evaluating the impact of this updated standard, but we do not believe this update will have an impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting.* ASU 2017-09 will clarify and reduce both (i) diversity in practice and (ii) cost and complexity when applying the guidance in Topic 718, to a change to the terms and conditions of a share-based payment award. We adopted ASU 2017-09 on January 1, 2018, and this standard did not have an impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments.* ASU 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero-coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The retrospective transition method, requiring adjustment to all comparative periods presented, is required unless it is impracticable for some of the amendments, in which case those amendments would be treated prospectively as of the earliest date practicable. We adopted ASU 2016-15 on January 1, 2018, and this standard did not have an impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* which requires measurement and recognition of expected credit losses for financial assets held. ASU 2016-13 introduces a new forward-looking "expected loss" approach, to estimate credit losses on most financial assets and certain other instruments, including trade receivables and available-for-sale securities. The estimate of expected credit losses will incorporate the consideration of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the entity's assumptions, models and methods for estimating credit losses. ASU 2016-13 is effective for financial statements issued for annual periods beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of this updated standard on our consolidated financial statements.

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 ASU 2014-09 *Revenue from Contracts with Customers (Topic 606).* 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. We adopted ASU 2016-04 on January 1, 2018, and this standard did not have an impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and ASU 2014-09, *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. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842 (Leases)*, which provides narrow amendments to clarify how to apply certain aspects of the new lease standard. Both standards are effective for financial statements issued for annual periods beginning after December 15, 2018. Our preliminary analysis indicates that, for our one remaining operating lease that will be in effect, upon adoption of Topic 842, we will record an estimated lease right-of-use asset of $2.1 million and a corresponding lease liability of $2.1 million. We anticipate electing the practical expedient in ASC 842 and will not separate the nonlease components from the lease component. We are still evaluating the qualitative and quantitative disclosures that will be required when we adopt the standard.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. This ASU is based on the principle that revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We adopted ASU 2014-09 on January 1, 2018 and used the full retrospective transition approach. The adoption of the new standard did not have any impact to our previously reported results as the impact to the timing and measurement of revenue recognized was not significant. Revenue related to our Retail Partner Channel will be recognized on a gross basis, as it was under ASC 605, as we control the goods before the goods are transferred to the customer.

2. Investments and Fair Value of Financial Instruments

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

	June 30, 2018						
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated Fair Value	Cash and cash equivalents	Short-term investments	Non-current assets (1)
Cash	$4,481	$—	$—	$4,481	$4,481	—	$1,513
Level 1 securities:							
Money market funds	9,285	—	—	9,285	9,285	—	—
Level 2 securities:							
Corporate debt securities	2,605	—	(7)	2,598	—	2,598	
Government securities	1,817		(2)	1,815	—	1,815	
Certificate of deposit	3,000			3,000		3,000	
Total	$21,188	$—	$(9)	$21,179	$13,766	$7,413	$1,513

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

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

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

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

Because we do not intend to sell the investments that are in an unrealized loss position, and it is not likely that we will be required to sell any investments before recovery of their amortized cost basis, we do not consider those investments with an unrealized loss to be other-than-temporarily impaired at June 30, 2018 and December 31, 2017, respectively. There were no material other-than-temporary impairment or credit losses related to available-for-sale securities in the three and six months ended June 30, 2018 and 2017, respectively.

There were no material gross unrealized gains or losses from the sale of available-for-sale investments in the three and six months ended June 30, 2018 and 2017, respectively. Realized gains and losses and interest income are included in other income (expense) on the Consolidated Statements of Comprehensive Loss.

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

	Six Months Ended June 30,	
	2018	2017
Proceeds from sale of short-term investments	$ —	$ —
Proceeds from maturities and calls of short-term investments	4,113	10,168
Purchases of short-term investments	5,504	1,984
Gross realized gains (losses) on sales of short-term investments	—	—

The estimated fair value of short-term investments by contractual maturity as of June 30, 2018 is as follows (in thousands):

Due within one year	$ 6,661
Due after one year and through five years	752
Total short-term investments	$ 7,413

3. Balance Sheet Items

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

	June 30, 2018	December 31, 2017
Raw materials	$ 2,458	$ 3,404
Finished goods	—	—
Less: reserve for obsolescence	(278)	(276)
Inventory, net	$ 2,180	$ 3,128

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

	June 30, 2018	December 31, 2017
Land and building	$ 3,675	$ 3,675
Computer equipment and office furniture	7,919	7,897
Computer software	1,955	1,925
Internal use software and website development	15,323	14,270
Internal use software and website development in progress	123	204
Production equipment	13,858	14,435
Leasehold improvements	2,970	3,061
Total property and equipment	45,823	45,467
Less: accumulated depreciation and amortization	(36,771)	(34,788)
Property and equipment, net	$ 9,052	$ 10,679

Depreciation and amortization expense was $1.2 million for both of the three months ended June 30, 2018 and 2017, respectively, and $2.3 million for both of the six months ended June 30, 2018 and 2017, respectively.

Accrued liabilities consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Production costs	$ 842	$ 4,037
Payroll and employee related expense	785	1,382
Accrued sales and business taxes	360	919
Accrued advertising	336	1,323
Unclaimed royalty payments	205	207
Other accrued liabilities	151	204
Professional services	144	226
Royalties-minimum guarantee	138	194
Allowance for sales returns and chargebacks	42	181
Restructuring	—	20
Accrued liabilities	$ 3,003	$ 8,693

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,	
	2018	2017	2018	2017
Balance, beginning of period	$ 55	$ 72	$ 181	$ 219
Add: provision	350	476	753	1,004
Less: deductions and other adjustments	(363)	(483)	(892)	(1,158)
Balance, end of period	$ 42	$ 65	$ 42	$ 65

4. Escrow Agreement

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

5. 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, 2017	2,270	$ 3.99	6.81	$ —
Granted	412	1.43		
Exercised	—	—		
Forfeited	(557)	3.73		
Outstanding — June 30, 2018	2,125	$ 3.56	6.47	$ —
Vested and expected to vest — June 30, 2018	2,125		6.47	$ —
Options exercisable — June 30, 2018	977		4.40	$ —

Included in the stock options outstanding as of June 30, 2018 are 281,624 non-statutory stock options that have both three-year service criteria and vesting contingent on financial performance measures at the end of a three-year performance period ended December 31, 2018. The performance criteria for these awards consist of the following financial measures during the performance period: (i) revenue during each period, (ii) cumulative Adjusted EBITDA and (iii) cumulative free cash flow, which we define as cash flows from operations minus capital expenditures. Compensation cost associated with these performance-based stock options is recognized using an attribution model and ultimately based on whether satisfaction of the performance criteria is probable. The total compensation cost we recognize under these option awards will be based upon the results of the financial measures. As of June 30, 2018, we have estimated that it is not probable that the performance criteria will be met, and, accordingly, no stock compensation expense for the performance shares has been recorded. At June 30, 2018, we had $0.6 million of unrecognized compensation expense related to the performance awards.

Restricted stock unit activity

We may grant restricted stock units, ("RSUs") to our employees, consultants or outside directors under the provisions of our Amended and Restated 2012 Stock Incentive Plan. The cost of RSUs is determined using the fair value of our 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, 2017	740	$ 3.22
Granted	542	1.46
Vested	(171)	3.00
Forfeited and canceled	(168)	3.05
Awarded and unvested at June 30, 2018	943	$ 2.28

Included in the restricted stock units outstanding as of June 30, 2018 are 98,500 performance-based restricted sock units ("PSUs") that have vesting contingent on financial performance measures at the end of a one-year performance period ended December 31, 2018. If the performance metrics are achieved, 50% of the PSU will vest on January 1, 2020 and 50% of the PSU will vest on January 1, 2021. The performance criteria for these awards consist of the following financial measures during the performance period: (i) cumulative Adjusted EBITDA and (ii) cumulative free cash flow, which we define as cash flows from operations minus capital expenditures. Compensation cost associated with these PSUs will be recognized based on whether satisfaction of the performance criteria is probable. The total compensation cost we recognize under these awards will be based upon the results of the financial measures. As of June 30, 2018, we have estimated that it is probable that the performance criteria will be met, and, accordingly, $12 thousand in stock compensation expense for the PSUs has been recorded during the three and six months ended June 30, 2018, respectively. At June 30, 2018, we had $0.1 million of unrecognized compensation expense related to the PSUs.

Furthermore, included in the restricted stock units outstanding as of June 30, 2018 are 129,651 PSUs that have both three-year service criteria and vesting contingent on financial performance measures at the end of a three-year performance period ended December 31, 2019. The performance criteria for these awards consist of the following financial measures during the performance period: (i) cumulative Adjusted EBITDA and (ii) cumulative free cash flow, which we define as cash flows from operations minus capital expenditures. Compensation cost associated with these PSUs will be recognized based on whether satisfaction of the performance criteria is probable. The total compensation cost we recognize under these awards will be based upon the results of the financial measures. As of June 30, 2018, we have estimated that it is not probable that the performance criteria will be met, and, accordingly, no stock compensation expense for the PSUs has been recorded. At June 30, 2018, we had $0.4 million of unrecognized compensation expense related to the PSUs.

Stock-based compensation expense

We 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, 2018 and 2017, we calculated volatility using our historical volatility as we had sufficient public trading history. The expected term of options granted gave consideration to historical exercises, assumed forfeitures when they occur and the options' contractual term. For all periods presented, the risk-free rate is based on the rates in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to each grant's expected life, and a dividend yield of zero is applied since we have not historically paid dividends and have no intention to pay dividends in the near future.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Expected term (in years)	4.9	0.0	5.2	4.1
Risk-free interest rate	2.8%	0.0%	2.7%	1.9%
Expected volatility	54%	0%	54%	55%
Expected dividend rate	0.0%	0.0%	0.0%	0.0%

The weighted average fair value of options granted was $0.71 for the three and six months ended June 30, 2018 and $1.37 for the six months ended June 30, 2017 respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Cost of net revenue	$ 3	$ 4	$ 7	$ 8
Sales and marketing	13	23	24	48
Technology and development	6	10	11	19
General and administrative	378	423	655	804
Total stock-based compensation expense	$ 400	$ 460	$ 697	$ 879

6. Restructuring

Restructuring costs were $32 thousand and $0.6 million for the three and six months ended June 30, 2018 respectively, and are included in "Restructuring costs" in the accompanying Condensed Consolidated Statements of Comprehensive Loss. During the three and six months ended June 30, 2018, in light of our revenue declines, which we believe are related to changes in search engine algorithms, we recorded severance costs and completed a plan to unify and simplify our organization in order to improve business performance, profitability, cash flow generation and productivity.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Accrued restructuring balance, beginning of period	$ 253	$ 207	$ 20	$ 570
Employee severance	32	—	637	—
Cash payments	(285)	(74)	(657)	(437)
Accrued restructuring balance, end of period	$ —	$ 133	$ —	$ 133

7. Net Loss per Share of Common Stock

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss	$ (1,435)	$ (3,154)	$ (5,038)	$ (6,527)
Denominator used in computing net loss per share of common stock:				
Basic	17,042	16,739	16,994	16,689
Diluted	17,042	16,739	16,994	16,689
Net loss per share of common stock:				
Basic	$ (0.08)	$ (0.19)	$ (0.30)	$ (0.39)
Diluted	$ (0.08)	$ (0.19)	$ (0.30)	$ (0.39)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock options to purchase common stock and restricted stock units	38	51	68	71

8. Geographic Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
United States	$ 12,819	$ 16,323	$ 25,709	$ 32,987
International	1,570	1,530	3,230	3,155
Total	$ 14,389	$ 17,853	$ 28,939	$ 36,142

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

9. Related Party Transaction

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 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 as of June 30, 2018, and is due on or before December 31, 2018.

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 these terms, and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events, are based on assumptions and are 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 restructuring initiatives and the impact thereof, including unifying and simplifying the organization, business performance, profitability, cash flow generation and productivity, seasonal fluctuations in our business and the impact thereof on our revenue; the impact of our adoption of new accounting standards; statements about our expectations achieving the performance criteria of our performance equity awards; anticipated trends and challenges in our business and the markets in which we operate; customer acquisition costs as a predictor of future growth and a key investment lever and our plans to invest in sales and marketing expense; the continued expansion of our catalogs; expectations with respect to the fluctuation of cash provided by operating activities; our anticipated cash needs and our estimates regarding capital requirements; our needs for additional financing and the potential dilutive effect thereof; benefit of non-GAAP financial measures; the impact of a change in market interest rates; our exposure to foreign currency exchange rate fluctuations; the impact of inflation and changes thereto; the impact of any legal proceedings to which we are or may become a party and the impact and timing of costs related thereto; and the impact of the Tax Act.

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, seasonality of our revenue, macroeconomic cycles and consumer discretionary spending, demand for our products and services, fluctuations in costs, particularly customer acquisition costs, changes in technology and other risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

Our Business

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

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

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

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

Our consumers and content owner customers are increasingly accessing e-commerce sites from their mobile devices. This shift to mobile 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 seasonality, our revenue in each of the first three quarters of the year are generally substantially lower than our revenue in the fourth quarter of each year, and we expect this to continue for the foreseeable future.

Basis of presentation

Net revenue

We derive our revenue primarily from CafePress.com and our Retail Partner Channel. Revenue is recognized when control of the goods is transferred to our customers upon receipt, in an amount that reflects the consideration to which we expect to be entitled in exchange for delivering these goods. We recognize revenue when the following revenue recognition criteria are met: (1) identification of the contract with a customer; (2) identification of the performance obligation in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligation in the contract; and (5) recognition of revenue when we satisfy a performance obligation.

CafePress.com and Retail Partner Channel revenue primarily consist of the sale of customized products such as t-shirts and apparel, mugs and drinkware and home goods such as shower curtains and bed coverings. Each item included in orders from CafePress.com or our Retail Partner Channel is a separate performance obligation because our customers can benefit from each item individually on its own, and we sometimes fulfill an order in multiple shipments. As control transfers to the customer upon delivery, we account for shipping as a fulfillment cost, and, therefore, fees received for shipping are included in our transaction price.

The adoption of Accounting Standards Codification ("ASC") 606 on January 1, 2018, did not have any impact to our previously reported results as the impact to the timing and measurement of revenue recognized was not significant. Revenue is recognized at the point in time when the customer receives the goods and is recorded net of promotional discounts and return allowances. Revenue is also recorded net of sales and consumption taxes following the practical expedient in ASC 606. We periodically provide incentive offers to customers to encourage purchases. Such offers include current discount offers such as percentage discounts off current purchases and other similar offers. Current discount offers, when used by customers are treated as a reduction of revenue. We maintain an allowance for estimated returns and credit card chargebacks under the expected value method based on current period revenue, judgement and historical experience. Because of the seasonality of our business, our allowance is further reviewed during the fourth quarter to determine whether the liability is sufficient for returns processed after the holiday season. Our net revenue is settled through credit cards and PayPal, and our accounts receivable primarily consists of credit card receivables that settle in less than 7 days. Sales settled through PayPal are collected within one business day of the customer order.

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

Deferred revenue includes funds received in advance of product fulfillment and is deferred until the customer receives the shipped goods. Direct and incremental costs such as materials, shipping, labor and platform fees associated with deferred revenue are classified as deferred costs and recognized in the period revenue is recognized.

Cost of net revenue

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

Operating expense

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

Sales and marketing

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

Our customer acquisition costs consist of various online media programs, such as paid search engine marketing, email, display advertising and commissions paid to 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 and increase focus on driving repeat customer purchases to build our brand.

Technology and development

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

General and administrative

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

Results of Operations

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

	Three Months Ended June 30,	
	2018	2017
Net revenue	100.0 %	100.0 %
Cost of net revenue	55.0	60.9
Gross profit	45.0	39.1
Operating expense:		
Sales and marketing	25.2	26.8
Technology and development	16.2	17.3
General and administrative	13.7	13.1
Restructuring costs	0.2	—
Total operating expense	55.3	57.2
Loss from operations	(10.3)	(18.1)
Interest income	0.6	0.2
Other (expense) income, net	(0.3)	0.2
Net loss	(10.0)%	(17.7)%

Comparison of the three months ended June 30, 2018 and 2017

We monitor several key operating metrics including (in thousands, except for percentages and average order size data):

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Variance	% Variance
CafePress.com orders	235	371	(136)	(37)%
Retail Partner Channel orders	239	196	43	22%
Total orders	474	567	(93)	(16)%
CafePress.com average order size	$ 39.92	$ 37.09	$ 2.83	8%
Retail Partner Channel average order size	$ 20.92	$ 20.91	$ 0.01	—%
Total average order size	$ 30.34	$ 31.49	$ (1.15)	(4)%
CafePress.com revenue	$ 9,387	$ 13,747	$ (4,360)	(32)%
Retail Partner Channel revenue	$ 5,002	$ 4,106	$ 896	22%
Total revenue	$ 14,389	$ 17,853	$ (3,464)	(19)%

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	$ Change	% Change
Net revenue	$ 14,389	$ 17,853	$ (3,464)	(19)%
Cost of net revenue	7,907	10,864	(2,957)	(27)
Gross profit	6,482	6,989	(507)	(7)
Operating expense:				
Sales and marketing	3,626	4,785	(1,159)	(24)
Technology and development	2,331	3,084	(753)	(24)
General and administrative	1,976	2,336	(360)	(15)
Restructuring costs	32	—	32	U
Total operating expense	7,965	10,205	(2,240)	(22)
Loss from operations	(1,483)	(3,216)	1,733	54
Interest income	85	37	48	F
Interest expense	—	(4)	4	F
Other (expense) income, net	(37)	29	(66)	U
Net loss	$ (1,435)	$ (3,154)	$ 1,719	55%

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

Total number of orders

Total number of orders represents the number of individual transactions that are made during the period. We monitor the total number of orders as a leading indicator of revenue trends. During the three months ended June 30, 2018, the decrease in orders of 16% as compared to the prior year was primarily the result of lower visitation to CafePress.com across all traffic sources that we believe is related to search engine algorithm changes made during second quarter of 2017. Additionally, we believe the release of new search engine results pages on CafePress.com during the second quarter of 2018 drove a further temporary decline in visits. The increase in Retail Partner Channel orders of 22% was primarily driven by an expansion in both domestic and international markets as well as well as the addition of the eBay marketplace.

Average order size

Average order size is calculated as billings for a given period based on order date divided by the total number of associated orders in the same period. We recognize revenue when delivery has occurred or the service has been provided. Due to timing of meeting revenue recognition criteria, billings may not be recognized as revenue until the following period. We closely monitor the average order size as it relates to changes in order volume, product pricing and product mix. For the three months ended June 30, 2018, the increase in CafePress.com average order size of 8% as compared to the prior year was primarily due to lower, promotional pricing for shipping services in the prior year.

Net revenue

Net revenue decreased $3.5 million, or 19%, for the three months ended June 30, 2018 compared to the same period in 2017. The change in revenue was driven by lower revenue from our CafePress.com domains, which more than offset growth from our Retail Partner Channel. The decline in revenue from CafePress.com of $4.4 million, or 32%, was primarily driven by declines in visits and conversions from most traffic sources. We believe the reduction in traffic was related to search engine algorithm changes made during the second quarter of 2017 that negatively impacted us. In addition, we believe that the April 2018 release of our new search engine results pages to our website drove a further, temporary decline particularly as it relates to organic search. Within our Retail Partner Channel, revenue increased $0.9 million, or 22%. Revenue increased within the Amazon marketplace due to improved sales domestically, expansion into Europe, growth of the Canada catalog and entry into Australia. Additionally, we benefited to a lesser extent from the contribution of the Walmart and eBay marketplaces, which were launched during the third quarter of 2017 and the second quarter of 2018, respectively.

Cost of net revenue

Cost of net revenue decreased $3.0 million, or 27%, during the three months ended June 30, 2018 compared to the same period in 2017. Cost of net revenue was 55.0%, as a percentage of net revenue, during the three months ended June 30, 2018, compared to 60.9% in the same period in 2017. The percentage change was primarily driven by decreases in material and labor costs. Material costs decreased by 3.0 percentage points as the printing platform upgrade completed during 2017 resulted in lower consumption of pretreat and ink materials during the production process. Furthermore, changes in our production schedule to more closely align to order demand at our Louisville production facility resulted in a reduction of labor costs by 1.5 percentage points.

Sales and marketing

Sales and marketing expense decreased $1.2 million, or 24%, during the three months ended June 30, 2018 compared to the same period in 2017. Sales and marketing expense was 25.2% of net revenue during the three months ended June 30, 2018 compared to 26.8% for the same period in 2017. Sales and marketing expense consisted of $0.7 million of lower variable costs and $0.5 million of lower fixed costs. CafePress.com variable costs decreased $0.9 million from lower paid search advertising costs and decreases in credit card fees and customer service expenses. Retail Partner Channel variable expenses increased $0.2 million from higher platform fees and increased sponsored advertising designed to increase discoverability of our catalog. Lower fixed costs were primarily driven by reductions in personnel-related costs and other marketing services associated with our restructuring initiative completed during the first quarter of 2018.

Technology and development

Technology and development expense decreased $0.8 million or 24% during the three months ended June 30, 2018 as compared to the same period in 2017. Technology and development expense was 16.2% of net revenue during the three months ended June 30, 2018 compared to 17.3% in the same period in 2017. Personnel-related costs, consulting, recruiting and other technology infrastructure costs declined by $0.8 million primarily resulting from our restructuring initiative completed during the first quarter of 2018.

General and administrative

General and administrative expense decreased $0.4 million, or 15%, during the three months ended June 30, 2018 compared to the same period in 2017. General and administrative expense was 13.7% of net revenue during the three months ended June 30, 2018 compared to 13.1% for the same period of 2017. Personnel-related costs, stock compensation and other costs decreased $0.3 million driven by our restructuring initiative completed during the first quarter of 2018. In addition, insurance expense decreased $0.1 million primarily due to a reduction in our premiums.

Results of Operations

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

	Six Months Ended June 30,	
	2018	2017
Net revenue	100.0 %	100.0 %
Cost of net revenue	59.0	61.4
Gross profit	41.0	38.6
Operating expense:		
Sales and marketing	24.9	25.4
Technology and development	16.6	16.8
General and administrative	15.1	14.6
Restructuring costs	2.2	—
Total operating expense	58.8	56.9
Loss from operations	(17.8)	(18.3)
Interest income	0.5	0.2
Other income (expense), net	—	—
Net loss	(17.3)%	(18.1)%

Comparison of the Six Months Ended June 30, 2018 and 2017

We monitor several key operating metrics including (in thousands, except for percentages and average order size data):

	Six Months Ended June 30,			
	2018	2017	Variance	% Variance
CafePress.com orders	473	723	(250)	(35)%
Retail Partner Channel orders	462	423	39	9%
Total orders	935	1,146	(211)	(18)%
CafePress.com average order size	$ 39.98	$ 37.89	$ 2.09	6%
Retail Partner Channel average order size	$ 20.92	$ 20.67	$ 0.25	1%
Total average order size	$ 30.56	$ 31.54	$ (0.98)	(3)%
CafePress.com revenue	$ 19,163	$ 27,398	$ (8,235)	(30)%
Retail Partner Channel revenue	$ 9,776	$ 8,744	$ 1,032	12%
Total revenue	$ 28,939	$ 36,142	$ (7,203)	(20)%

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	$ Change	% Change
Net revenue	$ 28,939	$ 36,142	$ (7,203)	(20)%
Cost of net revenue	17,088	22,192	(5,104)	(23)
Gross profit	11,851	13,950	(2,099)	(15)
Operating expense:				
Sales and marketing	7,206	9,195	(1,989)	(22)
Technology and development	4,809	6,060	(1,251)	(21)
General and administrative	4,378	5,293	(915)	(17)
Restructuring costs	637	—	637	U
Total operating expense	17,030	20,548	(3,518)	(17)
Loss from operations	(5,179)	(6,598)	1,419	22
Interest income	132	79	53	67
Interest expense	—	(10)	10	100
Other income (expense), net	9	3	6	F
Loss before income taxes	(5,038)	(6,526)	1,488	23
Provision (benefit) for income taxes	—	1	(1)	100
Net loss	$ (5,038)	$ (6,527)	$ 1,489	23%

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

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. During the six months ended June 30, 2018, the decrease in orders of 18% as compared to the prior year period was primarily the result of lower visitations to CafePress.com across all traffic sources that we believe is related to changes in search engine algorithms. Additionally, we believe that the release of new search engine results pages on CafePress.com during the second quarter of 2018 caused a further, temporary decline in visits. The increase in Retail Partner Channel orders of 9% was primarily driven by an expansion in both domestic and international markets as well as the addition of the eBay marketplace.

Average Order Size

Average order size is calculated as billings for a given period based on order date divided by the total number of associated orders in the same period. We recognize revenue when delivery has occurred or the service has been provided. Due to timing of meeting revenue recognition criteria, billings may not be recognized as revenue until the following period. We closely monitor the average order size as it relates to changes in order volume, product pricing and product mix. For the six months ended June 30, 2018, the increase in CafePress.com average order size of 6% as compared to the prior year was primarily due to a shift toward higher-priced, new products as well as lower, promotional shipping pricing for shipping services in the prior year.

Net Revenue

Net revenue decreased $7.2 million, or 20% during the six months ended June 30, 2018 compared to the same period in 2017. The change in revenue was driven by lower revenue from our CafePress.com domains, which more than offset growth from our Retail Partner Channel. The decline in revenue from CafePress.com of $8.2 million, or 30%, was primarily driven by declines in visits and conversions from most traffic sources. We believe the reduction in traffic was driven by changes in search engine algorithms. Additionally, we believe the release of new search engine results pages on CafePress.com during the second quarter of 2018 caused a further, temporary decline in net revenue. Within our Retail Partner Channel, revenue increased $1.0 million, or 12%. Revenue increased within the Amazon marketplace due to improved sales domestically, expansion into Europe, growth of the Canada catalog and entry into Australia. Additionally, we benefited to a lesser extent from the contribution of the Walmart and eBay marketplaces which were launched during the third quarter of 2017 and the second quarter of 2018, respectively. These increases were partially offset from the temporary loss of content sold through one partner during the first quarter of 2018.

Cost of Net Revenue

Cost of net revenue decreased $5.1 million, or 23%, during the six months ended June 30, 2018 compared to the same period in 2017. As a percentage of net revenue, cost of net revenue was 59.0% during the six months ended June 30, 2018 and 61.4% during the same period in 2017. The percentage change was primarily driven by decreases in material and labor costs. Material costs decreased by 1.0 percentage points as the printing platform upgrade completed during 2017 resulted in lower consumption of pretreat and ink materials during the production process. Furthermore, changes in our production schedule to more closely align to order demand at our Louisville production facility resulted in a reduction of labor costs by 0.8 percentage points.

Sales and Marketing

Sales and marketing expense decreased $2.0 million, or 22%, during the six months ended June 30, 2018 compared to the same period in 2017. Sales and marketing expense was 24.9% of net revenue during the six months ended June 30, 2018 compared to 25.4% in the same period in 2017. Sales and marketing expense consisted of $1.0 million of lower variable costs and $1.0 million of lower fixed costs. CafePress.com variable costs decreased $1.3 million from lower paid search advertising costs and decreases in credit card fees and customer service expenses. Retail Partner Channel variable expenses increased $0.3 million from higher platform fees and increased sponsored advertising designed to increase discoverability of our catalog. Lower fixed costs were primarily driven by reductions in personnel-related costs and other marketing services associated with our restructuring initiative completed during the first quarter of 2018.

Technology and Development

Technology and development expense decreased $1.3 million, or 21%, during the six months ended June 30, 2018 compared to the same period in 2017. Technology and development expense was 16.6% of net revenue during the six months ended June 30, 2018 compared to 16.8% in the same period in 2017. Personnel-related costs, consulting, recruiting and other technology infrastructure costs declined by $1.2 million primarily from our restructuring initiative completed during the first quarter of 2018.

General and Administrative

General and administrative expense decreased $0.9 million, or 17%, during the six months ended June 30, 2018 compared to the same period in 2017. General and administrative expense was 15.1% of net revenue during the six months ended June 30, 2018 compared to 14.6% in the same period of 2017. Personnel-related costs, stock compensation and other costs decreased $0.7 million driven by our restructuring initiative completed during the first quarter of 2018. In addition, insurance expense decreased $0.2 million primarily due to a reduction in our premiums.

Restructuring Costs

Restructuring costs increased $0.6 million during the six months ended June 30, 2018 as compared to the same period in 2017. During the six months ended June 30, 2018, in light of our revenue declines which we believe are related to changes in search engine algorithms, we recorded severance costs and completed a plan to right size the business and return us to profitability.

Consolidated Balance Sheet

The following table is a summary of our overall financial position (in thousands):

	June 30, 2018	December 31, 2017	$ Change
Total assets	$ 37,910	$ 51,172	$ (13,262)
Total liabilities	6,325	15,241	(8,916)
Total stockholders' equity	31,585	35,931	(4,346)

- Total assets decreased $13.3 million driven primarily by a reduction in current assets due to the utilization of cash for the 2018 payment of production, advertising, royalty and commission liabilities related to retail holiday activity during the fourth quarter of 2017 and reductions in accounts receivable and inventory related to the seasonality of our business. In addition, cash balances were adversely affected by declines in our business levels.

- Total liabilities decreased $8.9 million driven by the payment of the liabilities as discussed above related to retail holiday activity during the fourth quarter of 2017.

- Total stockholders' equity decreased by $4.3 million primarily driven by a $5.0 million net loss partially offset by $0.7 million in stock-based compensation expense.

Liquidity and Capital Resources

As of June 30, 2018, we had cash, cash equivalents, short-term investments and restricted cash totaling $22.7 million.

The following table summarizes our cash flows for the six months ended June 30, 2018 and 2017 (in thousands):

	Six Months Ended June 30,		Change
	2018	2017	$
Cash flows from:			
Operating activities	$ (8,996)	$ (10,952)	$ 1,956
Investing activities	$ (2,162)	$ 6,069	$ (8,231)
Financing activities	$ —	$ (349)	$ 349

Cash flows from operating activities

Our primary source of cash from operating activities is cash collections from our customers and partners. The substantial majority of our net revenue is generated from credit card transactions and credit card accounts receivable and are typically settled within one to seven 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 several 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.

Net cash used in operating activities was $9.0 million during the six months ended June 30, 2018. However, $8.0 million of the cash usage occurred during the first quarter of 2018 due to the seasonality of the business. Cash used in operating activities decreased $2.0 million primarily from benefits related to the restructuring initiative completed during the first quarter of 2018 as well as improved management of inventory levels and decreases in software license renewals.

Cash flows from investing activities

Cash used in investing activities increased $8.2 million primarily driven by an increase in the net purchase of short-term investments of $9.6 million partially offset by a decrease in capital expenditures of $1.1 million as the six months ended June 30, 2017 included an investment in plant equipment that did not recur during the six months ended June 30, 2018. In addition, during the six months ended June 30, 2018, we received proceeds of $0.3 million from the sale of plant equipment that was not utilized on our production floor.

Cash flows from financing activities

Cash used in financing activities decreased $0.3 million as the prior year included stock repurchased under our repurchase program that ended in 2017 and principal payments related to a capital lease that expired in 2017.

Credit Facility and Indebtedness

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

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

We anticipate that our current cash and cash equivalent balances and cash generated from operations will be sufficient to meet our strategic and working capital requirements for at least the next twelve months.

Non-GAAP Financial Measures

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

Adjusted EBITDA

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$ (1,435)	$ (3,154)	$ (5,038)	$ (6,527)
Non-GAAP adjustments:				
Interest and other (income) expense	(48)	(62)	(141)	(72)
Provision for income taxes	—	—	—	1
Depreciation and amortization	1,211	1,214	2,312	2,269
Stock-based compensation	400	460	697	879
Restructuring costs	32	—	637	—
Adjusted EBITDA	$ 160	$ (1,542)	$ (1,533)	$ (3,450)

The following shows 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,	
	2018	2017	2018	2017
Net Revenue	$ 14,389	$ 17,853	$ 28,939	$ 36,142
Non-GAAP Adjusted EBITDA	$ 160	$ (1,542)	$ (1,533)	$ (3,450)
% of net revenue	1.1%	(8.6)%	(5.3)%	(9.5)%

Cash Contribution Margin

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

When viewed together with our GAAP results, we believe cash contribution margin provides management and users of the financial statements information about our ability to cover our operating costs, such as Technology and Development and General and Administrative expense. Cash contribution margin is used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. You should review our financial statements and publicly-filed reports in their entirety and not rely on any single financial measure. One material limitation associated with the use of cash contribution margin is that it is an incomplete measure of profitability as it does not include all operating expense or non-operating income and expense. Management compensates for these limitations when using this measure by looking at other GAAP measures such as operating income (loss) and net income (loss).

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
Net revenue	$ 14,389	100.0 %	$ 17,853	100.0 %	$ 28,939	100.0	$ 36,142	100.0 %
Cost of net revenue	7,907	55.0	10,864	60.9	17,088	59.0	22,192	61.4
Gross profit	6,482	45.0	6,989	39.1	11,851	41.0	13,950	38.6
Non-GAAP adjustments:								
Add: Stock-based compensation	3	—	4	—	7	—	8	—
Add: Depreciation and amortization	445	3.1	434	2.4	852	2.9	856	2.4
Less: Variable sales and marketing costs	(2,838)	(19.7)	(3,500)	(19.6)	(5,618)	(19.4)	(6,584)	(18.2)
Cash contribution margin	$ 4,092	28.4 %	$ 3,927	21.9 %	$ 7,092	24.5 %	$ 8,230	22.8 %

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.

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 $22.7 million and $32.4 million as of June 30, 2018 and December 31, 2017, respectively. These amounts were held primarily in cash deposits, money market funds, corporate debt securities, government securities and certificates of deposit. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. Due to the short-term nature of these instruments, a change in market interest rates would not be expected to have a material impact on our financial condition or our results of operations.

Foreign currency exchange rate sensitivity

Our sales to international customers are denominated in multiple currencies, including the United States dollar, the British Pound, the Euro, the Canadian dollar and the Australian dollar. As the substantial majority of our sales are charged to credit cards, accounts receivables are generally settled in short time duration and accordingly, we have limited exposure to foreign currency exchange rates on our accounts receivable and as such, we do not consider our exchange rate risk to be material. 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, 2018, 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, 2018, 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.

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.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Table of Contents

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.
10.1(3) +	Change in Control Agreement dated May 1, 2018.
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.

\+ Management contract, compensatory plan or arrangement

(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 10.3 to the Registrant's Current Report on Form 10-Q (File No. 001-35468), filed with the Securities and Exchange Commission on May 2, 2018, 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.

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: July 31, 2018	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/ Phillip L. Milliner, Jr.
	Phillip L. Milliner, Jr.
	Chief Financial Officer
	(Duly Authorized Officer, Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)

I, Fred E. Durham III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CafePress Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2018

By: /s/ Fred E. Durham III
Fred E. Durham III
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)

I, Phillip L. Milliner, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CafePress Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2018

By: /s/ Phillip L. Milliner, Jr.
Phillip L. Milliner, Jr.
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Fred E. Durham III, Chief Executive Officer of CafePress Inc., do hereby certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of CafePress Inc. on Form 10-Q for the three months ended June 30, 2018 to which this certification is attached fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CafePress Inc.

Date: July 31, 2018

By: /s/ Fred E. Durham III

Fred E. Durham III
Chief Executive Officer

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Phillip L. Milliner, Jr., Chief Financial Officer of CafePress Inc., do hereby certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of CafePress Inc. on Form 10-Q for the three months ended June 30, 2018 to which this certification is attached fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CafePress Inc.

Date: July 31, 2018

By: /s/ Phillip L. Milliner, Jr.
Phillip L. Milliner, Jr
Chief Financial Officer