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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from to

Commission File Number: 001-35468

CafePress Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**94-3342816** **(I.R.S. Employer Identification No.)**
6901 Riverport Drive, Louisville, KY **(Address of principal executive offices)**	**40258** **(Zip Code)**

Registrant's telephone number, including area code: (502)-995-2258

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

Title of each class:	Name of each exchange on which registered:
Common Stock, par value $.0001 per share	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☒

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $64,436,533 based upon the closing price of $6.27 of such common stock on the NASDAQ Global Select Market on June 28, 2013 (the last business day of the registrant's most recently completed second fiscal quarter). Shares of common stock held as of June 28, 2013 by each director and executive officer of the registrant, as well as shares held by each holder of 10% of the common stock known to the registrant, have been excluded for purposes of the foregoing calculation. This determination of affiliate status is not a conclusive determination for other purposes.

As of March 24, 2014, there were 17,230,835 shares of the common stock of the registrant outstanding.

Documents Incorporated By Reference

All or a portion of Items 10 through 14 in Part III of this Form 10-K are incorporated by reference to the Registrant's definitive proxy statement on Schedule 14A, which

will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if the Registrant's Schedule 14A is not filed within such period, will be included in an amendment to this Report on Form 10-K which will be filed within such 120 day period.

Table of Contents

Index to Financial Statements

TABLE OF CONTENTS

STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Except for the historical financial information contained herein, this annual report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Private Securities Litigation Reform Act of 1995, as amended and Section 21E of the Securities Exchange Act of 1934, as amended and are subject to the safe harbor created by the Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by terms such as "may," "might," "will," "objective," "intend," "should," "could," "can," "would," "expect," "believe," "estimate," "predict," "potential," "plan," or the negative of these terms, and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements, include, but are not limited to, statements about our plans for future services and enhancements of existing services; our expectations regarding our expenses and revenue, including statements about our expectations as to the variability of our growth rates from period to period; customer acquisition costs as a predictor of future growth; the results of any impairment of goodwill; anticipated trends and challenges in our business and the markets in which we operate; the effect of any potential strategic alternative, if implemented; expectations regarding the impact and contribution from EZ Prints, including the long term value of the EZ Prints business, and the potential impact of the revised earn-out provision; our anticipated cash needs and our estimates regarding our capital requirements and our needs for additional financing and the potential dilutive effect thereof; our anticipated growth strategies; our expectations with respect to raw materials and suppliers; the impact of production issues and delayed orders; our expectations regarding the volatility of cash provided by operating activities and the causes thereof; our ability to retain and attract customers and drive traffic to our websites; our regulatory environment; our legal proceedings and related risks and impact and timing of costs related thereto; the effect of changes in our management team; our expectations with regard to how changes in market interest rates would affect us; our exposure to foreign currency exchange rate fluctuations; the impact of inflationary pressures; intellectual property; our expectations regarding competition; use of proceeds; and sources of new revenue. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, the risks set forth throughout this Report, including under Item 1A, "Risk Factors". These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

PART I

ITEM 1. Business

Overview

Founded in 1999, we completed our public offering in March 2012 and our common stock is listed on the Nasdaq Global Select Market under the symbol "PRSS."

We are a leading e-commerce platform provider enabling consumer and business partner customers worldwide to shop, create and sell a wide variety of customized and personalized products. We serve our customers and partners, through our portfolio of e-commerce websites, including our flagship website, CafePress.com and through our e-commerce platform products and services. We have developed well-known brands with growing communities that, as of December 31, 2013, had more than 20 million members across all of our retail website properties. Our portfolio of websites enable partners, resellers and co-branded websites to design and customize products that individually target specific consumers, products and use cases. We also provide a robust platform of technology products and service offerings to allow our corporate customers to leverage our online services for their own consumer customers with little up-front investment and no inventory.

We have built a state-of-the-art facility in Louisville, Kentucky with innovative technology and manufacturing processes that enable us to provide high-quality customized products that are individually built to order at mass scale. Our proprietary, vertically integrated processes enable us to produce a broad range of merchandise efficiently, cost effectively and quickly. During 2013, we consolidated many production operations at the Kentucky facility. We maintain a custom canvas production and printing facility in Raleigh, North Carolina, a printing facility in connection with our Logosportswear.com brand operated in Cheshire, Connecticut and with the acquisition of EZ Prints, Inc., additional custom printing production capabilities in Norcross, Georgia.

Our E-Commerce Platform Products and Services

Front-end design tool and sales channels

Our direct e-commerce websites and sales channels include:

CafePress.com. Our consumer customers can shop, create and sell individualized products at CafePress.com. Users can choose from our catalog of over 700 million unique products or create their own one-of-a-kind products using our catalogue of customizable merchandise. Our integrated social media marketing tools allow designers and consumer customers to share our products with their audiences and across the Internet.

CafePress Services. With a full spectrum of technology, printing and fulfillment services, the acquired technology of EZ Prints makes personalization products accessible for web-based businesses and their online customers. Our solutions are designed to enable partners to deliver professional-grade personalized products to their online customers on their own or through hosted e-commerce environments, with little up-front investment in technology or inventory. Our "shops" platform enables consumer and corporate customers to monetize their content through the creation of distinctive e-commerce destinations and products. Over two million content owners, including designers, artists, small businesses, groups, clubs and organizations, use our e-commerce platform to design their own products and then sell them through their own hosted e-commerce "shop." In addition to individual content owners, large entertainment and publishing companies also license to us materials related to their products for creation of their own "shops" or other online store experiences appearing embedded in their websites but hosted by us, or for sale directly by us in our marketplaces. For retailers and larger corporate partners, we can enhance marketplaces and the online store experiences of other retailers and retail brands by enabling them to offer their customers customized products through our services.

CanvasOnDemand.com. CanvasOnDemand.com takes photographs and transforms them into canvas artwork and wall art.

GreatBigCanvas.com. GreatBigCanvas.com provides canvas wall art and panoramic canvas photographs licensed through major content partners.

Imagekind.com. Imagekind.com markets artwork by independent artists that can be produced on posters, canvases and framed wall art, often not available anywhere else.

InvitationBox.com. InvitationBox.com customizes and personalizes stationery products online, including invitations, announcements and other products and gifts.

LogoSportswear.com. LogoSportswear.com empowers groups, teams, schools, and organizations to design, buy, share and sell custom gear with no minimum orders or setup restrictions, including through its innovative funding sales models such as tfund.com.

Back-end services platforms

Our back-end services form a platform and set of services consisting of the following components that can be used to create front-end buyer and seller experiences either through our e-commerce platform or software or through the websites of others:

User-generated content catalog. Many millions of designs have been uploaded through our e-commerce platforms to create over 700 million unique virtual products available as of December 31, 2013, with an average of approximately 80,000 new images uploaded by users per week to our retail e-commerce websites in the year ended December 31, 2013. This constantly replenishing content library and merchandizing back-end service allows our users to find items that meet their specific expressive needs.

Licensed content. We have developed hundreds of relationships with major entertainment licensors and brands that allow such licensors to provide their content to marketplaces and fan sites where users go to create designs using licensor logos and brands. This program extends our users' ability to self- express and interact with popular brands in ways previously not available or easily deployed. The program also allows the brands to create viral social merchandising programs, which in turn enables them to engage with their fan base.

Design tools. Our proprietary design tools accessed through our websites allow users to easily customize a shop and hundreds of items with their own images, text and other advanced features.

Shops. Content owners both large and small can sell their own custom merchandise using our turn-key hosted shops platform on our domains, which includes hosting, payment processing, marketing services, printing and fulfillment and customer service.

Print/Production. We offer users high-quality printing on over 600 base product SKU types. We generally process and ship orders within three business days after a customer places an order and in many instances can ship orders within 24 hours after an order is placed. Content review and quality assurance systems help ensure that high-quality products are delivered to our users. We can also supply distributors and resellers with short-run and quick-turn custom printed products through our back-end fulfillment capabilities.

Deployable Customization Software and Services

Through our acquisition of EZ Prints and in addition to our "shops" platform, CafePress Services also provides a suite of enterprise-class deployable software products and services that can be placed in other domains to provide private label e-commerce customization services to retailers and corporate customers of all sizes and business models, with little up-front investment or inventory and minimal technology implementation resources. An example of the product offerings include "builder" software for the creation of customized products, hosting and back-end payment processing, and printing and customer service.

Our strategy

Our goal is to power customization everywhere e-commerce occurs. We believe our crowd-sourced and licensed content portfolio, expansive catalogue of products and myriad e-commerce services, coupled with our ability to efficiently market and manufacture a wide array of goods, create a compelling product and service offering. Our products and services are made available on our portfolio of e-commerce websites or leverage the e-commerce websites of our corporate partners and on the millions of e-commerce shops we power. Among the key elements of our strategy to achieve this goal are the following:

- *Grow customer base*. We intend to grow our customer base and continue to promote our portfolio of e-commerce websites through existing marketing channels, which include social media applications, search engine marketing, word of mouth referrals from existing customers, media distribution programs, as well as an expanding universe of new viral and social marketing channels in online advertising. In addition, through our business development and sales activities, we have formed complementary strategic alliances with other large e-commerce companies to expand our online distribution presence, and to partner with large retail organizations.

- *Expand content partners*. We intend to expand our roster of licensed content partners as well as increase the range of content accessible on our site and attract new users. We continue to focus on film, television, music, video game and other entertainment properties to bring content to our platform or e-commerce service offerings directly to their e-commerce properties. For example, in 2013, we signed or implemented dozens of new licensed entertainment properties to make official and fan merchandize available through our platform, including film properties such as *Divergent*, *Anchorman 2* and the *Veronica Mars* film, as well as television properties such as *Breaking Bad*, *Walking Dead* and *Supernatural*.

- *Continue to innovate product and service offerings*. We intend to continue to innovate and multiply our products and services. In the past four quarters, we have expanded our merchandise selection by studying popular e-commerce products sold and creating new ideas and methods of customization. Examples include Kindle cases, new wall art offerings and new home accessories and decor, such as shower curtains and pillowcases. In addition, we have launched new customization services on our websites, including the ability for sellers to create design templates or customize new areas of certain products like apparel, which extended buyer customization capabilities in our shops platform. Our past acquisitions have expanded the reach of our offerings to new vertical markets and to new corporate partners.

- *Increase sales to existing customers*. We hope to increase both our average order size and the lifetime value we receive from a customer by increasing retention rates, up-selling and cross-selling and continuing to improve and streamline our design and ordering processes.

- *Offer customization through additional brands*. We intend to leverage our platform by developing new brands and seeking co-branding opportunities to provide rich customer experiences across a range of industries.

- *Seek international expansion opportunities*. We intend to develop additional business opportunities through selected international expansion, targeting customers in key geographies where Internet usage and e-commerce are widespread and where we believe our content will provide compelling sales opportunities. We currently have localized websites for the United States, Australia, Canada, Germany, France, Spain and the United Kingdom.

- *Seek further acquisition opportunities*. We intend to continue to grow our business through selected acquisitions of companies and assets targeting additional sales channels, markets and key verticals where our platforms, technology and offerings may be expanded through acquisition. Our acquisitions of Canvas On Demand (including GreatBigCanvas) and Imagekind in 2010 have added talented artists and art to our content catalog, and have enabled customers to find and create original works of art. Our acquisition of the e-commerce website InvitationBox.com in 2011 greatly expanded our online customized stationery offerings and our acquisition of Logosportswear.com in 2012 considerably expanded our reach into the market for custom goods for groups and organizations. In 2012, we also acquired EZ Prints, Inc. which has expanded our base of corporate customers dramatically and has provided us with new products and services offerings such as a deployable customization solution. We believe our deployable technology platform should enable us to expand business with our existing partners as well. We plan to continue to seek adjacent opportunities to expand our product and services offerings and customer base.

Competition

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

- small, traditional offline printing businesses for apparel, stationery and invitations, photographic products or other customized products;

- e-commerce companies, including large online retailers and marketplaces such as Amazon.com, Walmart.com, Target and eBay (who may also serve as our distribution partners);

- online providers of customized products such as RedBubble Inc., CustomInk LLC, Spreadshirt Inc., Threadless.com or Zazzle Inc. as well as providers of distinctive goods like Etsy, Inc. or Uncommon LLC;
- online providers allowing users to customize goods in specific vertical markets, such as VistaPrint N.V. for small businesses and Shutterfly, Inc. or SmugMug, Inc. for photographic products, or Minted, Inc. and Blurb, Inc. for specific stationery and book products, and Art.com for wall art products;
- physical and catalog retailers of personalized merchandise such as American Stationery, Red Envelope and Things Remembered; and
- small, but numerous, online providers who address niche customization services and product offerings, enabled by advances in digital printing technologies.

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

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

We believe the principal competitive factors in our industry include:

- favorable brand recognition and trust;
- technological expertise;
- quality, breadth and type of the products sold and services offered;
- competitive pricing;
- ability to source products efficiently and cost effectively;
- ease of use and convenience of our services;
- ability to anticipate and quickly adapt to changing customer demands and customer service needs; and
- effective marketing and distribution.

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

Intellectual property

We rely primarily on a combination of patents, trade secrets, trademarks and copyrights, as well as employee and third-party confidentiality and invention agreements to safeguard our intellectual property. As of December 31, 2013, we had four issued patents, six patent applications pending in the United States, generally covering our e-commerce services or proprietary printing and decorating services and our online platform for designing and generating framed products. We continually assess appropriate occasions for seeking patent protection for those aspects of our technology, designs and methodologies and processes that we believe may ultimately provide significant competitive advantages. We regularly register copyrights covering our principal e-commerce websites.

As of December 31, 2013, we held 44 U.S. trademark registrations (some of which are registered in multiple classes), which include, among others, CAFEPRESS.COM, CAFEPRESS, the “cafepress” logo, CANVAS ON DEMAND, IMAGEKIND, INVITATIONBOX, LOGOSPORTSWEAR.COM and EZ PRINTS. We are in the process of registering additional trademarks supporting our business and we also claim common law trademark rights in numerous trademarks. We have registered our CAFEPRESS.COM and CAFEPRESS trademarks in numerous countries in Africa, Asia, Australia, Europe and North America.

Our patents expire at various times between November 2025 and June 2031. In addition, in accordance with U.S. federal trademark law, our registered trademarks are registered for an initial period of 10 years, subject to subsequent 10-year renewal periods. We currently intend to maintain the registration of our trademarks indefinitely. We also register trademarks in dozens of international jurisdictions and likewise plan to renew our trademark registrations indefinitely wherever we conduct business. We also file for periodic copyright registrations for all of our operational websites. In the ordinary course of our business, we enter into hundreds of license agreements with content partners for the license of published entertainment content and consumer brands. We are not dependent on any specific content license agreement in the conduct of our business. We also license various forms of third-party technologies in the provision of our e-commerce services. We believe we have multiple sources for third-party technologies used in our business, and if we were to change licensors for any reasons, it would result in minimal disruption to our operations, if any.

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

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

Government regulation

The legal environment of the Internet is evolving rapidly in the United States and around the world. The manner in which existing laws and regulations will be applied to the Internet in general, and how they will relate to our business in particular, are often unclear in many cases. For example, we often cannot be certain how existing laws will apply in the e-commerce and online context, including with respect to such topics as privacy, defamation, pricing, credit card fraud, advertising, taxation, sweepstakes, promotions, content regulation, quality of products and services and intellectual property ownership and infringement.

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

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

- The Copyright Act of 1976 and all of the statutes and regulations associated with and enforced by the United States Patent and Trademark Office which protect the rights of third parties from infringement by users of our service. We maintain an automated service whereby users can upload any content they designate for use in creating customized products, but we likewise maintain content usage policies that prohibit intellectual property rights infringement or infringement of the rights of others, including rights of privacy and publicity. We maintain a robust Intellectual Property Rights policy and a proactive support operation which responds to and manages take-down requests and other concerns relating to third-party intellectual property that might appear on our sites despite policies forbidding the practice. As our business expands to other countries, we must respond to regional and country-specific intellectual property considerations, including take down and cease and desist notices in foreign languages and we must continue to build infrastructure to support these processes globally.
- The Digital Millennium Copyright Act, which provides relief for claims of infringement as it relates to circumvention of copyright protected technologies, but also includes a safe harbor intended to reduce the liability of online service providers for listing or linking to third-party websites that include materials that infringe copyrights or other rights of others. We maintain DMCA-complaint practices for notice and take-down as well as other required practices such as repeat offender management.
- The CAN-SPAM Act of 2003 and similar laws adopted by a number of states, which regulate unsolicited commercial e-mails, create criminal penalties for unmarked sexually-oriented material and e-mails containing fraudulent headers and control other abusive online marketing practices. Similarly, the guidelines of the Federal Trade Commission imposes responsibilities upon us for communications with respect to consumers and imposes fines and liability for failure to comply with rules with respective advertising or marketing practices they may deem misleading or deceptive. Further, the European Union, or the E.U., also maintains standards and regulations with respect to communications with consumers that we must comply with as we expand our marketing practices into those countries.
- Numerous product safety and environmental regulations that apply to the manufacture, sale and distribution of products and apply to our products and services to varying degrees based on the individual types of products sold through our portfolio of e-commerce websites and the inks used in our decorating processes. These regulations include, without limitation, the Consumer Product Safety Act, The Fair Packaging and

Labeling Act, the Federal Food, Drug and Cosmetic Act, California Proposition 65, the California Transparency in Supply Chains Act of 2010, as well as a number of other federal and state product safety and environmental regulatory schemes. Product safety regulations applicable to the E.U. in particular, where the majority of our international sales is currently shipped, are often more stringent than those in the United States and we therefore must evaluate and test applicable products to E.U. standards with respect to products intended for distribution in those markets.

- The Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act) and other state laws and regulations that relate to credit card and gift certificate use fairness, including expiration dates and fees, as well as state laws surrounding escheat and abandonment of unclaimed property.
- In the United States and internationally, we must evaluate tax liabilities from transactions on our portfolio of e-commerce websites and maintain finance infrastructure to support the collection and remittance of applicable sales taxes. In the United States, sales tax nexus issues with respect to Internet sales to consumers
- in states where we do not have a physical presence, which create potential nexus through affiliate program marketing activities and other nascent efforts to imply tax nexus on royalties payable on content licenses. This continues to be an area of great uncertainty and legal scrutiny both on a federal and state level, with over 27 states evaluating or imposing new legislation on various e-commerce activities or engaging in lawsuits with e-retailers. In Europe, we must comply with regulations with respect to customs, duties and V.A.T. as they apply to our business, sometimes on a country-by-country basis, which requires complex tracking and remittance processes.
- The Communications Decency Act of 1996, which gives statutory protection to online service providers for claims against interactive computer services providers who distribute third-party content.
- The Children’s Online Privacy Protection Act of 1998, which restricts the distribution of certain materials deemed harmful to children and imposes additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances.
- Data privacy and security with respect to the collection of personally identifiable consumer information continues to be a focus of worldwide legislation and compliance review. Examples include statutes adopted by the State of California that require online services to report certain breaches of the security of personal data, and to report to California customers when their personal data might be disclosed to direct marketers. In the E.U., where U.S. companies must meet certain privacy and security standards, the Data Protection Directive requires comprehensive information privacy and security protections for consumers with respect to certain information collected about them. Compliance levels include disclosures, consents, transfer restrictions, notice and access provisions for which we may in the future need to build further infrastructure to further support.

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

We post on our website our privacy policies and practices concerning the use and disclosure of user data. Any failure by us to comply with our posted privacy policies, Federal Trade Commission requirements or other privacy-related laws and regulations could result in proceedings by governmental or regulatory bodies that could potentially harm our business, results of operations and financial condition. In this regard, there are a large number of legislative proposals before the United States Congress and various state legislative bodies regarding privacy issues related to our business. It is not possible to predict whether or when such legislation may be adopted, and certain proposals, if adopted, could harm our business through a decrease in user registrations and revenues. These decreases could be caused by, among other possible provisions, the required use of disclaimers or other requirements before users can utilize our services.

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

Raw Materials and Suppliers

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

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

Employees

As of December 31, 2013, we had 775 full-time employees, including 448 in production and operations, 91 in engineering, 190 in sales and marketing and 46 in general and administrative. In addition, each year during our fourth quarter, we hire significant numbers of short term seasonal employees at a number of our locations through temporary staffing agencies. None of our employees are represented by labor unions or covered by a collective bargaining agreement. We consider relations with our employees to be good and have never experienced a work stoppage.

Corporate and available information

CafePress Inc. was incorporated in Delaware in 1999. We completed an initial public offering of our common stock in April 2012 and we trade under the NASDAQ Global Select Market symbol “PRSS”. We maintain our headquarters in Louisville, Kentucky as well as corporate offices in San Mateo, California, and additional offices and production facilities in Raleigh, North Carolina, Norcross, Georgia and Cheshire, Connecticut.

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

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

ITEM 1A. Risk Factors

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

Risks related to our business

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

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

- seasonality of our revenues, including shifts in the timing and length of holiday selling seasons;
- macroeconomic cycles and consumer discretionary spending;
- demand for our user-designed products and services and the growth rate of the print-on-demand and e-commerce industry overall;
- fluctuations in sales and marketing costs, including website traffic acquisition costs and our ability to maintain or increase such traffic cost-effectively;
- market acceptance and competitiveness of our products and services on quality and pricing;
- the gain, loss or success of significant strategic relationships and partner programs;
- changes in the timing or delays in the launch or changes in the product roadmap in connection with strategic relationships and partner programs;
- the development of, or changes to, new technologies and platforms for Internet use, such as mobile, and evolving marketing methods such as social media, flash promotions and any changes in website traffic acquisition algorithms, policies or practices supporting such development;
- conversion rates of website traffic, including the impact on conversion rates from increased traffic from mobile devices as compared to desktops or tablets;
- our ability to provide accurate search results and recommendations and to deliver long-tail content to our e-commerce partners;
- litigation and associated risks and expenses, including extraordinary expenses related to litigation and settlement costs, and difficulty in estimating the impact and timing of variations in the mix of products and services we sell;
- the timing and terms of any acquisition, performance on earn-out provisions and integration activities post acquisition
- any production issues which may in turn result in delayed orders or increased costs;
- new competitive entrants that might occur to the market for customized goods in our distribution or marketing channels;
- fluctuations in the cost of raw materials and inventory;

- difficulties encountered in the integration of newly-acquired businesses and acquisition-related risks and associated expenses, and difficulty in estimating impact and costs related thereto; and
- potential impact of sales tax initiatives on e-commerce sales demand.

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

We may not achieve or sustain consistent profitability or avoid net losses in the future. Our growth rates in the future, if any, may fluctuate or not be sustainable or may decrease. In addition, our ability to be profitable depends on our ability to control our costs and operating expenses, which have increased and we expect to further increase as we expand our business and incur additional expense associated with being a public company. We have incurred in the past, and expect to continue to incur in future periods, stock-based compensation expense, which will reduce our net income and may result in future losses. If we fail to increase revenues at the rate we anticipate or if our costs and operating expenses increase without a commensurate increase in our revenues, our business, financial condition and results of operations will be negatively affected.

A future downturn in our business, slow growth of new business opportunities, or a long term decline in our stock price may result in an impairment of goodwill or intangible assets which could adversely affect our results of operations.

We perform an analysis of our goodwill balances to test for impairment on an annual basis or whenever events occur that may indicate impairment possibly exists. We evaluate our finite-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset is impaired or the estimated useful lives are no longer appropriate. Goodwill is deemed to be impaired if the carrying amount of the reporting unit exceeds the estimated fair value. The impairment of a long-lived intangible asset other than goodwill is only deemed to have occurred if the sum of the forecasted undiscounted future cash flows related to the asset is less than the carrying value of the intangible asset we are testing for impairment. As of December 31, 2013, we had goodwill of $39.4 million and intangible assets of $15.0 million. Goodwill and intangible asset impairment analysis and measurement is a process that requires significant judgment. Our stock price did not change significantly between the date of our annual 2013 impairment analysis and December 31, 2013, however subsequent to our fourth quarter earnings release, our stock price decreased by more than ten percent. Based on our impairment test performed during the third quarter of 2013, we had sufficient excess of market capitalization over book value to absorb a decline of this magnitude. In addition, we believe that our multiples and existing forecasts continue to support a market capitalization level of equal to or greater than our publicly traded market capitalization. As a result, we do not believe that it was more likely than not that the fair value of our reporting unit was less than its book value as of December 31, 2013, and therefore our reporting unit would not be at risk of failing step one of a quantitative goodwill impairment assessment as of that date. However, further and sustained decline in our stock price and resulting market capitalization, further delays in expected new business opportunities associated with EZ Prints and our CafePress Services partnerships, unforeseen losses of any significant existing EZ Prints partners, or significant changes to our profitability resulting from the risk factors mentioned above or throughout this section, could result in impairment of a material amount of our $39.4 million goodwill balance or our $15.0 million intangible asset balance in the future. We cannot be certain that a future downturn in our business, the slower than expected growth of new business opportunities associated with EZ Prints or our CafePress Services partnerships, changes in market conditions or a longer-term decline in the quoted market price of our stock will not result in an impairment of goodwill or intangible assets and the recognition of resulting expenses in future periods, which could adversely affect our results of operations for those periods.

Due to the foregoing factors, our operating results in one or more future quarters may fall below the expectations of securities analysts and investors. In this event, the trading price of our common stock may be materially and adversely affected.

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

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

Intense competitive pricing pressures, particularly with respect to pricing, may harm our business and results of operations.

Demand for our products and services are extremely sensitive to price at all time, but especially in times of recession, slow economic growth and consumer uncertainty and conservatism. Many external factors, including our production and personnel costs, the cost of raw materials, particularly the price of cotton, content selection or consumer sentiment or spending, available product mix and our competitors' pricing and marketing strategies, can significantly impact our pricing strategies. If we fail to meet consumers' price expectations, we could lose customers or fail to attract new customers, which would harm our business and results of operations.

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

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

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

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

- small traditional offline printing businesses;
- e-commerce companies, including large online retailers such as Amazon.com, Inc., Walmart.com, Target and eBay Inc. (who may also serve as our distribution partners);
- online providers of customized products such as RedBubble, Inc., CustomInk, LLC, Spreadshirt, Inc., Threadless.com or Zazzle Inc. and online providers of distinctive goods like Etsy, Inc. or Uncommon Goods;
- online providers allowing users to customize goods in specific vertical markets, such as Vistaprint N.V. for small businesses and Shutterfly, Inc. or SmugMug, Inc., for photographic products, or Minted, Inc., Smilebox Inc. or Blurb, Inc. for specific stationery and book products, and Art.com for wall art products;
- physical and catalog retailers of personalized merchandise such as American Stationery, Red Envelope and Things Remembered; and
- small, but numerous, online providers who address niche customization service and product offerings, enabled by advances in digital printing.

We also indirectly compete with Internet portals and shopping search engines that are involved in e-commerce or sell products or services either directly or in collaboration with other retailers. If more companies move into the customized products space, we will face further direct and intense competition. Our reliance on Internet portals and other sources of Internet and referral traffic to our e-commerce sites, such as Groupon and Facebook, impacts both the way we do business and our performance against competitors. Changes to their practices could drive traffic to our competitors and away from our e-commerce sites in ways we may not anticipate or that will cause us to expend further resources to successfully compete. The shift to mobile site access for e-commerce sites also presents challenges for us as we cope with shifting traffic patterns. For example, we have experienced lower conversion rates from traffic from mobile devices. Furthermore, to the extent that other companies are able to replicate our processes or that advances in print-on-demand technologies reduce any technological or other early mover leads we may have, our business, prospects, financial condition and results of operations could be harmed.

Some of our current and potential competitors have significantly greater financial, marketing and other resources than us, including significant brand recognition, sales volume and customer bases. In addition, other online retailers may be acquired by, receive investment from or enter into strategic relationships with well-established and well-financed companies or investors which would help enhance their competitive positions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A significant proportion of our revenue has been derived from the online sale of user-designed products through our marketplace and through distribution channels derived from our marketplace. We expect that the sales of user-generated design products will continue to comprise a majority of revenue on our CafePress.com business. While we intend to continue to expand and increase our product and service offerings, these services may not increase to a level that would reduce our dependence on revenues from our marketplace. In addition, users who design products may choose not to use our e- commerce platform to create and sell their designs, and choose other platforms, thereby reducing the number of designs available through our websites and affecting future growth of our marketplace revenue. Customers who purchase user-designed products on our websites may also purchase other fulfillment and partner products through our e-commerce services as well, which aid the growth of our services. If competitive services increase and/or we cannot successfully attract or retain users to design and sell products through our e-commerce platform or if we are unable to attract and retain our customers for user-designed and other products, our operating results may suffer. If we are unable to sustain the growth of our core business or otherwise grow the core business through the additional e-commerce services noted, our business and our operating results could be harmed.

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

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

In connection with obtaining entertainment and other media content, we sometimes enter into multi-year, royalty- based licenses with content owners and production organizations for film and television and other media distributors. To date, we have been able to obtain those licenses without paying significant advance royalty payments but there is no guarantee that these licensors will renew their license agreements on the same or reasonable terms. Furthermore, we plan on increasing the level of committed content licensing in our efforts to grow our service and customer base both in the United States and globally. Finally, our competitors may be successful in obtaining exclusive licenses for content we wish to obtain for our site, making such content unavailable to us now or in the future. We may also, as we have in the past, enter into agreements with content providers that contain exclusivity provisions that may restrict our ability to sell certain products or in certain geographies or to partner with certain content providers. In order to compete effectively for these licenses, we could be forced to pay higher royalties or agree to significant advance payments. Our results of operations could be adversely affected as a result of these content licensing payment commitments in the event that sales or revenue growth do not meet our expectations. In addition, our flexibility in planning for, or reacting to, changes in our business and the market segments in which we operate could be limited.

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

If any of the above circumstances increase the cost of obtaining content, our margins may suffer. We must continue to ensure that our content is sufficiently diversified and desirable to meet the needs of the markets we target. We believe that failure to secure content could result in lower sales and customer retention and materially reduce margins.

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

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

In addition, we intend to develop new strategic relationships to expand our marketing and sales channels, such as co-branded or strategic partner- branded websites, retail in-store offerings, content feeds to distribution partners and deployable customization builders on third-party websites. Any failure to develop new products and services, or a lack of adoption of the new products and services we do develop to expand our business beyond our existing target markets or to address additional market opportunities could harm our business, financial condition and results of operations.

As we continue to expand our new strategic and sales channel partnerships our dependence on third parties for the generation of significant revenue growth increases. Partners may make changes to their technology or product road maps or choose to enter the customization business themselves and we thus may have little control over those strategic choices. For example, Amazon.com Inc recently changed its marketing partner approach by limiting many marketplace items category participants to two million SKUs, which drastically reduced our SKUs distributed on their platform. As a result, we had to alter our marketing strategy rapidly to accommodate the changes and such alterations impacted our revenue growth in unanticipated ways.

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

We have experienced in the past periods of rapid growth and acquisitions that have placed, and continue to place, significant strain on our management and resources. To accommodate our growth and our operations as a public company, we anticipate that we will need to continue implement new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting, legal and other internal management and control systems. We also have expanded our production and logistics centers and distribution network to accommodate more customer orders and provide better coverage of our target markets. The recent expansion of our production and logistics centers and distribution network may put pressure on our managerial, financial, operational and other resources. If we are unable to effectively manage our expanded logistics operations and control increasing costs, our growth potential, results of operations and business could suffer. Additionally, we will need to continue to expand, recruit, train, manage and motivate our workforce and manage our relationships with existing and new business partners, suppliers, third-party service providers and content providers. Our strategies also include broadening our product and service offerings, which will require us to work with different groups of suppliers and address the needs of different kinds of consumers. We may incur significant costs in trying to expand our offerings into these new areas or fail to successfully execute the roll-out of these new offerings. All of these endeavors involve risks and require substantial management effort and significant additional expenditures. We cannot assure you that we will be able to manage our growth or execute our strategies effectively, and any failure to do so may have a material adverse effect on our business and prospects, as well as our operating results. As previously disclosed, our board of directors has authorized the review of various strategic alternatives to enhance value for our stockholders, and has retained Raymond James & Associates as our exclusive independent financial advisor to assist the board of directors in this review. No decision on any particular alternative has been reached, but the implementation of such an alternative, if any, in the future may affect our ability to successfully manage our growth or execute our strategies effectively, which could harm our business and results of operations.

We have pursued and may continue to pursue acquisition opportunities as part of our growth strategy and may not realize the anticipated benefits of any such acquisitions, which in turn could harm our business and operating results.

As part of our growth strategy, we intend to evaluate and pursue selected acquisition and expansion opportunities. For example, we acquired Imagekind, Inc. in 2008, Canvas On Demand, LLC in 2010, L&S Retail Ventures, Inc. in October 2011, Logo'd Softwear, Inc. in April 2012 and EZ Prints in October 2012. We may be unable to successfully integrate the businesses we acquire or to realize the anticipated benefits of our acquisitions. These acquisitions and any future acquisitions and the successful integration of assets and businesses into our own as well as the retention of personnel require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. There can be no assurance that we will be successful in these efforts. Acquired assets or businesses may not achieve the anticipated benefits we expect due to a number of factors including: unanticipated costs or liabilities associated with the acquisition, incurrence of acquisition-related costs, harm to our relationships with existing customers as a result of the acquisition, harm to our brands and reputation, the potential loss of key employees, use of resources that are needed in other parts of our business, and use of substantial portions of our available cash to consummate the acquisition. In addition, our ability to impose appropriate internal controls, including accurate forecasting, accounting integration of inventory, costs and reporting, to successfully manage these businesses will require significant investments of resources and management time. Finally, acquisitions could result in the use of substantial amounts of cash, earn-outs, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. For example, in connection with our acquisition of Canvas On Demand, we agreed to pay up to $9.0 million in earn-out payments to the former owners of Canvas On Demand. The earn-out period concluded on September 30, 2013 and $8.6 million of the potential $9.0 million amount was earned and paid.

In August 2013, we entered into an amendment to the EZ Prints merger agreement, pursuant to which the earn-out provision was revised such that the former stockholders of EZ Prints have contingent rights to receive a maximum earn-out consideration of up to $1.0 million, a reduction of $9.0 million from the original agreement, based on achievement of revised performance targets of the acquired business. We also entered into an amended earn-out bonus agreement with one of the former executives of EZ Prints revising his contingent right to receive up to $1.0 million down to $0.1 million. We may enter into other modifications of certain acquisition terms over time which could result in cash payments, potentially dilutive issuances, goodwill impairment charges and other potential unknown liabilities.

In addition to possible stockholders' approval, we may also have to obtain approvals and licenses from the relevant government authorities for acquisitions and comply with any applicable laws and regulations, which could result in increased costs and delay. Finally, over time we may need to modify earn-out structures to accommodate changes in the business and such modifications may impact accounting treatments of acquisitions and otherwise trigger issues that could impact our results of operations. A failure to manage the earn-out provisions of these and other newly-acquired businesses could harm our financial condition and cause results of operations to suffer.

As previously disclosed, our board of directors has authorized the review of various strategic alternatives to enhance value for our stockholders, and has retained Raymond James & Associates as our exclusive independent financial advisor to assist the board of directors in this review. No decision on any particular alternative has been reached, but the implementation of such an alternative, if any, in the future may affect our ability to pursue acquisition opportunities as part of our growth strategy, which could harm our business and results of operations.

Given the relatively short history of some of our service offerings, it may be difficult to evaluate our business and prospects.

In the last four years, we have substantially expanded the service offerings on our websites to include other services such as our Create & Buy services. For example, in 2010, we acquired Canvas On Demand, LLC, or Canvas On Demand, which provides an online service for creating personalized canvases from photographs, in 2011 we acquired L&S Retail Ventures, Inc., an online provider of invitation and stationery products, and in April 2012 we acquired Logo'd Softwear, Inc., an e-commerce provider of personalized apparel and merchandise for groups and organizations. In October 2012, we acquired EZ Prints which provides a deployable e-commerce platform for product customization. We cannot assure you that these services, or any other new services we may introduce or acquire, will be integrated or achieve market acceptance either at a level sufficient to justify our investment or at all.

The integration of technology, infrastructure, personnel, policies and procedures of newly acquired business represents significant challenges to management. Further the challenges of forecasting and managing newly acquired business is formidable and we have a limited history of operating these new services, which makes predicting our future results of operations more difficult than it otherwise would be. Therefore, our past results of operations should not be taken as indicative of our future performance. Our ability to achieve satisfactory financial results from these new services is unproven.

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

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

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

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

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

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

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

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

The satisfactory performance, reliability and availability of our websites, our marketing activities, our transaction-processing systems and our network infrastructure are critical to our success. Our revenues depend on the number of visitors who shop on our websites and the volume of orders we fulfill. Any system delays, interruptions or disruptions to our servers caused by telecommunications failures, computer viruses, physical break-ins, domain attacks, hacking or other attempts to harm our systems or servers that result in the unavailability or slowdown of our websites, loss of data or reduced order fulfillment performance would reduce the volume of products sold and the attractiveness of product offerings on our websites. We may also experience interruptions caused by reasons beyond our control. For example, in the fourth quarter of 2006, our servers experienced a denial of service attack, which disrupted access to our websites for several days during the holiday buying season. These unexpected interruptions may occur in the future, and future occurrences could damage our reputation and harm our revenues and results of operations.

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

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

Our success depends on our ability to successfully receive, produce and fulfill orders and to promptly and securely deliver our products to our customers, which in turn depends in part on the efficient and uninterrupted operation of our computer and communications systems. A significant portion of our production, inventory management, packaging, labeling and shipping processes are performed in a single production and fulfillment center located in Louisville, Kentucky and such single location reliance presents risks. In addition, substantially all of the computer hardware necessary to operate our principal websites is located at third-party hosting facilities in Las Vegas, Nevada and in Louisville, Kentucky. These facilities are susceptible to damage or interruption from human error, fire, flood, ice storms, power loss, insufficient power availability, telecommunications failure, terrorist attacks, acts of war, break-ins, earthquakes and similar events. In addition Louisville, Kentucky, our principal production site, is particularly susceptible to flooding and extreme weather patterns. Our production operations are dependent on order management and other automation software systems that may be especially subject to human error in programming. For example, in December 2013, we experienced issues related to modifications made to order management software at our Kentucky production facilities which resulted in delayed orders and increased costs for a period of time during our peak season and significantly impacted results of operations for the quarter.

We are also consolidating production there as we integrate acquired businesses heightening risks of single site production. The integration process itself also poses infrastructure challenges in moving equipment and resources, which may lead to increased costs in the short term due to redundancies needed, all of which may impact our results of operations. We also maintain offices and operations in Northern California, an area where the risk of an earthquake is significant due to the proximity of major earthquake fault lines. Any catastrophic loss to any of these facilities would likely disrupt our operations, delay production, shipments and revenues and result in significant expenses to repair or replace the facility. Our business interruption insurance may be insufficient to compensate us for losses that may occur, particularly from interruption due to an earthquake, which is not covered under our current policy. Any interruptions in our production, fulfillment center or systems operations, particularly for any significant period of time, could damage our reputation and brands and substantially harm our business and results of operations.

Shipment of merchandise sold in our marketplaces could be delayed or disrupted by factors beyond our control and we could lose buyers and sellers as a result.

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

- reduced visibility of integrated order status and package tracking;
- delays in merchandise receipt and delivery;
- increased cost of shipment; and
- reduced shipment quality, which may result in damaged merchandise.

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

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

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

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

As an Internet service provider that prints content provided by others, we face allegations related to, and potential liability for, negligence, copyright or trademark infringement or other claims that we display and the goods created from user-generated uploads to our service. Intellectual property law for secondary liability for copyright infringement is particularly uncertain in many jurisdictions. We also may face allegations related to, and potential liability for, content uploaded from our users in connection with claims of defamation, racism, hate speech, obscenity or pornography that may be embodied in user expression. As globally available websites, we also receive inquiries about content that may be illegal or insensitive to cultural norms not only in the United States but worldwide, and those sensitivities may differ widely. For example, content related to glorification of the current North Korean regime, while offensive to many, is not illegal in the United States. In South Korea, distribution of such speech is considered illegal and we therefore are subject to geographic-specific blocks on content on our websites.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We must anticipate the popularity of products and purchase blank inventory and secure sufficient supplies before customizing and selling them to our customers. Across all of our businesses, including the newly-acquired businesses, we must manage differing demand and inventory controls to accurately forecast and protect against risks. If we fail to adequately predict demand and experience an unexpected peak in production, our production times will suffer, which may result in damage to our reputation and business. For example, if we do not have an adequate supply of ink due to periods of unexpected peak demand, our ability to print and deliver products may be delayed. Conversely, any over purchase of ink or other supplies exposes us to risks of obsolete or excess inventory. Under some of our current supply agreements, we enjoy flexible policies for returning the unsold items to our suppliers. In order to secure more favorable business terms, we have entered into and plan to continue to enter into purchase arrangements with our suppliers with more restrictive return policies or with commitments to purchase larger quantities of inventory or supplies. For example, some of our contracts with suppliers contain restrictions on our ability to return products, such as caps on the amount of products that can be returned, and we may lose preferential pricing terms for such products if we exceed these caps, which could materially affect our profit margins. If we are unable to correctly predict demand for the products that we are committed to purchase, we will be responsible for covering the cost of the products that we are unable to sell, and our financial condition and results of operations would likely suffer.

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

Like most retailers, manufacturers in China are the source of much of the blank inventory we utilize in the creation of customized products for sale on our websites, whether sourced from vendors directly by our supply managers or purchased through our business or fulfillment partners. Regulatory oversight of manufacturing in China is not subject to the same standards of product safety or supply chain scrutiny as may be expected in the United States. One or more of our vendors might not adhere to U.S. quality or legal standards, and we might not identify the deficiency before merchandise ships to our customers. As an example, The Transparency in Supply Chains Act of 2010 in California also requires us to audit our vendors with respect to risks of human trafficking and slavery and mitigate these risks in our operations. Any failure to disclose issues or other non-compliance could subject us to action by the California Attorney General or other regulatory authorities. Our distribution partners likewise maintain global sourcing policies with which we must comply in order to maintain business relationships. Such policies require us to monitor our supply chain and there is no guarantee we will be able to do so consistently and successfully over time and secure a price that is not otherwise damaging to our business. In addition, our vendors may have difficulty adjusting to our changing demands and growing business. Our vendors’ failure to manufacture or import quality merchandise in a timely and effective manner could damage our reputation and brands, and could lead to an increase in customer litigation against us and an increase in our routine litigation costs. We rely on indemnities from suppliers and manufacturers with respect to the goods we customize and that protection may or may not be enough to shield us from liability for quality deficiencies. Further, any merchandise that we receive, even if it meets our quality standards, could become subject to a later recall, which could damage our reputation, our brands and our customers’ brands and harm our business. While we have never been subject to a product recall, there can be no guarantee that we will not face one in the future and the costs associated with such a recall may be substantial. Recently enacted legislation has given the United States Consumer Product Safety Commission increased regulatory and enforcement power, particularly with regard to children’s safety, among other areas. As a result, companies such as ours may be subject to more product recalls and incur higher recall-related expenses. Any recalls or other safety issues could harm our business and operating results.

Our business would be adversely affected by the departure of existing members of our senior management team and other key personnel.

Our success depends, in large part, on the continued contributions of our senior management team for CafePress Inc. as well as those other key personnel who manage our individual website properties. In addition, we have not entered into long-term employment agreements or non-compete agreements with some members of our senior management team. Our employees can terminate their employment with us at any time. For example, in November 2013, our Senior Vice President, Art and Stationery resigned, and effective as of March 31, 2014, our Chief Financial Officer will transition to a consulting role at the company. The loss of further members of our senior management team or key personnel could harm our ability to implement our business strategy and respond to the rapidly changing market conditions in which we operate.

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

Our operations depend heavily on skilled personnel trained in our proprietary printing and production techniques and personnel knowledgeable about the online retail industry. Our future success depends, to a significant extent, on our ability to attract, train, integrate and retain qualified personnel with relevant experience and skill sets. Recruiting and retaining capable personnel, particularly those with expertise in the retail, e-commerce and printing industries, is vital to our success. In recent years, a substantial amount of our growth in personnel has been due to newly-acquired businesses. In our newly-acquired businesses we must strive to integrate and retain employees of these businesses into ours and maintain motivation to achieve future growth and revenue in the acquired properties. There is substantial competition for qualified personnel and we cannot assure you that we will be able to attract or retain our personnel. If we are unable to attract and retain qualified personnel for each of our e-commerce sites, our business may suffer.

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

Protection of our proprietary technology is critical to our business. Failure to protect and monitor the use of our existing intellectual property rights could result in the loss of valuable technologies and prevent us from maintaining a leading market position. We rely primarily on patents, trademarks, trade secrets, copyrights and other contractual restrictions to protect our intellectual property. As of December 31, 2013 , we had four issued patents and six patents pending in the United States, which relate to our e-commerce services, our proprietary printing and decorating services and an online platform for designing and generating framed products. We may have, on occasion, disclosed inventions prior to making the relevant filings, which may make our patent applications and any resulting issued patents vulnerable to validity challenges. Our pending patent applications may not result in issued patents, or if patents are issued to us, such patents may not provide meaningful protection against competitors or against competitive technologies.

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

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

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

Our success depends largely on our ability to use and develop our technology and know-how without infringing or misappropriating the intellectual property rights of third parties. The validity and scope of claims relating to business process patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. We have been and may continue to be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties, including allegations of patent infringement asserted by patent holding companies or other adverse patent owners who have no relevant product revenues and against whom our own patents may therefore provide little or no deterrence. E-commerce companies and divisions have been particularly the target of speculative patent infringement claims in recent years. For example, in January 2013, Express Card Systems LLC filed suit against us and in a separate suit, against partner Target Corporation, for which we have an indemnification obligation for the licensed platform. CafePress settled both suits in May 2013 on behalf of itself, EZ Prints, its wholly-owned subsidiary, and its partner Target Corporation. While we may believe such suits to be meritless, the defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. If in the future any such suits are filed, their defense will likewise contribute to costs and diverting of resources of our management personnel. If a material, adverse determination is made in the future in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, which may not be available on reasonable terms, or at all, pay ongoing royalties, or subject us to injunctions prohibiting the use of our technologies. Protracted litigation could also result in our customers or potential partner customers of our products or services deferring, limiting or ceasing their purchase or use of our website services until resolution of such litigation.

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

In addition to the potential infringement claims otherwise described above, we may be involved in claims, suits, government investigations, and regulatory proceedings arising in the course of our business, including actions with respect privacy, data protection, law enforcement, taxes, labor and employment claims as well as stockholder derivative actions, class actions lawsuits and other matters. For example, we were recently named, among other defendants, in purported class action lawsuits on behalf of purchasers of shares issued in our IPO and thereafter.

Regardless of the outcome, such legal proceedings can have an adverse impact on us because of the legal defense costs, diversion of our board of directors, management and other personnel’s time and resources, and other factors and expenses. In addition, it is possible that resolution of one or more such proceedings could result in liability, penalties or sanctions, as well as judgments, penalties, consent decrees or orders preventing us from offering certain features in our product offerings or services, requiring changes in our business practices or revenue models, or introducing doubts in the minds of customers, business partners or investors as to the future materiality or validity of such claims that could adversely affect our business, operating results, and financial condition.

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

We have limited experience as a public company and will incur significant legal, accounting and other expenses, particularly after we cease to be an “emerging growth company” that we did not incur as a private company. The individuals who constitute our management team have limited experience managing a publicly traded company, and limited experience complying with the increasingly complex and changing laws pertaining to public companies. Our management team and other personnel will need to devote a substantial amount of time to compliance initiatives and we may not successfully or efficiently manage our transition into a public company. In addition, the Sarbanes-Oxley Act and the Dodd-Frank Act of 2010, as well as rules subsequently implemented by the SEC and the Nasdaq Stock Market, or Nasdaq, impose a number of requirements on public companies, including requiring changes in corporate governance practices. The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. While the Jumpstart Our Business Startups Act, also known as the JOBS Act, enacted in April 2012, provided us with additional time to achieve full compliance, the regulations surrounding

Section 404 of the Sarbanes-Oxley Act required us to, and we will continue to, incur substantial accounting expense and expend significant management time on compliance-related issues. Moreover, these rules and regulations will continue to increase our legal, accounting and financial compliance costs and will make some corporate activities more time-consuming and costly than private company compliance. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers and will make securing directors' and officers' liability insurance more expensive.

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

We have implemented and continue to adopt and implement measures to improve our internal controls. We are also in the process of developing procedures for our newly-acquired companies as well. If the procedures we have adopted and implemented are insufficient, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and our operating results may be harmed. In the past we have experienced deficiencies in internal controls, and while the amounts of revenue involved were not material and we believe we have remediated the deficiency, there can be no assurance that similar or other significant deficiencies or material weaknesses in our financial reporting will not occur in the future. Any failure to maintain or implement required new or improved controls, or difficulties we encounter in their implementation, could result in significant deficiencies or material weaknesses, cause us to fail to meet our future reporting obligations or cause our financial statements to contain material misstatements. Internal control deficiencies could also result in a restatement of our financial statements in the future or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

Since we are an "emerging growth company," as defined by the JOBS Act and for as long as we maintain such status, we are not required at this time to include an attestation report of our registered public accounting firm regarding internal control over financial reporting. The absence of such report could impair our ability to detect weaknesses or errors in our financial reporting. If we fail to maintain effective and appropriate internal controls over financial reporting processes or modify them as necessary to maintain such controls, investors could lose confidence in the accuracy and completeness of our financial reports. If we fail to properly manage internal operational controls across our businesses and our websites, confidence in our business and results of operations may suffer and the price of our common stock may decline. If the reliability of our internal control over financial reporting is in question, the price of our common stock may decline or be otherwise adversely affected. Such doubts about the efficacy of internal controls could also impair our ability to attract new investors and may adversely affect our ability to continue our growth and meet our forecasts.

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

We operate numerous acquired businesses in the process of integration and many currently operate on general ledgers of accounts through disbursed finance groups located at our plant operation locations. Such management of the general ledgers requires the increased review and vigilance of our corporate finance team and attaches increased costs to our annual audit process given the size and complexity of our business. To date we have not discovered any materials weaknesses in our internal controls of the geographically diverse operations but it is possible that we may discover material weaknesses in our internal control over financial reporting in the future. We have incurred and will continue to incur high annual audit costs to ensure our controls practices meet the standards required by our auditors. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could cause us to fail to meet our periodic reporting obligations, or result in material misstatements in our financial information or cause us to incur material increase in the costs associated with our audits. Any such delays or restatements could cause investors to lose confidence in our reported financial information and lead to a decline in our stock price. Any dramatically increased costs could impact our results in operations and stock price could be materially adversely impacted.

Risks related to our industry

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

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

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

A decline in the popularity of shopping on the Internet in general, interest in customized goods as a retail trend or any failure by us to adapt our websites and improve the online shopping experience of our customers in response to consumer requirements and tastes, will harm our revenues and business prospects.

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

We plan to continue to target customers in countries outside the United States. We maintain websites localized to the markets in the United Kingdom, Australia, Canada, Germany, Spain and France. Additionally, we utilize contract manufacturing operations through partners in the Czech Republic and Australia. In connection with our international presence we are subject to a variety of risks including:

- the need to develop new production, supplier and customer relationships;
- difficulties in enforcing contracts, collecting accounts receivables and longer payment cycles;
- regulatory, political or contractual limitations on our ability to operate and sell in certain foreign markets, including trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses as well as tax nexus issues for royalties paid to non-U.S. content providers;
- varying and more extensive data privacy and security laws and regulations in other countries;
- challenges of international delivery and customs requirements;

- varying product safety requirements and content restrictions in other countries;
- difficulties of language translations, increased travel, infrastructure and legal compliance and enforcement costs associated with international operations;
- currency translation and transaction risk, which may negatively affect our revenues, cost of net revenues and gross margins, and could result in exchange losses;
- difficulty with managing widespread international operations and fulfillment partnerships;
- reduced protection for intellectual property rights in some countries;
- the need to defend against intellectual property infringement claims against us in unfamiliar foreign legal regimes and to comply with unfamiliar foreign regulatory schemes and laws;
- lower per capita Internet usage and lack of appropriate infrastructure to support widespread Internet usage as well as broadband connections on which our content-rich services depend;
- heightened exposure to political instability, war and terrorism; and
- changes in the general economic and political conditions.

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

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

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

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

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

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

We account for unredeemed gift cards, gift certificates, and flash deal promotions through group-buying websites and merchandise credits based on historical redemption data. In the event that our historical redemption patterns change in the future, our estimates for redemption would change, which would affect our financial position or operating results. Further, in the event that a state or states were to require that the unredeemed amounts be escheated to such state or states, our business and operating results would be harmed.

As mentioned above, we also participate in flash deal promotions through group-buying websites such as Groupon. Due to the emerging development of this business model, the terms and conditions of these programs continue to evolve and the taxation, legal and other potential regulatory implications of these sales activities have yet to be fully settled. Based on the terms of the agreements that we have entered into to date, and based on our judgmental evaluation of the criteria in the authoritative accounting guidance, we have concluded that we are the primary obligor in these transactions and have recorded revenues on a gross basis and the fees retained by the group-buying website as sales and marketing expense. We will continue to evaluate changes in the terms and conditions of these programs, or changes in accounting guidance in determining our accounting for these programs. There can be no guarantee that the legal, accounting and customer service approaches we have taken to these programs will be appropriate in the future. Changes in the terms and conditions of these programs or our evaluation of our performance obligations and associated tax, escheatment and other obligations associated with these programs could have a material adverse effect on our business, operating results or financial position or otherwise harm our business.

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

United States Supreme Court precedents currently restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet. However, in recent years, a number of states have attempted or are considering adoption of initiatives that limit or supersede the Supreme Court's position regarding sales and use taxes on Internet sales or with respect to affiliate marketing programs we employ to generate sales on our websites. If these initiatives are successful, we could be required to collect sales taxes in additional states or change our business practices and we may be exposed to retroactive liability on sales. In addition, Congress is considering a bill introduced in July 2011 called the Main Street Fairness Act, which would authorize states to use the Streamlined Sales and Use Tax Agreement to require remote retailers to collect and remit sales taxes in those states. Other bills were introduced thereafter, including The Marketplace Equity Act and The Marketplace Fairness Act, which covered similar subject matters. The bill did not pass in the election year cycle of 2012, but the bill was successfully reintroduced in 2013. The bill was passed by the U.S. Senate in May 2013, however it has since stalled in the House and committee and no further action was taken by the 113th Congress. The imposition of a Federal tax scheme or the imposition by individual state and local governments of taxes upon Internet commerce or affiliate programs could create administrative burdens for us in the future that may pose operational challenges. We currently collect sales tax in states in which we believe we have established sales tax nexus based on our operations and physical presence and in compliance with existing law. We have elected to discontinue affiliate marketing programs residing in states that have enacted affiliate sales tax nexus statutes. Under some of our agreements, another company is the seller of record, but we are nevertheless obligated to collect sales tax on transactions. We may enter into additional agreements requiring similar tax collection obligations. We expect the complexity of the application of various taxation schemes to continue to pose challenges to our business as it grows.

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

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

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

Risks related to ownership of our common stock

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

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

- actual or anticipated fluctuations, including seasonal variations, in our financial condition and operating results;
- changes in the economic performance or market valuations of other e-commerce companies or companies perceived by investors to be comparable to us;
- loss of a significant amount of existing business;
- actual or anticipated changes in our growth rate relative to our competitors;
- actual or anticipated fluctuations in our competitors' operating results or changes in their growth rates;
- issuance of new or updated research or reports by securities analysts, including the publication of unfavorable reports or change in recommendation or downgrading of our common stock;
- lack of coverage of us by industry or securities analysts;
- our announcement of actual results for a fiscal period that are higher or lower than projected results or our announcement of revenues or earnings guidance that is higher or lower than expected;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- fluctuations in the supply and prices of materials used in our products, such as cotton;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- commencement of, our involvement in, litigation;
- terrorist attacks or natural disasters or other such events impacting countries where we or our customers have operations; and
- general economic and market conditions.

For example, from March 29, 2012 through December 31, 2013, our stock price has fluctuated from a high of $22.69 to a low of $4.91 on November 9, 2012. As of December 31, 2013, our stock price closed at $6.33.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may cause the market price of shares of our common stock to decline. As an e-commerce company, we believe our stock price may be particularly susceptible to volatility as the stock prices of technology and e-commerce companies have often been subject to wide fluctuations.

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

We have been named as a defendant in a purported securities class action lawsuit, which could cause us to incur substantial costs and divert management's attention and financial and other resources.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. Companies such as ours in the high technology industry are particularly vulnerable to this kind of litigation due to the high volatility of their stock prices. On July 10, 2013, we were named, among other defendants, in a purported class action on behalf of purchasers of shares issued in our IPO that generally alleges that the registration statement for our IPO contained materially false or misleading statements. On July 14, 2013, a second, similar complaint was filed. These and any future lawsuits to which we may become a party will likely be expensive and time consuming to investigate, defend and resolve, and will divert our management's attention and financial and other resources. Any litigation to which we are a party may result in an onerous or unfavorable judgment that may not be reversed upon appeal or in payments of substantial monetary damages or fines, or we may decide to settle lawsuits on similarly unfavorable terms, which could adversely affect our business, financial conditions, or results of operations.

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

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

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

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

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

- our board of directors is authorized, without prior stockholder approval, to create and issue preferred stock, commonly referred to as "blank check" preferred stock, with rights senior to those of common stock;
- advance notice is required of stockholders to nominate candidates to serve on our board of directors or to propose matters that can be acted upon at stockholder meetings;
- stockholder action by written consent is prohibited;

- special meetings of the stockholders will be permitted to be called only by a majority of our board of directors, the chairman of our board of directors or our chief executive officer;
- stockholders will not be permitted to cumulate their votes for the election of directors;
- newly created directorships resulting from an increase in the authorized number of directors or vacancies on our board of directors will be filled only by majority vote of the remaining directors, even though less than a quorum is then in office, or by a sole remaining director;
- the requirement that the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for certain derivative and other actions;
- our board of directors is expressly authorized to modify, alter or repeal our amended and restated bylaws; and
- stockholders will be permitted to amend our amended and restated bylaws only upon receiving at least two- thirds of the votes entitled to be cast by holders of all outstanding shares then entitled to vote generally in the election of directors, voting together as a single class.

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

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Facilities

As of December 31, 2013, our properties consisted of the following locations:

Principal use	Location	Square footage	Lease expiration
Corporate Offices	San Mateo, California	21,441	March 31, 2018
Corporate Offices and Production Facilities	Louisville, Kentucky	331,165	July 31, 2017
Offices and Production Facilities	Norcross, Georgia	69,942	March 31,2016
Production Facilities	Norcross, Georgia	14,014	January 31, 2014
Offices and Production Facilities	Raleigh, North Carolina	55,000	December 31, 2015
Production Facilities	Cheshire, Connecticut	12,000	March 31, 2027

We believe that current facilities are sufficient to meet our needs for the foreseeable future and should additional space be needed, such space can be leased on commercially reasonable terms to accommodate any future growth. We did not, nor did we plan to, renew the lease portion of the Norcross location that expired in January.

ITEM 3. Legal Proceedings

On July 10, 2013, a complaint captioned Desmarais v. CafePress Inc., et al. CIV-522744 was filed in the Superior Court of California, County of San Mateo naming as defendants the Company, certain of our directors, our chief executive officer, our chief financial officer and certain underwriters of our IPO. The lawsuit purports to be a class action on behalf of purchasers of shares issued in the IPO and generally alleges that the registration statement for the IPO contained materially false or misleading statements. The complaint purports to assert claims under the Securities Act of 1933, as amended, and seeks unspecified damages and other relief. On July 14, 2013 a similar compliant making substantially identical allegations and captioned Jinnah v. CafePress Inc., et al. CIV-522976 was filed in the same court against the same defendants.

We are, at this time, unable to assess whether any loss or adverse effect on our financial condition is probable or remote or to estimate the range of potential loss, if any. We believe these suits to be without merit and will defend ourselves vigorously.

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

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for our common equity

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

Fiscal Year 2012	High	Low
First Quarter (beginning on March 29, 2012)	$22.69	$18.90
Second Quarter	$19.39	$12.12
Third Quarter	$15.21	$ 7.68
Fourth Quarter	$ 9.16	$ 4.44

Fiscal Year 2013	High	Low
First Quarter	$ 7.31	$ 5.53
Second Quarter	$ 6.81	$ 5.63
Third Quarter	$ 7.27	$ 5.72
Fourth Quarter	$ 6.78	$ 5.57

On March 26, 2014, the last sale price for our common stock on NASDAQ was $5.93 per share.

Stockholders

As of March 24, 2014, according to the records of our transfer agent, there were approximately 150 registered holders of our Common Stock excluding stockholders whose shares were held in nominee or street name by brokers.

Dividends

We have never declared or paid any cash dividends on shares of our capital stock. We currently expect to retain all of our earnings, if any, to finance the expansion and development of our business, and we do not currently

[Table of Contents](#)

[Index to Financial Statements](#)

intend to pay any cash dividends on our capital stock in the foreseeable future. Our board of directors will determine whether to declare any future dividends, if any, in its discretion subject to applicable laws. Any such determination will depend on our financial condition, results of operations, capital requirements, general business conditions and any other factors our board of directors may deem relevant.

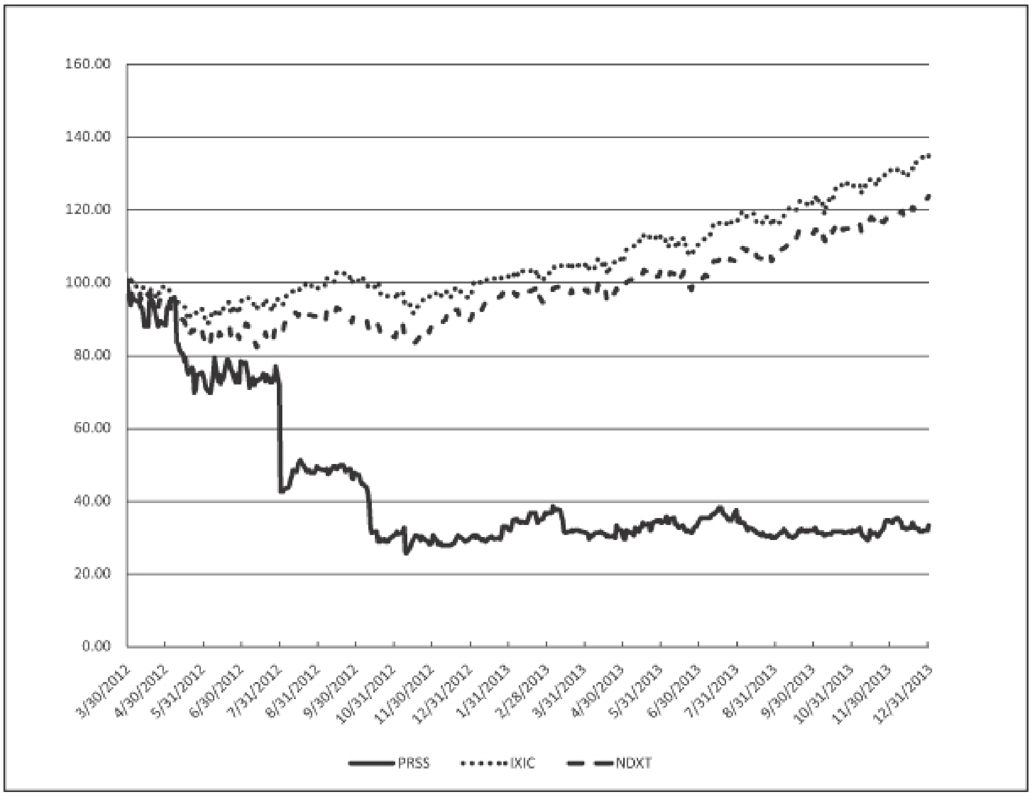
Securities authorized for issuance under equity compensation plans

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

Stock performance graph

We have presented below the cumulative total return to our stockholders during the period from March 29, 2012 (the date our common stock commenced trading on the NASDAQ Global Select Market) through December 31, 2013 in comparison to the NASDAQ Composite Index and the NASDAQ-100 Technology Sector Index. All values assume a $100 initial investment and assume reinvestment of dividends.

COMPARISON OF NINE MONTH CUMULATIVE TOTAL RETURN Among CafePress, Inc, the NASDAQ Composite Index And the NASDAQ-100 Technology Sector Index



This performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of CafePress, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.

The comparisons in the graph above are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of our common stock.

Unregistered sales of equity securities

None.

Issuer purchases of equity securities

There are currently no authorized repurchase programs in effect under which we may repurchase shares of our outstanding common stock.

Use of proceeds from our IPO

On March 28, 2012, our registration statement on Form S-1 (File No. 333-174829) was declared effective by the SEC for our initial public offering whereby we, together with our selling stockholders, sold an aggregate of 4,500,000 shares of our common stock at a price to the public of $19.00 per share.

There has been no material change in the use of the proceeds from our initial public offering from what is described in our final prospectus filed with the SEC pursuant to Rule 424(b).

Table of Contents

Index to Financial Statements

ITEM 6. Selected Financial Data

The following selected consolidated financial data should be read together with the consolidated financial statements and the notes to the consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this report.

	Year ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Consolidated statements of operations data:					
Net revenues	$245,856	$217,786	$175,482	$127,930	$103,493
Cost of net revenues(1)	152,352	128,599	100,191	72,447	57,688
Gross profit	93,504	89,187	75,291	55,483	45,805
Operating expenses:					
Sales and marketing(1)	63,736	53,978	40,809	26,484	17,711
Technology and development(1)	20,874	14,921	12,768	14,305	13,152
General and administrative(1)	17,720	16,809	13,573	9,593	9,322
Acquisition-related costs	(1,668)	3,424	2,696	794	—
Total operating expenses	100,662	89,132	69,846	51,176	40,185
(Loss) income from operations	(7,158)	55	5,445	4,307	5,620
Interest income	40	76	56	116	220
Interest expense	(204)	(202)	(194)	(215)	(253)
Other (expense) income, net	(6)	—	—	239	(3)
(Loss) income before income taxes	(7,328)	(71)	5,307	4,447	5,584
Provision for income taxes	6,173	11	1,701	1,724	2,255
Net (loss) income	$ (13,501)	$ (82)	$ 3,606	$ 2,723	$ 3,329
Net (loss) income per share of common stock(2):					
Basic	$ (0.79)	$ (0.01)	$ 0.17	$ 0.11	$ 0.15
Diluted	$ (0.79)	$ (0.01)	$ 0.16	$ 0.10	$ 0.15
Shares used in computing net (loss) income per share of common stock(2):					
Basic	17,143	15,021	8,798	8,308	8,065
Diluted	17,143	15,021	9,403	8,860	8,668

(1) Amounts include stock-based compensation expense as follows:

	Year ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Cost of net revenues	$ 216	$ 238	$ 164	$ 152	$ 160
Sales and marketing	387	573	520	472	359
Technology and development	250	191	267	569	618
General and administrative	2,920	3,181	1,427	981	1,004
Total stock-based compensation expense	$3,773	$4,183	$2,378	$2,174	$2,141

Table of Contents

Index to Financial Statements

(2) Please see notes 2 and 11 to our audited consolidated financial statements for an explanation of the calculations of our basic and diluted net income per share of common stock.

	Year ended December 31, 2013	2012	2011	2010	2009
	(in thousands, except key operating metrics) (unaudited)				
Other financial and non-GAAP financial data:					
Adjusted EBITDA(3)	$ 9,004	$ 17,603	$ 18,740	$ 14,550	$ 14,136
Capital expenditures	10,274	11,012	5,373	5,836	3,283
Key operating metrics:					
Total number of orders(4)	6,786,001	4,881,974	3,545,305	2,655,264	2,157,835
Average order size(5)	$ 35	$ 45	$ 50	$ 48	$ 48
Average order size excluding EZ Prints (5)(6)	$ 51	$ 51	$ 50	$ 48	$ 48

(3) Adjusted EBITDA is a non-GAAP financial measure that our management uses to assess our operating performance and it is a factor in the evaluation of the performance of our management in determining compensation. We define Adjusted EBITDA as net income less interest and other income (expense), provision for income taxes, depreciation and amortization, amortization of intangible assets, acquisition- related costs, stock-based compensation and impairment charges.

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

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

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

	Year ended December 31, 2013	2012	2011	2010	2009
	(in thousands) (unaudited)				
Net income (loss)	$(13,501)	$ (82)	$ 3,606	$ 2,723	$ 3,329
Non-GAAP adjustments:					
Interest and other (income) expense	170	126	138	(140)	36
Provision for income taxes	6,173	11	1,701	1,724	2,255
Depreciation and amortization	9,081	6,294	5,836	6,364	6,013
Amortization of intangible assets	4,976	3,647	2,385	911	362
Acquisition-related costs	(1,668)	3,424	2,696	794	—
Stock-based compensation	3,773	4,183	2,378	2,174	2,141
Adjusted EBITDA	$ 9,004	$17,603	$18,740	$14,550	$14,136

(4) Total number of orders represents the number of individual transactions that are shipped during the period. 2012 includes 722,744 orders from EZ Prints.

Table of Contents

Index to Financial Statements

(5) Average order size is calculated as billings for a given period divided by the total number of associated orders in the same period. Due to timing of meeting revenue recognition criteria, billings may not be recognized as revenues until the following period.
(6) Represents average order size net of the EZ Prints acquired business.

	Year ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	$ 33,335	$ 31,198	$27,900	$19,276	$13,255
Short-term investments	3,475	9,403	8,437	10,033	12,974
Working capital	11,020	13,837	17,973	15,873	15,502
Total assets	141,440	157,532	88,982	72,056	52,388
Total indebtedness	2,613	3,707	3,174	3,020	3,326
Convertible preferred stock	—	—	22,811	22,811	22,811
Total stockholder’s equity	83,654	25,620	25,620	17,419	7,709

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

We are a leading e-commerce platform provider enabling consumer and business partner customers worldwide to shop, create and sell a wide variety of customized and personalized products. We serve our customers and partners, through our portfolio of e-commerce websites, including our flagship website, CafePress.com and through our e-commerce platform products and services. We have developed well-known brands with growing communities that, as of December 31, 2013, had more than 20 million members across all of our retail website properties. Our portfolio of websites enable partners, resellers and co-branded websites to design and customize products that individually target specific consumers, products and use cases. We also provide a robust platform of technology products and service offerings to allow our corporate customers to leverage our online services for their own consumer customers with little up-front investment and no inventory.

The majority of our net revenues are generated from sales of customized products through our e-commerce websites, associated partner websites or through storefronts hosted by CafePress. In addition, we generate revenues from fulfillment services, including print and production services provided to third parties. Customized products include user-designed products as well as products designed by our content owners.

An important driver for our growth is customer acquisition, primarily through online marketing efforts including paid and natural search, email, social, affiliate and an array of other channels, as well as the acquisition efforts of our content owners. We are investing aggressively in customer acquisition and as a result, our sales and marketing expenses are our largest operating expense. Increases in our content library of user-generated and branded content also drive our growth. The expansion of product categories, as well as branded products, contributed to increases in our sales volume as consumers continue to desire custom products, individualized to their own interests and affiliations. To further expand our customer base outside the United States, we maintain localized websites in Australia, Canada, Germany, France, Spain and the United Kingdom. We are also reaching new customers through partnerships with large ecommerce and retail companies.

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 from traffic from mobile devices. We expect that this shift to mobile site access will continue for the foreseeable future.

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

A key differentiator of our business model is our ability to cost effectively produce customized merchandise in small quantities on a when-ordered basis. We generally process and ship orders within three business days after a customer places an order and in many instances can process and ship an order within 24 hours from when the order is placed. We have invested substantial time and resources in establishing our production and fulfillment operations and, in 2013, our manufacturing costs increased to fund the consolidation of several of our operations into our flagship Louisville, KY plant.

As previously disclosed, our board of directors has authorized the review of various strategic alternatives to enhance value for our stockholders, and has retained Raymond James & Associates as our exclusive independent financial advisor to assist the board of directors in this review. No decision on any particular alternative has been reached at this time and there are no assurances as to whether any strategic alternative will be recommended by our board of directors or implemented and under what terms and conditions.

Also as previously disclosed, effective as of March 31, 2013, our Chief Financial Officer, Monica Johnson, will begin a transition from CafePress, and Garett Jackson will become interim Chief Financial Officer. Ms. Johnson will continue in consulting and advisory roles with us for the rest of 2014.

We monitor several key operating metrics including:

Three months ended	Mar. 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012	Mar. 31, 2013	June 30, 2013	Sept. 30, 2013	Dec. 31, 2013
Key operating metrics: *(excluding EZ Prints)*								
Total number of orders	839,020	888,439	830,819	1,600,952	1,429,106	1,477,063	1,315,414	2,564,418
Average order size:								
Excluding EZ Prints	$ 48	$ 52	$ 54	$ 50	$ 53	$ 52	$ 53	$ 48
Including EZ Prints	$ 48	$ 52	$ 54	$ 37	$ 35	$ 34	$ 38	$ 35

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. We generally process and ship orders within three business days after a customer places an order. During periods of peak demand, such as the fourth quarter, we optimize our fulfillment operations and resource allocations on a daily basis to maintain process efficiency and high levels of customer satisfaction.

Average order size

Average order size is calculated as billings for a given period based on shipment date divided by the total number of associated orders in the same period. Due to timing of meeting revenue recognition criteria, billings may not be recognized as revenues until the following period. We closely monitor the average order size as it relates to changes in order volume, product pricing and product mix.

Basis of presentation

Net revenues

We generate revenues from online transactions through our portfolio of e-commerce websites and through our partner's websites.

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

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

Cost of net revenues

Cost of net revenues includes materials, labor, royalties and fixed overhead costs related to our manufacturing facilities, as well as outbound shipping and handling costs. The cost of materials may vary based on revenues as well as the price we are able to negotiate when purchasing cotton or other such commodities. Shipping fluctuates with volume as well as the method of shipping chosen by the consumer and fuel surcharges. Labor varies primarily by volume and product mix, and to a lesser extent, based on whether the employee is an hourly or a salary employee. We rely on temporary employees to augment our permanent staff particularly during periods of peak demand. Our royalty expenses comprise fees we pay to our content owners for the use of their content on our products. Such fees vary based primarily on sales channel and volume. Certain sales transactions under our Create & Buy program do not incur royalties. Royalty-based obligations are expensed to cost of net revenues at the contractual rate for the relevant product sales.

Operating expenses

Operating expenses consist of sales and marketing, technology and development, general and administrative expenses and acquisition-related costs. Personnel-related expenses comprise a significant component of our operating expenses and consist of wages and related benefits, bonuses and stock-based compensation.

Sales and marketing

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

Our customer acquisition costs consist of various online media programs, such as paid search engine marketing, email, flash deal promotions through group-buying and social websites, display advertising and affiliate channels. We believe this expense is a key lever that we can use to drive growth and volume within our business as we adjust volumes to our target return on investment. We expect sales and marketing expense to increase in absolute dollars in the foreseeable future as we continue to invest in new customer acquisition.

Technology and development

Technology and development expenses consist of costs incurred for engineering, network operations, and information technology, including personnel expenses, as well as the costs incurred to operate our websites. Technology and development costs are expensed as incurred, except for certain costs related to the development of internal use software and website development, which are capitalized and amortized over the estimated useful lives ranging from two to three years. We expect technology and development expenses will continue to increase, but at a modest rate, in absolute dollars, as we continue to expand our network operations and personnel to support our anticipated future growth.

General and administrative

General and administrative expenses consist of personnel, professional services and facilities costs related to our executive, finance, human resources and legal functions. Professional services consist primarily of outside legal and accounting services. General and administrative expenses also include headcount and related costs for our fraudulent review organization as well as our content usage review organization. We expect general and administrative expenses to increase in absolute dollars due to the anticipated growth of our business and infrastructure and the costs associated with being a public company, such as costs associated with SEC reporting and compliance, including compliance with the Sarbanes-Oxley Act of 2002, insurance, investor relations fees, legal fees and similar expenses.

Acquisition-related costs

Acquisition-related costs include performance-based compensation payments, any changes in the estimated fair value of performance-based contingent consideration payments which were initially recorded in connection with our acquisitions and third-party fees incurred in connection with our acquisition activity.

In each period, we revise our accrual for earn-out payments based on our current estimates of performance relative to the stated targets and, where applicable, additional service provided. The accrual could be adjusted if the achievement of goals results in an amount paid that is different from our accrual estimate.

Critical accounting policies and estimates

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, operating expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. In many instances, we could have reasonably used different accounting estimates, and in other instances changes in the accounting estimates are reasonably likely to occur from period-to-period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Revenue recognition

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

We evaluate whether it is appropriate to record the gross amount of product sales and related costs as product revenues or the net amount earned as fulfillment revenues. Revenues are recorded at the gross amount when we are the primary obligor in a transaction, are subject to inventory and credit risk, have latitude in establishing prices and selecting suppliers, or have most of these indicators. When we are not the primary obligor and do not have most of these indicators, revenues will be recorded at the net amount received.

Product sales and shipping revenues are recognized net of promotional discounts, rebates, and return allowances. Revenues from product sales and services rendered are recorded net of sales and consumption taxes. 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 revenues. We maintain an allowance for estimated future returns and credit card chargebacks based on current period revenues and historical experience.

We account for flash deal promotions through group-buying and social websites as gift certificates. Deferred revenue is recorded at the time of the promotion based on the gross fee payable by the end customer as we are the primary obligor in the transaction. We defer the costs for the direct and incremental sales commission retained by group-buying websites and record the associated expense as a component of sales and marketing expense at the time revenue is recognized. Revenue is recognized on redemption of the offer and delivery of the product to our customers.

We run internally managed promotions upon redemption of flash promotions, in which customers can purchase a voucher redeemable for a specified product at a promotional price. This program is accounted for as gift certificates. Deferred revenue is recorded at the time the voucher is purchased and revenue is recognized on redemption and delivery of the product to the customers.

We recognize gift certificate breakage from flash promotions, our internally managed voucher promotions, and gift certificate sales as a component of revenues. We monitor historical breakage experience and when sufficient history of redemption exists, we record breakage revenue in proportion to actual gift certificate redemptions. When we conclude that insufficient history of redemption and breakage experience exists, breakage revenue is recognized upon expiration of the flash deal promotion or in the period we consider the obligation for future performance related to such breakage to be remote. Changes in customers' behavior could impact the amounts that are ultimately redeemed and could affect the breakage recognized as a component of revenues.

We recognized breakage revenue for flash promotions of $4.4 million, $5.6 million and $2.6 million and the associated direct sales commission of $1.5 million, $1.9 million and $1.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. This increased operating income by $2.9 million, $3.7 million and $1.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

We recognized breakage revenue, and thus increased operating income by the same amount as there are no associated deferred costs for our internally managed voucher promotions and gift certificate programs of $0.2 million, $0.7 million and $0.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Internal use software and website development costs

We incur costs associated with website development and for software developed or obtained for internal use. We expense all costs that relate to the planning associated with website development and for the post- implementation phases of development as product development expense. Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life of two to three years. Costs associated with repair or maintenance are expensed as incurred.

Goodwill and intangible assets

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

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

As of the date of our annual goodwill impairment test in 2012, we had two reporting units: Art and CafePress Consumer. During the first quarter of 2013, we underwent an organizational restructuring which resulted in different product line, website, and functional management and reporting. As a result of this reorganization, we re-assessed our operating segments and reporting units and concluded that we had one operating segment and one reporting unit as of the first quarter of 2013.

In performing the Company's quantitative impairment tests, the Company determines the fair value of its reporting units through a combination of the income and market approaches. Under the income approach, the Company estimates fair value based on a discounted cash flow model using a discount rate determined by its management to be commensurate with the risk inherent in its current business model. Under the market approach, the Company estimates the fair value of its overall business based on comparable market multiples and with consideration of its current market capitalization. Based on its annual impairment analyses performed in the third quarter of 2013 and 2012, none of its reporting units were at risk of failing step one of the quantitative goodwill impairment assessment and therefore no impairment was recorded. In addition, we performed a qualitative and quantitative assessment of our goodwill balances as of the date of our reorganization, which considered the relative performance of our previous reporting units through the date of the reorganization. As of the third quarter of 2012, the market value of all of our reporting units exceeded their carrying amounts by at least 200 percent. Prior to the date of our reorganization, we considered the impact of our then-current stock price and the acquisition of EZ Prints, and concluded that the market value of all of our reporting units exceeded their carrying amounts by at least sixteen percent. As of the third quarter of 2013, the market value of our reporting unit exceeded its carrying amount by 21 percent. Based on this impairment analysis, we concluded that none of the Company's reporting units were at risk of failing step one of the quantitative goodwill impairment assessment and therefore no impairment was recorded.

Our stock price did not change significantly between the date of our annual 2013 impairment analysis and December 31, 2013. However, subsequent to our fourth quarter earnings release, our stock price decreased by more than ten percent. Based on our impairment test performed during the third quarter of 2013, we had sufficient excess of market capitalization over book value to absorb a decline of this magnitude. In addition, we believe that our multiples and existing forecasts continue to support a market capitalization level of equal to or greater than our publicly traded market capitalization. As a result, we do not believe that it was more likely than not that the fair value of our reporting unit was less than its book value as of December 31, 2013, and therefore our reporting unit would not be at risk of failing step one of a quantitative goodwill impairment assessment as of that date.

The application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, and determining the appropriate discount and growth rates and other assumptions.

Our discounted cash flow analyses factor in assumptions on revenue and expense growth rates. These estimates are based upon our historical experience and projections of future activity, factoring in customer demand, and a cost structure necessary to achieve the related revenues. Additionally, these discounted cash flow analyses factor in expected amounts of working capital and weighted average cost of capital. Changes in these estimates and assumptions, as well as a decline in our stock price for a sustained period, or a change in reporting units from any further reorganizations, could materially affect the determination of reporting units or fair value for each reporting unit, which could trigger impairment in the future.

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

Income taxes

We use the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized by applying the statutory tax rates in effect in the years in which the differences between the financial reporting and tax filings basis of existing assets and liabilities are expected to reverse.

During the quarter ended December 31, 2013, we recorded a non-cash income tax provision of $8.9 million to establish a valuation allowance. Management periodically evaluates the realizability of our net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is solely dependent on our ability to generate sufficient future taxable income during periods prior to the expiration of tax statutes to fully utilize these assets.

During the quarter ended December 31, 2013, we weighed both positive and negative evidence and determined that there is a need for the valuation allowance due to the existence of three years of historical cumulative losses and a revised forecast that projected future losses from operations in 2014, which we considered significant verifiable negative evidence. We intend to maintain the valuation allowance until sufficient positive evidence exists to support reversal of the valuation allowance.

Stock-Based Compensation Expense

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

We estimate the fair value of stock options granted using the Black-Scholes valuation model. This model requires us to make estimates and assumptions including, among other things, estimates regarding the length of time an employee will retain vested stock options before exercising them, the estimated volatility of our common stock price using historical and implied volatility and the number of options that will be forfeited prior to vesting. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Changes in these estimates and assumptions can materially affect the determination of the fair value of stock-based compensation and consequently, the related amount recognized in our consolidated statements of income.

Results of operations

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

	Year ended December 31, 2013	2012	2011
Net revenues	100%	100%	100%
Cost of net revenues	62	59	57
Gross profit	38	41	43
Operating expenses:			
Sales and marketing	26	25	23
Technology and development	9	7	7
General and administrative	7	8	8
Acquisition-related costs	(1)	2	2
Total operating expenses	41	41	40
(Loss) income from operations	(3)	0	3
Interest income	0	0	0
Interest expense	0	0	0
Other (expense) income, net	0	0	0
(Loss) income before income taxes	(3)	0	3
Provision for income taxes	2	0	1
Net (loss) income	(5)%	0%	2%
Effective tax rate	(84.2)%	(15.5)%	32.1%

Comparison of the years ended December 31, 2013 and December 31, 2012

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

	Year ended December 31, 2013	2012	$ Change	% Change
	(in thousands, except for percentages)			
Net revenues	$245,856	$217,786	$ 28,070	13%
Cost of net revenues	152,352	128,599	23,753	18
Gross profit	93,504	89,187	4,317	5
Operating expenses:				
Sales and marketing	63,736	53,978	9,758	18
Technology and development	20,874	14,921	5,953	40
General and administrative	17,720	16,809	911	5
Acquisition-related costs	(1,668)	3,424	(5,092)	(149)
Total operating expenses	100,662	89,132	11,530	13
Loss from operations	(7,158)	55	(7,213)	N.M.
Interest income	40	76	(36)	(47)
Interest expense	(204)	(202)	(2)	1
Other (expense) income, net	(6)	—	(6)	—
Loss before income taxes	(7,328)	(71)	(7,257)	N.M.
Provision for income taxes	6,173	11	6,162	56,018
Net Loss	$ (13,501)	$ (82)	$(13,419)	N.M.%

Net revenues

Net revenues increased $28.1 million, or 13%, in 2013 compared to 2012. The increase in net revenues is primarily due to an increase in orders. The increase in order volume was driven by expansion in our art and groups products, as well as growth in our partner business which includes sales of the EZ Prints products. In addition, international revenue increased by 14% and contributed $3.1 million of net revenue growth. The growth in our international revenue was driven by increased order volume as well as an expansion of available products. Our revenue growth rates have historically varied from period to period and we expect this trend to continue.

Cost of net revenues

Cost of net revenues increased $23.8 million, or 18%, in 2013 compared to 2012. As a percentage of net revenues, cost of net revenues was 62% in 2013, compared to 59% in 2012. Within cost of net revenues, materials, shipping, labor and fixed overhead costs collectively increased as a percentage of net revenues by 3.9 percentage points due to changes in the product mix, increased promotional offerings designed to attract new customers, plant consolidation expenses, as well as the impact of the B2B portion of the EZ Prints product offering which has lower gross margins. These increases were partially offset by a 1.0 percentage point decline, as a percentage of net revenues, in royalty payments due to an increase in sales of products with lower royalty rates and changes in the royalty rate structure.

Sales and marketing

Sales and marketing expenses increased $9.8 million, or 18%, in 2013 compared to 2012. Sales and marketing expenses were 26% of net revenues in 2013 compared to 25% in 2012. The increase in sales and marketing expenses was primarily due to higher variable customer acquisition expenses, including an increase of $7.0 million in advertising expenses related primarily to paid search campaigns and online display. We expect our customer acquisition costs on an annual basis to continue at similar rates, as a percentage of revenue, for the foreseeable future. In addition, due to our acquisitions in 2012, payroll and related costs increased $2.2 million and amortization of intangible assets increased by $0.4 million as compared to 2012.

Technology and development

Technology and development expenses increased $6.0 million, or 40%, in 2013 compared to 2012. Technology and development expenses were 9% of net revenues in 2013 compared to 7% in 2012. The increase in absolute dollars is primarily due to a $2.5 million increase in depreciation, hosting services, and costs to support our websites due to the growth in our business and costs associated with the transition to our newest co-location facility in Louisville, KY. In addition, payroll and related costs increased $1.7 million and amortization of intangible assets increased by $1.7 million related primarily to our recent acquisitions in 2012.

General and administrative

General and administrative expenses increased $0.9 million, or 5%, in 2013 compared to 2012. General and administrative expenses were 7% of net revenues in 2013 compared to 8% in 2012. The increase in absolute dollars was primarily due to a $1.1 million increase in professional services fees consisting of a $0.7 million increase in legal fees and $0.4 million related to costs associated with being a public company. In addition, personnel-related costs increased $0.5 million due to additional employees and contractors to support the growth in our business. This was offset by a $0.3 million decrease in stock compensation expense. We expect legal expenses to increase by a similar amount in 2014.

Acquisition-related costs

Acquisition-related costs were $(1.7) million in 2013, a decrease of $5.1 million from $3.4 million in 2012. This expense consists of the accrual of acquisition related performance-based compensation payments related to our acquisitions, changes in the estimated fair value of contingent considerations and third party acquisition-related costs. The decrease in acquisition-related costs is primarily related to the decrease in the fair value of contingent earn-out consideration during the year and to a lesser extent, the reduction in legal and professional fees incurred in our acquisition activity.

Provision for income taxes

The provision for income tax was $6.2 million in 2013 compared to $11,000 in 2012. Our effective tax rate was (84.2%) and (15.5%) in 2013 and 2012, respectively. During the year ended December 31, 2013, we recorded a non-cash income tax provision of $8.9 million to establish a valuation allowance. We weighed both positive and negative evidence and determined that there is a need for the valuation allowance due to the existence of three years of historical cumulative losses and a revised forecast that projected future losses from operations in 2014, which we considered significant verifiable negative evidence. We intend to maintain the valuation allowance until sufficient positive evidence exists to support reversal of the valuation allowance.

Comparison of the years ended December 31, 2012 and December 31, 2011

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

	Year ended December 31,			
	2012	2011	$ Change	% Change
	(in thousands, except for percentages)			
Net revenues	$217,786	$175,482	$42,304	24%
Cost of net revenues	128,599	100,191	28,408	28
Gross profit	89,187	75,291	13,896	18
Operating expenses:				
Sales and marketing	53,978	40,809	13,169	32
Technology and development	14,921	12,768	2,153	17
General and administrative	16,809	13,573	3,236	24
Acquisition-related costs	3,424	2,696	728	27
Total operating expenses	89,132	69,846	19,286	28
Loss from operations	55	5,445	(5,390)	(99)
Interest income	76	56	20	36
Interest expense	(202)	(194)	(8)	4
Income (loss) before income taxes	(71)	5,307	(5,378)	(101)
Provision for income taxes	11	1,701	(1,690)	(99)
Net income (loss)	$ (82)	$ 3,606	$ (3,688)	(102%)

Net revenues

Net revenues increased $42.3 million, or 24%, in 2012 compared to 2011. The increase in net revenues is primarily due to an increase in orders, which was attributable to new customer acquisitions, increases in customer repeat rates and expansion of our merchandise catalog, particularly new art products and stationery as well as increase in average order size and pricing year-over-year. EZ Prints and Logo'd Softwear contributed $7.6 million and $12.2 million, respectively, of the total increase in net revenues. These increases were partially offset by $0.7 million decrease in international sales.

Cost of net revenues

Cost of net revenues increased $28.4 million, or 28%, in 2012 compared to 2011. As a percentage of net revenues, cost of net revenues was 59% in 2012, compared to 57% in 2011. Within cost of net revenues, materials, shipping, labor and fixed overhead costs collectively increased as a percentage of net revenues by 3.1 percentage points due to changes in the product mix, increased promotional offerings designed to attract new customers, plant consolidation expenses, as well as the impact of the B2B portion of the EZ Prints product offerings which lower gross margins. These increases were partially offset by a 1.1 percentage point decline in royalty payments due to an increase in sales of products with lower royalty rates.

Sales and marketing

Sales and marketing expenses increased $13.2 million, or 32%, in 2012 compared to 2011. Sales and marketing expenses were 25% of net revenues in 2012 compared to 23% in 2011. The increase in sales and marketing expenses was primarily due to higher variable customer acquisition expenses, including increases of $8.3 million in advertising expenses and $1.0 million in direct marketing costs. Customer acquisition costs increased primarily due to increased online acquisition activities, such as keyword searches, display marketing and email marketing, as well as costs related to flash deal promotions. Due to our recent acquisitions, payroll and related costs increased $1.9 million and amortization of intangible assets increased by $0.9 million as compared to 2011.

Technology and development

Technology and development expenses increased $2.2 million, or 17%, in 2012 compared to 2011. Technology and development expenses were 7% of net revenues in 2012, which is consistent with 2011. The increase in absolute dollars is primarily due to increase in IT related expenses by $1.0 million related primarily to the transition to a new co-location data center and costs to support our websites due to the growth in our business. In addition, amortization increased by $0.8 million due to amortization expense of intangible assets related to our recent acquisitions.

General and administrative

General and administrative expenses increased $3.2 million, or 24%, in 2012 compared to 2011. General and administrative expenses were 8% of net revenues in 2012 which is consistent with 2011. The increase in absolute dollars is primarily due to a $1.8 million increase in stock-based compensation expense, $0.8 million increase of personnel-related costs due to additional employees and contractors to support the growth in our business and to a lesser extent, costs associated with being a public company.

Acquisition-related costs

Acquisition-related costs were $3.4 million in 2012, an increase of $0.7 million from $2.7 million in 2011. This expense consists of the accrual of acquisition related performance-based compensation payments related to our acquisitions, changes in the estimated fair value of contingent considerations and third party acquisition-related costs. The increase in acquisition-related costs is primarily related to legal and professional fees incurred in our acquisition activity.

Provision for income taxes

The provision for income tax was $11,000 in 2012 compared to $1.7 million in 2011. Our effective tax rate was (15.5%) and 32.1% in 2012 and 2011, respectively. The effective tax rate was lower in 2012 primarily due to the impact of the domestic production deductions and lower incentive stock option expense in 2012 which caused our nontaxable items to have larger impact on our effective tax rate.

Quarterly trends

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

Liquidity and capital resources

As of December 31, 2013, we had cash, cash equivalents, and short term investments totaling $36.8 million. In connection with our initial public offering, or IPO, that closed on April 3, 2012 we received cash proceeds of $41.8 million, net of underwriters' discounts and commissions and expenses paid by us.

Our future capital requirements may vary materially from those currently planned and will depend on many factors, including, among other things, market acceptance of our products, our growth, and our operating results. 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. 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.

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

	Year ended December 31,		
	2013	2012	2011
		(in thousands)	
Net cash provided by operating activities	$ 9,717	$ 10,110	$16,924
Net cash used in investing activities	$(4,006)	$(47,295)	$ (8,027)
Net cash (used in) provided by financing activities	$(3,574)	$ 40,483	$ (273)

Cash flows from operating activities

Our primary source of cash from operating activities is cash collections from our customers and partners. The substantial majority of our net revenues are generated from credit card transactions and credit card accounts receivable and are typically settled within one and five business days. Our primary uses of cash for operating activities are for settlement of accounts payable to vendors and personnel-related expenditures. Our quarterly cash flows from operations are impacted by the seasonality of our business. We generate a significant portion of our cash flow from operations in the fourth quarter and cash flows in the first six 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. We expect that cash provided by operating activities may fluctuate in future periods due to a number of factors, including volatility in our operating results, seasonality, accounts receivable collections performance, inventory and supply chain management, and the timing and amount of personnel-related payments.

In 2013, $7.6 million in net income adjusted for non-cash items and a $2.1 million change in working capital items resulted in net cash provided by operations of $9.7 million. Non-cash items, which totaled $21.1 million, included depreciation and amortization of $9.1 million, amortization of intangible assets of $5.0 million, stock-based compensation of $3.8 million and a $7.8 million increase in the deferred tax valuation allowance, offset by a change in the fair value of contingent consideration of $4.5 million. Working capital decreased primarily due to the increase in accounts payable related to the timing of payments for raw material purchases.

In 2012, net cash provided by operations was $10.1 million. Net income adjusted for non-cash items totaling $12.3 million was offset by a $2.1 million change in assets and liabilities. Non-cash items included depreciation and amortization of $6.3 million, amortization of intangible assets of $3.6 million and stock-based compensation of $4.2 million offset by deferred income tax of $1.7 million. Our assets increased more than our liabilities primarily due to the increase in accounts receivable related to timing of flash sales deals, increase in inventory due to introductions of new products and increase of prepaid expenses and other assets due to timing of purchases.

In 2011, net cash provided by operations was $16.9 million, primarily due to our net income of $3.6 million, adjusted for non-cash items of $8.2 million for depreciation and amortization, including amortization of intangible assets, and $2.4 million for stock-based compensation. In addition, the growth in our business resulted in net cash from the change in our operating assets and liabilities of $3.9 million as our accounts payable, deferred revenue and accrued liabilities increased more than our accounts receivable, inventory and other assets. As our net revenues are primarily settled through credit cards, and our accounts payable are settled based on contractual payment terms with our suppliers, growth in our business resulted in a greater increase in our operating liabilities than our operating assets.

Cash flows from investing activities

In 2013, net cash used in investing activities was $4.0 million, consisting primarily of $6.3 million in capital expenditures related to the purchase of property and equipment and the capitalization of $4.0 million of software and website development costs, offset by $5.9 million in maturing short term investments, net of purchases.

In 2012, net cash used in investing activities was $47.3 million, consisting primarily of net cash paid for the acquisition of EZ Prints and Logo'd Softwear of $28.6 million and $7.1 million, respectively. In addition, we used $8.0 million for capital expenditures related to the purchase of property and equipment, capitalized $3.0 million of software and website development costs, and used $1.0 million to purchase short term investments net of maturities.

In 2011, net cash used in investing activities was $8.0 million. Net cash used for the acquisition of substantially all of the assets of L&S Retail Ventures, Inc. was $4.5 million including $0.5 million of restricted cash held in escrow at December 31, 2011. In addition, we used $3.4 million for capital expenditures related to the purchase of property and equipment, and capitalized $1.9 million of software and website development costs, partially offset by net proceeds from the sale of short-term investments of $1.6 million.

Cash flows from financing activities

In 2013, net cash used by financing activities was $3.6 million, primarily due to $2.5 million cash paid in connection with settlement of contingent consideration, and $1.4 million in payments on short term borrowings and capital lease obligations, offset by net borrowings under insurance financing of $0.3 million

In 2012, net cash provided by financing activities was $40.5 million, primarily due to the net proceeds received for our initial public offering which closed on April 3, 2012 partially offset by $1.3 million cash paid in connection with settlement of contingent consideration.

In 2011, net cash used in financing activities was $0.3 million, primarily due to payments of $2.2 million for costs related to the pending initial public offering and payments on our capital lease obligations of $0.4 million, partially offset by $1.9 million received from the exercise of stock options and the related excess tax benefits of $0.5 million.

Non-GAAP financial measures

Regulation G, conditions for use of Non-Generally Accepted Accounting Principles, or Non-GAAP, financial measures, and other SEC regulations define and prescribe the conditions for use of certain Non-GAAP financial information. We closely monitor adjusted EBITDA which meets the definition of a Non-GAAP financial measure. We define Adjusted EBITDA as net income (loss) less interest and other income (expense), provision for (benefit from) income taxes, depreciation and amortization, amortization of intangible assets, acquisition- related costs, stock-based compensation and impairment charges.

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

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

	Year Ended December 31,		
	2013	2012	2011
Net revenues	$245,856	$217,786	$175,482
Non-GAAP Adjusted EBITDA	$ 9,004	$ 17,603	$ 18,740
% of net revenues	4%	8%	11%

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

	Year Ended December 31,		
	2013	2012	2011
Net (loss) income	$(13,501)	$ (82)	$ 3,606
Non-GAAP adjustments:			
Interest and other (income) expense	170	126	138
Provision for income taxes	6,173	11	1,701
Depreciation and amortization	9,081	6,294	5,836
Amortization of intangible assets	4,976	3,647	2,385
Acquisition-related costs	(1,668)	3,424	2,696
Stock-based compensation	3,773	4,183	2,378
Adjusted EBITDA	$ 9,004	$17,603	$18,740

Related party transactions

In connection with the acquisition of Logo'd Softwear, Inc., we entered into a lease agreement with a limited liability company that is owned by the seller of Logo'd Softwear, Inc. As the seller was an employee of ours through May, 2013, the lease agreement is considered to be a related party transaction. The lease term is from April 1, 2012 through March 31, 2027. As of December 31, 2013, we were obligated to pay a total of $1.4 million in facility rent under the lease agreement, such amount which we believe to be consistent with local market rates. At any time after July 31, 2013, we have the right to terminate the lease for any reason by giving the landlord 180 days advance written notice.

Off-balance sheet arrangements

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

The following table summarizes our contractual obligations:

	Payments due by period			
	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Capital lease obligations	$ 728	$1,558	$ 555	$ 138
Operating lease obligations	1,902	2,888	1,328	910
Purchase obligations	1,699	—	—	—
	$ 4,329	$4,446	$1,883	$ 1,048

Recent accounting pronouncements

In May 2011, the FASB amended its guidance, to converge fair value measurement and disclosure guidance in U.S. GAAP with International Financial Reporting Standards, or IFRS. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. The guidance was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. The guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The amendment is effective for reporting periods beginning on or after December 15, 2011. We adopted this standard in January 2012 and did not have a material impact on the consolidated financial statements.

In June 2011, the FASB amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option under current guidance that permits the presentation of other comprehensive income in the statement of changes in stockholders' equity has been eliminated. We adopted this standard in January 2012. Through December 31, 2012, the components of comprehensive income are not significant, individually or in the aggregate and therefore, no comprehensive income information has been presented and the adoption did not have an impact on the consolidated financial statement presentation.

In August 2011, the FASB amended its guidance for performance of goodwill impairment tests. The amendment provides an option to first assess qualitative factors to determine whether performing the current two-step impairment test is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely- than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test will be required; otherwise no further testing will be required. The amendment becomes effective for annual and interim goodwill impairment tests performed for the year ended December 31, 2012. We adopted the provisions of this amendment for the goodwill impairment test that was performed in the third quarter of 2012. The adoption of this amendment did not have a material impact on the consolidated financial statements.

In 2013, the FASB issued a new accounting standard that will require the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new standard requires adoption on a prospective basis in the first quarter of 2015; however, early adoption is permitted. We do not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Interest rate sensitivity

We have cash and cash equivalents and short-term investments of $36.8 million and $40.6 million as of December 31, 2013 and December 31, 2012, respectively. These amounts were held primarily in cash deposits, money market funds and certificates of deposit. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. Due to the short-term nature of these instruments, a change in market interest rates would not be expected to have a material impact on our financial condition or our results of operations.

Foreign currency exchange rate sensitivity

Our sales to international customers are denominated in multiple currencies, including the United States dollar, the British Pound, the Euro, the Canadian dollar and the Australian dollar. As the substantial majority of our sales are charged to credit cards, accounts receivables are generally settled in short time duration and accordingly, we have limited exposure to foreign currency exchange rates on our accounts receivable. To date, our operating costs have been denominated almost exclusively 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.

Table of Contents

Index to Financial Statements

ITEM 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

Index to Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of CafePress Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, convertible preferred stock and stockholders' equity and cash flows present fairly, in all material respects, the financial position of CafePress Inc. and its subsidiary at December 31, 2013 and December 31, 2012 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index under Item 15(c) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP
San Jose, California
March 31, 2014

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

	December 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 33,335	$ 31,198
Short-term investments	3,475	9,403
Accounts receivable	8,310	10,390
Inventory	9,493	9,765
Deferred tax assets	—	2,794
Deferred costs	2,721	3,756
Prepaid expenses and other current assets	6,862	4,844
Total current assets	64,196	72,150
Property and equipment, net	21,964	19,892
Goodwill	39,448	40,231
Intangible assets, net	15,003	19,979
Deferred tax assets	—	4,417
Other assets	829	863
TOTAL ASSETS	$141,440	$157,532
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 23,073	$ 15,088
Partner commissions payable	5,210	7,451
Accrued royalties payable	6,728	6,724
Accrued liabilities	12,541	17,761
Income tax payable	—	765
Deferred revenue	5,045	9,099
Short-term borrowings	—	894
Capital lease obligation, current	579	531
Total current liabilities	53,176	58,313
Capital lease obligation, non-current	2,034	2,282
Other long-term liabilities	2,576	3,628
TOTAL LIABILITIES	57,786	64,223
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.0001 par value: 10,000 shares authorized as of December 31, 2013 and 2012; none issued and outstanding	—	—
Common stock, $0.0001 par value: 500,000 shares authorized and 17,173 and 17,114 shares issued and outstanding as of December 31, 2013 and 2012, respectively	2	2
Additional paid-in capital	97,736	93,890
Accumulated deficit	(14,084)	(583)
TOTAL STOCKHOLDERS' EQUITY	83,654	93,309
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$141,440	$157,532

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

Table of Contents

Index to Financial Statements

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

	Year Ended December 31,		
	2013	2012	2011
Net revenues	$245,856	$217,786	$175,482
Cost of net revenues	152,352	128,599	100,191
Gross profit	93,504	89,187	75,291
Operating expenses:			
Sales and marketing	63,736	53,978	40,809
Technology and development	20,874	14,921	12,768
General and administrative	17,720	16,809	13,573
Acquisition-related costs	(1,668)	3,424	2,696
Total operating expenses	100,662	89,132	69,846
Income from operations	(7,158)	55	5,445
Interest income	40	76	56
Interest expense	(204)	(202)	(194)
Other (expense) income, net	(6)	—	—
(Loss) income before provision for income taxes	(7,328)	(71)	5,307
Provision for income taxes	6,173	11	1,701
Net (loss) income	$ (13,501)	$ (82)	$ 3,606
Net (loss) income per share of common stock:			
Basic	$ (0.79)	$ (0.01)	$ 0.17
Diluted	$ (0.79)	$ (0.01)	$ 0.16
Shares used in computing net (loss) income per share of common stock:			
Basic	17,143	15,021	8,798
Diluted	17,143	15,021	9,403

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

CAFEPRESS INC.
CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(In thousands)

	Shares	Amount	Shares	Amount	Additional paid-in capital	Accumulated deficit	Total Stockholders' equity
Balance as of December 31, 2010	5,535	$ 22,811	8,608	$ 1	$ 21,525	$ (4,107)	$ 17,419
Issuance of common stock upon exercise of stock options	—	—	335	—	1,878	—	1,878
Stock-based compensation expense	—	—	—	—	2,448	—	2,448
Tax benefit from stock-based compensation	—	—	—	—	269	—	269
Net income	—	—	—	—	—	3,606	3,606
Balance as of December 31, 2011	5,535	22,811	8,943	1	26,120	(501)	25,620
Issuance of common stock upon exercise of stock options and vesting of restricted stock units	—	—	91	—	298	—	298
Issuance of common stock for acquisition activity	—	—	45	—	830	—	830
Issuance of common stock upon initial public offering	—	—	2,500	—	39,589	—	39,589
Conversion of preferred stock to common stock upon initial public offering	(5,535)	(22,811)	5,535	1	22,810	—	22,811
Stock-based compensation expense	—	—	—	—	4,271	—	4,271
Tax benefit (short-fall) from stock-based compensation	—	—	—	—	(28)	—	(28)
Net loss	—	—	—	—	—	(82)	(82)
Balance as of December 31, 2012	—	—	17,114	2	93,890	(583)	93,309
Issuance of common stock upon exercise of stock options and vesting of restricted stock units	—	—	59	—	60	—	60
Issuance of common stock for acquisition activity	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	3,855	—	3,855
Tax benefit (short-fall) from stock-based compensation	—	—	—	—	(69)	—	(69)
Net loss	—	—	—	—	—	(13,501)	(13,501)
Balance as of December 31, 2013	—	$ —	17,173	$ 2	$ 97,736	$ (14,084)	$ 83,654

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

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

	Year Ended December 31,		
	2013	2012	2011
Cash Flows from Operating Activities:			
Net (loss) income	$(13,501)	$ (82)	$ 3,606
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	9,081	6,294	5,836
Amortization of intangible assets	4,976	3,647	2,385
Gain on disposal of fixed assets	(160)	(75)	(175)
Stock-based compensation	3,773	4,183	2,378
Change in fair value of contingent consideration liability	(4,490)	100	137
Deferred income taxes	7,993	(1,704)	(972)
Tax (short-fall) benefit from stock-based compensation	(69)	(28)	269
Excess tax benefits from stock-based compensation	—	(142)	(472)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	2,080	(6,057)	1,319
Inventory	272	(2,136)	(2,079)
Prepaid expenses and other current assets	(1,153)	(3,140)	140
Other assets	34	(172)	(336)
Accounts payable	7,930	3,351	371
Partner commissions payable	(2,241)	1,709	—
Accrued royalties payable	4	270	892
Accrued and other liabilities	7	2,863	2,159
Income taxes payable	(765)	(774)	18
Deferred revenue	(4,054)	2,003	1,448
Net cash provided by operating activities	9,717	10,110	16,924
Cash Flows from Investing Activities			
Purchase of short-term investments	(3,475)	(9,403)	(8,652)
Proceeds from maturities of short-term investments	9,403	8,437	10,248
Purchase of property and equipment	(6,279)	(8,039)	(3,440)
Capitalization of software and website development costs	(3,995)	(2,973)	(1,933)
Proceeds from disposal of fixed assets	170	94	235
Decrease (increase) in restricted cash	170	255	(500)
Acquisitions of businesses, net of cash acquired	—	(35,666)	(3,985)
Net cash used in investing activities	(4,006)	(47,295)	(8,027)
Cash Flows from Financing Activities:			
Payments of short-term borrowings	(894)	—	—
Principal payments on capital lease obligations	(545)	(477)	(441)
Borrowings under insurance financing	940	—	—
Payments under insurance financing	(684)	—	—
Payments for deferred offering costs	—	—	(2,182)
Proceeds from exercise of common stock options	60	298	1,878
Proceeds from sale of common stock in initial public offering, net	—	41,770	—
Excess tax benefits from stock-based compensation	—	142	472
Payment of contingent consideration	(2,451)	(1,250)	—
Net cash (used in) provided by financing activities	(3,574)	40,483	(273)
Net increase in cash and cash equivalents	2,137	3,298	8,624
Cash and cash equivalents—beginning of period	31,198	27,900	19,276
Cash and cash equivalents—end of period	$ 33,335	$ 31,198	$27,900
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	$ 178	$ 201	$ 194
Income taxes paid during the period	997	2,517	2,384
Non-cash Investing and Financing Activities:			
Property and equipment acquired under capital leases	345	$ 116	$ 529
Property and equipment acquired under rent agreement	321	—	—
Conversion of preferred stock to common stock	—	22,811	—
Common stock issued for acquisitions	—	830	—
Accrued purchases of property and equipment	173	32	408
Deferred offering costs not yet paid	—	—	367
Contingent consideration recorded in connection with business acquisitions	—	7,111	2,784

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

CAFEPRESS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Company

Business

CafePress Inc., or the Company, formerly CafePress.com, Inc., was incorporated under the laws of the State of California on October 18, 1999. On January 19, 2005, the Company was reincorporated under the laws of the State of Delaware. On June 7, 2011, the name of the Company was changed to CafePress Inc.

The Company serves its customers and partners, including consumers and content owners, through its portfolio of e-commerce websites and service offerings, including our flagship website, CafePress.com and through our e-commerce platform products and services. The Company's consumers include millions of individuals, groups, businesses and organizations who leverage its innovative and proprietary print-on-demand services to express personal and shared interests, beliefs and affiliations by customizing a wide variety of products. These products include apparel, drinkware, accessories, wall art, home accents and stationery. The Company's content owner customers include individual designers and branded content licensors who leverage its e-commerce websites and platforms to reach a mass consumer base and share and monetize their content in a variety of ways.

Content owner customers, or content owners, include individuals or groups who upload or design images for their own purchase or for sale to others, or corporate clients who provide content to support the sale of branded merchandise. These products can be sold through storefronts hosted by CafePress. Content owners may also sell products through the retail marketplace found on the Company's portfolio of e-commerce websites.

The Company manages substantially all aspects of doing business online, including e-commerce services, product manufacturing and sourcing, fulfillment, and customer service.

Initial public offering

On April 3, 2012, the Company's registration statement on Form S-1 relating to an initial public offering, or IPO, of the Company's common stock was declared effective by the Securities and Exchange Commission. The IPO closed on April 3, 2012 at which time the Company sold 2,500,000 shares of common stock and received cash proceeds of $44.2 million from this transaction, net of underwriting discounts and commissions. Additionally, the Company incurred offering costs of approximately $4.6 million related to the IPO. An additional 2,000,000 shares of common stock were sold by existing stockholders from whom the Company did not receive any proceeds or incur any costs.

Concurrently, all outstanding shares of convertible preferred stock converted into 5,534,963 shares of common stock with the related carrying value of $22.8 million reclassified to common stock and additional paid-in capital.

2. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany transactions and balances have been eliminated.

Segments

The Company's chief operating decision maker is its Chief Executive Officer, who manages the Company's operations on a consolidated basis for purposes of allocating resources. As a result, the Company has a single operating segment which is the Company's single reportable segment. All of the Company's principal operations and decision-making functions are located in the United States.

Use of estimates

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

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity or remaining maturity of three months or less at the time of purchase to be cash equivalents. Cash equivalents consist primarily of deposits in money market funds. The Company's cash is deposited primarily with U.S. financial institutions. The deposits in money market funds are not federally insured.

Short-term investments

Short-term investments are securities with original maturities greater than three months but less than one year. Short-term investments, consisting of certificates of deposit, are classified as available-for-sale securities and are carried at fair value. The fair value of short-term investments approximate their carrying value and unrealized gains and losses and realized gains and losses have not been material for all periods presented.

Accounts receivable

Accounts receivable consist primarily of trade amounts due from customers and from uncleared credit card transactions at period end. Accounts receivable are recorded at invoiced amounts and do not bear interest. The Company has not experienced significant credit losses from its accounts receivable. The Company performs a regular review of its customers' payment histories and associated credit risks and it does not require collateral from its customers.

Fair value of financial instruments

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

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

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

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

The Company’s financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, short-term borrowings, accounts payable, partner commissions payable and accrued liabilities have carrying amounts which approximate fair value due to the short-term maturity of these instruments.

Concentration of credit risk and other risks and uncertainties

The Company’s cash, cash equivalents and short-term investments are deposited with financial institutions and money market funds in the United States. At times, such deposits may be in excess of the amount of insurance provided on such deposits. The Company has not experienced any losses on its cash, cash equivalents or short- term investments.

The Company’s products and services are concentrated in the e-commerce industry, which is highly competitive and rapidly changing.

The Company’s net revenues are settled primarily through credit cards, and to a lesser extent, amounts invoiced to group-buying service providers and fulfillment services customers. For all periods presented, the substantial majority of net revenues were settled through payments by credit card and for the years ended December 31, 2013, 2012 and 2011, no customer accounted for more than 10% of total net revenues. Credit card receivables settle relatively quickly and the Company maintains allowances for potential credit losses based on historical experience. To date, such losses have not been material and have been within management’s expectations.

The Company’s accounts receivable are derived primarily from customers located in the United States and consist primarily of amounts due from partners and group-buying service providers. The Company performs an initial credit evaluation at the inception of a contract and regularly evaluates its ability to collect outstanding customer invoices. Two customers accounted for 24% (13% and 11%, respectively) of gross accounts receivable as of December 31, 2013. Two customers accounted for 43% (29% and 14%, respectively) of gross accounts receivable as of December 31, 2012.

The Company’s accounts payable are settled based on contractual payment terms with its suppliers. One supplier accounted for 10% of accounts payable as of December 31, 2013. One supplier accounted for 19% of accounts payable as of December 31, 2012.

The Company’s partner commissions payable are derived from B2B business and are settled based on contractual payment terms with its partners. As of December 31, 2013 and 2012, one partner accounted for 75% and 90% of partner commissions payable, respectively.

Inventory

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

Property and equipment

Property and equipment, which includes property and equipment acquired under capital leases, are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Amortization expense of assets acquired through capital leases is included in depreciation and amortization expense in the statements of operations.

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

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

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

Internal use software and website development costs

The Company incurs costs associated with website development and for software developed or obtained for internal use. The Company expenses all costs that relate to the planning associated with website development and for the post-implementation phases of development as product development expense. Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life of two to three years. Costs associated with repair or maintenance are expensed as incurred. For the years ended December 31, 2013, 2012 and 2011, the Company capitalized \$4.1 million, \$3.1 million and \$2.0 million, respectively, of website development costs and software development costs related to software for internal use.

Goodwill

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

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

As of the date of the Company's annual goodwill impairment test in 2012, the Company had two reporting units: Art and CafePress Consumer. During the first quarter of 2013, the company underwent an organizational restructuring which resulted in different product line, website, and functional management and reporting. As a result of this reorganization, the Company re-assessed its operating segments and reporting units and concluded that it had one operating segment and one reporting unit as of the first quarter of 2013.

In performing the Company's quantitative impairment tests, the Company determines the fair value of its reporting units through a combination of the income and market approaches. Under the income approach, the Company estimates fair value based on a discounted cash flow model using a discount rate determined by its management to be commensurate with the risk inherent in its current business model. Under the market approach, the Company estimates fair value of its overall business based on its current market capitalization. Based on its annual impairment analyses performed in the third quarter of 2013 and 2012, neither of its reporting units were at risk of failing step one of the quantitative goodwill impairment assessment and therefore no impairment was recorded. In addition, the Company performed a qualitative and quantitative assessment of its goodwill balances as of the date of its reorganization, which considered the relative performance of its previous reporting units through the date of the reorganization. Based on this impairment analysis, the Company concluded that neither of the Company's reporting units were at risk of failing step one of the quantitative goodwill impairment assessment and therefore no impairment was recorded.

Impairment of long-lived assets and intangible assets

The Company reviews long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company reviews long- lived assets and intangible assets for impairment at the lowest level for which identifiable cash flows are largely independent of other assets and liabilities. For all periods presented, no assets were tested for impairment at the consolidated entity level and impairment assessments were performed at the reporting unit or at a lower-level asset group level. Recoverability is measured by comparison of the carrying amount of the future net cash flows which the assets are expected to generate. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the projected discounted future net cash flows arising from the asset. There were no impairment charges in 2013, 2012 or 2011.

Minimum royalty and content license commitments

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

The Company's contracts with some licensors include minimum guaranteed royalty payments, which are payable regardless of the ultimate volume of sales. When no significant performance remains with the licensor, the Company initially records each of these guarantees as an asset and as a liability at the contractual amount. The Company records an asset for the right to use the content on its merchandise because it represents a probable future economic benefit. When significant performance remains with the licensor, the Company records prepaid royalty payments as an asset when actually paid. The Company recorded royalty assets of $1.6 million and $0.8 million as of December 31, 2013 and 2012, respectively. The Company recorded a minimum guaranteed liability of $1.1 million and $0.6 million as of December 31, 2013 and 2012, respectively. The Company classifies accrued minimum royalty obligations as current liabilities to the extent they are contractually due within twelve months.

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

Revenue recognition

The Company recognizes revenues from product sales, net of estimated returns based on historical experience, when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or the service has been provided; (3) the selling price or fee revenue earned is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured.

The Company evaluates whether it is appropriate to record the gross amount of product sales and related costs as product revenues or the net amount earned as fulfillment revenues. Revenues are recorded at the gross amount when the Company is the primary obligor in a transaction, is subject to inventory and credit risk, has latitude in establishing prices and selecting suppliers, or has most of these indicators. When the Company is not the primary obligor and does not take inventory risk, revenues will be recorded at the net amount received by the Company as fulfillment revenues.

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

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

The Company runs internally managed promotions upon redemption of flash deals, in which customers can purchase a voucher redeemable for a specified product at a promotional price. This program is accounted for as gift certificates. Deferred revenue is recorded at the time the voucher is purchased and revenue is recognized on redemption and delivery of the product to the customers.

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

The Company recognized breakage revenue for flash deal promotions of $4.4 million, $5.6 million and $2.6 million and the associated direct sales commission of $1.5 million, $1.9 million and $1.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. This increased operating income by $2.9 million, $3.7 million and $1.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company recognized breakage revenue, and thus increased operating income by the same amount as there are no associated deferred costs for its internally managed voucher promotions and gift certificate programs of $0.2 million, $0.7 million and $0.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

Cost of net revenues

Cost of net revenues includes materials, shipping, labor, royalties and fixed overhead costs related to manufacturing facilities, as well as outbound shipping and handling costs, including those related to promotional free shipping and subsidized shipping and handling. Royalty payments to content owners for transactions where we act as principal and record revenues on a gross basis are included in cost of net revenues and accrued in the period revenue is recognized. Such royalty payments included in cost of net revenues were $15.6 million, $16.0 million and $14.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Technology and development

Technology and development costs consist of costs related to engineering, network operations, and information technology, including personnel expenses of employees involved in these roles. Technology and development costs are expensed as incurred, except for certain costs relating to the development of internal use software and website development, which are capitalized and amortized over lives ranging from two to three years.

Advertising expense

The costs of producing advertisements are expensed at the time production occurs and the cost of communicating advertising is expensed in the period during which the advertising space is used. Internet advertising expenses are recognized based on the terms of the individual agreements, which is primarily on a pay-per-click basis. Advertising expenses totaled $31.0 million, $24.2 million and $15.3 million during the years ended December 31, 2013, 2012 and 2011, respectively.

Stock-based compensation

Stock-based compensation cost of stock-based awards granted is measured at the grant date, based on the fair value of the award, and recognized as expense on a straight-line basis over the requisite service period. The fair value of stock-based awards to employees is estimated using the Black-Scholes option pricing model. The Company estimates its forfeiture rate based on an analysis of its actual forfeitures and will continue to evaluate the adequacy of the forfeiture rate assumption based on actual forfeitures, analysis of employee turnover, and other related factors.

Income taxes

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

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

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

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

Sales taxes

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

Comprehensive income (loss)

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income (loss). Through December 31, 2013, the components of comprehensive income (loss) are not significant, individually or in the aggregate and therefore, no comprehensive income (loss) information has been presented.

Net income per share

Basic net income per share of common stock is calculated by dividing the net income by the weighted-average number of shares of common stock outstanding for the period. For the year ended December 31, 2011, net income available to common stockholders is calculated using the two class method as net income less the preferred stock dividend for the period less the amount of net income (if any) allocated to preferred based on weighted preferred stock outstanding during the period related to the total stock outstanding during the period.

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

Recent accounting pronouncements

In May 2011, the FASB amended its guidance, to converge fair value measurement and disclosure guidance in U.S. GAAP with International Financial Reporting Standards, or IFRS. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. The guidance was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. The guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The amendment is effective for reporting periods beginning on or after December 15, 2011. The Company adopted this standard in January 2012 and did not have a material impact on the consolidated financial statements.

In June 2011, the FASB amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option under current guidance that permits the presentation of other comprehensive income in the statement of changes in stockholders' equity has been eliminated. The Company adopted this standard in January 2012. For the years ended December 31, 2013 and 2012, the components of comprehensive income are not significant, individually or in the aggregate, and therefore, no comprehensive income information has been presented and the adoption did not have a material impact on the consolidated financial statements presentation.

In August 2011, the FASB amended its guidance for performance of goodwill impairment tests. The amendment provides an option to first assess qualitative factors to determine whether performing the current two-step impairment test is necessary. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test will be required; otherwise no further testing will be required. The amendment becomes effective for annual and interim goodwill impairment tests performed for the Company's year ended December 31, 2012. The Company adopted the provisions of this amendment for the goodwill impairment tests that were performed in the third quarters of 2013 and 2012. The adoption of this amendment did not have a material impact on the consolidated financial statements.

In 2013, the FASB issued a new accounting standard that will require the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new standard requires adoption on a prospective basis in the first quarter of 2015; however, early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

Out of period adjustment

During the third quarter of 2013, the Company recorded an adjustment to its deferred tax assets and goodwill to correct an error related to the EZ Prints acquisition. In the initial valuation recorded in the fourth quarter of 2012, the deferred tax asset was understated. The adjustment increased long term deferred tax assets by $0.8 million and decreased goodwill by the corresponding amount. The Company has concluded that the impact of this adjustment is immaterial to the current and previously issued consolidated financial statements.

3. Investments and Fair Value of Financial Instruments

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

	December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Cash and cash equivalents:				
Cash	$ 11,753	$ —	$ —	$ 11,753
Money market funds	21,582	—	—	21,582
Total cash and cash equivalents	$ 33,335	$ —	$ —	$ 33,335
Short term investments:				
Certificates of deposit, 90 days or greater	3,475	—	—	3,475
Total cash and cash equivalents and short term investments	$ 36,810	$ —	$ —	$ 36,810

	December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Cash and cash equivalents:				
Cash	$ 16,604	$ —	$ —	$ 16,604
Money market funds	14,594	—	—	14,594
Total cash and cash equivalents	$ 31,198	$ —	$ —	$ 31,198
Short term investments:				
Certificates of deposit, 90 days or greater	9,403	—	—	9,403
Total cash and cash equivalents and short term investments	$ 40,601	$ —	$ —	$ 40,601

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

	December 31, 2013			
	Fair Value	Level I	Level II	Level III
Cash and cash equivalents:				
Money market funds	$ 21,582	$21,582	$ —	$ —
Total financial assets	$ 21,582	$21,582	$ —	$ —
Liabilities:				
Acquisition related contingent consideration	$ 1,941	$ —	$ —	$ 1,941
Total financial liabilities	$ 1,941	$ —	$ —	$ 1,941

	December 31, 2012			
	Fair Value	Level I	Level II	Level III
Cash and cash equivalents:				
Money market funds	$ 14,594	$14,594	$ —	$ —
Total financial assets	$ 14,594	$14,594	$ —	$ —
Liabilities:				
Acquisition related contingent consideration	$ 8,882	$ —	$ —	$ 8,882
Total financial liabilities	$ 8,882	$ —	$ —	$ 8,882

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

The Company held certificates of deposits, classified as cash equivalents or short-term investments, based on the original term. A certificate of deposit is a time deposit with a fixed term that is commonly offered by banks, thrifts, and credit unions. As of December 31, 2013 and 2012, the certificates of deposit held by the Company had a term of 365 days or less. All certificates of deposit held by the Company were within the insured limits of the FDIC.

In 2012 and 2011, the Company acquired businesses which the Company accounted for under the purchase method of accounting (see Note 6). The terms of the agreements relating to the acquisitions provide for contingent consideration that are accounted for as part of the purchase consideration. The estimated fair value of the performance-based contingent consideration was $1.9 million and $8.9 million as of December 31, 2013 and December 31, 2012, respectively. This contingent liability has been reflected as a current liability of $1.1 million and a non-current liability of $0.8 million as of December 31, 2013 and as a current liability of $5.9 million and a non-current liability of $3.0 million as of December 31, 2012. The Company determined the estimated fair value of the liability for the contingent consideration based on a probability-weighted discounted cash flow analysis. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in the fair value hierarchy. In each period, the Company reassesses its current estimates of performance relative to the stated targets and adjusts the liability to the estimated fair value. Contingent consideration (benefit)/expense is recorded for any change in the estimated fair value of the recognized amount of the liability for contingent consideration. Any further changes to these estimates and assumptions could significantly impact the estimated fair values recorded for this liability resulting in significant charges to the consolidated statements of operations.

The change in the contingent consideration liability, which is a Level 3 liability measured at fair value on a recurring basis, is summarized as follows (in thousands):

	Year Ended December 31, 2013	Year Ended December 31, 2012
Fair value—beginning of period	$ 8,882	$ 2,921
Fair value of contingent consideration issued during the period	—	7,111
Contingent consideration paid during the period	(2,451)	(1,250)
Change in fair value	(4,490)	100
Fair value—end of period	$ 1,941	$ 8,882

The change in fair value of contingent consideration classified within Level 3 of the fair value hierarchy is recorded within acquisition-related costs in the consolidated statements of operations.

4. Balance Sheet Items

Property and equipment, net

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

	December 31, 2013	December 31, 2012
Building	$ 3,782	$ 3,782
Office furniture and computer equipment	14,232	13,697
Computer software	2,402	2,370
Internal use software and website development	14,846	9,336
Production equipment	22,535	21,598
Leasehold improvements	5,217	2,950
Total property and equipment	63,014	53,733
Less: accumulated depreciation and amortization	(41,050)	(33,841)
Property and equipment, net	$ 21,964	$ 19,892

Property and equipment acquired under capital leases are as follows (in thousands):

	December 31, 2013	December 31, 2012
Building	$ 3,782	$ 3,782
Less accumulated depreciation	(2,689)	(2,321)
Building, net	$ 1,143	$ 1,461
Production equipment	$ 1,288	$ 1,034
Less: accumulated depreciation	(537)	(466)
Production equipment, net	$ 751	$ 568

Depreciation and amortization expense was $9.1 million, $6.3 million and $5.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Depreciation expense for assets under capital leases included above was $0.5 million for the year ended December 31, 2013 and $0.4 million in each of the years ended December 31, 2012 and 2011.

Accrued liabilities

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

	December 31, 2013	December 31, 2012
Contingent consideration, short-term portion	$ 1,127	$ 5,896
Payroll and employee related expense	2,696	3,672
Other accrued liabilities	2,859	2,361
Production costs	2,400	1,586
Professional services	557	1,427
Acquisition-related costs	42	1,094
Accrued advertising	337	897
Allowance for sales returns and chargebacks	931	453
Unclaimed royalty payments	995	281
Royalties-minimum guarantee	597	94
Accrued liabilities	$12,541	$17,761

Allowance for sales returns and chargebacks

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

	December 31, 2013	2012	2011
Allowance for sales returns and chargebacks:			
Balance, beginning of period	$ 453	$ 455	$ 270
Add: provision	6,174	4,421	3,665
Less: deductions and other adjustments	(5,696)	(4,423)	(3,480)
Balance, end of period	$ 931	$ 453	$ 455

5. Intangible Assets

Intangible assets are composed of the following (in thousands):

		December 31, 2013			December 31, 2012		
	Amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Developed technology	4.0 years	$12,277	$ (5,119)	$ 7,158	$12,447	$ (2,265)	$10,182
Business relationships	5.5 years	7,817	(3,701)	4,116	7,817	(2,513)	5,304
Other intangible assets	6.4 years	6,979	(3,250)	3,729	6,979	(2,486)	4,493
Total		$27,073	$ (12,070)	$15,003	$27,243	$ (7,264)	$19,979

There were no indications of impairment during the years ended December 31, 2013, 2012 and 2011.

Amortization of intangible assets was $5.0 million, $3.6 million and $2.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Estimated amounts that will be amortized related to purchased intangibles are as follows as of December 31, 2013 (in thousands):

Year ending December 31:	Amortization of intangible assets
2014	$ 4,324
2015	4,140
2016	3,545
2017	1,282
2018	829
Thereafter	883
Total	$ 15,003

Goodwill

The Company performs its annual goodwill impairment test in the third quarter of each year. In 2013, 2012 and 2011, the Company performed its annual impairment assessment and no impairment of goodwill was identified.

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

	Carrying Amount
Balance at December 31, 2010, net of accumulated impairment charge of $3.1 million	$ 6,796
Acquisition of business—L&S Retail Ventures	4,280
Balance at December 31, 2011	11,076
Acquisition of business—Logo'd Softwear	6,128
Acquisition of business—EZ Prints	23,027
Balance at December 31, 2012	40,231
Goodwill adjustment (Note 2)	(783)
Balance at December 31, 2013	$ 39,448

As of December 31, 2013, $9.9 million of goodwill is expected to be deductible for tax purposes.

6. Acquisitions

EZ Prints, Inc.

In October 2012, the Company completed a merger with EZ Prints, Inc., or EZ Prints, a privately held Delaware corporation, or the Merger, that was accounted for as a business combination. EZ Prints is a complete deployable e-commerce platform based in Atlanta, Georgia. The total purchase price of $33.5 million consisted of an initial cash purchase price of $30.0 million and $3.5 million in contingent consideration.

The merger agreement with EZ Prints provided for performance-based contingent consideration whereby the EZ Prints stockholders had contingent rights to receive up to $10.0 million based on achievement of certain performance targets for the acquired business over the twelve months following the closing of the Merger. To the extent that such performance targets were achieved, the first $2.7 million would be paid in either CafePress common stock or cash, at the election of the receiving EZ Prints stockholders, which election was made prior to the closing of the Merger with 6% of EZ Prints stockholders electing stock and 94% electing cash. Any remainder of the $10.0 million, if earned, above $2.7 million would be paid out solely in cash. The merger agreement provided that the value of each share of common stock to be issued as part of the earn-out consideration would be $9.24. If the performance targets were achieved in full, the Company would have issued approximately 876 shares of CafePress common stock with an aggregate value of $8,100 (based on the value of $9.24 per share) to three former stockholders of EZ Prints. Any remaining earn-out consideration would have been paid in cash.

In addition, the Company was required to pay up to an additional $1.0 million in earn-out payments to one of the former owners of EZ Prints based on achievement of certain performance targets over the twelve months following the closing of the merger. This earn-out payment was contingent on continued employment of the former owner. Accordingly, earn-out payments would be expensed as earned and classified as acquisition-related costs and included in accrued liabilities.

In August 2013, the Company entered into an amendment to the Merger Agreement, or the Amendment, pursuant to which the earn-out provision was revised such that the former stockholders of EZ Prints have contingent rights to receive a maximum earn-out consideration of up to $1.0 million based on achievement of revised performance targets of the acquired business for the period commencing September 1, 2013, and ending August 31, 2014. In connection with the Amendment, the Company agreed to an early release of the amounts held in the escrow account as well as certain other matters. The Company also entered into an amended earn-out bonus agreement with one of the former owners of EZ Prints revising his contingent right to receive up to $1.0 million down to $0.1 million.

As of December 31, 2013 and 2012, the fair value of the performance-based contingent consideration was $0.2 million and $3.5 million, respectively, and is included in accrued liabilities.

The following table summarizes the fair values of assets acquired and liabilities assumed from EZ Prints (in thousands):

Intangible assets:

Business relationships	$ 2,540
Developed technologies	8,590
Goodwill	23,027
Total assets acquired	7,807
Total liabilities assumed	(8,504)
Total	$33,460

The identifiable intangible assets have useful lives not exceeding eight years and a weighted average life of 5.0 years and are amortized on a straight-line basis. The fair value of the business relationships was determined using a variation of income approach known as excess earnings method. The fair value of the developed technologies was determined using relief-from-royalty method and cost method.

EZ Prints provided a deployable, web-based solution to launch new shops allowing CafePress to reach new customers and channels across the web and accelerate customer discovery complementing the social and mobile strategies. It also added an expanded product portfolio and expertise, as well as a knowledgeable and experienced workforce and infrastructure. These factors contributed to a purchase price resulting in the recognition of goodwill.

The results of operations for EZ Prints have been included in the consolidated statement of operations beginning on the acquisition date. EZ Prints contributed net revenues of $7.6 million for the period from its acquisition date to December 31, 2012.

Logo'd Softwear, Inc.

In April 2012, the Company acquired substantially all of the assets of Logo'd Softwear, Inc., or Logo'd Softwear, an e-commerce provider of personalized apparel and merchandise for groups and organizations, in exchange for

$7.5 million in cash, 45,060 shares of the Company's common stock valued at $0.8 million, and cash contingent consideration of up to $8.6 million to be determined based on certain operating metrics. In addition, the principal stockholder was granted 235,242 stock options to purchase shares of the Company's common stock with vesting based on the achievement of certain performance milestones. The contingent right to future earn-out payments will expire on March 31, 2016.

The terms of the purchase agreement for Logo'd Softwear provide for earn-out payments of up to $8.6 million. The sellers are eligible to receive up to $2.1 million maximum in cash payments per year payable after the end of Years 1-3 (based on a 12 month period from April 1 through March 31) based on specific revenue and operating income targets for such year. There is no employment condition needed to receive these performance-based contingent consideration payments. There is an aggregate maximum performance-based contingent consideration payment of $6.5 million for Years 1-3. As these performance-based contingent consideration payments are not subject to continued employment by the selling stockholders, the estimated fair value of the performance-based contingent consideration of $3.7 million, as of the date of the acquisition, was included as part of the purchase price allocation. The Company determined the fair value of the liability for the contingent consideration based on a probability-weighted discounted cash flow analysis. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in the fair value hierarchy. In each period, the Company reassesses its current estimates of performance relative to the stated targets and adjusts the liability to fair value.

Included in the maximum $8.6 million of performance-based contingent consideration payments, the agreement provided for performance-based compensation of up to $2.1 million in cash, payable after the end of the fourth earn-out period, based on specific revenue and operating income targets. This payment is contingent on the continued employment of the selling stockholder. Accordingly, this contingent payment is being expensed as earned from the date of acquisition as part of acquisition-related costs, based on the estimated probability of payout.

Additionally, the Company awarded the selling stockholder performance-based stock options with a fair value of $2.1 million based on the Company's common stock price at the first board of directors meeting following the acquisition date. The options will vest 25% per year over a four-year period and will be subject to revenue growth and operating income performance metrics. In addition to meeting the specified performance measures, continued employment with the Company is required for these options to vest.

Finally, in the event employment of the selling stockholder is terminated for a reason other than cause prior to the expiration of the earn-out period, a termination payment equal to $1.1 million of the potential year 4 compensation payment of $2.1 million would accelerate and become due within 180 days. In such a scenario, the year 4 performance metrics would be removed.

The performance targets for the first year of the earn-out were met and, accordingly, the Company paid $2.1 million, and the first year of performance-based stock options vested during the second quarter of 2013. During the second quarter of 2013, the Company concluded that the probability of achieving the fourth year of the earn-out was zero and as a result, all previously accrued compensation expense was reversed as part of acquisition related costs.

During the fourth quarter of 2013, the Company adjusted the remaining earn-out liability to its fair value, resulting in income of $1.3 million which was included in acquisition related costs. As of December 31, 2013, the fair value of the remaining performance-based contingent consideration is $1.7 million, of which $.9 million is included in accrued liabilities and $0.8 million is included in other long-term liabilities. As of December 31, 2012, the fair value of the performance-based contingent consideration was $4.9 million, of which $2.1 million is included in accrued liabilities and $2.8 million is included in other long-term liabilities.

The following table summarizes the fair values of assets acquired and liabilities assumed from for Logo’d Softwear, Inc. (in thousands):

Intangible assets:	
Business relationships	$ 1,750
Developed technologies	1,740
Trade name	1,950
Proprietary content	300
Goodwill	6,128
Net other assets	103
Total purchase price	$11,971

The identifiable intangible assets have useful lives not exceeding eight years and a weighted average life of 5.9 years and are amortized on a straight-line basis. The fair value of the business relationships was determined using a variation of income approach known as excess earnings method. The fair value of the developed technologies was determined using a cost approach method. The fair value of the acquired trade name was determined using a variation of the income approach known as relief-from-royalty method. The fair value of all of the acquired intangible assets was determined based on the future economic benefit of each asset.

This acquisition added an expanded product portfolio and expertise, as well as a knowledgeable and experienced workforce and infrastructure. These factors contributed to a purchase price resulting in the recognition of goodwill.

The results of operations for Logo’d Softwear have been included in the consolidated statement of operations beginning on the acquisition date. Logo’d Softwear contributed net revenues of $12.2 million for the period from its acquisition date to December 31, 2012.

Pro forma results of acquisition of EZ Prints and Logo’d Softwear

The following table presents unaudited pro forma results of operations for 2012 and 2011 as if the aforementioned acquisitions of Logo’d Softwear and EZ Prints had occurred as of January 1, 2011. The Company prepared the pro forma financial information for the combined entities for comparative purposes only, and it is not indicative of what actual results would have been if the acquisition had taken place at January 1, 2011, or of future results. Pro forma combined income statement for the year ended December 31, 2011 is comprised of income statement of EZ Prints for the year ended March 31, 2012 and Logo’d Softwear for the year ended December 31, 2012.

	Year Ended December 31,	
	2012	2011
	(Unaudited)	
Revenues	$241,004	$226,900
Net income (loss)	(3,193)	2,544
Net income (loss) per share:		
Basic	$ (0.21)	$ 0.09
Diluted	$ (0.21)	$ 0.09

Pro forma amounts have been calculated after adjusting the results of EZ Prints and Logo’d Softwear to reflect the adjustment of acquisition-related costs and the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had been applied from January 1, 2011 with the consequential tax effect.

L&S Retail Ventures, Inc.

In October 2011, the Company acquired substantially all of the assets of L&S Retail Ventures, Inc., or L&S Retail Ventures, an online service for creating invitations, announcements, and various other stationery products, or InvitationBox.com, based in Cary, North Carolina. The total purchase price of $7.3 million consisted of an initial cash purchase price of $4.5 million and $2.8 million in contingent consideration related to expected performance-based contingent consideration payments for which there is no requirement of future employment with the Company by the sellers. The acquisition was accounted for as a business combination and, accordingly, the purchase price has been allocated to the tangible assets, liabilities assumed and identifiable intangible assets acquired based on their estimated fair values on the acquisition date.

The following table summarizes the fair values of assets acquired and liabilities assumed from for L&S Retail Ventures (in thousands):

Intangible assets:	
Business relationships	$1,480
Trade name	970
Developed technologies	400
Proprietary content	370
Goodwill	4,280
Net other liabilities	(216)
Total purchase price	$7,284

The identifiable intangible assets have useful lives not exceeding seven years and a weighted average life of 5.4 years and are amortized on a straight-line basis. The fair value of the business relationships was determined using a variation of income approach known as excess earnings method. The fair value of the trade name and the proprietary content were determined using a variation of the income approach known as relief-from-royalty method. The fair value of the developed technologies was determined using a cost approach method. The fair value of all of the acquired intangible assets was determined based on the future economic benefit of each asset.

This acquisition is considered to be a strategic investment as it expanded the portfolio of stationery-related products and added expertise as well as a knowledgeable and experienced workforce and infrastructure. These factors contributed to a purchase price resulting in the recognition of goodwill.

Under the terms of the purchase agreement, in addition to the $4.5 million of initial cash consideration paid to the sellers of L&S Retail Ventures, Inc., the agreement provided for up to an additional $5.0 million in performance-based contingent consideration to the two principals.

In December 2012, the Company signed a settlement agreement with one of the principals of L&S Retail Ventures, Inc. In connection with such agreement, the Company paid $1.25 million as a full and final settlement of all future outstanding amounts that might become due under the asset purchase agreement with respect to such seller, representing 75% of the contingent consideration obligations. The terms and conditions of the asset purchase agreement with respect to the remaining seller, holding 25% of the contingent consideration payable, remain in full force and effect.

The remaining seller is eligible to receive up to $0.4 million in each of the first, second, and third years following the acquisition if certain annual revenue and operating income targets are met for such years. There is an aggregated maximum payment benefit of $1.25 million. As these performance-based contingent consideration payments are not subject to continued employment, the estimated fair value was included as part of the purchase price allocation. In each period, the Company reassesses its current estimates of performance relative to the stated targets and adjusts the liability to fair value.

In addition, the remaining seller can receive performance-based compensation of up to $0.5 million in cash, payable after Year 4 based on specific revenue and operating income targets. This payment is contingent on continued employment. Accordingly, this payment is being expensed as earned as part of acquisition-related costs.

In the event the remaining seller's employment is terminated for a reason other than cause prior to the expiration of the earn-out period, the Year 4 performance based compensation payment of $0.5 million becomes fully payable and the Years 1-3 earn-outs remain substantially in effect.

Additionally, the Company awarded the remaining seller performance-based stock options with a fair value of $0.25 million. In addition to meeting the specified performance measures, continued employment with the Company is required for these options to vest.

The performance targets for the first year of the earn-out were partially met and, accordingly, the Company paid $0.3 million to the remaining shareholder during the second quarter of 2013. The performance targets related to the stock-based compensation were not met and, accordingly, the first tranche of performance-based stock options did not vest and were cancelled.

As of December 31, 2013, the fair value of the performance-based contingent consideration is $0 million. As of December 31, 2012, the fair value of the performance-based contingent consideration was $0.5 million, of which $0.3 million is included in accrued liabilities and $0.2 million is included in other long-term liabilities.

The results of operations for L&S Retail Ventures, Inc. have been included in the consolidated statement of operations beginning on the acquisition date. L&S Retail Ventures, Inc. contributed net revenues of $1.3 million for the period from its acquisition date to December 31, 2011.

Canvas On Demand, LLC

In September 2010, the Company acquired Canvas On Demand, LLC, or Canvas On Demand, a Raleigh, North Carolina based online service for creating personalized canvases from photographs. The total purchase price of $10.1 million consisted of shares of the Company's common stock with a fair value of $4.0 million as of the acquisition date, $6.0 million in cash, and estimated conditional cash payments of $90,000. The acquisition was accounted for as a business combination and, accordingly, the purchase price has been allocated to the tangible assets, liabilities assumed, and identifiable intangible assets acquired based on their estimated fair values on the acquisition date.

Intangible assets:	
Business relationships	$ 1,430
Developed technologies	1,460
Non-compete agreements	1,300
Acquired trade name	1,970
Goodwill	3,677
Net other assets	253
Total purchase price	$10,090

The identifiable intangible assets have useful lives not exceeding eight years and a weighted average life of 4.3 years and are amortized on a straight-line basis. The fair value of the business relationships was determined using a variation of income approach known as excess earnings method. The fair value of the developed technologies was determined using a cost approach method. The fair value of the non-compete agreements was determined using a with and without approach, which was considered in the income approach. The fair value of the acquired name was determined using a variation of the income approach known as relief-from-royalty method. The fair value of all of the acquired intangible assets was determined based on the future economic benefit of each asset.

This acquisition added an expanded product portfolio and expertise, as well as a knowledgeable and experienced workforce and infrastructure. These factors contributed to a purchase price resulting in the recognition of goodwill.

In addition, the acquisition agreement of Canvas On Demand provides for $9.0 million of earn-out payments. The amounts payable in each 12-month period from October 1 through September 30 under the earn-out are contingent upon achievement of performance targets and are subject to maximum amounts of $2.1 million, $2.6 million, and $4.3 million in each of the 12-month periods ending September 30, 2011, 2012, and 2013, respectively. The performance targets for the 12-month periods ending September 30, 2011 and 2012 were met and the performance target for the 12-month period ending September 30, 2013 was partially met, and the Company accordingly paid an aggregate amount of $2.1 million, $2.6 million and $4.1 million to the two former owners of Canvas on Demand in October 2011, 2012 and 2013, respectively, pursuant to the terms of the agreement. Earn-out payments were, subject to certain exceptions, also contingent on the continued employment of the two former owners. Accordingly, earn-out payments were expensed as earned and classified as acquisition-related costs and included in accrued liabilities. Acquisition-related costs were $2.8 million, $2.5 million, $2.7 million for the years ended December 31, 2013, 2012 and 2011. Accrued liabilities were $0.0 million and $1.0 million as of December 31, 2013 and 2012, respectively. In each period, the Company accrued for acquisition-related costs based on its current estimates of performance relative to the stated targets. The accrual could be adjusted if the achievement of goals results in an amount paid that was different from the Company's accrual estimate.

The results of operations for Canvas On Demand have been included in the consolidated statement of operations from the period subsequent to its acquisition date.

Pro forma results of acquisitions of Canvas On Demand and L&S Retail Ventures

The following table presents unaudited pro forma results of operations for 2011 as if the acquisitions of L&S Retail Ventures and Canvas On Demand had occurred as of January 1, 2011. The Company prepared the pro forma financial information for the combined entities for comparative purposes only, and it is not indicative of what actual results would have been if the acquisitions had taken place as of the dates presented, or of future results.

	Year Ended December 31, 2011 (Unaudited)
Revenues	$ 178,976
Net income	$ 3,075
Net income per share:	
Basic	$ 0.13
Diluted	$ 0.12

7. Related Party Transaction

In connection with the acquisition of Logo'd Softwear, Inc., the Company entered into a lease agreement with a limited liability company that is owned by the seller of Logo'd Softwear, Inc. As the seller was an employee of the Company through May, 2013, the lease agreement is considered to be a related party transaction. The lease term is from April 1, 2012 through March 31, 2027 and believe its terms to be consistent with local market terms and conditions. As of December 31, 2013, the Company is obligated to pay a total of $1.4 million in facility rent under the lease agreement. At any time after July 31, 2013, the Company has the right to terminate the lease for any reason by giving the landlord 180 days advance written notice.

8. Line of Credit

In connection with the acquisition of EZ Prints in October 2012, the Company acquired a line of credit facility. The line of credit consisted of a Term Facility with a maximum credit availability of $2.0 million, a Revolving Facility with a maximum credit availability of $3.5 million, limited by a borrowing base consisting of eligible accounts receivable, and a $0.5 million non-formula borrowing tranche.

There were no draws against the Term Facility as of December 31, 2012. The balance on the Revolving Facility was $0.9 million at December 31, 2012. In February 2013, the Company repaid the outstanding balance and terminated the Term and Revolving Facilities.

In March 2013, the Company entered into a credit agreement which provides for a revolving credit facility of $5.0 million to fund acquisitions, share repurchases and other general corporate needs, is available through March 2015 and bears interest at either the London Inter Bank Offer Rate +1.75% or the bank's prime rate +.75%. This credit agreement requires the Company to comply with various financial covenants, all of which the Company was in compliance with at December 31, 2013, and is secured on all assets of the Company. There were no draws against the facility as of December 31, 2013.

9. Convertible Preferred Stock

Prior to the closing of the IPO, the Company had three series of convertible preferred stock outstanding. As of December 31, 2011, 5,534,963 shares of preferred stock with a carrying value of $22.8 million were outstanding. The Company recorded the convertible preferred stock at fair value on the dates of issuance, net of issuance costs. The Company classified the convertible preferred stock outside of stockholders' equity because the shares contained liquidation features that were not solely within its control.

On April 3, 2012, in conjunction with the closing of the IPO, all of the Company's outstanding shares of convertible preferred stock automatically converted into 5,534,963 shares of common stock. As of December 31, 2013, the Company had no shares of preferred stock outstanding.

10. Stockholders' Equity

In September 2011, the Company's board of directors approved the amendment of its Amended and Restated Certificate of Incorporation to effect a 1-for-2 reverse stock split of the Company's common and preferred stock. The Certificate of Amendment to the Amended and Restated Certificate of Incorporation effecting the 1-for-2 reverse stock split was filed on September 15, 2011. All information related to common stock, preferred stock, stock options and earnings per share, as well as all references to preferred stock or preferred stock warrants as converted into common stock, has been retroactively adjusted to give effect to the 1-for-2 reverse stock split.

Stock option plan

The Company adopted stock option plans in 1999, 2004 and 2012 under which an aggregate of 6,586,720 options have been authorized as of December 31, 2013.

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

In June 2011, the Company's board of directors approved the reservation for future issuance under the Company's 2012 Stock Incentive Plan, or the 2012 Stock Plan, of a total of 1,000,000 shares of common stock, plus any shares reserved and not issued or subject to outstanding grants under the Company's 2004 Plan and 1999 Plan. In February 2012, the Company's board of directors increased the number of shares authorized for the 2004 Plan by 600,000 shares, and decreased the number of shares authorized for the 2012 Stock Plan by 600,000 shares. The 2012 Plan became effective immediately prior to the completion of the IPO. The 2012 Stock Plan provides for the granting of stock options, restricted stock, stock units and stock appreciation rights.

Options granted under the 1999 Plan, 2004 Plan and 2012 Stock Plan vest over a period not to exceed five years from the date of grant. Options granted prior to April 30, 2007 generally expire ten years after the grant date and options granted after April 30, 2007 generally expire seven years after the grant date except that upon termination (other than upon the Optionee's death or disability) of employment with the Company, options issued under the 1999 plan generally expire thirty days after termination and options issued under the 2004 Plan and 2012 Stock Plan generally expire three months after termination.

Exercise prices for incentive stock options shall be no less than 100% of the fair market value of the common stock on the grant date. Exercise prices for non-statutory and nonqualified stock options may not be less than 85% of the fair market value of the common stock on the date of grant and are determined by the Board of Directors.

In May 2009, the Company offered option holders the opportunity to amend certain stock options to decrease the exercise price of these options to $11.60 per share, the deemed fair value of the Company's common stock at the date of this modification. The Company offered to reduce the exercise price of all currently outstanding options granted with an exercise price equal to or greater than $14.50 per share.

Each amended option pursuant to this offer has the same material terms and conditions as it did prior to the amendment except that the amended option has a new exercise price per share equal to $11.60 and expires seven years from the repricing date. In addition, all the shares underlying the options, whether previously vested or unvested, became unvested shares and began vesting monthly from May 1, 2009, over a period of forty-eight months. Options to purchase 416,977 shares of common stock were repriced for 111 employees. The modification resulted in incremental stock-based compensation expense of $0.5 million. Compensation expense related to the repriced options is being amortized using the Pool Approach. During the years ended December 31, 2013, 2012 and 2011, the Company recorded additional stock-based compensation of $7,000, $64,000 and $82,000, respectively.

Employee Stock Purchase Plan

In August 2011, the Company's board of directors approved the reservation for future issuance under the Company's Employee Stock Purchase Plan, or the ESPP, of a total of 250,000 shares of common stock. The ESPP became effective immediately prior to the completion of the IPO. The price of stock purchased under the ESPP shall not be lower than 85% of the fair market value per share of the Company's common stock on either the last trading day preceding the applicable offering period or on the last day of the purchase period, whichever is less. There have been no purchases under the ESPP in 2013, 2012 or 2011.

Stock option activity

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

	Number of stock options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Outstanding—December 31, 2012	3,483	$ 12.22	4.95	$ 955
Granted	448	6.27		
Exercised	(39)	2.04		
Forfeited	(1,104)	13.00		
Outstanding—December 31, 2013	2,788	$ 11.09	3.62	$ 971
Options vested and expected to vest—December 31, 2013	2,366	$ 11.31	3.39	$ 932
Options exercisable—December 31, 2013	1,718	$ 11.30	$ 2.89	$ 885

The total intrinsic value of options exercised during the years ended December 31, 2013, 2012 and 2011 was $0.2 million, $0.9 million and $3.2 million, respectively.

The following table summarizes information regarding stock options outstanding at December 31, 2013:

	Options outstanding			Options vested and exercisable	
Exercise prices	Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Shares subject to stock options	Weighted average exercise price per share
		(in thousands)		(in thousands)	
$1.00-$5.53	473	1.13	$ 4.01	331	$ 3.36
$5.77-$6.53	360	5.62	$ 6.13	75	$ 6.15
$6.65-$11.20	403	3.66	$ 9.01	242	$ 10.19
$11.28-$11.90	361	2.80	$ 11.55	338	$ 11.55
$12.40-$12.70	66	4.04	$ 12.69	48	$ 12.68
$14.10-$14.10	530	3.69	$ 14.10	372	$ 14.10
$14.50-$16.00	20	7.13	$ 15.88	10	$ 15.84
$17.90-$21.40	575	4.66	$ 18.06	302	$ 18.09
$1.00-$21.40	2,788	3.62	$ 11.09	1,718	$ 11.30

Restricted stock unit activity

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

Table of Contents

Index to Financial Statements

Restricted stock award and restricted stock unit activity for the years ended December 31, 2013 and 2012 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, 2012	—	$ —
Granted	92	6.12
Vested	(20)	6.22
Forfeited and cancelled	—	—
Awarded and unvested at December 31, 2013	72	$ 6.09

Stock-based compensation expense

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

	Year Ended December 31,		
	2013	2012	2011
Expected term (in years)	4.6	4.6	4.6
Risk-free interest rate	0.90%	0.75%	1.5%
Expected volatility	55%	60%	58%
Expected dividend rate	0%	0%	0%

The expected term of options granted is calculated using the simplified method. The risk-free rate is based on the rates in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to each grant's expected life. The expected volatility is based upon the volatility of a group of publicly traded industry peer companies. A dividend yield of zero is applied since the Company has not historically paid dividends and has no intention to pay dividends in the near future.

The weighted-average fair value of options granted was $2.86, $6.80 and $7.32 for the years ended December 31, 2013, 2012 and 2011, respectively.

Employee stock-based compensation expense recorded is calculated and recorded based on awards ultimately expected to vest and has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

	Year Ended December 31,		
	2013	2012	2011
Cost of net revenues	$ 216	$ 238	$ 164
Sales and marketing	387	573	520
Technology and development	250	191	267
General and administrative	2,920	3,181	1,427
Total stock-based compensation expense	$3,773	$4,183	$2,378

Capitalizable stock-based compensation relating to inventory or deferred cost of revenues was not significant for any period presented. The Company capitalized $83,000, $88,000 and $70,000 of stock-based compensation relating to software developed for internal use, including website development costs during the years ended December 31, 2013, 2012 and 2011, respectively.

At December 31, 2013, the Company had $3.8 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over a weighted-average period of approximately 3 years.

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

Net (loss) income per share is presented in conformity with the two-class method required for participating securities. Holders of Series A preferred and Series B preferred were entitled to receive non-cumulative dividends at the per annum rate of $0.0448 and $0.3858 per share, payable prior and in preference to any dividends on any other shares of the Company's capital stock. Holders of Series A preferred, Series B preferred, and Series I preferred did not have a contractual obligation to share in the losses of the Company. The Company considered its preferred stock to be participating securities and, in accordance with the two-class method, earnings allocated to preferred stock and the related number of outstanding shares of preferred stock have been excluded from the computation of basic and diluted net income per common share. The computation of diluted net (loss) income per share does not assume conversion or exercise of potentially dilutive securities that would have an anti-dilutive effect on earnings. The Company utilizes the if-converted method to compute diluted net (loss) income per common share when the if-converted method is more dilutive than the two-class method.

Under the two-class method, net (loss) income attributable to common stockholders is determined by allocating undistributed earnings, calculated as net (loss) income less current period Series A and Series B convertible preferred stock non-cumulative dividends, between common stock and Series A, Series B and Series I convertible preferred stock. In computing diluted net (loss) income attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities. Basic net (loss) income per common share is computed by dividing the net (loss) income attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Shares of common stock subject to repurchase resulting from the early exercise of employee stock options are considered participating securities and are therefore included in the basic weighted-average common shares outstanding. Diluted net (loss) income per share attributable to common stockholders is computed by dividing the net (loss) income attributable to common stockholders by the weighted-average number of common shares outstanding, including potential dilutive common shares assuming the dilutive effect of outstanding stock options using the treasury stock method.

Table of Contents

Index to Financial Statements

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

	Year Ended December 31,		
	2013	2012	2011
Numerator:			
Net income (loss)	$(13,501)	$ (82)	$ 3,606
Less: Non-cumulative dividend on convertible preferred stock	—	—	(1,233)
Less: Allocation of net income to participating preferred shares	—	—	(917)
Numerator for basic calculation	(13,501)	(82)	1,456
Undistributed earnings re-allocated to common stockholders	—	—	38
Numerator for diluted calculation	$(13,501)	$ (82)	$ 1,494
Denominator:			
Denominator for basic calculation, weighted average number of common shares outstanding	17,143	15,021	8,798
Dilutive effect of options using treasury stock method	—	—	605
Denominator for diluted calculation	17,143	15,021	9,403
Net (loss) income per share			
Basic net (loss) income per common share	$ (0.79)	$ (0.01)	$ 0.17
Diluted net (loss) income per common share	$ (0.79)	$ (0.01)	$ 0.16

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

	Year Ended December 31,		
	2013	2012	2011
Convertible preferred stock	—	1,406	5,535
Stock options to purchase common stock	2,788	3,483	995

12. Income Taxes

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

	Year Ended December 31,		
	2013	2012	2011
Current tax (benefit) expense:			
Federal	$(2,536)	$ 1,565	$2,514
State	(22)	150	159
Total current	(2,558)	1,715	2,673
Deferred tax expense (benefit):			
Federal	8,308	(1,510)	(897)
State	423	(194)	(75)
Total deferred	8,731	(1,704)	(972)
Total provision for income taxes	$ 6,173	$ 11	$1,701

Table of Contents

Index to Financial Statements

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

	Year Ended December 31,		
	2013	2012	2011
Tax computed at the federal statutory rate	34.0%	34.0%	34.0%
State tax, federally effected	2.5	58.6	1.6
Stock-based compensation	(14.5)	(51.8)	1.0
Manufacturing deduction	0.0	232.5	(4.9)
Permanent differences	(0.4)	(56.4)	0.1
Acquisition costs	15.3	(232.4)	—
Change in valuation allowance	(121.7)	—	—
Other	0.6	—	0.4
Total provision for income taxes	(84.2)%	(15.5)%	32.1%

Deferred tax assets (liabilities) consist of the following:

	Year ended December 31,	
	2013	2012
Deferred tax assets and liabilities:		
Net operating loss carryforwards	$ 4,821	$ 4,689
Stock-based compensation	3,545	3,326
Reserves, state taxes and accruals	1,535	2,899
Depreciation and amortization	(1,557)	(3,406)
	8,344	7,508
Valuation allowance	(9,213)	(297)
Net deferred tax (liabilities) assets	$ (869)	$ 7,211

At December 31, 2013, the Company had approximately $12.6 million of Federal and $8.0 million of Georgia net operating loss carryforwards available to reduce future taxable income which were acquired with the acquisition of EZ Prints. The federal net operating loss carryforwards began to expire in 2010 and the Georgia net operating loss carryforwards begin to expire in 2027. In addition, at December 31, 2013, the Company had $2.1 million of Oregon net operating loss carryforwards available to reduce future taxable income which expire through 2023. The Oregon net operating loss carryforward is from Imagekind, which was acquired by the Company in July 2008. At the time of the acquisition of EZ Prints and Imagekind, a cumulative ownership change of more than 50% under Internal Revenue Code Section 382 occurred.

On January 1, 2007, the Company adopted the authoritative accounting guidance prescribing a threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance requires that the tax effects of a position be recognized only if it is "more likely than not" to be sustained based solely on its technical merits as of the reporting date. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

As a result of the adoption, the Company recognized no liability for unrecognized income tax benefits. The Company's policy is to recognize interest and penalties related to income taxes in income tax expense. The Company is subject to tax in the United States, California, and certain other jurisdictions. The Company is subject to examination by tax authorities for the years including and after 2011 for United States, 2012 for California, and 2010 for other jurisdictions. Although timing or resolution value of any examination is highly uncertain, the Company believes it is reasonably possible that the unrecognized tax benefits would not materially change in the next twelve months.

As of December 31, 2013, the Company's consolidated balance sheet included net deferred tax assets, before valuation allowance, of approximately $8.3 million, which consists of net operating loss carryovers, tax credit carryovers, depreciation and amortization, employee stock-based compensation expenses and certain liabilities.

During the quarter ended December 31, 2013, the Company weighed both positive and negative evidence and determined that there is a need for the valuation allowance due to the existence of three years of historical cumulative losses and a revised forecast that projected future losses from operations in 2014, which the Company considered significant verifiable negative evidence. Accordingly, the Company recorded a non-cash income tax provision of $8.9 million to establish a valuation allowance.

13. Commitments and Contingencies

Leases

Lease agreements are accounted for as either operating or capital leases depending on certain defined criteria. The Company leases certain of its facilities and equipment under noncancelable capital and operating leases with various expiration dates through 2027. Certain of the operating lease agreements contain rent holidays and rent escalation provisions. Rent holidays and rent escalation provisions are considered in determining straight-line rent expense to be recorded over the lease term. The lease term begins on the date of initial possession of the lease property for purposes of recognizing rent expense on a straight-line basis over the term of the lease.

In 2005, the Company entered into a capital lease agreement for a production facility in Louisville, Kentucky. The lease was amended in May 2007 to lease additional space. The capital lease has an interest rate of 6.5% and expires in 2017.

In October 2007, the Company entered into an operating lease for office space for its corporate headquarters in San Mateo, California. In December 2012 the Company amended the lease agreement. The new lease term ends in March 2018.

In connection with the acquisition of EZ Prints, the Company entered into an operating lease agreement for a production facility in Atlanta, Georgia that expires in March 2016.

The Company has a lease agreement with a related party (see Note 7) that expires in March 2027.

Future minimum lease payments under noncancelable operating and capital leases as of December 31, 2013 are as follows:

Years Ended December 31,	Capital leases	Operating leases
2014	$ 728	$ 1,902
2015	766	1,794
2016	792	1,094
2017	457	1,000
2018	98	328
Thereafter	138	910
Total minimum lease payments	2,979	$ 7,028
Less amount representing interest	(366)	
Present value of capital lease obligations	2,613	
Less current portion	(579)	
Long-term portion of capital lease obligations	$2,034	

Rent expense for the years ended December 31, 2013, 2012 and 2011 was $2.4 million, $2.5 million and $2.1 million, respectively.

Purchase commitments

As of December 31, 2013, the Company's non-cancelable purchase obligations totaled $1.7 million.

Contingencies

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

Indemnification

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

Legal matters

In January 2013, Express Card Systems, LLC filed suit against us and in a separate suit, against partner Target Corporation, for which the Company has an indemnification obligation for the licensed platform. CafePress settled both suits in May, 2013 on behalf of itself, EZ Prints, its wholly-owned subsidiary, and its partner Target Corporation. The Company concluded that the impact of this settlement is immaterial to its ongoing operations.

On July 10, 2013, a complaint captioned Desmarais v. CafePress Inc., et al. CIV-522744 was filed in the Superior Court of California, County of San Mateo naming as the defendants the Company, certain of its directors, its chief executive officer, its chief financial officer and certain underwriters of its IPO. The lawsuit purports to be a class action on behalf of purchasers of shares issued in the IPO and generally alleges that the registration statement for the IPO contained materially false or misleading statements. The complaint purports to assert claims under the Securities Act of 1933, as amended, and seeks unspecified damages and other relief. On July 14, 2013, a similar complaint captioned Jinnah v. CafePress Inc., et al CIV-522976 was filed in the same court. The Company is, at this time, unable to assess whether any loss or adverse effect on its financial condition is probable or remote or to estimate the range of potential loss, if any. The Company believes these suits to be without merit and will defend itselves vigorously.

14. Employee Benefit Plans

The Company sponsors a 401(k) defined contribution plan covering all employees. A management committee determines matching contributions made by the Company annually. Matching contributions are made in cash and were $0.7, $0.5 and $0.2 million under this plan for the years ended December 31, 2013, 2012 and 2011, respectively.

15. Segment Information

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

The chief executive officer reviews financial information presented on a consolidated basis, for purposes of allocating resources and evaluating financial performance. The Company has one business activity and there are no segment managers who are held accountable for operations, or plans for levels or components below the consolidated unit level. Accordingly, the Company operates as a single reportable segment.

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

	December 31,		
	2013	2012	2011
United States	$220,745	$195,817	$152,781
International	25,111	21,969	22,701
Total	$245,856	$217,786	$175,482

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

16. Selected Quarterly Data (Unaudited)

	For the Three Months Ended,			
	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
	(In thousands, except per share amounts)			
Net revenues	$90,503	$50,443	$52,403	$52,507
Gross profit	33,753	19,821	20,289	19,641
Income (loss) from operations	4,804	(4,349)	(1,744)	(5,869)
Net loss	(4,683)(1)	(3,118)	(1,716)	(3,984)
Net loss per diluted common share	$ (0.23)	$ (0.10)	$ (0.18)	$ (0.27)
Net loss per basic common share	$ (0.23)	$ (0.10)	$ (0.18)	$ (0.27)

(1) Includes the impact of the recording of an $8.9 million valuation allowance.

	For the Three Months Ended,			
	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012
	(In thousands, except per share amounts)			
Net revenues	$87,249	$43,558	$47,098	$39,881
Gross profit	34,665	18,017	19,562	16,943
Income (loss) from operations	4,370	(3,182)	(363)	(770)
Net income (loss)	3,105	(2,383)	(260)	(544)
Net income (loss) per diluted common share	$ 0.18	$ (0.14)	$ (0.02)	$ (0.06)
Net income (loss) per basic common share	$ 0.18	$ (0.14)	$ (0.02)	$ (0.06)

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures” as such term is defined in Rule 13a-15(e) under the Securities 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 recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on our management’s evaluation, with the participation of our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer), as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 using the criteria established in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our evaluation under the COSO framework, management has concluded that our internal control over financial reporting is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm on our internal control over financial reporting due to an exemption established by the JOBS Act for “emerging growth companies.”

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 with respect to our directors and executive officers is incorporated by reference from the information set forth under the captions “Election of Directors — Directors and Nominees” and “Election of Directors — Executive Officers and Directors” and “Election of Directors — Corporate Governance Principles and Practce” in our Definitive Proxy Statement in connection with our 2014 Annual Meeting of Stockholders to be held on May 16, 2014 (or the Proxy Statement), which will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2013.

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

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

We have a separately designated standing audit committee established in accordance with Section 3(a) (58) (A) of the Securities Exchange Act of 1934. The members of the audit committee are Brad W. Buss (chairperson), Michael Dearing and Diane M. Irvine. All of such members meet the independence standards established by The NASDAQ Stock Market for serving on an audit committee. SEC regulations require us to disclose whether a director qualifying as an “audit committee financial expert” serves on our audit committee. Our board of directors has determined that each of Brad W. Buss, Michael Dearing and Diane M. Irvine qualifies as an “audit committee financial expert” within the meaning of such regulations.

ITEM 11. Executive Compensation

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

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

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

The following chart sets forth certain information as of December 31, 2013, with respect to our equity compensation plans, specifically our 1999 Equity Incentive Plan, or the 1999 Stock Plan, our 2004 Amended and Restated Stock Incentive Plan, or the 2004 Stock Plan, and our Amended and Restated 2012 Stock Incentive

Plan, or the 2012 Stock Plan. Each of the 1999 Stock Plan, 2004 Stock Plan and the 2012 Stock Plan has been approved by our stockholders.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Awards, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Awards, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	2,787,596	$ 11.09	68,314
Equity compensation plans not approved by security holders	—	—	—
Total	2,787,596	$ 11.09	68,314(1)

(1) The 2012 Stock Plan provides for the grant of options to purchase shares of common stock, restricted stock, stock appreciation rights and stock unit awards. The number of shares reserved for issuance under the 2012 Stock Plan is increased on January 1st of each year by the lesser of (i) 1,250,000 shares, (ii) four percent (4%) of the number of shares of our common stock outstanding on the last day of the immediately preceding fiscal year or (iii) the number of shares determined by the Board of Directors. In January 2013, the number of shares reserved for issuance under the 2012 Stock Plan was increased by 684,573. In addition, the number of shares reserved for issuance under the 2012 Stock Plan is increased from time to time in an amount equal to the number of shares subject to outstanding options under the 1999 Stock Plan and 2004 Stock Plan that are subsequently forfeited or terminate for any reason before being exercised and unvested shares that are forfeited pursuant to the 1999 Stock Plan and 2004 Stock Plan.

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

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

ITEM 14. Principal Accounting Fees and Services

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

[Table of Contents](#)

[Index to Financial Statements](#)

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) Financial Statements

Financial Statements. The financial statements filed as part of this report are identified in the Index to Consolidated Financial Statements on page 57.

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

Exhibits. See Item 15(b) below

(b) Exhibits

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

		Where Located				
Exhibit Number	**Description**	**Form**	**File No.**	**Exhibit No.**	**Filing Date**	**Filed herewith**
2.1	Agreement and Plan of Merger dated October 5, 2012, by and among the Company, Sunday Morning Merger Sub Inc., EZ Prints, Inc., and Fortis Advisors LLC, as Stockholder Representative.	8-K	001-35468	2.1	10/10/12	
2.2	Asset Purchase Agreement by and between the Company and Canvas On Demand, LLC dated as of September 1, 2010	S-1	333-174829	2.1	3/28/12	
3.1	Amended and Restated Certificate of Incorporation of the Company	10-Q	001-35468	3(i)	5/15/12	
3.2	Amended and Restated Bylaws of the Company	10-Q	001-35468	3(ii)	5/15/12	
4.1	Specimen Common Stock Certificate	S-1	333-174829	4.1	3/28/12	
4.2	Investors' Rights Agreement dated as of January 21, 2005, as amended	S-1	333-174829	4.2	3/28/12	
10.1+	CafePress Inc. 1999 Equity Incentive Plan and related form agreement	S-1	333-174829	10.1	3/28/12	
10.2+	CafePress Inc. 2004 Amended and Restated Stock Incentive Plan and related form agreements	S-1	333-174829	10.2	3/28/12	
10.3+	CafePress Inc. Amended and Restated 2012 Stock Incentive Plan and related form agreements	S-1	333-174829	10.3	3/28/12	
10.4+	CafePress Inc. Employee Stock Purchase Plan	S-1	333-174829	10.10	3/28/12	

[Table of Contents](#)

[Index to Financial Statements](#)

Exhibit Number	Description	Where Located Form	File No.	Exhibit No.	Filing Date	Filed herewith
10.5+	Form of Indemnification Agreement between the Company and its officers and directors	S-1	333-174829	10.4	3/28/12	
10.6+	Form of Amended and Restated Change in Control Agreement with Senior Management					X
10.7+	2014 Cash Bonus Plan					X
10.8+	Severance Agreement with Bob Marino dated February 12, 2014	8-K	001-35468	10.1	2/19/14	
10.9+	Transition Agreement with Monica Johnson dated February 12, 2014	8-K	001-35468	10.1	2/19/14	
10.10+	Consultant and Advisor Agreement with Monica Johnson dated February 12, 2014	8-K	001-35468	10.2	2/19/14	
10.11+	Restricted Stock Unit Award Agreement with Monica Johnson dated February 12, 2014	8-K	001-35468	10.3	2/19/14	
10.12+	Separation Agreement and Release with Wes Herman dated January 8, 2014					X
10.13+	Release of Claims Agreement with Wes Herman dated January 8, 2014					X
10.14	Office Lease Agreement between the Company and Legacy Partners II San Mateo Plaza, LLC dated as of October 23, 2007	S-1	333-174829	10.7	3/28/12	
10.15	Second Amendment to the Lease Agreement between the Company and Legacy Partners II San Mateo Plaza, dated as of December 19, 2012	10-K	001-35468	10.6	3/18/13	
10.16	Lease Agreement between the Company and Riverport Group, LLC dated as of May 3, 2005, including amendments thereto	10-K	001-35468	10.6	3/18/13	
10.17	Second Amendment and Modification to the Lease Agreement between the Company and Riverport Group, LLC, dated as of August 1, 2012	10-Q	001-35468	10.1	11/14/12	
21.1	List of Subsidiaries	10-K	001-35468	10.6	3/18/13	
23.1	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm					X
24.1	Power of Attorney (See page 99)					X

Exhibit Number	Description	Where Located Form	File No.	Exhibit No.	Filing Date	Filed herewith
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)					X
31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)					X
32.1(1)	Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 200 (18 U.S.C. Section 1350)					X
32.2(1)	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)					X
101.INS(2)	XBRL Instance Document					X
101.SCH(2)	XBRL Taxonomy Schema Linkbase Document					X
101.CAL(2)	XBRL Taxonomy Calculation Linkbase Document					X
101.LAB(2)	XBRL Taxonomy Label Linkbase Document					X
101.PRE(2)	XBRL Taxonomy Presentation Linkbase Document					X

+ Management contract, compensatory plan or arrangement.

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

(2) In accordance with Rule 406T of Regulation S-T, the information furnished in these exhibits will not be deemed “filed” for purpose of Section 18 of the Exchange Act. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act or Exchange Act.

(c) Financial Statement Schedules

CAFEPRESS INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Charged to Income	Deductions	Other (1)	Balance at End of Year
			(in thousands)		
Deferred Tax Valuation Allowance:					
Year Ended December 31, 2013	$ 297	$ 8,916	$ —	$ —	$ 9,213
Year Ended December 31, 2012	58	—	—	239	297
Year Ended December 31, 2011	58	—	—	—	58

(1) Represents valuation allowance established for state tax net operating loss recorded in connection with the acquisition of EZ Prints, Inc.

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

Table of Contents

Index to Financial Statements

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CAFEPRESS INC.

By: /s/ Bob Marino
Bob Marino
President and Chief Executive Officer

Date: March 31, 2014

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Bob Marino and Monica N. Johnson, and each of them, his or her true and lawful attorneys-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Bob Marino **Bob Marino**	Chief Executive Officer (Principal Executive Officer) and Director	March 31, 2014
/s/ Monica N. Johnson **Monica N. Johnson**	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 31, 2014
/s/ Fred E. Durham III **Fred E. Durham III**	Director	March 31, 2014
/s/ Brad W. Buss **Brad W. Buss**	Director	March 31, 2014
/s/ Patrick J. Connolly **Patrick J. Connolly**	Director	March 31, 2014
/s/ Douglas M. Leone **Douglas M. Leone**	Director	March 31, 2014
/s/ Michael Dearing **Michael Dearing**	Director	March 31, 2014
/s/ Diane M. Irvine **Diane M. Irvine**	Director	March 31, 2014

Table of Contents

Index to Financial Statements

EXHIBIT INDEX

Exhibit Number	Description	Where Located Form	File No.	Exhibit No.	Filing Date	Filed herewith
2.1	Agreement and Plan of Merger dated October 5, 2012, by and among the Company, Sunday Morning Merger Sub Inc., EZ Prints, Inc., and Fortis Advisors LLC, as Stockholder Representative.	8-K	001-35468	2.1	10/10/12	
2.2	Asset Purchase Agreement by and between the Company and Canvas On Demand, LLC dated as of September 1, 2010	S-1	333-174829	2.1	3/28/12	
3.1	Amended and Restated Certificate of Incorporation of the Company	10-Q	001-35468	3(i)	5/15/12	
3.2	Amended and Restated Bylaws of the Company	10-Q	001-35468	3(ii)	5/15/12	
4.1	Specimen Common Stock Certificate	S-1	333-174829	4.1	3/28/12	
4.2	Investors' Rights Agreement dated as of January 21, 2005, as amended	S-1	333-174829	4.2	3/28/12	
10.1+	CafePress Inc. 1999 Equity Incentive Plan and related form agreement	S-1	333-174829	10.1	3/28/12	
10.2+	CafePress Inc. 2004 Amended and Restated Stock Incentive Plan and related form agreements	S-1	333-174829	10.2	3/28/12	
10.3+	CafePress Inc. Amended and Restated 2012 Stock Incentive Plan and related form agreements	S-1	333-174829	10.3	3/28/12	
10.4+	CafePress Inc. Employee Stock Purchase Plan	S-1	333-174829	10.10	3/28/12	
10.5+	Form of Indemnification Agreement between the Company and its officers and directors	S-1	333-174829	10.4	3/28/12	
10.6+	Form of Amended and Restated Change in Control Agreement with Senior Management					X
10.7+	2014 Cash Bonus Plan					X
10.8+	Severance Agreement with Bob Marino dated February 12, 2014	8-K	001-35468	10.1	2/19/14	
10.9+	Transition Agreement with Monica Johnson dated February 12, 2014	8-K	001-35468	10.1	2/19/14	
10.10+	Consultant and Advisor Agreement with Monica Johnson dated February 12, 2014	8-K	001-35468	10.2	2/19/14	
10.11+	Restricted Stock Unit Award Agreement with Monica Johnson dated February 12, 2014	8-K	001-35468	10.3	2/19/14	

[Table of Contents](#)

[Index to Financial Statements](#)

Exhibit Number	Description	Where Located Form	File No.	Exhibit No.	Filing Date	Filed herewith
10.12+	Separation Agreement and Release with Wes Herman dated January 8, 2014					X
10.13+	Release of Claims Agreement with Wes Herman dated January 8, 2014					X
10.14	Office Lease Agreement between the Company and Legacy Partners II San Mateo Plaza, LLC dated as of October 23, 2007	S-1	333-174829	10.7	3/28/12	
10.15	Second Amendment to the Lease Agreement between the Company and Legacy Partners II San Mateo Plaza, dated as of December 19, 2012	10-K	001-35468	10.6	3/18/13	
10.16	Lease Agreement between the Company and Riverport Group, LLC dated as of May 3, 2005, including amendments thereto	10-K	001-35468	10.6	3/18/13	
10.17	Second Amendment and Modification to the Lease Agreement between the Company and Riverport Group, LLC, dated as of August 1, 2012	10-Q	001-35468	10.1	11/14/12	
21.1	List of Subsidiaries	10-K	001-35468	10.6	3/18/13	
23.1	Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm					X
24.1	Power of Attorney (See page 99)					X
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)					X
31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)					X
32.1(1)	Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 200 (18 U.S.C. Section 1350)					X
32.2(1)	Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)					X
101.INS(2)	XBRL Instance Document					X
101.SCH(2)	XBRL Taxonomy Schema Linkbase Document					X

Table of Contents

Index to Financial Statements

Exhibit Number	Description	Where Located Form	File No.	Exhibit No.	Filing Date	Filed herewith
101.CAL(2)	XBRL Taxonomy Calculation Linkbase Document					X
101.LAB(2)	XBRL Taxonomy Label Linkbase Document					X
101.PRE(2)	XBRL Taxonomy Presentation Linkbase Document					X

\+ Management contract, compensatory plan or arrangement.

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

(2) In accordance with Rule 406T of Regulation S-T, the information furnished in these exhibits will not be deemed "filed" for purpose of Section 18 of the Exchange Act. Such exhibits will not be deemed to be incorporated by reference into any filing under the Securities Act or Exchange Act.

(b) Financial Statement Schedules

Schedules not listed above have been omitted because they are not applicable or required, or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes hereto.

Exhibit 10.6

CafePress Inc.
1850 Gateway Drive, Ste. 300
San Mateo, CA 94404
Office: (650) 655-3000
Fax: (650) 240-0260

Amended and Restated
Form of Change in Control Agreement
for Senior Management

DATE

NAME
ADDRESS
ADDRESS

Dear **NAME**:

I am pleased to provide you with this letter to confirm a supplemental term of your employment with CafePress Inc., a Delaware corporation ("CafePress" or the "Company"), approved by the Compensation Committee or the Board of Directors, as applicable, on or about March 21, 2014.

1. Termination following a Change in Control. In the event you are terminated without Cause or are Constructively Terminated on or following a Change in Control (as such terms are defined below), then:

(a) you shall receive a lump sum payment equal to twelve (12) months of your then-current base salary within thirty (30) days following your separation from service;

(b) as to options granted to you under the Company's 2012 Amended and Restated Stock Incentive Plan and 2004 Stock Incentive Plan (the "Plans") outstanding prior to March 21, 2014, the vesting of all such options will immediately accelerate on the date of such termination with respect to the greater of (i) the number of shares that would accelerate as provided in your existing option agreement(s) or (ii) 50% of the remaining unvested shares; and

(c) as to options and restricted stock units granted to you under the Plans on or after March 21, 2014, the vesting of any such awards will immediately accelerate on the date of such termination with respect to 50% of the remaining unvested shares.

Receipt of the above mentioned benefits shall be conditioned upon your execution and non-revocation of a general release in a form reasonably acceptable to the Company.

2. Non Assumption of Outstanding Awards. In the event that your unvested options and/or restricted stock units granted to you by the Company pursuant to the Plans are not assumed or otherwise cashed out by an acquirer in a Change in Control (as such terms are defined below), then:

(a) the vesting of any options and restricted stock units granted to you under the Plans will accelerate as of immediately prior to the closing of the Change in Control with respect to 50% of the remaining unvested shares; provided, however, that in the event you are eligible both for the acceleration in this Section 2 and the acceleration provided in Section 1, you shall only be eligible for the acceleration terms that provide for a greater number of shares to vest, and in no event shall receive the benefit of both acceleration provisions.

1. Definitions:

"Cause" means (i) conviction of any felony, or any misdemeanor where imprisonment is imposed; (ii) the commission of any act of fraud, embezzlement or dishonesty with respect to the Company; (iii) any unauthorized use or disclosure of confidential information or trade secrets of the Company; (iv) willful misconduct or gross negligence in performance of your duties, including your refusal to comply in any material respect with the legal directives of the Company's Board of Directors so long as such directives are not inconsistent with your position and duties, and such refusal to comply is not remedied within thirty (30) days after written notice from the Board of Directors, which notice shall state that failure to remedy such conduct may result in termination for Cause; or (v) repeated unexcused absence from the Company.

"Constructively Terminated" means your voluntary resignation within sixty (60) days following (i) a change in your position which materially reduces your duties or level of responsibility, provided that for this purpose your duties and level of responsibility will not be deemed to be materially diminished if following a Change in Control you retain the same duties and level of responsibility with respect to the Company business or the business with which such business is operationally merged or subsumed; (ii) a material reduction in your base salary, other than in connection with a general decrease in compensation affecting officers of the Company or a successor corporation; or (iii) a change in your place of employment which is more than 50 miles from your place of employment, provided that in each case such change or reduction is effected without your written concurrence, and provided further that such change is not remedied within thirty (30) working days after written notice thereof from the you to the Company, which notice shall specifically reference a "Constructive Termination" pursuant to this provision. Notwithstanding the foregoing, you will not be deemed to be Constructively Terminated on account of a change in your title, change in the person or persons to whom you report or the occurrence of a mere Change in Control or other change in corporate status of the Company (such as pursuant to a "going private" transaction) absent additional action on the part of the Company or a successor company that would result in an event described in (i), (ii) or (iii) of the preceding sentence.

"Change in Control" means the occurrence of any of the following events:

(a) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if persons who were not shareholders of the Company immediately prior to such merger, consolidation or other reorganization own immediately after such merger, consolidation or other reorganization fifty percent (50%) or more of the voting power of the outstanding securities of each of (A) the continuing or surviving entity and (B) any direct or indirect parent corporation of such continuing or surviving entity;

(b) The consummation of the sale, transfer or other disposition of all or substantially all of the Company's assets or the shareholders of the Company approve a plan of complete liquidation of the Company; or

(c) Any "person" (as defined below) who, by the acquisition or aggregation of securities, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of directors (the "Base Capital Stock"); except that any change in the relative beneficial ownership of the Company's securities by any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company.

For purposes of clause(c) above, the term "person" shall have the same meaning as when used in sections 13(d) and 14(d) of the Exchange Act but shall exclude (1) a trustee or other fiduciary holding securities under an employee benefit plan maintained by the Company or a Parent or Subsidiary and

(2) a corporation owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of the Stock.

Notwithstanding the foregoing, the term "Change in Control" shall not include a transaction the sole purpose of which is (a) to change the state of the Company's incorporation or (b) to form a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction, or (c) to effect an initial or secondary public offering of securities or debt of the Company.

2. Governing Law. This agreement will be governed in accordance with the laws of the State of California, without reference to principles of conflicts of law.

3. Acceptance. To indicate your acceptance of this agreement, please sign and date this letter in the space provided below and return it to me. A duplicate original is enclosed for your records. To the extent that any agreement between you and the Company currently provides for any severance payment following a Change in Control, the terms of this agreement shall supersede and replace any such prior agreement, whether written or oral, with respect to the payment of severance. This letter may not be modified or amended except by a written agreement, signed by the Company and by you.

If you have any questions, please contact me. If you find the terms of this letter acceptable, please sign a copy of this letter agreement and return it to me.

I agree to and accept the terms of this letter,

Bob Marino Chief Executive Officer	[Name]

Exhibit 10.7

2014 CASH BONUS PLAN

Eligible Executives: CEO, CFO, Division Executives, VPs, Senior Directors

- Bonus pool is funded by achievement of payout targets with an 80% threshold, 100% target and 120% maximum, with ratable payouts in between
- Bonus target payouts based on a percentage of base salary
- Bonus are weighted 20% in Q1, 20% in Q2, 20% in Q3 and 40% in Q4
- Payouts to the CEO and CFO will be weighted as follows:
  - 40% based on consolidated revenue growth
  - 30% based on EBITDA
  - 15% based on growth of mobile
  - 15% based on B2B growth
- Payouts to the remaining executives will have weighted factors commensurate with job duties and divisional responsibilities

	Bonus as a Percentage of Base Salary		
	At minimum (80%)	At 100%	At maximum (120%)
CEO	48%	60%	72%
CFO	20%	40%	48%
Division Executives	22%	35%	42%
VPs	varies	25%	varies
Senior Directors	varies	20%	varies

Exhibit 10.12

SEPARATION AGREEMENT AND RELEASE

RECITALS

This Separation Agreement and Release (the “Agreement”) is made by and between Wes Herman (“Executive”) and CafePress Inc. (the “Company”) (collectively referred to as the “Parties” or individually referred to as a “Party”):

WHEREAS, Executive was employed by the Company for the provision of Service (as defined in Treasury Regulation Section 1.409A-1(h);

WHEREAS, the Company and Executive entered into an Executive Confidentiality and Inventions Agreement (the “Confidentiality Agreement”);

WHEREAS, Executive’s employment with the Company shall terminate effective January 17, 2014 (the “Termination Date”). Executive is not obligated to report to work from the date of delivery of this agreement and the Termination Date other than to provide reasonable assistance with operational requests and the return of Company equipment; and,

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions and demands that the Executive may have against the Company, including, but not limited to, any and all claims arising out of or in any way related to Executive’s employment with or separation from the Company.

NOW, THEREFORE, in consideration of the promises made herein, the Parties hereby agree as follows:

COVENANTS

1. Consideration. In consideration of Executive’s execution of this Agreement and Executive’s fulfillment of all of its terms and conditions, and provided that Executive does not revoke the Agreement under paragraph 7 below, the Company agrees as follows:

(i) Separation Pay. The Company agrees to pay Executive an amount representing Three Hundred Thousand Dollars ($300,000) less applicable tax withholdings (“Separation Pay”). This payment will be made to Executive form of ten (10) equal installment payments payable over a period of ten (10) months, with the first installment being paid on February 1st, 2014 and thereafter every thirty (30) days, following your separation from Service (as defined in Treasury Regulation Section 1.409A-1(h)).

(ii) COBRA. If Executive elects COBRA coverage, the Company agrees to pay a period of one (1) month under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“COBRA”) following the Termination Date. Payment will be made to the Benefits Administrator once Executive elects COBRA coverage.

(iii) Restricted Period. Notwithstanding any agreement to the contrary including without limitation the Non-Solicitation and Non-Competition Agreement signed by the

Parties, Company and Executive agree that the Restricted Period applicable to any restrictions regarding competition or solicitation of customers or employees by Executive shall be twelve (12) months from the Termination Date.

(iv) General. Executive acknowledges that without this Agreement, he/she is otherwise not entitled to the consideration listed in this paragraph 1, and is offered by the Company solely as consideration for this Agreement.

2. Benefits. If any received, Executive's health insurance benefits will cease on January 31, 2014, subject to Executive's right to continue Executive's health insurance under COBRA (see also Section 1(ii) above). Executive's participation in all benefits and incidents of employment, including, but not limited to, the accrual of any bonuses, vacation and PTO, stock option vesting, all ceased as of the Termination Date.

3. Trade Secrets and Confidential Information/Company Property. Executive reaffirms and agrees to observe and abide by the terms of the Confidentiality Agreement, specifically including the provisions therein regarding nondisclosure of the Company's trade secrets and confidential and proprietary information. Executive's signature below constitutes his/her certification under penalty of perjury that he/she has returned all documents and other items provided to Executive by the Company, developed or obtained by Executive in connection with his employment with the Company, or otherwise belonging to the Company.

4. Payment of Salary and Receipt of All Benefits. Executive acknowledges and represents that, other than the consideration set forth in this Agreement, the Company has paid or provided all salary, wages, bonuses, accrued vacation/paid time off, leave, housing allowances, relocation costs, interest, severance, outplacement costs, fees, reimbursable expenses, commissions, stock, stock options, vesting, and any and all other benefits and compensation due to Executive.

5. Release of Claims. (A) Executive agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Executive by the Company and its current and former officers, directors, employees, agents, investors, attorneys, shareholders, founders, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations and assigns (the "Releasees"). Executive, on his own behalf, and on behalf of his respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute or pursue, any claim, complaint, charge, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Executive may possess against any of the Releasees arising from any omissions, acts or facts or damages that have occurred up until and including the Effective Date of this Agreement including, without limitation:

(a) any and all claims relating to or arising from Executive's employment relationship with the Company and the termination of that relationship;

(b) any and all claims relating to, or arising from, Executive's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law;

(c) any and all claims for wrongful discharge of employment; constructive discharge; termination in violation of public policy; discrimination; harassment; retaliation; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; and conversion;

(d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967; the Americans with Disabilities Act of 1990; the Fair Credit Reporting Act; the Employee Retirement Income Security Act of 1974; the Family and Medical Leave Act; the Worker Adjustment and Retraining Notification Act; the Older Workers Benefit Protection Act; the Sarbanes-Oxley Act of 2002; section 49.60.010 et seq.; The Fair Labor Standards Act, 29 U.S.C. §§201 et seq., (as amended); relevant Kentucky labor codes, and all amendments to each of the above-referenced statutes; and any other laws of the state of Kentucky; and any other federal, state or local laws or regulations relating to employment terms and conditions of employment;

(e) any and all claims for violation of the federal, or any state, constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination;

(g) any claim for any loss, cost, damage, or expense arising out of any dispute over the non-withholding or other tax treatment of any of the proceeds received by Executive as a result of this Agreement; and

(h) any and all claims for attorneys' fees and costs.

Executive agrees that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. This release does not extend to any obligations incurred under this Agreement or any obligation of the Company to pay a bonus pursuant to the Amended and Restated Earn Out Bonus Agreement between the Parties. This release does not release claims that cannot be released as a matter of law, including, but not limited to Executive's right to file a charge with or participate in a charge by the Equal Employment Opportunity Commission, or any other local, state, or federal administrative body or government agency that is authorized to enforce or administer laws related to employment, against the Company (with the understanding that any such filing or participation does not give Executive the right to recover any monetary damages against the Company; Executive's release of claims herein bars Executive from recovering such monetary relief from the Company).

(B) Release by the Company. For and in consideration of the payments and/or promises set forth in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company hereby releases, acquits, and forever discharges Executive from any and all claims, charges, complaints, demands, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, entitlements, costs, losses, debts, and expenses (including attorneys' fees and legal expenses), of any nature whatsoever, known or unknown, which the Company now has, had, or may hereafter claim to have had against Executive, of any kind or nature whatsoever, arising from any act, omission, transaction, or event which has occurred or is alleged to have occurred up to the time this Agreement is executed by the Company, other than fraud, embezzlement or any other act of moral turpitude for which no release of claims shall extend. This Agreement may be pled as a complete defense and shall constitute a full and final bar to any claim for damages or other relief based on any matters released herein. This General Release extends also to claims that the Company does not know or suspect to exist in its favor at the time of executing it, which if known by the Company might have materially affected its decision to execute it. The Company hereby knowingly and voluntarily waives and relinquishes all rights and benefits which it may have under applicable law with respect to such claims.

6. Acknowledgement of Waiver of Claims Under ADEA. Executive acknowledges that he/she is waiving and releasing any rights he/she may have under the Age Discrimination in Employment Act of 1967 ("ADEA"), and that this waiver and release is knowing and voluntary. Executive agrees that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. Executive acknowledges that the consideration given for this waiver and release is in addition to anything of value to which Executive was already entitled.

Executive further acknowledges that he/she has been advised by this writing that:

(a) he/she should consult with an attorney prior to executing this Agreement;

(b) he/she has forty-five (45) days within which to consider and accept the terms of this Agreement. To accept the terms of this Agreement, Executive shall date and sign this Agreement and return it to 1850 Gateway Drive, Ste. 300, San Mateo, CA 94404, Attn: Legal Department;

(c) he/she has seven (7) days following his/her execution of this Agreement to revoke this Agreement ("Revocation Period"). If he/she decides to revoke this Agreement after signing, 1850 Gateway Drive, Ste. 300, San Mateo, CA 94404, Attn: Legal Department, must receive a written statement of revocation by the last day of the Revocation Period;

(d) if Executive does not revoke during the seven-day Revocation Period, this Agreement will take effect on the eighth (8th) day after the date you sign the Agreement ("Effective Date"); and

(e) nothing in this Agreement prevents or precludes Executive from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties, or costs for doing so, unless specifically authorized by federal law. In the event Executive signs this Agreement and returns it to the Company in less than the 45-day period identified above, Executive hereby acknowledges that he/she has freely and voluntarily chosen to waive the time period allotted for considering this Agreement.

7. Unknown Claims. Executive acknowledges that he/she has been advised to consult with legal counsel and that he/she is familiar with the principle that a general release does not extend to claims that the releaser does not know or suspect to exist in his/her favor at the time of executing the release, which, if known by him/her, must have materially affected her settlement with the release. Executive, being aware of said principle, expressly understands and agrees to waive any rights he/she may have to that effect under Section 1542 of the Civil Code of the State of California or analogous federal or state statutes, as well as under common law principles of similar effect.

8. No Pending or Future Lawsuits. Executive represents that Executive has no lawsuits, claims, or actions pending in his name, or on behalf of any other person or entity, against the Company or any of the other Releasees. Executive also represents that Executive does not intend to bring any claims on Executive's own behalf or on behalf of any other person or entity against the Company or any of the other Releasees.

9. Application for Employment. Executive understands and agrees that, as a condition of this Agreement, Executive shall not be entitled to any employment with the Company, and Executive hereby waives any right, or alleged right, of employment or re-employment with the Company.

10. Confidentiality. Executive agrees to maintain in complete confidence the existence of this Agreement, the contents and terms of this Agreement, and the consideration for this Agreement (hereinafter collectively referred to as the "Separation Information"). Except as required by law, Executive may disclose the Separation Information only to his immediate family members, the Court in any proceedings to enforce the terms of this Agreement, Executive's counsel, Executive's accountant and any professional tax advisor to the extent that they need to know the Separation Information in order to provide advice on tax treatment or to prepare tax returns, and must prevent disclosure of any Separation Information to all other third parties. Executive agrees that he/she will not publicize, directly or indirectly, any Separation Information.

Executive acknowledges and agrees that the confidentiality of the Separation Information is of the essence and that the consideration and other benefits provided under this Agreement are contingent upon Executive's compliance with his obligations under this paragraph 10. Any individual breach or disclosure shall not excuse Executive from his obligations hereunder, nor permit him to make additional disclosures. Executive warrants that he/she has not to date disclosed, orally or in writing, directly or indirectly, any of the Separation Information to any unauthorized party.

11. No Cooperation. Executive agrees not to act in any manner that might damage the business of the Company. Executive further agrees that he/she will not knowingly encourage or counsel any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints by any third party against any of the

Releasees, unless under a subpoena or other court order to do so. Executive agrees both to immediately notify the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or other court order. If approached by anyone for counsel in the presentation or prosecution of any disputes, differences, grievances, claims, charges, or complaints against any of the Releasees, Executive shall state no more than that he/she cannot provide counsel.

12. Non-Disparagement. Company and Executive agree to refrain from any disparagement, defamation, libel or slander of any of the Releasees, or any tortious interference with the contracts, relationships and prospective economic advantage of the other party or any of the Releasees. Executive agrees that Executive shall direct all inquiries by potential future employers to the Company's Human Resources Department.

13. Non-Solicitation. Executive acknowledges and agrees that he has executed a Non-Solicitation and Non-Competition Agreement with Company and that pursuant to its terms that for a period of twelve (12) months immediately following the Effective Date of this Agreement, Executive shall not directly or indirectly solicit any of the Company's employees to leave their employment at the Company.

14. Breach. Except as provided by law or as provided for under Paragraph 7 herein, Executive shall also be responsible to the Company for all costs, attorneys' fees, and any and all damages incurred by the Company in: (a) enforcing Executive's obligations under this Agreement, The Non-Solicitation and Non-Competition Agreement or the Confidentiality Agreement, including the bringing of any action to recover the consideration; and (b) defending against a claim or suit brought or pursued by Executive in violation of the terms of this Agreement.

15. No Admission of Liability. Executive understands and acknowledges that this Agreement constitutes a compromise and settlement of any and all actual or potential disputed claims. No action taken by the Company hereto, either previously or in connection with this Agreement, shall be deemed or construed to be: (a) an admission of the truth or falsity of any claims; or (b) an acknowledgment or admission by the Company of any fault or liability whatsoever to Executive or to any third party.

16. Costs. The Parties shall each bear their own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement.

17. ARBITRATION. THE PARTIES AGREE THAT ANY AND ALL DISPUTES ARISING OUT OF THE TERMS OF THIS AGREEMENT, THEIR INTERPRETATION, AND ANY OF THE MATTERS HEREIN RELEASED, SHALL BE SUBJECT TO ARBITRATION IN ATLANTA, GEORGIA, BEFORE JAMS, PURSUANT TO ITS EMPLOYMENT ARBITRATION RULES & PROCEDURES ("JAMS RULES"). THE ARBITRATOR MAY GRANT INJUNCTIONS AND OTHER RELIEF IN SUCH DISPUTES. THE ARBITRATOR SHALL ADMINISTER AND CONDUCT ANY ARBITRATION IN ACCORDANCE WITH GEORGIA LAW, AND THE ARBITRATOR SHALL APPLY SUBSTANTIVE AND PROCEDURAL GEORGIA LAW TO ANY DISPUTE OR CLAIM, WITHOUT REFERENCE TO ANY CONFLICT-OF-LAW PROVISIONS OF ANY JURISDICTION. TO THE EXTENT THAT THE JAMS RULES CONFLICT WITH GEORGIA LAW, GEORGIA LAW SHALL

TAKE PRECEDENCE. THE DECISION OF THE ARBITRATOR SHALL BE FINAL, CONCLUSIVE, AND BINDING ON THE PARTIES TO THE ARBITRATION. THE PARTIES AGREE THAT THE PREVAILING PARTY IN ANY ARBITRATION SHALL BE ENTITLED TO INJUNCTIVE RELIEF IN ANY COURT OF COMPETENT JURISDICTION TO ENFORCE THE ARBITRATION AWARD. THE PARTIES TO THE ARBITRATION SHALL EACH PAY AN EQUAL SHARE OF THE COSTS AND EXPENSES OF SUCH ARBITRATION, AND EACH PARTY SHALL SEPARATELY PAY FOR ITS RESPECTIVE COUNSEL FEES AND EXPENSES; PROVIDED, HOWEVER, THAT THE ARBITRATOR SHALL AWARD ATTORNEYS' FEES AND COSTS TO THE PREVAILING PARTY. THE PARTIES HEREBY AGREE TO WAIVE THEIR RIGHT TO HAVE ANY DISPUTE BETWEEN THEM RESOLVED IN A COURT OF LAW BY A JUDGE OR JURY. NOTWITHSTANDING THE FOREGOING, THIS SECTION WILL NOT PREVENT EITHER PARTY FROM SEEKING INJUNCTIVE RELIEF (OR ANY OTHER PROVISIONAL REMEDY) FROM ANY COURT HAVING JURISDICTION OVER THE PARTIES AND THE SUBJECT MATTER OF THEIR DISPUTE RELATING TO THIS AGREEMENT AND THE AGREEMENTS INCORPORATED HEREIN BY REFERENCE. SHOULD ANY PART OF THE ARBITRATION AGREEMENT CONTAINED IN THIS SECTION CONFLICT WITH ANY OTHER ARBITRATION AGREEMENT BETWEEN THE PARTIES, THE PARTIES AGREE THAT THIS ARBITRATION AGREEMENT SHALL GOVERN.

18. Cooperation with Company. Executive agrees to cooperate, at the reasonable request of the Company, in the defense and/or prosecution of any charges, claims, investigations (internal or external), administrative proceedings and/or lawsuits relating to matters occurring during Executive's period of employment. The Company agrees to pay Executive a daily rate of $1,000 an eight hour day, and pro rata for any lesser amount, for the time expended in the defense and prosecution of such matters.

19. Tax Consequences. The Company makes no representations or warranties with respect to the tax consequences of the payments provided to Executive or made on his behalf under the terms of this Agreement. Executive agrees and understands that he/she is responsible for payment, if any, of local, state and/or federal taxes on the payments made hereunder by the Company and any penalties or assessments thereon. Executive further agrees to indemnify and hold the Company harmless from any claims, demands, deficiencies, penalties, interest, assessments, executions, judgments, or recoveries by any government agency against the Company for any amounts claimed due on account of: (a) Executive's failure to pay or the Company's failure to withhold, or Executive's delayed payment of, federal or state taxes; or (b) damages sustained by the Company by reason of any such claims, including attorneys' fees and costs.

20. Authority. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. Executive represents and warrants that he/she has the capacity to act on his own behalf and on behalf of all who might claim through him to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

21. No Representations. Executive represents that he/she has had an opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Executive has not relied upon any representations or statements made by the Company that are not specifically set forth in this Agreement.

22. Severability. In the event that any provision, or any portion thereof, becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision or portion of said provision.

23. Attorneys' Fees. Except as provided in paragraph 7 hereof, in the event that either Party brings an action to enforce or effect its rights under this Agreement, the prevailing Party shall be entitled to recover its costs and expenses, including the costs of mediation, arbitration, litigation, court fees, plus reasonable attorneys' fees, incurred in connection with such an action.

24. Entire Agreement. This Agreement represents the entire agreement and understanding between the Company and Executive concerning the subject matter of this Agreement and Executive's employment with and separation from the Company and the events leading thereto and associated therewith, and supersedes and replaces any and all prior agreements and understandings concerning the subject matter of this Agreement and Executive's relationship with the Company, with the exception of the Confidentiality Agreement and the Stock Agreements.

25. No Waiver. The failure of the Company to insist upon the performance of any of the terms and conditions in this Agreement, or the failure to prosecute any breach of any of the terms and conditions of this Agreement, shall not be construed thereafter as a waiver of any such terms or conditions. This entire Agreement shall remain in full force and effect as if no such forbearance or failure of performance had occurred.

26. No Oral Modification. This Agreement may only be amended in a writing signed by Executive and the Chief Executive Officer of the Company.

27. Governing Law. This Agreement shall be construed, interpreted, governed and enforced in accordance with the laws of the State of Georgia, without regard to choice-of-law provisions. The Parties hereby consent to personal and exclusive jurisdiction and venue in the State of Georgia.

28. Binding Effect. This Agreement shall be binding on the Parties and their heirs, representatives, successors and assigns and shall inure to the benefit of the Parties and their heirs, representatives, successors and assigns.

29. Counterparts. This Agreement may be executed in counterparts and by facsimile, and each counterpart and facsimile shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

30. Voluntary Execution of Agreement. Executive understands and agrees that he/she executed this Agreement voluntarily, without any duress or undue influence on the part or behalf of the Company or any third party, with the full intent of releasing all of his claims against the Company and any of the other Releasees. Executive acknowledges that:

(a) he/she has read this Agreement;

(b) he/she has been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of his own choice or that he/she has voluntarily declined to seek such counsel;

(c) he/she understands the terms and consequences of this Agreement and of the releases it contains; and

(d) he/she is fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

CafePress Inc.

Dated: January 8, 2014

By: /s/ Kirsten Mellor
General Counsel

Wes Herman, an individual

Dated: January 8, 2014

By: /s/ Wes Herman

Exhibit 10.13

RELEASE OF CLAIMS AGREMEENT

This Release of Claims Agreement ("Agreement") is made by and between Wes Herman ("Executive"), EZ Prints, Inc. (the "Company"), and CafePress Inc. (the "Parent") (collectively referred to as the "Parties" or individually referred to as a "Party").

RECITALS

WHEREAS, Executive was employed by the Company;

WHEREAS, the Company, Parent and certain other parties thereto have entered into an Agreement and Plan of Merger, dated as of October 25, 2012 (the "Merger Agreement"), as a result of which the Company will become a wholly-owned subsidiary of the Parent (the "Merger");

WHEREAS, in connection with the Merger, Executive signed an Earn-Out Bonus agreement (as amended and in effect, the "Amended Bonus Agreement") with Parent and the Company pursuant to which Executive will receive an Earn-Out Payment (as defined in the Bonus Agreement) in accordance with the terms and conditions of such Bonus Agreement, and as applicable, the Merger Agreement, provided Executive signs this Agreement; and

WHEREAS, the Parties wish to resolve any and all disputes, claims, complaints, grievances, charges, actions, petitions, and demands that Executive may have against the Company and any of the Releasees as defined below, including, but not limited to, any and all claims arising out of or in any way related to payments made under the Earn Out Bonus and to Executive's employment with the Company, and after the Closing through the Earn Out Period, Parent;

NOW, THEREFORE, in consideration of the mutual promises made herein, the Company, Parent and Executive hereby agree as follows:

COVENANTS

1. Consideration. Upon execution of this Agreement in accordance with the terms of the Bonus Agreement, Parent agrees to pay Executive an Earn-Out Payment in the amount of Sixty Thousand Dollars ($60,000) as provided in the Bonus Agreement.

2. Release of Claims. Executive agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Executive by Parent, the Company and its current and former officers, directors, employees, agents, investors, attorneys, shareholders, administrators, affiliates, benefit plans, plan administrators, insurers, trustees, divisions, and subsidiaries, and predecessor and successor corporations and assigns (collectively, the "Releasees") pursuant to the Bonus Agreement; provided, however that the foregoing release shall not cover obligations arising from rights of Executive (i) under any indemnification agreement between Executive and the Company (including indemnification provided for under applicable law) or insurance policy of the Company, in each case, in effect as of the date of Closing (as defined in the Merger Agreement), (ii) under the Charter Documents (as defined in the Merger Agreement) (iii) relating to salaries, vacation and expenses that have accrued prior to the date of, or will be due to

Executive after the date of this Agreement (with respect to periods prior to the date hereof) in the ordinary course of business consistent with past practices, or (iv) the obligations of the Parent set forth in the Separation Agreement and Release between Executive and Parent. Executive, on his own behalf and on behalf of his respective heirs, family members, executors, agents, and assigns, hereby and forever releases the Releasees from, and agrees not to sue concerning, or in any manner to institute, prosecute, or pursue, any claim, complaint, charge, duty, obligation, demand, or cause of action relating to (i) any matters relating to Executive's employment by Company or Parent through the Earn Out Period, (ii) the payment of the Earn-Out Bonus or claims that could be asserted under the Bonus Agreement or the Merger Agreement (with respect to the calculation of the Earn-Out Bonus), or (iii) purchase or actual purchase by Executive of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law, whether presently known or unknown, suspected or unsuspected, that Executive may possess against any of the Releasees arising from any omissions, acts, facts, or damages that have occurred up until and including the Effective Date of this Agreement (such released claims collectively referred to as the "Claims").

Executive agrees that the release set forth in this section shall be and remain in effect in all respects as a complete release as to the Claims. This release does not extend to any obligations incurred under this Agreement. This release does not release claims related to Executive's ongoing and future employment with the Parent after the date hereof. Executive represents that he has made no assignment or transfer of any right, claim, complaint, charge, duty, obligation, demand, cause of action, or other matter waived or released by this Section.

3. <u>No Pending or Future Lawsuits</u>. Executive represents that he has no lawsuits, claims, or actions pending in his name, or on behalf of any other person or entity, against the Company or any of the other Releasees asserting any Claims. Executive also represents that he does not intend to bring any Claims on his own behalf or on behalf of any other person or entity against the Company or any of the other Releasees.

4. <u>No Cooperation</u>. Executive agrees that he will not knowingly encourage, counsel, or assist any attorneys or their clients in the presentation or prosecution of Claims by any third party against any of the Releasees, unless under a subpoena or other court order to do so. Executive agrees both to immediately notify Parent and the Company upon receipt of any such subpoena or court order, and to furnish, within three (3) business days of its receipt, a copy of such subpoena or other court order. If approached by anyone for counsel or assistance in the presentation or prosecution of any Claims against any of the Releasees, Executive shall state no more than that he cannot provide counsel or assistance.

5. <u>Nondisparagement</u>. Executive agrees to refrain from any disparagement, defamation, libel, or slander of any of the Releasees, and agrees to refrain from any tortious interference with the contracts and relationships of any of the Releasees.

6. <u>No Admission of Liability</u>. Executive understands and acknowledges that this Agreement constitutes a compromise and settlement of certain actual or potential disputed claims by Executive. No action taken by Parent or the Company hereto, either previously or in connection with this Agreement, shall be deemed or construed to be (a) an admission of the truth or falsity of any actual or potential claims or (b) an acknowledgment or admission by Parent or the Company of any fault or liability whatsoever to Executive or to any third party.

7. Costs. The Parties shall each bear their own costs, attorneys' fees, and other fees incurred in connection with the preparation of this Agreement.

8. ARBITRATION. THE PARTIES AGREE THAT ANY AND ALL DISPUTES ARISING OUT OF THE TERMS OF THIS AGREEMENT, THEIR INTERPRETATION, AND ANY OF THE MATTERS HEREIN RELEASED, SHALL BE SUBJECT TO ARBITRATION IN FULTON COUNTY, BEFORE JUDICIAL ARBITRATION & MEDIATION SERVICES ("JAMS"), PURSUANT TO ITS EMPLOYMENT ARBITRATION RULES & PROCEDURES ("JAMS RULES"). THE ARBITRATOR MAY GRANT INJUNCTIONS AND OTHER RELIEF IN SUCH DISPUTES. THE ARBITRATOR SHALL ADMINISTER AND CONDUCT ANY ARBITRATION IN ACCORDANCE WITH DELAWARE LAW. TO THE EXTENT THAT THE JAMS RULES CONFLICT WITH DELAWARE LAW, DELAWARE LAW SHALL TAKE PRECEDENCE. THE DECISION OF THE ARBITRATOR SHALL BE FINAL, CONCLUSIVE, AND BINDING ON THE PARTIES TO THE ARBITRATION. THE PARTIES AGREE THAT THE PREVAILING PARTY IN ANY ARBITRATION SHALL BE ENTITLED TO INJUNCTIVE RELIEF IN ANY COURT OF COMPETENT JURISDICTION TO ENFORCE THE ARBITRATION AWARD. THE PARTIES TO THE ARBITRATION SHALL EACH PAY AN EQUAL SHARE OF THE COSTS AND EXPENSES OF SUCH ARBITRATION, AND EACH PARTY SHALL SEPARATELY PAY FOR ITS RESPECTIVE COUNSEL FEES AND EXPENSES; PROVIDED, HOWEVER, THAT THE ARBITRATOR MAY AWARD ATTORNEYS' FEES AND COSTS TO THE PREVAILING PARTY, EXCEPT AS PROHIBITED BY LAW. THE PARTIES HEREBY AGREE TO WAIVE THEIR RIGHT TO HAVE ANY DISPUTE BETWEEN THEM ARISING OUT OF THE TERMS OF THIS AGREEMENT RESOLVED IN A COURT OF LAW BY A JUDGE OR JURY. NOTWITHSTANDING THE FOREGOING, THIS SECTION WILL NOT PREVENT EITHER PARTY FROM SEEKING INJUNCTIVE RELIEF (OR ANY OTHER PROVISIONAL REMEDY) FROM ANY COURT HAVING JURISDICTION OVER THE PARTIES AND THE SUBJECT MATTER OF THEIR DISPUTE RELATING TO THIS AGREEMENT AND THE AGREEMENTS INCORPORATED HEREIN BY REFERENCE. SHOULD ANY PART OF THE ARBITRATION AGREEMENT CONTAINED IN THIS PARAGRAPH CONFLICT WITH ANY OTHER ARBITRATION AGREEMENT BETWEEN THE PARTIES, THE PARTIES AGREE THAT THIS ARBITRATION AGREEMENT SHALL GOVERN.

9. Tax Consequences. Parent and the Company make no representations or warranties with respect to the tax consequences of the payments and any other consideration provided to Executive or made on his behalf under the terms of this Agreement. Executive agrees and understands that he is responsible for payment, if any, of local, state, and/or federal taxes on the payments and any other consideration provided hereunder by Parent, the Company and any penalties or assessments thereon. Executive further agrees to indemnify and hold Parent and the Company harmless from any claims, demands, deficiencies, penalties, interest, assessments, executions, judgments, or recoveries by any government agency against Parent and the Company for any amounts claimed due on account of (a) Executive's failure to pay or delayed payment of federal or state taxes, or (b) damages sustained by Parent and/or the Company by reason of any such claims, including attorneys' fees and costs.

10. Authority. Parent and the Company each represent and warrant that the undersigned has the authority to act on behalf of Parent and the Company, respectively and to bind Parent and the Company, respectively, and all who may claim through it to the terms and conditions of this Agreement. Executive represents and warrants that he has the capacity to act on his own behalf and on behalf of all who might claim through him/her to bind them to the terms and conditions of this Agreement. Each Party warrants and represents that there are no liens or claims of lien or assignments in law or equity or otherwise of or against any of the claims or causes of action released herein.

11. No Representations. Executive represents that he has had an opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Executive has not relied upon any representations or statements made by Parent and/or the Company that are not specifically set forth in this Agreement.

12. Severability. In the event that any provision or any portion of any provision hereof or any surviving agreement made a part hereof becomes or is declared by a court of competent jurisdiction or arbitrator to be illegal, unenforceable, or void, this Agreement shall continue in full force and effect without said provision or portion of provision.

13. Entire Agreement. This Agreement represents the entire agreement and understanding between the Company, Parent and Executive concerning the subject matter of this Agreement and supersedes and replaces any and all prior agreements and understandings concerning the subject matter of this Agreement.

14. No Oral Modification. This Agreement may only be amended in a writing signed by Executive and a duly authorized representative of Parent and the Company.

15, Governing Law. This Agreement shall be governed by the laws of the State of Delaware, without regard for choice-of-law provisions.

16. Effective Date. This Agreement will become effective on the date signed by the Executive (the “Effective Date”).

17. Counterparts. This Agreement may be executed in counterparts and by facsimile, and each counterpart and facsimile shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

18. Binding Effect. This Agreement shall be binding on the Parties and their heirs, representatives, successors and assigns and shall inure to the benefit of the Parties and their heirs, representatives, successors and assigns.

19. Voluntary Execution of Agreement. Executive understands and agrees that he executed this Agreement voluntarily, without any duress or undue influence on the part or behalf of Parent or the Company or any third party, with the full intent of releasing all of the Claims against Parent, the Company and any of the other Releasees. Executive acknowledges that:

(a) he has read this Agreement;

(b) he has been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of his own choice or has elected not to retain legal counsel;

(c) he understands the terms and consequences of this Agreement and of the releases it contains; and

(d) he is fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

	Wes Herman, an individual
Dated: January 8, 2014	/s/ Wes Herman
	Wes Herman
	COMPANY
Dated: January 8, 2014	By /s/ Kirsten Mellor
	General Counsel
	PARENT
Dated: January 8, 2014	By /s/ Bob Marino

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-180531 and 333-187368) of CafePress Inc. of our report dated March 31, 2014 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
San Jose, California
March 31, 2014

Exhibit 31.1

I, Bob Marino, certify that:

1. I have reviewed this annual report on Form 10-K 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(s) 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 officers 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.

Dated: March 31, 2014

/s/ Bob Marino

Bob Marino
Chief Executive Officer

Exhibit 31.2

I, Monica N. Johnson, certify that:

1. I have reviewed this annual report on Form 10-K 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(s) 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 officers 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.

Dated: March 31, 2014

/s/ Monica N. Johnson

Monica N. Johnson
Chief Financial Officer

Exhibit 32.1

SECTION 1350 CERTIFICATIONS

I, Bob Marino, Chief Executive Officer of CafePress Inc. (the “Company”), certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Annual Report on Form 10- K of the Company (the “Report”), which accompanies this Certificate, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2014

/s/ Bob Marino

Bob Marino
Chief Executive Officer

Exhibit 32.2

SECTION 1350 CERTIFICATIONS

I, Monica N. Johnson, Chief Financial Officer of CafePress Inc. (the "Company"), certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Annual Report on Form 10-K of the Company (the "Report"), which accompanies this Certificate, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 31, 2014

/s/ Monica N. Johnson

Monica N. Johnson
Chief Financial Officer