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, 2014

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 $5.17 of such common stock on the NASDAQ Global Select Market on June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter). Shares of common stock held as of June 30, 2014 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 23, 2015, there were 17,563,188 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 end of the Registrant's 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

STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Except for the historical financial information contained herein, this annual report on Form 10-K (the "Report") 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 strategy, including our focus on simplifying our business, focusing on high quality content partners, simplifying product offerings, creating long-term customer relationships, and seeking viable international channels, our financial performance, including revenues, cost of revenues and operating expenses; our plans for future services and enhancements of existing services; the results of any impairment of goodwill; the anticipated impact and benefits of our recent divestitures, including streamlining of the Company's operations; any anticipated use of proceeds from such divestitures, our ongoing evaluation of our business overall; seasonal fluctuations in our business and statements about our expectations as to the variability of our growth rates from period to period; anticipated trends and challenges in our business and the markets in which we operate; customer acquisition costs as a predictor of future growth; the effect of changes in our management team and our ability to retain talent; the impact of any strategic alternatives; our plans to address industry competition and related pressures; our anticipated cash needs and our estimates regarding capital requirements; goodwill impairment; our needs for additional financing and the potential dilutive effect thereof; our liability from user-generated content; our ability to recognize and remedy issues with internal controls; the expected results of any remediation plans; the impact of production issues and delayed orders; our ability to integrate certain acquired assets, individuals or entities and the effects of such integrations; our responses to changing customer preferences, new technologies, requirements and industry standards; our anticipated growth strategies; our expectations with respect to raw materials, suppliers or inventory; our regulatory environment; benefit of non-GAAP financial measures; our legal proceedings to which we are a party and the impact and timing of costs related thereto; the negotiation of any agreements or settlements in pending litigation and any contributions related thereto; our content acquisition strategy; marketing and selling products and services beyond our existing target markets and our ability to develop new products, services and sources of revenues; our ability to protect intellectual property and other trade secrets; and risks associated with our efforts to streamline our business and operations.

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. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q and 8-K reports filed with the Securities and Exchange Commission.

PART I

ITEM 1. Business

Overview

Founded in 1999, we completed our initial 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 through our flagship website, CafePress.com, as well as providing a robust platform of technology products and service offerings to allow corporate customers to leverage our online services for their own consumer customers with little up-front investment and no inventory.

Our facility in Louisville, Kentucky has innovative technology and manufacturing processes that enable us to provide high-quality customized products that are individually built to order. Our proprietary processes enable us to produce a broad range of merchandise efficiently, cost effectively and quickly. We maintain custom printing production capabilities in Norcross, Georgia in connection with our EZ Prints, Inc. brand. We also maintain a diverse network of contract manufacturers that give us the ability to broaden our manufacturing capabilities and produce in certain international locales.

In November 2014, we sold the primary assets and liabilities of our online customization and personalization stationery product's business InvitationBox.com. In March 2015, we sold the primary assets and liabilities of our Art business, which includes our custom canvas production and printing facility in Raleigh, North Carolina, and the front-end direct e-commerce websites for CanvasOnDemand.com, GreatBigCanvas.com, and ImageKind.com. In March 2015, we also sold the primary assets and liabilities of our Groups business, which includes our printing facility in connection with our Logosportswear.com brand operated in Cheshire, Connecticut. We believe these divestitures are an integral part of our strategy to focus on the core CafePress.com business, and to strengthen our balance sheet.

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. Millions of designs have been uploaded through our e-commerce platforms to create a unique and diverse assortment of virtual products that help our customers forge connections and celebrate their identities, interests, and obsessions. An average of approximately 85,000 new images were uploaded per week to our retail e-commerce website in the year ended December 31, 2014. We have also developed hundreds of relationships with major entertainment licensors and brands to bring their content to our marketplace, and also allow fans to create and sell artwork based on 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. This constantly replenishing content library and merchandizing back-end service allows our customers to find items that meet their specific expressive needs. Our integrated social media marketing tools allow designers and consumer customers to share our products with their audiences and across the Internet.

CafePress Services. 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 brands and content for sale on their websites, custom sites hosted by us, or for sale on CafePress.com and our other sales channels. Through our acquisition of EZ Prints, 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.

CafePress Fulfillment. We offer users high-quality printing on a wide variety of 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.

Discontinued Operations. In November 2014, we divested substantially all of our assets in our InvitationBox.com business and in March 2015, we divested substantially all of the assets associated with our Arts and Groups businesses. The following websites and their operations were included in these divestitures:

Art Operations

- ***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.

Groups Operations

- ***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.

InvitationBox.com

- ***InvitationBox.com.*** InvitationBox.com customizes and personalizes stationary products online, including invitations, announcements and other products and gifts.

Our strategy

Our goal is to help individuals establish connections and celebrate their identities, interests and obsessions through unique products and content. The desire to personalize products and express affinity through the things individuals surround themselves with, whether they are decorating their apparel, their home or office, remains strong, and as we improve the quality of our execution and services, we believe we can eventually capture more of that demand. Key elements of our strategy in 2015 to achieve this goal are the following:

- *Simplify the business.* Our recent divestitures are a major step in doing fewer things. By concentrating on fewer production facilities, products and website brands, we believe we can improve our quality and operational efficiency more quickly.
- *Focus on high quality 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, 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 2014, 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*.
- *Simplify Product Offerings* We intend to simplify and streamline our products and services, rather than trying to provide as many customizable options as possible. We instead plan to focus on providing products that satisfy consumers the most and can be produced profitably.

- *Create long-term relationships with our customer.* We are focused on increasing both the average order size and the lifetime value we receive from a customer. We believe we will achieve this by establishing stronger relationships with our consumers, understanding their passions and interests, and connecting with them through the media channels that are most appropriate.
- *Seek viable international channels.* We intend to continue to support profitable growth in our international channels, focusing efforts on our top international properties.

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, TeeSpring 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, 2014, we had nine issued patents, three 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, 2014, 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, 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, 2014, within our continuing operations we had 452 full-time employees, including 229 in production and operations, 77 in engineering, 97 in sales and marketing and 49 in general and administrative. Within our discontinued operations, we had 278 employees. 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 our common stock is traded 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 significant quarterly and other fluctuations due to a number of factors that could adversely affect our business and, as a result, the trading price of our common stock.

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

- seasonality of our revenues, including shifts in the timing and length of holiday selling seasons;
- macroeconomic cycles and consumer discretionary spending;
- demand for our user-designed products and services and the growth rate of the print-on-demand and e-commerce industry overall;
- fluctuations in sales and marketing costs, including website traffic acquisition costs and our ability to maintain or increase such traffic cost-effectively;
- market acceptance and competitiveness of our products and services on quality and pricing, and current competitors and new competitive entrants to the market for customized goods in our channels of distribution and marketing;
- the gain, loss or success of significant strategic relationships and partner programs;
- changes in strategy precipitated by turnover in senior management of the company;
- 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;
- concerns about the data security of consumer personal information run through our e-commerce services and their vulnerability to attack and intrusions;
- any production issues which may in turn result in delayed orders or increased costs;
- fluctuations in the cost of raw materials and inventory; and,
- potential impact of sales tax initiatives on e-commerce sales demand.

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

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

A future downturn in our business, slow or no growth of new business opportunities, or a sustained 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, 2014, we had goodwill of $20.5 million and intangible assets of $5.8 million. Goodwill and intangible asset impairment analysis and measurement is a process that requires significant judgment. Subsequent to the date of our annual goodwill impairment test and our second quarter earnings release on August 12, 2014, our stock price decreased by more than 35%, we had a management change, and we had changes in certain strategic objectives and operations. As a result, we have carried out additional goodwill impairment tests as of September 30, 2014 and December 31, 2014. These tests have indicated that there was no impairment as of those dates. We believe that our market capitalization has been disproportionately impacted by our change in management, lack of market visibility to forecasted earnings for the year, and limited trading volume to absorb sales by institutional investors. In addition, we believe that our multiples, other third party evidence of fair value, and existing forecasts continue to support a market capitalization level of equal to or greater than our publicly traded market capitalization. However, a sustained decline in our stock price and resulting market capitalization, delays in expected new business opportunities associated with retail distribution channels and our CafePress Services partnerships, unforeseen losses of any significant existing retail distribution channel partners, our inability to achieve planned profitability improvements in 2015 or beyond, 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 $20.5 million goodwill balance or our $5.8 million intangible asset balance in the future. The strategic alternatives we have recently undertaken may impact the overall valuation of goodwill. In addition, any future downturn in our business, slower than expected growth of new business opportunities associated with retail distribution channels or our CafePress Services partnerships, failure to achieve planned profitability improvements in the future, changes in market conditions or a sustained decline in the market price of our stock may result in an impairment of goodwill or intangible assets and the recognition of resulting expenses in future periods, which in turn could materially and 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.

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

A significant proportion of our revenue has been derived from the online sale of user-designed products through our marketplace CafePress.com and through distribution channels derived from that marketplace. As a result the continued performance of our marketplace is dependent on continued flow of user-generated content into the creation of products. We expect that the sales of user-generated design products will continue to comprise a majority of the revenue of our CafePress.com business and of our business overall. Our users rarely exclusively use our e-commerce platform to sell their designs. Users who design products may choose not to use our e-commerce platform to create and sell their designs, and choose other platforms, thereby reducing the number of designs available through our websites and thus affecting future growth of our marketplace revenue. Customers who purchase user-designed products on our websites may also purchase other fulfillment and partner products through our e-commerce services as well, which aid the growth of our services. Our tools and platform offerings may not remain competitive with those of our competitors. If competitive services increase and/or we cannot successfully attract or retain users to design and sell products through our e-commerce platform or if we are unable to attract and retain our customers for user-designed and other products, our operating results may suffer. If we are unable to 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.

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

A significant portion of our net revenues and operating cash flows have historically been realized during the period from November through December each year, primarily due to increased retail activity during the holiday seasons. Disruption in our ability to process, produce and fulfill customer orders in the fourth quarter could have a negative effect on our quarterly and annual operating results. As described in our Management's Discussion & Analysis 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. Any disruption in our business operations or other factors that could lead to a material shortfall compared to our expectations for the fourth quarter could then result in a material shortfall compared to our expectations for the full year, have a disproportionate effect on our operating results and cause our stock price to decline.

Intense competitive pressures, particularly failure to meet consumers' price expectations, may harm our business and results of operations.

Demand for our products and services may be impacted by consumer price sensitivity, particularly in times of recession or recovery, slow economic growth or 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 revenues and net income. We frequently make changes to our pricing structure in order to remain competitive but that may result in lower profit margins. Most of our products are also offered by our competitors. In particular, competitive offerings in apparel have put pressure on pricing and increasingly impacted sales performance in that product category. If in the future, we significantly reduce prices on our products without a corresponding increase in volume or decrease in cost of goods sold, or raise prices without maintaining the volume of goods sold, it would negatively impact our revenues and could adversely affect our gross margins and overall profitability.

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

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

The market for customized products and services is large, fragmented and intensely competitive and we expect competition to continue to increase in the future. Demand for customized products has increased, but so have competitive offerings in all of our product categories. We face competition from a wide range of companies, including the following:

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

We also indirectly compete with Internet portals and shopping search engines that are involved in e-commerce or sell products or services either directly or in collaboration with other retailers. If more companies move into the customized products space, we will face further direct 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 strengthen their competitive positions.

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

Our business depends heavily on the market recognition and reputation of our 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; and
- our ability to protect personally identifiable information and credit card data and perceived weaknesses in data privacy or security practices or product quality problems of our service or other e-commerce websites, such as that experienced in EZ Prints product offering in our hosted e-commerce services platform. See "—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."

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

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

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

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

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

We also promote our products and special offers through emails targeted to potential customers and our site members. However, if our customers deem such emails and other promotions to be intrusive, we could be forced to discontinue or significantly curtail our email marketing activities. In addition, we engage in flash promotions through websites, such as through Groupon, Amazon Local and LivingSocial. Such promotions involve significantly discounted product offers to customers with the goal of driving traffic to our websites for customer acquisitions and repeat purchases. Due to the low profit margin associated with the deep discounts offered to purchasers of such offers and the widespread availability of similar group buy offers by other e-commerce competitors, the flash promotions we choose to implement may not accomplish our long-term goal of customer acquisition in a cost-effective manner.

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

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

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

We obtain content for our websites and our products from multiple sources, including our user designers, 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 largely been able to obtain those licenses without paying significant advance royalty payments but there is no guarantee that these licensors will renew their license agreements on the same or reasonable terms. Our competitors may be successful in obtaining exclusive licenses for content we wish to obtain for our site, making such content unavailable to us now or in the future. We may also, as we have in the past, enter into agreements with content providers that contain exclusivity provisions that may restrict our ability to sell certain products or in certain geographies or to partner with certain content providers. In order to compete effectively for these licenses, we could be forced to pay higher royalties or agree to significant advance payments. Our results of operations could be adversely affected as a result of these content licensing payment commitments in the event that sales or revenue growth do not meet our expectations. In addition, our flexibility in planning for, or reacting to, changes in our business and the market segments in which we operate could be limited.

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

If any of the above circumstances increase the cost of obtaining content, our margins may suffer. 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, and 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 placing limits on many marketplace items by category, 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 scale or growth of our business or to 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. We anticipate that we will need to continue to implement new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting, legal and other internal management and control systems. We 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. Transitions in executive leadership, and resulting changes in strategic and operational focus, have created and will continue to create challenges in our operations and execution. We may not successfully navigate our executive leadership transitions. 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 streamlining our product and service offerings, which will require us to work with different groups of suppliers and address the needs of different kinds of consumers. We may incur significant costs in trying to expand our offerings into these new areas or fail to successfully execute the roll-out of these new offerings. All of these endeavors involve risks and require substantial management effort and significant additional expenditures. We cannot assure you that we will be able to manage our growth or execute our strategies effectively, and any failure to do so may have a material adverse effect on our business and prospects, as well as our operating results.

We have experienced significant turnover in our senior management and our business may be adversely affected by the transitions in our senior management team or by our inability to effectively handle our transition and any future succession planning.

We are highly dependent on the executive leadership of members of our senior management and key employees as our success depends, in large part, on the continued contributions and strategic vision 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 members of our senior management team. Our employees can terminate their employment with us at any time. We have experienced turnover in several of our senior executive positions, including our Chief Executive Officer in August 2014, our Chief Financial Officer in March 2014 and the President of CafePress.com announced his transition out of the position in November 2014. Effective August 4, 2014, Fred E. Durham III was appointed as our Chief Executive Officer, Garett Jackson, who was previously serving as our interim Chief Financial Officer, was appointed as our Chief Financial Officer, and Maheesh Jain was appointed as our Chief Marketing Officer. We are not yet able to gauge the reaction of the market or our customers to these management changes and the strategic transitions that might follow such changes. These transitions in our executive team may be disruptive to our business, and if we are unable to manage an orderly transition, our business may be adversely affected. Additionally, 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 corporate, industry and operational expertise, we may be unable to effectively execute our business plan or maintain or, in the future, expand our operations, which in turn would harm our business.

We are unable to predict how our management or employees may react to the recent changes in senior management, including the change in our Chief Executive Officer and the addition of a Chief Marketing Officer, or any strategic alternative transitions that may occur. Our future success will depend in part on our ability to retain key managers or employees and to identify, hire and retain additional personnel to support our business and its growth. Among the areas that are key to our continued operational finance, legal and engineering staff that are key to maintenance of our compliance and public company status. Our retail e-commerce sites depend on the sales and marketing talent of our retail operations staff. Our production facilities also depend on skilled personnel trained in our proprietary printing and production techniques and others with knowledgeable about back end operations of the online retail industry. Our future success depends, to a significant extent, on our ability to attract, train, integrate and retain qualified personnel with relevant experience and skill sets. Recruiting and retaining capable personnel, particularly those with expertise in the retail, e-commerce and printing industries, is vital to our success. In recent years, a substantial amount of our growth in personnel has been due to newly-acquired businesses. 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.

We may not realize the anticipated benefits of our recent divestitures or of any prior or future acquisitions, which in turn could materially and adversely affect our business, financial condition and prospects.

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

In addition, in recent years, we have engaged in acquisition opportunities, including businesses of which we have subsequently divested ourselves as discussed above. We may be unable to successfully integrate the remaining businesses we have acquired or any businesses that we may acquire in the future or to realize the anticipated benefits of any such acquisitions. The successful integration of any acquired business as well as the retention of personnel require significant attention from our management and could divert resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not achieve the anticipated benefits we expect due to a number of factors including: unanticipated costs or liabilities associated with the acquisition, incurrence of acquisition-related costs, harm to our relationships with existing customers as a result of the acquisition, harm to our brands and reputation, the loss of key employees in the acquired businesses, use of resources that are needed in other parts of our business, and use of substantial portions of our available cash to consummate the acquisition. In addition, our ability to impose appropriate internal controls, including accurate forecasting, accounting integration of inventory, costs and reporting, to successfully manage these businesses requires significant investments of resources and management time. Finally, acquisitions could result in the use of substantial amounts of cash, earn-outs, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. In some of our prior acquisitions, earn-out targets were not achieved and in some instances either disputes occurred or modifications were made. We may enter into other modifications or settlements of certain acquisition terms over time which could result in cash payments, potentially dilutive issuances, goodwill impairment charges and other potential unknown liabilities. Failure to realize the anticipated benefits of our divestitures, or of any prior or future acquisitions, could materially and adversely affect our business, financial condition and prospects.

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

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

Internet business models and the online content distribution generally are characterized by rapid technological evolution, changes in user requirements and preferences, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practices. To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our websites and systems. Such systems include complex interactions of our proprietary software tools, such as designer and builder software and content review tools, data storage and reporting, order management and plant printing automation software. Like all systems, failures or errors made in the maintenance or operation of, those systems could lead to operational and logistics challenges or lost, cancelled or delayed orders, which in turn could lead customers to make alternative choices in a provider of custom goods. 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 opinions on many sides of a given issue, including in other customers and potentially with the business partners who supply us with content or inventory and to those who choose to invest in our company. As a result, our websites frequently attract the attention of media outlets that may not understand the user-generated nature of our business model and attribute sentiments expressed by our users to our company or its management team. Additionally, because our service provides a platform for the expression of controversial ideas and humor, our site could be the target of negative social media or petition campaigns, computer attacks or boycotts by well-organized special interest groups or filtered by foreign countries, which may adversely impact our growth and operations. Our distribution and channel partners may likewise become uncomfortable with aspects of our user-generated content business model in light of their own content usage policies and may cut back or refuse to display our products or otherwise limit our merchandising opportunities thus impacting our results of operations. We believe we must maintain a balance among the encouragement of self-expression in our users that creates a content-rich experience, the needs and concerns of our business partners and our mutual desire to protect our 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.

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 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 natural disasters. Additionally, since a significant portion of our revenues are attributed to cotton apparel and because we do not currently engage in any cotton or other commodity-related hedging activities, we are particularly susceptible to issues affecting the cotton growing and production industry. Any catastrophic loss to any of these facilities or disruptions in the production of cotton would likely disrupt our operations, delay production and shipments, and result in a delay or loss of revenues or cause us to incur significant expenses to repair or replace the facility or to purchase critical inventory for creation of our products.

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

As an Internet service provider that prints content provided by others, we face allegations related to, and potential liability for, negligence, copyright or trademark infringement or other claims related to the goods created from user-generated uploads to our service. Intellectual property law for secondary liability for copyright infringement is particularly uncertain in many jurisdictions. We also may face allegations related to, and potential liability for, content uploaded from our users in connection with claims of defamation, racism, hate speech, obscenity or pornography that may be embodied in user expression. As globally available websites, we also receive inquiries about content that may be illegal or insensitive to cultural norms not only in the United States but worldwide, and those sensitivities may differ widely.

Despite our status as 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 that negatively impact our protections from liability for infringement could have consequences for us in our operations and increase litigation costs for the defense of any litigation that might arise due to such changes or developments.

We maintain strict content usage policies that are frequently evaluated and updated and we maintain processes that review uploaded content for compliance with our terms of service and 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. In the fall of 2014, we experienced a security breach in certain hosted websites operated by EZ Prints for a large nation-wide retail customer that resulted in the consumer personal data and credit card information of approximately 1,900 customers being exposed to hackers. The intrusion exposed a previously undetected vulnerability in software used in the architecture of our EZ Prints product offering. As a result, the supported sites were taken offline for a period of time and remediation efforts required and diverted significant resources in efforts to identify and assess the security breach. We have since remediated the immediate issues and further strengthened site security company-wide, but there can be no assurances that our newly enhanced security measures will be sufficient to prevent future attacks by sophisticated hackers or others who seek to access consumer data. 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 are derived from credit card sales. This in turn exposes us to increased risks of dependence on third-party payment processing service providers, as well as risks associated with higher transaction fees, compliance matters and fraud.

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

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

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

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

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

We must anticipate the popularity of products and purchase blank inventory and secure sufficient supplies before customizing and selling them to our customers. Across all of our businesses, we must manage differing demand and inventory controls to accurately forecast and protect against risks. If we fail to adequately predict demand and experience an unexpected peak in production, our production times will suffer, which may result in damage to our reputation and business. For example, if we do not have an adequate supply of ink due to periods of unexpected peak demand, our ability to print and deliver products may be delayed. Conversely, 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.

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 also maintain global sourcing policies with which we must comply in order to maintain business relationships. Such policies require us to monitor our supply chain and there is no guarantee we will be able to do so consistently and successfully over time and secure a price that is not otherwise damaging to our business. In addition, our vendors may have difficulty adjusting to our changing demands and growing business. Our vendors' failure to manufacture or import quality merchandise in a timely and effective manner could damage our reputation and 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 failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights or defend against third-party allegations of infringement may be costly and time-consuming.

Protection of our proprietary technology is critical to our business. Failure to protect and monitor the use of our existing intellectual property rights could result in the loss of valuable technologies and prevent us from maintaining a leading market position. We rely primarily on patents, trademarks, trade secrets, copyrights and other contractual restrictions to protect our intellectual property. As of December 31, 2014, we had nine issued patents and three 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 ways that we may not immediately detect, and thus may not provide meaningful protection for our trade secrets or proprietary manufacturing expertise. Adequate remedies may not be available in the event of unauthorized use or disclosure of our trade secrets and manufacturing expertise. In addition, others may obtain knowledge of our trade secrets through independent development or legal means. The failure of our patents or confidentiality agreements to protect our processes, equipment, technology, trade secrets and proprietary manufacturing expertise, methods of system design, other methods and materials could have a material adverse effect on our business. In addition, effective patent, trademark, copyright and trade secret protection may be unavailable or limited in some foreign countries. In some countries where we operate, we have not applied for patent, trademark or copyright protection.

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

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

Our success depends largely on our ability to use and develop our technology and know-how without infringing or misappropriating the intellectual property rights of third parties. The validity and scope of claims relating to business process patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. We have been and may continue to be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties, including allegations of patent infringement asserted by patent holding companies or other adverse patent owners who have no relevant product revenues and against whom our own patents may therefore provide little or no deterrence. E-commerce companies and divisions have been particularly the target of speculative patent infringement claims in recent years. 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. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time-consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, which may not be available on reasonable terms, or at all, pay ongoing royalties, or subject us to injunctions prohibiting the use of our technologies. Protracted litigation could also result in our customers or potential partner customers of our products or services deferring, limiting or ceasing their purchase or use of our website services until resolution of such litigation.

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

In addition to the potential infringement claims otherwise described above, we may be involved in claims, suits, government investigations, and regulatory proceedings arising in the ordinary course of our business, including actions with respect privacy, data protection, law enforcement, taxes, labor and employment claims as well as stockholder derivative actions, class actions lawsuits and other matters. For example, in 2013, we were 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 damaging our reputation with customers, business partners or investors, any of which in turn could adversely affect our business, operating results, and financial condition.

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

We have limited experience as a public company and will incur significant legal, accounting and other expenses, particularly after we cease to be an "emerging growth company" that we did not incur as a private company. The individuals who constitute our management team have limited experience managing a publicly traded company, and limited experience complying with the increasingly complex and changing laws pertaining to public companies. Our management team and other personnel will need to devote a substantial amount of time to compliance initiatives and we may not successfully or efficiently manage our transition into a public company. In addition, the Sarbanes-Oxley Act and the Dodd-Frank Act of 2010, as well as rules subsequently implemented by the SEC and the Nasdaq Stock Market, or Nasdaq, impose a number of requirements on public companies, including requiring changes in corporate governance practices. The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. While the Jumpstart Our Business Startups Act, also known as the JOBS Act, enacted in April 2012, provided us with additional time to achieve full compliance, the regulations surrounding Section 404 of the Sarbanes-Oxley Act has required us to, and will continue to, incur substantial accounting expense and expend significant management time on compliance-related issues. Moreover, these rules and regulations will continue to increase our legal, accounting and financial compliance costs and will make some corporate activities more time-consuming and costly than private company compliance. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our board committees or as executive officers and will make securing directors' and officers' liability insurance more expensive.

We identified a material weakness in our internal controls over financial reporting that, if not properly remediated, could result in material misstatements in our financial statements in future periods and impair our ability to comply with the accounting and reporting requirements applicable to public companies.

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

We believe as of December 31, 2014 the balances are properly stated. After detecting the material weakness, additional close procedures were performed, including a full review of the vendors associated with the misstatement, (which are an isolated subset of the total population relating to international vendors) and an updated reconciliation process. However, we cannot assure you that we will not continue to have a material weakness in our internal control over financial reporting. In addition, we cannot be certain that any measures we undertake will successfully remediate this material weakness or that other material weaknesses and control deficiencies will not be discovered in the future. If our remediation efforts are not successful or other material weaknesses or control deficiencies occur in the future, we may be unable to report our financial results accurately or on a timely basis, which could cause our reported financial results to be materially misstated and result in the loss of investor confidence or delisting and cause the trading price of our common stock to decline. As a result of such failures, we could also become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, and become subject to litigation from investors and stockholders, which could harm our reputation, financial condition or divert financial and management resources from our core business.

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

We have implemented and continue to adopt measures to improve our internal controls. If the procedures we have adopted and implemented are insufficient, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and our operating results may be harmed. As discussed above, we have identified a material weakness in our internal controls over financial reporting for the years ended December 31, 2013 and 2014. In addition, we have in the past experienced deficiencies in internal controls, and while the dollar amounts involved were not material and we believe we have remediated these deficiencies, there can be no assurance that similar or other significant deficiencies or material weaknesses in our financial reporting will not occur in the future. Any failure to maintain or implement required new or improved controls, or difficulties we encounter in their implementation, could result in significant deficiencies or material weaknesses, cause us to fail to meet our future reporting obligations or cause our financial statements to contain material misstatements. Internal control deficiencies could also result in a revision or restatement of our financial statements in the future or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

Since we are an "emerging growth company," as defined by the JOBS Act and for as long as we maintain such status, we are not required at this time to include an attestation report of our registered public accounting firm regarding internal control over financial reporting. 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 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 currently operate on several separate general ledgers as a result of dispersed finance groups located at our different plant operations due to historic acquisitions which have not been fully integrated. 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. We have incurred and will continue to incur high corporate governance costs to ensure our controls practices meet the required standards. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could cause us to fail to meet our periodic reporting obligations, or result in material misstatements in our financial information or cause us to incur material increase in the costs associated with our corporate governance. Any such delays or restatements could cause investors to lose confidence in our reported financial information and lead to a decline in our stock price. Any dramatic increased costs could impact our results in operations and stock price could be materially adversely impacted.

Risks related to our industry

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

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

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

A decline in the popularity of shopping on the Internet in general or a shift in the devices used that are not optimal for viewing our sites, a decline in interest in customized goods as a retail trend or any failure by us to adapt our websites and improve the online shopping experience of our customers in response to consumer requirements and tastes, will harm our revenues and business prospects.

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 ordinary 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, in 2013, we were 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 damaging our reputation with customers, business partners or investors, any of which in turn could adversely affect our business, operating results, and financial condition.

We 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, financial resources and other company assets.

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, and these complaints were later consolidated in 2014 into one lawsuit. 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 condition, or results of operations.

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 and Canada. Additionally, we utilize contract manufacturing operations through partners in the Czech Republic and Australia. In connection with our international presence we are subject to a variety of risks including:

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

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

We recently ceased providing translated sites in Germany, Spain, France, Ireland and New Zealand as part of our efforts to better focus on growing our business in our core international regions including the UK, Canada and Australia. Our success globally will depend on our ability to anticipate and effectively manage these and other risks associated with our international presence. Our failure to manage any of these risks successfully could harm our international reputation and reduce our international sales, adversely affecting our business, operating results and financial condition.

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

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

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

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

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

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

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

United States Supreme Court precedents currently restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet. However, in recent years, a number of states have attempted or are considering adoption of initiatives that limit or supersede the Supreme Court's position regarding sales and use taxes on Internet sales or with respect to affiliate marketing programs we employ to generate sales on our websites. If these initiatives are successful, we could be required to collect sales taxes in additional states or change our business practices and we may be exposed to retroactive liability on sales. In recent years, numerous bills have been introduced in the U.S. Congress, including The Marketplace Equity Act and The Marketplace Fairness Act, reintroduced in 2013, which covered similar subject matters. That bill passed the U.S. Senate in May 2013, then stalled in the House and committee and no further action was taken by the 113th Congress. We expect similar bills to be introduced in the future covering similar subject matters. The imposition of a Federal tax scheme or the imposition by individual state and local governments of taxes upon Internet commerce or affiliate programs could create administrative burdens for us in the future that may pose operational challenges. We currently collect sales tax in states in which we believe we have established sales tax nexus based on our operations and physical presence and in compliance with existing law. We have elected to discontinue affiliate marketing programs residing in states that have enacted affiliate sales tax nexus statutes. Under some of our agreements, another company is the seller of record, but we are nevertheless obligated to collect sales tax on transactions. We may enter into additional agreements requiring similar tax collection obligations. We expect the complexity of the application of various taxation schemes to continue to pose challenges to our business 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. There is no guarantee that such procedures will be appropriate to disclaim taxable nexus in every state and foreign country in the future and we continually review such positions on a regular basis for recent developments.

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

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

Risks related to ownership of our common stock

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

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

- actual or anticipated fluctuations, including seasonal variations, in our financial condition and operating results;
- changes in the economic performance or market valuations of other e-commerce companies or companies perceived by investors to be comparable to us;
- our announcement of actual results for a fiscal period that are higher or lower than projected results, our announcement of revenues or earnings guidance that is higher or lower than expected, our withdrawal of previously issued guidance or our decision not to provide guidance;
- loss of a significant amount of existing business;
- issuance of new or updated research reports by securities analysts, including the publication of unfavorable reports or changes in recommendation or downgrading of ratings on our common stock;
- actual or anticipated fluctuations in our competitors' operating results or changes in their growth rates;
- lack of coverage of us by industry or securities analysts;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- fluctuations in the supply and prices of materials used in our products, such as cotton;
- share price and volume fluctuations attributable to inconsistent or low trading volume levels of our shares, to erratic or unpredictable investor activity, or to purchases or sales or large amounts of our stock, including by institutional or other investors;
- commencement of, our involvement in, litigation;
- terrorist attacks or natural disasters or other such events impacting countries where we or our customers have operations; and
- general economic and market conditions.

For example, from March 29, 2012 through December 31, 2014, our stock price has fluctuated from a high of $22.69 on March 29, 2012 to a low of $1.95 on December 15 and 16, 2014. As of December 31, 2014, our stock price closed at $2.35 and as of March 27, 2015 was $3.49.

We have a relatively small public float, which may further contribute to volatility in our stock price.

We have a relatively small public float due to the ownership percentage of our executive officers and directors and greater than 10% stockholders. As a result, our common stock may be less liquid and have greater stock price volatility than the common stock of companies with broader public ownership. In addition, the trading of a relatively small volume of shares of our common stock may result in significant volatility in our stock price. If and to the extent ownership of our common stock becomes more concentrated, whether due to increased ownership by our directors and executive officers or other significant stockholders, any future repurchase of our common stock, or other factors, our public float would further decrease, which in turn would likely result in increased stock price volatility.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may cause the market price of shares of our common stock to decline. As an e-commerce company, we believe our stock price may be particularly susceptible to volatility as the stock prices of technology and e-commerce companies have often been subject to wide fluctuations. Additionally, because a large amount of our stock is closely held, we may experience low trading volume or large fluctuations in share price and volume due to large sales by institutional investors.

In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We 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, financial resources and other company assets.

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, both of which were later consolidated in 2014 into one lawsuit. 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 condition, 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, amended and restated bylaws and in Delaware law generally contain provisions that could discourage a takeover.

In addition to the effect that the concentration of ownership by our officers, directors and significant stockholders may have 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;
- 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, 2014, 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, 2018
Offices and Production Facilities	Norcross, Georgia	69,942	March 31,2016
Offices and Production Facilities(1)	Raleigh, North Carolina	55,000	December 31, 2015
Offices and Production Facilities(1)	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.

(1) In connection with our Art and Groups business asset sales, we will no longer lease these facilities beyond March 2015. See Note 5, *Discontinued Operations*, in the accompanying Notes to Consolidated Financial Statements.

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 negotiating an agreement to resolve the litigation as of March 28, 2015. As currently contemplated, the agreement (which is subject to final documentation and approval) will call for a payment of $8.0 million to the plaintiffs in resolution of all claims against us and our officers and directors, of which our liability insurers will contribute approximately $7.5 million and we will contribute approximately $0.5 million. Any final agreement will be subject to negotiation and execution of a formal settlement agreement, reaching certain agreements with our liability insurers, and approval by the court. There can be no assurance that such an agreement will be finalized or that its final terms will be the same as those currently contemplated. We and the individual defendants continue to deny all allegations in the lawsuit.

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

ITEM 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 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

Fiscal Year 2014	High	Low
First Quarter	$6.80	$5.26
Second Quarter	$6.04	$5.09
Third Quarter	$5.35	$3.13
Fourth Quarter	$3.29	$1.96

On March 27, 2015, the last sale price for our common stock on NASDAQ was $3.49 per share.

Stockholders

As of March 23, 2015, according to the records of our transfer agent, there were approximately 113 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. 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, bank covenants, general business conditions and any other factors our Board of Directors may deem relevant

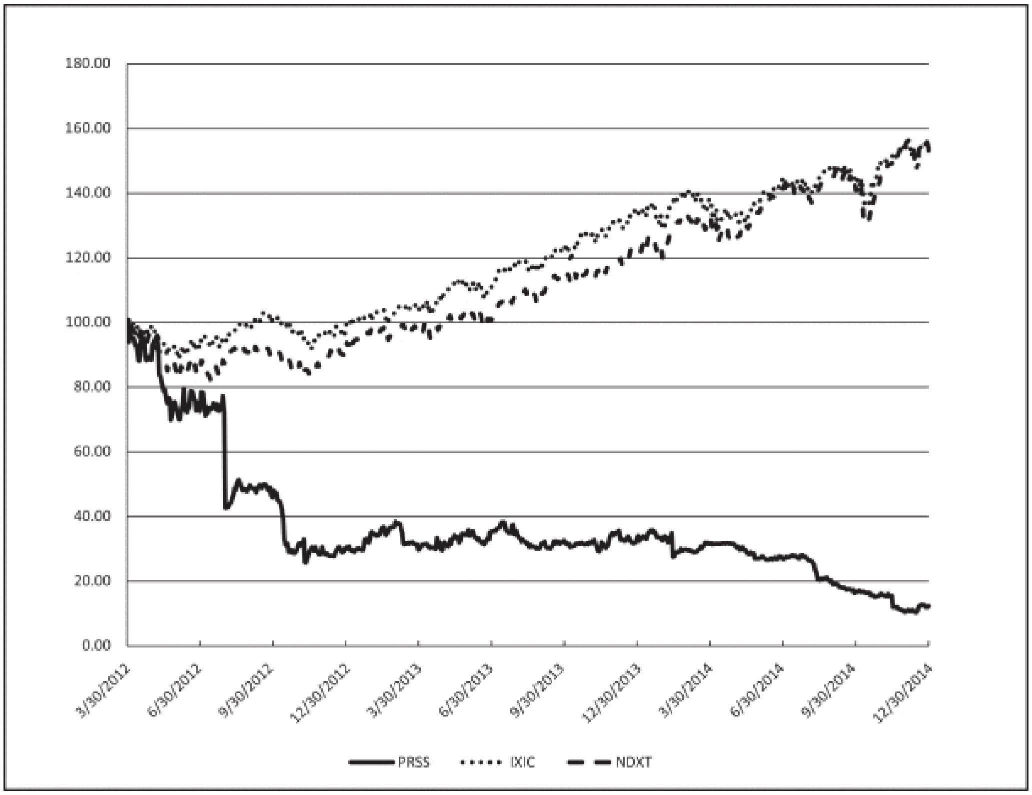
Securities authorized for issuance under equity compensation plans

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, 2014 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 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).

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. Prior year financial statements have been recast to reflect the sale of our Invitation box.com business assets as of December 31, 2014 and the sale of our Art and Groups business assets in the first fiscal quarter of 2015, within discontinued operations. We also revised our previously-issued consolidated financial statements to reflect certain immaterial error corrections. See Note 2, *Summary of Significant Accounting Policies*. See Note 5, *Discontinued Operations*, in the accompanying Notes to Consolidated Financial Statements.

	Year ended December 31,				
	2014	2013(7)	2012(7)	2011(7)	2010(7)
	(in thousands, except per share data)				
Consolidated statements of operations data:					
Net revenues	$153,210	$171,773	$155,999	$141,636	$117,755
Cost of net revenues(1)	100,780	110,403	96,179	80,948	66,766
Gross profit	52,430	61,370	59,820	60,688	50,989
Operating expenses:					
Sales and marketing(1)	33,581	38,984	33,745	29,574	23,599
Technology and development(1)	18,392	18,194	12,870	11,628	13,552
General and administrative(1)	20,581	15,524	13,537	11,645	8,560
Acquisition-related costs	(122)	(3,213)	820	—	—
Restructuring costs	491	—	—	—	—
Total operating expenses	72,923	69,489	60,972	52,847	45,711
(Loss) income from operations	(20,493)	(8,119)	(1,152)	7,841	5,278
Interest income	18	40	76	56	116
Interest expense	(113)	(167)	(169)	(185)	(215)
Other (expense) income, net	6	(6)	—	—	242
(Loss) income before income taxes	(20,582)	(8,252)	(1,245)	7,712	5,421
Provision (benefit) for income taxes	(2,761)	6,180	(385)	2,475	2,048
Net (loss) income from continuing operations	(17,821)	(14,432)	(860)	5,237	3,373
(Loss) income from discontinued operations, net of tax	1,914	519	472	(1,751)	(796)
Net (loss) income	$ (15,907)	$ (13,913)	$ (388)	$ 3,486	$ 2,577
Net (loss) income per share of common stock(2):					
Basic:					
Continuing operations	$ (1.03)	$ (0.84)	$ (0.06)	$ 0.36	$ 0.20
Discontinued operations	$ 0.11	$ 0.03	$ 0.03	$ (0.20)	$ (0.10)
Diluted:					
Continuing operations	$ (1.03)	$ (0.84)	$ (0.06)	$ 0.34	$ 0.19
Discontinued operations	$ 0.11	$ 0.03	$ 0.03	$ (0.20)	$ (0.10)
Shares used in computing net (loss) income per share of common stock(2):					
Basic	17,308	17,143	15,021	8,798	8,308
Diluted	17,443	17,318	15,416	9,403	8,860

	Year ended December 31,				
	2014	2013 (7)	2012 (7)	2011 (7)	2010 (7)
			(in thousands)		
Consolidated balance sheet data:					
Cash and cash equivalents	$ 30,649	$ 33,335	$ 31,198	$27,900	$19,276
Short-term investments	—	3,475	9,403	8,437	10,033
Working capital	31,296	10,093	13,265	17,707	15,727
Total assets	122,485	141,201	157,811	89,114	72,130
Total indebtedness	1,458	2,613	3,707	3,174	3,020
Convertible preferred stock	—	—	—	22,811	22,811
Total stockholders' equity	70,185	82,670	92,737	25,354	17,273

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

	Year ended December 31,				
	2014	2013 (7)	2012 (7)	2011 (7)	2010 (7)
			(in thousands)		
Cost of net revenues	$ 162	$ 177	$ 204	$ 136	$ 147
Sales and marketing	379	332	515	504	468
Technology and development	321	281	226	258	561
General and administrative	2,020	2,342	2,363	1,319	980
Total stock-based compensation expense	$2,882	$ 3,132	$3,308	$2,217	$2,156

(2) Please see notes 2 and 12 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,				
	2014	2013	2012	2011	2010
		(in thousands, except key operating metrics) (unaudited)			
Other financial and non-GAAP financial data:					
Adjusted EBITDA(3):					
As revised	$ (6,328)	$ 2,334	$ 9,079	$ 15,627	$ 13,702
As previously reported	N/A	2,445	9,532	15,805	13,524
Capital expenditures	5,705	10,274	11,012	5,373	5,836
Key operating metrics:					
Total number of orders(4)	5,127,823	6,096,429	4,300,021	3,145,178	2,553,490
Average order size(5)	$ 30	$ 27	$ 36	$ 45	$ 46
Average order size excluding EZ Prints (5)(6)	$ 39	$ 40	$ 42	$ 45	$ 46

(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 (loss) 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.

Table of Contents

Index to Financial Statements

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,				
	2014	2013 (7)	2012 (7)	2011 (7)	2010 (7)
			(in thousands) (unaudited)		
Net income (loss)	$(17,821)	$(14,432)	$ (860)	$ 5,237	$ 3,373
Non-GAAP adjustments:					
Interest and other (income) expense	89	133	93	129	(143)
Provision for income taxes	(2,761)	6,180	(385)	2,475	2,048
Depreciation and amortization	8,454	8,073	5,653	5,569	6,268
Amortization of intangible assets	2,460	2,461	450	—	—
Acquisition-related costs	(122)	(3,213)	820	—	—
Stock-based compensation	2,882	3,132	3,308	2,217	2,156
Restructuring costs	491	—	—	—	—
Adjusted EBITDA	$ (6,328)	$ 2,334	$9,079	$15,627	$13,702

(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.

(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.

(7) Revised for errors as discussed in Note 2, *Summary of Significant Accounting Policies*, in the accompanying Notes to Consolidated Financial Statements. See Note 2 for impact of errors on amounts related to 2013 and 2012. The following table presents selected data as originally reported for 2011 and 2010:

	Year ended December 31,	
	2011	2010
Consolidated statements of operations data:		
Net income from continuing operations	$ 5,357	$3,519
Loss from discontinued operations, net of tax	(1,751)	(796)
Net income	$ 3,606	$2,723
Net (loss) income per share of common stock(2):		
Basic:		
Continuing operations	$ 0.36	$ 0.20
Discontinued operations	$ (0.20)	$ (0.10)
Diluted:		
Continuing operations	$ 0.35	$ 0.19
Discontinued operations	$ (0.20)	$ (0.10)
Shares used in computing net (loss) income per share of common stock(2):		
Basic	8,798	8,308
Diluted	9,403	8,860

	Year ended December 31,	
	2011	2010
Consolidated balance sheet data:		
Working capital	17,976	15,873
Total assets	88,982	72,056
Total stockholders' equity	25,620	17,419

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

Recent Strategic Transactions

Art business asset sale

On March 1, 2015, we completed the sale of our Arts business pursuant to an asset purchase agreement with Circle Graphics, Inc. ("Circle Graphics"), dated as of February 11, 2015, for $31.5 million, including $27.72 million in cash and $3.78 million in escrow for our indemnification obligations pursuant to an escrow agreement between us, Circle Graphics and the escrow agent.

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

Groups business asset sale

On March 6, 2015, we completed the sale of our Groups business, which engages in providing personalized apparel and merchandise for groups and organizations through our e-commerce websites ("Groups"), pursuant to an asset purchase agreement with Logo Sportswear Inc. ("Logo Sportswear") for $9.73 million, including $8.7 million in cash and $1.03 million in escrow for our indemnification obligations pursuant to an escrow agreement between us, Logo Sportswear and the escrow agent.

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

Invitationbox.com business asset sale

On November 5, 2014, we entered into an asset purchase agreement with Phoenix Online LLC, a related party who subsequently separated from CafePress, which sold certain assets and liabilities of the Company's InvitationBox.com business for a nominal amount of cash and quarterly revenue share payments equal to: a) 5% of the gross revenue generated by the InvitationBox.com business for a period of five years; b) 3% of the gross revenue generated by the InvitationBox.com business for a period of five years as consideration for our guaranty of a certain assumed lease for up to $900,000; and c) 2% of the gross revenue generated by the InvitationBox.com business for a period of five years as consideration for certain transition services to be provided by us. If and when such corporate guaranty is released or the underlying lease is terminated, and/or the transition services end then the additional cash revenue payments will cease.

The Art and Groups transactions closed in the first quarter of 2015. The Art and Groups businesses together represented approximately 35% of our total revenue in 2014. We have presented the Art and Groups businesses as assets and liabilities held for sale in our balance sheets and have included the Art, Groups and InvitationBox.com businesses as discontinued operations in our statements of operations in our consolidated financial statements included in this 10-K. We believe these strategic steps will provide us the resources required to focus on improving our core business, further enhance stockholder value and strengthen our balance sheet.

Prior year consolidated statements of operations have been recast to reflect the sale of our Invitation box.com business assets in 2014 and the sale of our Art and Groups business assets in the first fiscal quarter of 2015 within discontinued operations. Results of discontinued operations are excluded from Management's Discussion and Analysis of Financial Condition and Results of Operations for all periods presented, unless otherwise noted. See Note 5, *Discontinued Operations*, in the accompanying Notes to Consolidated Financial Statements.

As previously disclosed, our Board of Directors authorized the review of various strategic alternatives to streamline our operations, unlock shareholder value and strengthen our balance sheet, and retained Raymond James & Associates as our exclusive independent financial advisor to assist the Board of Directors in this review. Recent announcements of the closed divestitures of our Art, Groups and Invitation Box.com businesses are the successful result of our formal strategic evaluations process, which is now substantially completed; although we currently intend to continue with an ongoing general evaluation of our business overall.

Our Business

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 through our flagship website, CafePress.com, as well as providing a robust platform of technology products and service offerings to allow corporate customers to leverage our online services for their own consumer customers with little up-front investment and no inventory.

Our facility in Louisville, Kentucky has innovative technology and manufacturing processes that enable us to provide high-quality customized products that are individually built to order. Our proprietary processes enable us to produce a broad range of merchandise efficiently, cost effectively and quickly. We maintain custom printing production capabilities in Norcross, Georgia in connection with our EZ Prints, Inc. brand.

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 revenue driver is customer acquisition, primarily through online marketing efforts including paid and natural search, email, social, affiliate and an array of other channels, as well as the acquisition efforts of our content owners. As a result, our sales and marketing expenses are our largest operating expense.

Our consumers and content owner customers are increasingly accessing e-commerce sites from their mobile devices. This shift to mobile site access presents challenges for us as we cope with shifting traffic patterns, and we have experienced lower conversion rates 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 each of the first three quarters of the year are generally substantially lower than our revenues in the fourth quarter of the preceding year, and we expect this to continue for the foreseeable future.

On August 3, 2014, Bob Marino resigned both as our Chief Executive Officer and from the Board of Directors, and Fred E. Durham III, a co-founder and member of our Board of Directors, was appointed to serve as our new Chief Executive Officer. Additionally, effective as of August 4, 2014, Garett Jackson, who was previously serving as our interim Chief Financial Officer, was appointed as our Chief Financial Officer, and Maheesh Jain was appointed as our Chief Marketing Officer. Mr. Marino continued in a consulting role with us for the remainder of 2014. Also, effective January 1, 2015, Sumant Sridharan terminated his role as our President of CafePress, Inc. Mr. Sridharan will continue in a consulting role with us for six months beginning January 2, 2015.

We monitor several key operating metrics including (from continuing operations):

Three months ended	Mar. 31, 2013	June 30, 2013	Sept. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	Dec. 31, 2014
Key operating metrics:								
Total number of orders	1,263,619	1,332,420	1,173,696	2,326,694	1,013,793	1,135,802	976,448	2,001,780
Average order size	$ 26	$ 26	$ 28	$ 28	$ 30	$ 29	$ 30	$ 29

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.

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 ourselves as acting as an agent in such transactions. The net fees received on such transactions are recorded as revenues.

Cost of net revenues

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

Operating expenses

Operating expenses consist of sales and marketing, technology and development, general and administrative expenses and acquisition-related costs.

Sales and marketing

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

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

Technology and development

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

General and administrative

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

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.

As of December 31, 2014 we had fulfilled our obligations related to our previous acquisitions and therefore maintained no accrual for performance-based contingent consideration payments.

Critical accounting policies and estimates

The discussion and analysis of our financial condition and results of operations are based upon our audited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions or conditions. 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 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 $0.7 million, $0.7 million and $1.4 million and the associated direct sales commission of $0.2 million, $0.1 million and $0.4 million for the years ended

December 31, 2014, 2013 and 2012, respectively. This increased operating income by $0.5 million, $0.6 million and $1.0 million for the years ended December 31, 2014, 2013 and 2012, 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, as of July 1 of each year, and also whenever events or changes in circumstances indicate that the carrying value of the goodwill may not be fully recoverable. The quantitative impairment test is a two-step process. The first step is a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. If this step indicates impairment, then the loss is measured as the excess of recorded goodwill over its implied fair value, or the excess of the fair value of the reporting unit over the fair value of all identified assets and liabilities.

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

As of the date of our annual goodwill impairment tests in 2014, we determined we had one operating segment and one reporting unit, which is consistent with 2013.

In performing our quantitative impairment tests, we determine the fair value of our reporting unit through a combination of the income and market approaches. Under the income approach, we estimate fair value based on a discounted cash flow model using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Under the market approach, we estimate the fair value of our overall business based on our current market capitalization, market comparables, or other objective evidence of fair value. Based on our annual impairment analyses performed as of July 1, 2014, which resulted in headroom of 22%, we concluded that step two of the goodwill impairment test was not required and therefore no impairment was recorded.

During 2014, our market value dropped to below our book value, we had management changes, and we had changes to certain strategic objectives and operations. We considered these items to be triggering events which resulted in additional goodwill impairment tests carried out at September 30, 2014 and December 31, 2014. As a result, we updated our quantitative impairment test using a combination of the income and market approaches. Based on our updated impairment analyses performed as of September 30, 2014, which resulted in headroom at 20%, and as of December 31, 2014, which considered cash flows from our continuing operations excluding the sale of our InvitationBox.com business assets in November 2014 for a nominal amount of cash and contingent consideration and formal offers to sell our Art business assets and our Groups business assets with closing expectations shortly following the December 31, 2014 valuation date, there was headroom of 27%. Therefore we concluded that step two of the goodwill impairment tests were not required at both September 30, 2014 and December 31, 2014, and no impairment was recorded.

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 judgment, and the use of significant estimates and assumptions, is required to estimate the fair value of reporting units, including estimating future cash flows, future market conditions, and determining the appropriate discount rates, growth rates, and operating margins, among others.

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. We believe our assumptions are reasonable, however, there can be no assurance that our estimates and assumptions made for purposes of our goodwill impairment testing, at the annual date and the interim testing date, will prove to be accurate predictions of the future. Changes in these estimates and assumptions as noted above, could lead us to conduct an additional interim goodwill impairment test and ultimately result in a significant goodwill impairment charge. In addition, a change in reporting units from any further reorganization, could materially affect the determination of reporting units or fair value for each reporting unit, which could trigger impairment in the future. It is not possible at this time to determine if any such future impairment charge would result.

Further, should some or all of our strategic alternatives fail to come to fruition, our assigned fair value could be impacted and result in the fair value of our reporting unit dropping below its book value. We will continue to review our results against forecasts and assess our assumptions to ensure they continue to be appropriate.

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. During the third and fourth quarters, we considered the impact of our annual and interim goodwill impairment tests, as well as the change in management and in certain strategic objectives and operations, on the recoverability of our long-lived assets. We concluded that there was no impairment of our long-lived intangible assets as of December 31, 2014. If our assumptions regarding forecasted revenue or margin growth are not achieved, or if certain strategic alternatives do not come to fruition, we may be required to record long-lived asset impairment charges in future periods. It is not possible at this time to determine if any such future impairment charge would result.

In connection with the sale of InvitationBox.com assets in 2014, the Company eliminated $0.3 million of goodwill.

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 $9.3 million to establish a valuation allowance, and further increased the valuation allowance to $12.9 as of December 31, 2014.

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, 2014, 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 forecast that projected future losses from operations in 2015, 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

Revision of Prior Periods

During the fourth quarter of 2014, we identified an error in our accounting for certain inventory purchases and other operating costs that was originally recognized in the fourth quarter of 2010 through the third quarter of 2014. The identified errors related to the incorrect invoice vouchering of prepayments of inventory purchases and certain operating expense transactions. We assessed the materiality of the errors on each financial period impacted in accordance with the SEC's Staff Accounting Bulletin ("SAB") No. 99 and SAB No. 108 and concluded that the error was not material to any previously issued financial statements, but was material in the aggregate to the results of the fourth quarter of 2014 and therefore it was not recorded as an out of period adjustment. Accordingly, the financial statements provided herein have been revised to correct these errors. The adjustments related to years prior to 2012 are reflected as a $0.3 million increase to beginning Accumulated Deficit for 2012. The revision had no net impact on our net cash provided by operating activities for any period presented.

[Table of Contents](#)

[Index to Financial Statements](#)

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

	Year ended December 31,		
	2014	2013	2012
Net revenues	100%	100%	100%
Cost of net revenues	66	64	62
Gross profit	34	36	38
Operating expenses:			
Sales and marketing	22	23	22
Technology and development	12	11	8
General and administrative	13	9	9
Acquisition-related costs	0	(2)	1
Restructuring costs	0	—	—
Total operating expenses	48	40	39
Loss from operations	(13)	(5)	(1)
Interest income	0	0	0
Interest expense	0	0	0
Other (expense) income, net	0	—	—
Loss before income taxes	(13)	(5)	(1)
Provision (benefit) for income taxes	(2)	4	0
Loss from continuing operations	(12)%	(8)%	(1)%
Effective tax rate	13.4%	(74.9)%	30.9%

Comparison of the years ended December 31, 2014 and December 31, 2013

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

	Year ended December 31,			
	2014	2013	$ Change	% Change
	(in thousands, except for percentages)			
Net revenues	$153,210	$171,773	$(18,563)	(11)%
Cost of net revenues	100,780	110,403	(9,623)	(9)
Gross profit	52,430	61,370	(8,940)	(15)%
Operating expenses:				
Sales and marketing	33,581	38,984	(5,403)	(14)
Technology and development	18,392	18,194	198	1
General and administrative	20,581	15,524	5,057	33
Acquisition-related costs	(122)	(3,213)	3,091	(96)
Restructuring costs	491	—	491	NM
Total operating expenses	72,923	69,489	3,434	5
Loss from operations	(20,493)	(8,119)	(12,374)	152
Interest income	18	40	(22)	(55)
Interest expense	(113)	(167)	54	(32)
Other (expense) income, net	6	(6)	12	(200)
Loss before income taxes	(20,582)	(8,252)	(12,330)	149
Provision for income taxes	(2,761)	6,180	(8,941)	(145)
Net loss from continuing operations	$ (17,821)	$ (14,432)	$ (3,389)	23%

NM = Not meaningful

Net revenues

Net revenues decreased $18.6 million, or 11%, in 2014 compared to 2013. The decrease in revenue resulted from a decline in orders primarily within our CafePress.com site and, to a lesser extent, from our partner channels within CafePress Services. The decline in revenue from CafePress.com is primarily attributable to changes to our pricing and promotional strategy and a reduction in our variable advertising expenses in the third and fourth quarters of 2014. Throughout 2014 net revenues were also impacted by the continued shifts in customer behavior resulting in increased traffic from mobile devices. Within CafePress Services, growth in net revenues from our retail and feed partnerships more than offset a decline from photo-print partners in EZ Prints. Our net revenues have historically varied from period to period and we expect this trend to continue.

Cost of net revenues

Cost of net revenues decreased $9.6 million, or 9%, in 2014 compared to 2013. As a percentage of net revenues, cost of net revenues was 66% in 2014, compared to 64% in 2013. Within cost of net revenues, the variable components of materials and shipping collectively increased by approximately 2 percentage points while labor costs decreased by approximately 1 percentage point due to changes in product mix and increases in outsourced manufacturing. Fixed costs increased by approximately 1 percentage point due to higher depreciation and facility rent expense and overall loss of leverage due to decline in revenue.

Sales and marketing

Sales and marketing expenses decreased $5.4 million, or 14%, in 2014 compared to 2013. Sales and marketing expenses were 22% of net revenues in 2014 compared to 23% in 2013. The decrease in absolute dollars in sales and marketing expenses consists of a $4.0 million decline in variable expenses and a $1.4 million decline in fixed expenses. The decline in variable expenses was primarily due to lower keyword and other online advertising expenses as we changed the focus of our advertising programs to achieve higher levels of return on investment. To a lesser extent, our variable expenses also declined due to lower flash deal promotion expense and a decline in affiliate commissions. The decline in fixed costs is primarily due to lower personnel-related costs.

Technology and development

Technology and development expenses increased $0.2 million, or 1%, in 2014 compared to 2013. Technology and development expenses were 12% of net revenues in 2014 compared to 11% in 2013. The increase in absolute dollars is primarily due to $0.5 million of increased personnel expense which was caused by higher third party contractor costs and a decline in the amount of labor spent on development projects which are capitalizable. This was, partially offset by a $0.3 million decrease in our co-location facility hosting costs.

General and administrative

General and administrative expenses increased $5.1 million, or 33%, in 2014 compared to 2013. General and administrative expenses were 13% of net revenues in 2014 compared to 9% in 2013. The increase in absolute dollars was primarily due to a $3.7 million increase in professional services fees, consisting primarily of legal fees from increased litigation activity and accounting fees, increase in personnel related costs of $0.8 million primarily due to costs associated with the resignation of our former chief executive officer, and a $0.5 million reserve for the settlement of shareholder litigation. In addition, there was a $0.4 million increase in other expenses, primarily higher insurance costs and the effect of a gain on fixed asset disposals that was recorded last year. These increases were offset by a $0.3 million decrease in stock-based compensation expense and a $0.1 million decline in depreciation.

Acquisition-related costs

Acquisition-related costs were a benefit of $(0.1) million in 2014 and a benefit of $(3.2) million in 2013. The benefit in each year consisted primarily of the write down of contingent consideration as performance measures were not achieved at EZ Prints, Inc. As of December 31, 2014 we had fulfilled our obligations related to our previous acquisitions for performance-based contingent consideration payments and no remaining liability exists.

Restructuring costs

Restructuring costs were $0.5 million in 2014, compared to none in 2013. This expense consists of the charges related to the exit of one of our production facilities in Georgia, the closure of our retail store in Louisville, KY, and severance payments owed to a former employee.

Provision for income taxes

The benefit for income tax was $2.8 million in 2014 compared to a provision of $6.2 million in 2013. Our effective tax rate was 13.7% and (74.9) % in 2014 and 2013, respectively. For the year ended December 31, 2014, our effective tax rate benefit is less than the statutory rate primarily due to the valuation allowance against our deferred tax assets offset by the carry back of a portion of our net operating loss. For the year ended December 31, 2013, our effective tax rate provision is higher than the statutory rate primarily due to the recording of a non-cash income tax provision of $9.3 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, 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, 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	$171,773	$155,999	$ 15,774	10%
Cost of net revenues	110,403	96,179	14,224	15
Gross profit	61,370	59,820	1,550	3
Operating expenses:				
Sales and marketing	38,984	33,745	5,239	16
Technology and development	18,194	12,870	5,324	41
General and administrative	15,524	13,537	1,987	15
Acquisition-related costs	(3,213)	820	(4,033)	NM
Total operating expenses	69,489	60,972	8,517	14
Loss from operations	(8,119)	(1,152)	(6,967)	NM
Interest income	40	76	(36)	(47)
Interest expense	(167)	(169)	2	(1)
Other (expense) income, net	(6)	—	(6)	NM
Loss before income taxes	(8,252)	(1,245)	(7,007)	NM
Provision (benefit) for income taxes	6,180	(385)	6,565	NM
Loss from continuing operations	$ (14,432)	$ (860)	$(13,572)	NM

NM = Not meaningful

Net revenues

Net revenues increased $15.8 million, or 10%, in 2013 compared to 2012. The increase in net revenues is primarily driven by CafePress Services due to the acquisition of EZ Prints in the 4th quarter of 2012. Net revenues from CafePress.com declined slightly in 2013 compared to 2012 as sales growth in our Marketplace was more than offset by declines in our Small Shops platform. Our revenue growth rates have historically varied from period to period and we expect this trend to continue for the foreseeable future.

Cost of net revenues

Cost of net revenues increased $14.2 million, or 15%, in 2013 compared to 2012. As a percentage of net revenues, cost of net revenues was 64% in 2013, compared to 62% in 2012. Within cost of net revenues, materials, shipping, labor and fixed overhead costs collectively increased as a percentage of net revenues by approximately 4.0 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 approximately 1.5 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 $5.2 million, or 16%, in 2013 compared to 2012. Sales and marketing expenses were 23% of net revenues in 2013 compared to 22% in 2012. The increase in sales and marketing expenses was primarily due to higher variable customer acquisition expenses, including an increase of approximately $4.2 million in advertising expenses related primarily to paid search campaigns and online display. In addition, due to our acquisition of EZ Prints in 2012, fixed sales and marketing costs increased by approximately $1.7 million and amortization of intangible assets increased by $0.3 million as compared to 2012. These increases were offset by a $0.8 million decline in general marketing expenses, which include flash deal promotion costs, email marketing and affiliate fees, and a $0.2 million decline in customer service costs.

Technology and development

Technology and development expenses increased $5.3 million, or 41%, in 2013 compared to 2012. Technology and development expenses were 11% of net revenues in 2013 compared to 8% in 2012. The increase in absolute dollars is primarily due to an approximately $2.1 million increase in depreciation, hosting services, and costs to support our websites and costs associated with the transition to our newest co-location facility in Louisville, KY. In addition, payroll and related costs increased approximately $1.6 million and amortization of intangible assets increased by approximately $1.7 million related primarily to our acquisition of EZ Prints in 2012.

General and administrative

General and administrative expenses increased $2.0 million, or 15%, in 2013 compared to 2012. General and administrative expenses were 9% in both 2013 and 2012. The increase in absolute dollars was primarily due to an approximately $0.9 million increase in personnel-related costs associated with our acquisition of EZ Prints in 2012. In addition, professional services fees increased by approximately $0.9 million, consisting of a $0.8 million increase in legal fees and $0.1 million related to costs associated with being a public company.

Acquisition-related costs

Acquisition-related costs were a benefit of $(3.2) million in 2013 and an expense of $0.8 million in 2012. The benefit in 2013 consisted primarily of the write down of contingent consideration as performance measures were not achieved at EZ Prints, Inc. In 2012, the expense was primarily related to legal and professional fees incurred in our acquisition activity.

Provision (benefit) for income taxes

The provision for income tax was $6.2 million in 2013 compared to a benefit of $0.4 million in 2012. Our effective tax rate was (74.9%) and 30.9% in 2013 and 2012, respectively. For the year ended December 31, 2013, our effective tax rate provision is higher than the statutory rate primarily due to the recording of a non-cash income tax provision of $9.3 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, 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. For the year ended December 31, 2012 our effective tax rate benefit was lower than the statutory rate primarily due to costs associated with acquisitions partially offset by the domestic production deduction.

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, 2014, we had cash, cash equivalents, and short term investments totaling $30.6 million. In March 2015, we completed the assets sales of our Art and Groups businesses for a total of $41.2 million of which $36.4 million of cash was received at the closing of the sales, and the balance of $4.8 million held in escrow accounts will be released to us fifteen months after the closing if there are no claims outstanding against us at that time.

In March 2013, we 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 June 2015 and bears interest at either the London Inter Bank Offer Rate +1.75% or the bank's prime rate +.75%. There were no draws against the facility as of December 31, 2014 and the $5.0 million remained available.

In July 2014, we amended our loan and security agreement, which extended the maximum amount available under our revolving credit facility from $5.0 million to $6.5 million, and simultaneously entered into a Letter of Credit in connection with our amended facility lease agreement for $1.5 million. The Letter of Credit will expire no later than September 15, 2020. All other terms, conditions, covenants and the interest rate under the original March 2013 credit facility remain the same. The revolving credit facility is available for ordinary operations.

This credit agreement requires us to comply with various financial covenants, including the maintenance of a 1.5 to 1 liquidity to debt ratio, all of which we were in compliance with at December 31, 2014, and is secured through all of our assets. With our current cash levels and forecasts, we expect to continue to meet this covenant. If we require additional capital resources to grow our business or to acquire complementary technologies and businesses at any time in the future, we may seek to sell additional equity or raise funds through debt financing or other sources. The sale of additional equity could result in additional dilution to our stockholders. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operating flexibility, and would also require us to incur interest expense. We can provide no assurance that additional financing will be available at all or, if available, that we would be able to obtain financing on terms favorable to us.

Our future capital requirements may vary materially from those currently planned and will depend on many factors, including, among other things, market acceptance of our products, our growth, and our operating results, as well as any potential investments, acquisitions or stock repurchases. We anticipate that our current cash and cash equivalent balances and cash generated from operations, and cash available from our credit line will be sufficient to meet our strategic and working capital requirements for at least the next twelve months.

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

	Year ended December 31,		
	2014	2013	2012
		(in thousands)	
Net cash provided by operating activities	$ 1,032	$ 9,717	$ 10,110
Net cash used in investing activities	$(2,155)	$(4,006)	$(47,295)
Net cash (used in) provided by financing activities	$(1,563)	$(3,574)	$ 40,483

Cash flows from operating activities

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

In 2014, $2.4 million in net income adjusted for non-cash items and a $1.3 million reduction in working capital items primarily due to the timing of vendor payments, resulted in net cash provided by operations of $1.0 million. Non-cash items, which totaled $18.3 million, included depreciation and amortization of $9.8 million, amortization of intangible assets of $4.2 million, stock-based compensation of $2.9 million and a $0.7 million reduction in the deferred tax liability, a $0.2 million loss on fixed assets, offset by a change in the fair value of contingent consideration of $0.7 million. In 2014 we sold assets resulting in a loss of $2.6 million. Working capital increased primarily due to the increase in accounts payable related to the timing of payments for raw material purchases.

In 2013, $7.5 million in net income adjusted for non-cash items and a $2.2 million change in working capital items resulted in net cash provided by operations of $9.7 million. Non-cash items, which totaled $21.4 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 $8.3 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 $11.7 million was offset by a $1.6 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 $1.9 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.

Cash flows from investing activities

In 2014, net cash used in investing activities was $2.2 million, consisting primarily of $2.7 million in capital expenditures related to the purchase of property and equipment and the capitalization of $3.0 million of software and website development costs, offset by $3.5 million in maturing short term investments.

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.

Cash flows from financing activities

In 2014, net cash used by financing activities was $1.6 million, primarily due to $1.2 million cash paid in connection with settlement of contingent consideration, and $0.8 million in payments on capital lease obligations and insurance premium financing, offset by $0.5 million of proceeds from stock option exercises.

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 $0.7 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.

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,		
	2014	2013	2012
Net revenues	$153,210	$171,773	$155,999
Non-GAAP Adjusted EBITDA	$ (6,328)	$ 2,334	$ 9,079
% of net revenues	(4.1)%	1.4%	5.8%

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,		
	2014	2013	2012
		(in thousands) (unaudited)	
Net income (loss)	$(17,821)	$(14,432)	$ (860)
Non-GAAP adjustments:			
Interest and other (income) expense	89	133	93
Provision for income taxes	(2,761)	6,180	(385)
Depreciation and amortization	8,454	8,073	5,653
Amortization of intangible assets	2,460	2,461	450
Acquisition-related costs	(122)	(3,213)	820
Stock-based compensation	2,882	3,132	3,308
Restructuring costs	491	—	—
Adjusted EBITDA	$ (6,328)	$ 2,334	$9,079

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	$ 604	$ 984	$—	$ —
Operating lease obligations	2,461	1,778	622	805
Purchase obligations	1,694	—	—	—
	$ 4,759	$2,762	$622	$ 805

Recent accounting pronouncements

In August 2014, the FASB issued a new accounting standard that provides guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and related footnote disclosures. The new standard is effective for us in the fourth quarter of fiscal 2017 with early adoption permitted. We are currently evaluating adoption methods and whether this standard will have a material impact on our financial statements and related disclosures.

In May 2014, the FASB issued a new accounting standard that requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for us in the first quarter of 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating adoption methods and whether this standard will have a material impact on our financial statements and related disclosures.

In April 2014, the FASB issued a new accounting standard that limits discontinued operations reporting to situations where the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results, and requires expanded disclosures for discontinues operations. The new standard will be effective prospectively for disposals that occur in fiscal years beginning after December 15, 2014. We are currently evaluating adoption methods and whether this standard will have a material impact on our financial statements and related disclosures.

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 our financial statements and related disclosures.

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 $30.6 million and $36.8 million as of December 31, 2014 and December 31, 2013, 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.

ITEM 8. Financial Statements and Supplementary Data

Index to Consolidated 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, 2014 and December 31, 2013 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 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(a)(2) 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, 2015

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

	December 31,	
	2014	**2013**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 30,649	$ 33,335
Short-term investments	—	3,475
Accounts receivable	4,452	8,303
Inventory	7,473	9,493
Deferred costs	1,976	2,721
Assets held for sale	32,703	—
Prepaid expenses and other current assets	4,832	6,630
Total current assets	82,085	63,957
Property and equipment, net	13,676	21,964
Goodwill	20,535	39,448
Intangible assets, net	5,758	15,003
Other assets	431	829
TOTAL ASSETS	$122,485	$141,201
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 11,207	$ 24,081
Partner commissions payable	4,586	5,210
Accrued royalties payable	5,883	6,837
Accrued liabilities	12,477	12,059
Deferred revenue	2,476	5,098
Capital lease obligation, current	526	579
Liabilities held for sale	13,634	—
Total current liabilities	50,789	53,864
Capital lease obligation, non-current	932	2,034
Other long-term liabilities	579	2,633
TOTAL LIABILITIES	52,300	58,531
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $0.0001 par value: 10,000 shares authorized as of December 31, 2014 and 2013; none issued and outstanding	—	—
Common stock, $0.0001 par value: 500,000 shares authorized and 17,417 and 17,173 shares issued and outstanding as of December 31, 2014 and 2013, respectively	2	2
Additional paid-in capital	101,158	97,736
Accumulated deficit	(30,975)	(15,068)
TOTAL STOCKHOLDERS' EQUITY	70,185	82,670
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$122,485	$141,201

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,		
	2014	**2013**	**2012**
	(in thousands, except per share data)		
Consolidated statements of operations data:			
Net revenues	$153,210	$171,773	$ 155,999
Cost of net revenues	100,780	110,403	96,179
Gross profit	52,430	61,370	59,820
Operating expenses:			
Sales and marketing	33,581	38,984	33,745
Technology and development	18,392	18,194	12,870
General and administrative	20,581	15,524	13,537
Acquisition-related costs	(122)	(3,213)	820
Restructuring costs	491	—	—
Total operating expenses	72,923	69,489	60,972
Loss from operations	(20,493)	(8,119)	(1,152)
Interest income	18	40	76
Interest expense	(113)	(167)	(169)
Other (expense) income, net	6	(6)	—
Loss before income taxes	(20,582)	(8,252)	(1,245)
Provision (benefit) for income taxes	(2,761)	6,180	(385)
Net loss from continuing operations	(17,821)	(14,432)	(860)
Income from discontinued operations, net of tax (Note 5)	1,914	519	472
Net loss	$ (15,907)	$ (13,913)	$ (388)
Net (loss) income per share of common stock:			
Basic:			
Continuing operations	$ (1.03)	$ (0.84)	$ (0.06)
Discontinued operations	$ 0.11	$ 0.03	$ 0.03
Diluted:			
Continuing operations	$ (1.03)	$ (0.84)	$ (0.06)
Discontinued operations	$ 0.11	$ 0.03	$ 0.03
Shares used in computing net (loss) income per share of common stock:			
Basic	17,308	17,143	15,021
Diluted	17,443	17,318	15,416

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

Table of Contents

Index to Financial Statements

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

	Convertible preferred stock		Common stock		Additional paid-in capital	Accumulated deficit	Total Stockholders' equity
	Shares	Amount	Shares	Amount			
Balance as of December 31, 2011	5,535	$ 22,811	8,943	$ 1	$ 26,120	$ (767)	$ 25,354
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	—	—	—	—	—	(388)	(388)
Balance as of December 31, 2012	—	—	17,114	2	93,890	(1,155)	92,737
Issuance of common stock upon exercise of stock options and vesting of restricted stock units	—	—	59	—	60	—	60
Stock-based compensation expense	—	—	—	—	3,855	—	3,855
Tax benefit (short-fall) from stock-based compensation	—	—	—	—	(69)	—	(69)
Net loss	—	—	—	—	—	(13,913)	(13,913)
Balance as of December 31, 2013	—	—	17,173	2	97,736	(15,068)	82,670
Issuance of common stock upon exercise of stock options and vesting of restricted stock units	—	—	244	—	451	—	451
Stock-based compensation expense	—	—	—	—	2,971	—	2,971
Net loss	—	—	—	—	—	(15,907)	(15,907)
Balance as of December 31, 2014	—	$ —	17,417	$ 2	$101,158	$ (30,975)	$ 70,185

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,		
	2014	2013	2012
Cash Flows from Operating Activities:			
Net loss	$(15,907)	$(13,913)	$ (388)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	9,770	9,081	6,294
Amortization of intangible assets	4,239	4,976	3,647
Loss (gain) on disposal of fixed assets	206	(160)	(75)
Stock-based compensation	2,929	3,773	4,183
Loss on disposal of assets, net	2,579	—	—
Change in fair value of contingent consideration liability	(741)	(4,490)	100
Deferred income taxes	(710)	8,272	(1,851)
Tax (short-fall) benefit from stock-based compensation	—	(69)	(28)
Excess tax benefits from stock-based compensation	—	—	(142)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(346)	2,080	(6,057)
Inventory	107	272	(2,136)
Prepaid expenses and other current assets	393	(921)	(3,140)
Other assets	398	34	(172)
Accounts payable	(7,071)	8,181	3,710
Partner commissions payable	(624)	(2,241)	1,709
Accrued royalties payable	69	113	270
Accrued and other liabilities	4,393	(452)	2,957
Income taxes payable	—	(765)	(774)
Deferred revenue	1,348	(4,054)	2,003
Net cash provided by operating activities	1,032	9,717	10,110
Cash Flows from Investing Activities			
Purchase of short-term investments	—	(3,475)	(9,403)
Proceeds from maturities of short-term investments	3,475	9,403	8,437
Purchase of property and equipment	(2,665)	(6,279)	(8,039)
Capitalization of software and website development costs	(3,040)	(3,995)	(2,973)
Proceeds from disposal of fixed assets	—	170	94
Decrease in restricted cash	75	170	255
Acquisitions of businesses, net of cash acquired	—	—	(35,666)
Net cash used in investing activities	(2,155)	(4,006)	(47,295)
Cash Flows from Financing Activities:			
Payments of short-term borrowings	—	(894)	—
Principal payments on capital lease obligations	(558)	(545)	(477)
Borrowings under insurance financing	—	940	—
Payments under insurance financing	(256)	(684)	—
Proceeds from exercise of common stock options	451	60	298
Proceeds from sale of common stock in initial public offering, net	—	—	41,770
Excess tax benefits from stock-based compensation	—	—	142
Payment of contingent consideration	(1,200)	(2,451)	(1,250)
Net cash (used in) provided by financing activities	(1,563)	(3,574)	40,483
Net (decrease) increase in cash and cash equivalents	(2,686)	2,137	3,298
Cash and cash equivalents—beginning of period	33,335	31,198	27,900
Cash and cash equivalents—end of period	$ 30,649	$ 33,335	$ 31,198
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	$ 143	$ 178	$ 201
Income taxes paid (refunded) during the period	(2,571)	997	2,517
Non-cash Investing and Financing Activities:			
Property and equipment acquired under capital leases	—	345	$ 116
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	7	173	32
Contingent consideration recorded in connection with business acquisitions	—	—	7,111

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 CafePress.com.

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.

Discontinued operations

Prior year financial statements have been recast to reflect the sale of the Company's Invitation box.com business assets as of December 31, 2014 and the sale of its Art and Groups business assets in the first fiscal quarter of 2015 in accordance with the Financial Accounting Standards Board Accounting Standards Codification 205-20-55 within discontinued operations. Results of discontinued operations are excluded from the accompanying notes to the consolidated financial statements for all periods presented, unless otherwise noted. See Note 5, *Discontinued Operations*, in the accompanying Notes to Consolidated Financial Statements.

Use of estimates

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

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, 2014, 2013 and 2012, 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 22% (12% and 10%, respectively) of gross accounts receivable as of December 31, 2014. Two customers accounted for 24% (13% and 11%, respectively) of gross accounts receivable as of December 31, 2013.

The Company's accounts payable are settled based on contractual payment terms with its suppliers. Two suppliers accounted for 27% (14% and 13%, respectively) of accounts payable as of December 31, 2014. One supplier accounted for 10% of accounts payable as of December 31, 2013.

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, 2014 and 2013, three partners accounted for 100% and one partner accounted for 75% 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, 2014, 2013 and 2012, the Company capitalized $2.5 million, $3.3 million and $2.4 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, as of July 1 of each year, and also whenever events or changes in circumstances indicate that the carrying value of the goodwill may not be fully recoverable. The quantitative impairment test is a two-step process. The first step is a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. If this step indicates impairment, then the loss is measured as the excess of recorded goodwill over its implied fair value, or the excess of the fair value of the reporting unit over the fair value of all identified assets and liabilities.

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

As of the dates of the Company's annual goodwill impairment test and other impairment analyses in 2014, it had one operating segment and one reporting unit, which is consistent with 2013.

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

Based on the Company's annual impairment analysis performed as of July 1, 2014, which resulted in headroom of 22%, the Company concluded that step two of the goodwill impairment test was not required and therefore no impairment was recorded.

During the year, the Company's market value dropped to below its book value, it had management changes, and it had changes to certain strategic objectives and operations. The Company considered these items to be triggering events which resulted in an additional goodwill impairment test carried out at September 30, 2014 and December 31, 2014. As a result, the Company updated its quantitative impairment test using a combination of the income and market approaches. Based on the Company's updated impairment analyses performed as of September 30, 2014, which resulted in headroom of 20%, and December 31, 2014, which considered cash flows from continuing operations excluding the sale of its InvitationBox.com business assets in November 2014 for a nominal amount of cash and contingent consideration and formal offers to sell its Art business assets and its Groups business assets with closing expectations shortly following the December 31, 2014 valuation date, there was headroom of 27%, therefore the Company concluded that step two of the goodwill impairment tests were not required at both September 30, 2014 and December 31, 2014, and no impairment was recorded. Any additional downward changes in the market value could result in an additional triggering event.

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 judgment, and the use of significant estimates and assumptions, is required to estimate the fair value of reporting units, including estimating future cash flows, future market conditions, and determining the appropriate discount rates, growth rates, and operating margins, among others.

The Company's discounted cash flow analyses factor in assumptions on revenue and expense growth rates. These estimates are based upon the Company's 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. The Company believes its assumptions are reasonable, however, there can be no assurance that its estimates and assumptions made for purposes of its goodwill impairment testing, at the annual date and the interim testing date, will prove to be accurate predictions of the future. Changes in these estimates and assumptions as noted above, could lead the Company to conduct an additional interim goodwill impairment test and ultimately result in a significant goodwill impairment charge. In addition, a change in reporting units from any further reorganization, could materially affect the determination of reporting units or fair value for each reporting unit, which could trigger impairment in the future. It is not possible at this time to determine if any such future impairment charge would result.

In connection with the sale of InvitationBox.com assets in 2014, the Company eliminated $0.3 million of goodwill.

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 2014, 2013 or 2012.

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 $0.6 million and $1.6 million as of December 31, 2014 and 2013, respectively. The Company recorded a minimum guaranteed liability of $0.5 million and $1.1 million as of December 31, 2014 and 2013, 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 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 $0.7 million, $0.7 million and $1.4 million and the associated direct sales commission of $0.2 million, $0.1 million and $0.4 million for the years ended December 31, 2014, 2013 and 2012, respectively. This increased operating income by $0.5 million, $0.6 million and $1.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

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 $10.7 million, $12.7 million and $14.0 million for the years ended December 31, 2014, 2013 and 2012, 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 $17.4 million, $20.7 million and $17.2 million during the years ended December 31, 2014, 2013 and 2012, 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, 2014, 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.

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 August 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for the Company in the fourth quarter of fiscal 2017 with early adoption permitted. The Company is currently evaluating adoption methods and whether this standard will have a material impact on its financial statements and related disclosures.

In May 2014, the FASB issued a new accounting standard that requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company in the first quarter of 2017. Early application is not permitted. The new standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating adoption methods and whether this standard will have a material impact on its financial statements and related disclosures.

In April 2014, the FASB issued a new accounting standard that limits discontinued operations reporting to situations where the disposal represents a strategic shift that has (or will have) a major effect on and entity's operations and financial results, and requires expanded disclosures for discontinues operations. The new standard will be effective prospectively for disposals that occur in fiscal years beginning after December 15, 2014, with early adoption permitted in certain circumstances. The Company is currently evaluating adoption methods and whether this standard will have a material impact on its financial statements and related disclosures.

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 the adoption of this standard will have a material impact on its financial statements and related disclosures.

Revision of Prior Periods

During the fourth quarter of 2014, the Company identified an error in its accounting for certain inventory purchases and other operating costs that was originally recognized in the fourth quarter of 2010 through the third quarter of 2014. The identified errors related to the incorrect invoice vouchering of prepayments of inventory purchases and certain operating expense transactions. The Company assessed the materiality of the errors on each financial period impacted in accordance with the SEC's Staff Accounting Bulletin ("SAB") No. 99 and SAB No. 108 and concluded that the error was not material to any previously issued financial statements, but was material in the aggregate to the results of the fourth quarter of 2014 and therefore it was not recorded as an out of period adjustment. Accordingly, the financial statements provided herein have been revised to correct these errors. The adjustments related to years prior to 2012 are reflected as a $0.3 million increase to the beginning Accumulated Deficit for 2012. The revision had no net impact on our net cash provided by operating activities for any period presented.

The following tables summarize the corrections on each of the affected financial statement line items for each financial period presented below (in thousands):

	December 31, 2013		
	As previously reported	Adjustment	As revised
Balance Sheets:			
Accounts receivable	$ 8,310	$ (7)	$ 8,303
Prepaid expenses and other current assets	$ 6,862	$ (232)	$ 6,630
Current assets	$ 64,196	$ (239)	$ 63,957
Total assets	$141,440	$ (239)	$141,201
Accounts payable	$ 23,073	$ 1,008	$ 24,081
Accrued royalties payable	$ 6,728	$ 109	$ 6,837
Accrued liabilities	$ 12,541	$ (482)	$ 12,059
Deferred revenue	$ 5,045	$ 53	$ 5,098
Current liabilities	$ 53,176	$ 688	$ 53,864
Other long-term liabilities	$ 2,576	$ 57	$ 2,633
Total liabilities	$ 57,786	$ 745	$ 58,531
Accumulated deficit	$ (14,084)	$ (984)	$ (15,068)
Total stockholders' equity	$ 83,654	$ (984)	$ 82,670
Total liabilities and stockholders' equity	$141,440	$ (239)	$141,201

	Year Ended December 31, 2013		
	As previously reported	Adjustment	As revised
Statements of Operations:			
Cost of net revenues	$110,271	$ 132	$110,403
Sales and marketing	$ 38,911	$ 73	$ 38,984
General and administrative	$ 15,618	$ (94)	$ 15,524
Loss before income taxes	$ (8,141)	$ (111)	$ (8,252)
Provision for income taxes	$ 5,901	$ 279	$ 6,180
Net loss from continuing operations	$ (14,042)	$ (390)	$ (14,432)
Basic and diluted net loss per share of common stock from continuing operations	$ (0.82)	$ (0.02)	$ (0.84)

	Year Ended December 31, 2012		
	As previously reported	Adjustment	As revised
Statements of Operations:			
Cost of net revenues	$ 95,807	$ 372	$ 96,179
Sales and marketing	$ 33,758	$ (13)	$ 33,745
General and administrative	$ 13,443	$ 94	$ 13,537
Loss before income taxes	$ (792)	$ (453)	$ (1,245)
Benefit for income taxes	$ (238)	$ (147)	$ (385)
Net loss from continuing operations	$ (554)	$ (306)	$ (860)
Basic and diluted net loss per share of common stock from continuing operations	$ (0.04)	$ (0.02)	$ (0.06)

	December 31, 2013		
	As previously reported	Adjustment	As revised
Cash Flows:			
Net loss	$(13,501)	$ (412)	$(13,913)
Deferred income taxes	$ 7,993	$ 279	$ 8,272
Prepaid expenses and other current assets	$ (1,153)	$ 232	$ (921)
Accounts payable	$ 7,930	$ 251	$ 8,181
Accrued royalties payable	$ 4	$ 109	$ 113
Accrued and other liabilities	$ 7	$ (459)	$ (452)

	December 31, 2012		
	As previously reported	Adjustment	As revised
Cash Flows:			
Net loss	$ (82)	$ (306)	$ (388)
Deferred income taxes	$ (1,704)	$ (147)	$ (1,851)
Accounts payable	$ 3,351	$ 359	$ 3,710
Accrued and other liabilities	$ 2,863	$ 94	$ 2,957

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, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Cash and cash equivalents:				
Cash	$ 12,061	$ —	$ —	$ 12,061
Money market funds	18,588	—	—	18,588
Total cash and cash equivalents and short term investments	$ 30,649	$ —	$ —	$ 30,649

	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

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

	December 31, 2014			
	Fair Value	Level I	Level II	Level III
Cash and cash equivalents:				
Money market funds	$ 18,588	$18,588	$ —	$ —
Total financial assets	$ 18,588	$18,588	$ —	$ —

	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

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, 2014 and 2013, 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 7). 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 nil and $1.9 million as of December 31, 2014 and December 31, 2013, 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. 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, 2014	Year Ended December 31, 2013
Fair value—beginning of period	$ 1,941	$ 8,882
Contingent consideration paid during the period	(1,200)	(2,451)
Change in fair value	(741)	(4,490)
Fair value—end of period	$ —	$ 1,941

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, 2014	December 31, 2013
Building	$ 3,782	$ 3,782
Computer equipment and office furniture	13,577	14,232
Computer software	2,361	2,402
Internal use software and website development	14,505	14,846
Production equipment	21,218	22,535
Leasehold improvements	5,187	5,217
Total property and equipment	60,630	63,014
Less: accumulated depreciation and amortization	(46,954)	(41,050)
Property and equipment, net	$ 13,676	$ 21,964

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

	December 31, 2014	December 31, 2013
Building	$ 3,782	$ 3,782
Less accumulated depreciation	(2,958)	(2,639)
Building, net	$ 824	$ 1,143
Production equipment	$ 505	$ 1,288
Less: accumulated depreciation	(438)	(537)
Production equipment, net	$ 67	$ 751

Depreciation and amortization expense was $8.5 million, $8.1 million and $5.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Depreciation expense for assets under capital leases included above was $0.4 million for each of the years ended December 31, 2014 and 2013 and $0.3 million for the year ended December 31, 2012.

Accrued liabilities

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

	December 31,	
	2014	2013
Production costs	$ 3,496	$ 2,293
Other accrued liabilities	2,755	2,716
Professional services	2,139	557
Payroll and employee related expense	1,890	2,696
Unclaimed royalty payments	984	995
Accrued advertising	480	337
Royalties-minimum guarantee	439	365
Allowance for sales returns and chargebacks	294	931
Contingent consideration, short-term portion	—	1,127
Acquisition-related costs	—	42
Accrued liabilities	$12,477	$12,059

Allowance for sales returns and chargebacks

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

	December 31,		
	2014	2013	2012
Allowance for sales returns and chargebacks:			
Balance, beginning of period	$ 931	$ 453	$ 455
Add: provision	6,346	6,174	4,421
Less: deductions and other adjustments	(6,754)	(5,696)	(4,423)
Less: liabilities held for sale	(229)	—	—
Balance, end of period	$ 294	$ 931	$ 453

5. Discontinued Operations

In the fourth fiscal quarter of 2014 and the first fiscal quarter of 2015, in order to improve the Company's core business and further enhance stockholder value, the Company entered into definitive agreements to divest its Art, Groups and InvitationBox.com businesses for a total of approximately $41.2 million in cash. The Art and Groups asset sales closed in the first fiscal quarter of 2015 and the InvitationBox.com asset sale closed in the fourth fiscal quarter of 2014. The Company has included the assets and liabilities associated with the Art and Groups businesses as assets and liabilities held for sale in the Company's consolidated balance sheet at December 31, 2014. Loss from discontinued operations, net of tax, in the Company's Consolidated Statements of Operations, represents the net loss from the disposal of assets and liabilities associated with the sale of InvitationBox.com, as well as the historical operations associated with the Art, Groups and InvitationBox.com businesses for all periods presented.

Art business asset sale

On March 1, 2015, the Company sold its Art business, which transforms photographs and images into canvas works of art and sells such products through its e-commerce websites, pursuant to an asset purchase agreement with Circle Graphics, Inc. ("Circle Graphics"). The Company received proceeds of $31.5 million, including $27.7 million in cash and $3.8 million in escrow for its indemnification obligations pursuant to an escrow agreement between the Company, Circle Graphics and the escrow agent.

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

Groups business asset sale

On March 6, 2015, the Company sold its Groups business, which engages in providing personalized apparel and merchandise for groups and organizations through its e-commerce websites, pursuant to an asset purchase agreement with Logo Sportswear Inc. ("Logo Sportswear"). The Company received proceeds of $9.7 million, including $8.7 million in cash and $1.0 million in escrow for its indemnification obligations pursuant to an escrow agreement between the Company, Logo Sportswear and the escrow agent.

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

InvitationBox.com business asset sale

On November 5, 2014, the Company entered into an asset purchase agreement with Phoenix Online LLC, a related party, which sold certain assets and liabilities of the Company's InvitationBox.com business for a nominal amount of cash and quarterly revenue share payments equal to: a) 5% of the gross revenue generated by the InvitationBox.com business for a period of five years from the effective date of the asset purchase agreement; b) 3% of the gross revenue generated by the InvitationBox.com business for a period of five years from the effective date of the asset purchase agreement as consideration for the Company's guaranty of a certain assumed lease for up to $900,000; and c) 2% of the gross revenue generated by the InvitationBox.com business for a period of five years from the effective date of the asset purchase agreement as consideration for certain transition services to be provided by the Company. The Company will have no involvement in the management of Phoenix Online, LLC. If and when such guaranty is released or the underlying lease is terminated, and/or the transition services end the additional cash revenue payments will cease.

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

	Year ended December 31, 2014	2013	2012
		(in thousands)	
Net revenues	$78,150	$74,083	$61,787
Cost of net revenues	45,305	42,043	32,792
Gross profit	32,845	32,040	28,995
Operating expenses:			
Sales and marketing	23,641	24,825	20,220
Technology and development	2,799	2,680	2,051
General and administrative	1,364	2,162	3,366
Acquisition-related costs	(547)	1,545	2,604
Total operating expenses	27,257	31,212	28,241
Income from operations	5,588	828	754
Interest expense	(33)	(37)	(33)
Loss on sale of assets	(2,580)	—	—
Income before income taxes	2,975	791	721
Provision for income taxes	1,061	272	249
Net income from discontinued operations	$ 1,914	$ 519	$ 472

Components of assets and liabilities held for sale (in thousands):

	December 31, 2014
Assets	
Accounts receivable	$ 4,141
Inventory	1,600
Deferred costs	1,374
Prepaid expenses and other current assets	662
Property and equipment, net	2,496
Goodwill	18,660
Intangible assets, net	3,753
Other assets	17
Total assets	$ 32,703
Liabilities	
Accounts payable	$ 5,581
Accrued royalties payable	1,023
Accrued liabilities	3,105
Deferred revenue	3,908
Other long-term liabilities	17
Total liabilities	$ 13,634

6. Intangible Assets

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

		December 31, 2014			December 31, 2013		
	Amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Developed technology	4.0 years	$ 8,590	$ (4,679)	$ 3,911	$12,277	$ (5,119)	$ 7,158
Business relationships	5.5 years	2,540	(693)	1,847	7,817	(3,701)	4,116
Other intangible assets	6.4 years	—	—	—	6,979	(3,250)	3,729
Total		$11,130	$ (5,372)	$ 5,758	$27,073	$ (12,070)	$15,003

There were no indications of impairment during the years ended December 31, 2014, 2013 and 2012.

Amortization of intangible assets was $2.5 million, $2.5 million and $0.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Estimated amounts that will be amortized related to purchased intangibles are as follows as of December 31, 2014 (in thousands):

Year ending December 31:	Amortization of intangible assets
2015	$ 2,426
2016	1,955
2017	482
2018	318
2019	318
Thereafter	259
Total	$ 5,758

Goodwill

The Company performs its annual goodwill impairment test in the third quarter of each year. In 2014, 2013 and 2012, 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, 2011	$ 11,076
Acquisition of business—Logo'd Softwear	6,128
Acquisition of business—EZ Prints	22,244
Balance at December 31, 2012	39,448
No activity	—
Balance at December 31, 2013	39,448
Divestiture of business (Note 2)	(253)
Goodwill included in assets held for sale	(18,660)
Balance at December 31, 2014	$ 20,535

As of December 31, 2014, $7.8 million of goodwill is expected to be deductible for tax purposes.

7. 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, 2014 and 2013, the fair value of the performance-based contingent consideration was $-0- and $0.2 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	22,244
Total assets acquired	8,590
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. In the third quarter of 2014 the Company agreed to pay $1.2 million for the final settlement of the remaining contingent consideration available under the asset purchase agreement. Such amount was paid in the fourth quarter of 2014.

As of December 31, 2014 and 2013, the fair value of the remaining performance-based contingent consideration is none and $1.7 million, of which $0.9 million is included in accrued liabilities and $0.8 million is included in other long term liabilities, respectively.

The following table, which includes results of both continuing and discontinued operations, 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, which includes results of both continuing and discontinued operations, presents unaudited pro forma results of operations for 2012 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 is comprised of income statement of EZ Prints and Logo'd Softwear.

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

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.

8. 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 management believes its terms to be consistent with local market terms and conditions. As of December 31, 2014, the Company is obligated to pay a total of $1.3 million in future 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. In connection with the sale of the Groups business asset in March 2015, this lease was transferred to Logo Sportswear, Inc. and is no longer an obligation of the Company. See Note 5, *Discontinued Operations.*

In November 2014, the Company sold its business assets for InvitationBox.com to Phoenix Online LLC, a related party. See Note 5, *Discontinued Operations*.

9. Line of Credit

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 June 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, 2014, and is secured on all assets of the Company. There were no draws against the facility as of December 31, 2014.

In July 2014, the Company amended its loan and security agreement (See Note 14. *Commitments and Contingencies*) which extended the maximum amount available under the Company's revolving credit facility from $5.0 million to $6.5 million, and simultaneously entered into a Letter of Credit in connection with its amended facility lease agreement for $1.5 million. The Letter of Credit will expire no later than September 15, 2020. All other terms, conditions, covenants and the interest rate under the original March 2013 credit facility remain the same. The revolving credit facility is available for ordinary operations.

10. 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, 2014, the Company had no shares of preferred stock outstanding.

11. Stockholders' Equity

Stock option plan

The Company adopted stock option plans in 1999, 2004 and 2012 under which an aggregate of 4,574,720 options have been authorized as of December 31, 2014.

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. The 2012 Stock Plan provides for the granting of stock options, restricted stock, stock units and stock appreciation rights.

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.

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 2014, 2013 and 2012.

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, 2013	2,788	$ 11.09	3.62	$ 971
Granted	963	4.94		
Exercised	(114)	3.86		
Forfeited	(887)	9.66		
Outstanding—December 31, 2014	2,750	$ 9.70	3.39	$ —
Options vested and expected to vest—December 31, 2014	2,227	$ 10.58	2.79	$ —
Options exercisable—December 31, 2014	1,674	$ 11.56	$ 1.93	$ —

The total intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012 was $0.1 million, $0.2 million and $0.9 million, respectively.

The following table summarizes information regarding stock options outstanding at December 31, 2014:

	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)	
$2.50-$5.07	604	4.85	$ 4.02	196	$ 2.93
$5.30-$5.84	427	5.13	$ 5.68	113	$ 5.62
$6.01-$6.65	360	5.51	$ 6.40	153	$ 6.39
$7.70-$11.60	404	1.69	$ 11.14	384	$ 11.25
$11.80-$12.70	94	1.33	$ 12.42	94	$ 12.42
$14.10-$14.10	428	0.61	$ 14.10	396	$ 14.10
$14.50-$17.94	334	2.50	$ 17.80	253	$ 17.81
$18.42-$21.40	99	3.21	$ 18.76	85	$ 18.77
$2.50-$21.40	2,750	3.39	$ 9.70	1,674	$ 11.56

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 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, 2013	72	$ 6.09
Granted	346	5.87
Vested	(130)	6.11
Forfeited and cancelled	(45)	5.85
Awarded and unvested at December 31, 2014	243	$ 5.81

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,		
	2014	2013	2012
Expected term (in years)	4.5	4.6	4.6
Risk-free interest rate	1.46%	0.90%	0.75%
Expected volatility	48%	55%	60%
Expected dividend rate	0%	0%	0%

The expected term of options granted is calculated using the simplified method because the Company has limited historical transactions. 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 $1.97, $2.86 and $6.80 for the years ended December 31, 2014, 2013 and 2012, 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,		
	2014	2013	2012
Cost of net revenues	$ 162	$ 177	$ 204
Sales and marketing	379	332	515
Technology and development	321	281	226
General and administrative	2,020	2,342	2,363
Total stock-based compensation expense	$2,882	$3,132	$3,308

Capitalizable stock-based compensation relating to inventory or deferred cost of revenues was not significant for any period presented. The Company capitalized $29,000, $31,000 and $44,000 of stock-based compensation relating to software developed for internal use, including website development costs during the years ended December 31, 2014, 2013 and 2012, respectively.

At December 31, 2014, 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 4 years.

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

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

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

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

	Year Ended December 31,		
	2014	2013	2012
Numerator:			
Net loss from continuing operations	$(17,821)	$(14,432)	$ (860)
Income from discontinued operations, net of tax	1,914	519	472
Net loss	$(15,907)	$(13,913)	$ (388)
Shares used in computing net income (loss) per share of common stock:			
Basic	17,308	17,143	15,021
Diluted	17,443	17,318	15,416
Net income (loss) per share of common stock:			
Basic:			
Continuing operations	$ (1.03)	$ (0.84)	$ (0.06)
Discontinued operations	$ 0.11	$ 0.03	$ 0.03
Total	$ (0.92)	$ (0.81)	$ (0.03)
Diluted:			
Continuing operations	$ (1.03)	$ (0.84)	$ (0.06)
Discontinued operations	$ 0.11	$ 0.03	$ 0.03
Total	$ (0.92)	$ (0.81)	$ (0.03)

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,		
	2014	2013	2012
Convertible preferred stock	—	—	1,406
Stock options to purchase common stock and restricted stock units	2,993	2,788	3,483

13. Income Taxes

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

	Year Ended December 31, 2014	2013	2012
Current tax (benefit) expense:			
Federal	$ (969)	$(2,536)	$ 1,333
State	(23)	(22)	133
Total current	(992)	(2,558)	1,466
Deferred tax (benefit) expense:			
Federal	(1,676)	8,314	(1,650)
State	(93)	424	(201)
Total deferred	(1,769)	8,738	(1,851)
Total provision for income taxes	$(2,761)	$ 6,180	$ (385)

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

	Year Ended December 31, 2014	2013	2012
Tax computed at the federal statutory rate	34.0%	34.0%	34.0%
State tax, federally effected	0.5	2.4	6.1
Stock-based compensation	(0.1)	(12.8)	(3.0)
Manufacturing deduction	0.0	0.0	10.6
Acquisition costs	0.3	13.6	(13.5)
Change in valuation allowance	(19.3)	(112.1)	—
Other	(2.0)	0.0	(3.3)
Total provision for income taxes	13.4%	(74.9)%	30.9%

Deferred tax assets (liabilities) consist of the following:

	Year ended December 31, 2014	2013
Deferred tax assets and liabilities:		
Net operating loss and credit carryforwards	$ 6,910	$ 4,821
Stock-based compensation	3,422	3,545
Reserves, state taxes and accruals	4,283	1,886
Depreciation and amortization	(1,835)	(1,557)
	12,780	8,695
Valuation allowance	(12,938)	(9,564)
Net deferred tax (liabilities) assets	$ (158)	$ (869)

At December 31, 2014, the Company had approximately $17.7 million of Federal and $17.5 million of state net operating loss carryforwards available to reduce future taxable income. The federal net operating loss carryforwards began to expire in 2010 and the various state net operating loss carryforwards begin to expire in 2022.

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, 2014, the Company’s consolidated balance sheet included net deferred tax assets, before valuation allowance, of approximately $12.6 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 which the Company considered significant verifiable negative evidence. Accordingly, the Company recorded a non-cash income tax provision of $9.3 million to its valuation allowance. As of December 31, 2014, the Company continues to maintain a valuation allowance on its deferred tax assets.

14. Restructuring

Restructuring charges totaled $0.5 million in the year ended December 31, 2014 and is included in the accompanying Condensed Consolidated Statements of Operations. Restructuring activity consisted of a $0.5 million charge related to the exit of a portion of one of the Company’s production facilities in Georgia in the first quarter of 2014, which was subsequently lowered by $0.3 million in the third quarter of 2014, as the production facility was reutilized. In addition, a $0.3 million charge for severance payments owed to a former employee was recorded in the first quarter of 2014.

The change in the restructuring liability is summarized as follows:

	Year Ended December 31, 2014
Accrued restructuring balance-beginning of period	$ —
Employee severance accruals	306
Lease restructuring accruals	185
Cash payments	(491)
Accrued restructuring balance, end of period	$ —

15. 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. The lease includes an option for early termination effective February 2016.

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.

On August 1, 2014, the Company amended its primary facility lease ("Facility Lease Amendment") to extend the term of 184,813 square feet of leased production and office space from July 31, 2014 to July 31, 2021. In connection with the Facility Lease Amendment, the Company also entered into an option to terminate the lease in its entirety on or after July 31, 2018. In the case of such early lease termination, the Company would be required to pay a termination fee dependent upon the effective date of an early lease termination, as follows:

(i) For a termination effective as of July 31, 2018: $1,512,679

(ii) For a termination effective as of July 31, 2019: $934,814

(iii) For a termination effective as of July 31, 2020: $429,736.

Under the terms of the Facility Lease Amendment, the Company is further required to maintain a Letter of Credit naming the Landlord as the beneficiary for the maximum amount of the termination fee for which the Company may be liable under the terms of the Facility Lease Amendment. See Note 9, *Line of Credit.*

In connection with the Company's Art and Groups business asset sales, it will no longer lease office and production facilities in Raleigh, North Carolina and Cheshire, Connecticut, which is with a related party (see Note 8), beyond March 2015. See Note 5, *Discontinued Operations*.

On November 5, 2014, in connection with a purchase agreement, Phoenix Online LLC assumed a capital lease associated with the Company's InvitationBox.com business. See Note 5, *Businesses Held for Sale and Discontinued Operations.* The Company provided a corporate guaranty for this capital lease.

Future minimum lease payments under noncancelable operating and capital leases as of December 31, 2014 are as follows:

Years Ended December 31,	Capital leases	Operating leases
2015	$ 604	$ 2,461
2016	630	976
2017	354	802
2018	—	517
2019	—	105
Thereafter	—	805
Total minimum lease payments	1,588	$ 5,666
Less amount representing interest	(130)	
Present value of capital lease obligations	1,458	
Less current portion	(526)	
Long-term portion of capital lease obligations	$ 932	

The future minimum operating lease commitments assume that the Company exercise its options for early termination under its current lease agreements, and does not include early termination fees of $0.4 million in 2015 and $1.5 million in 2017.

Rent expense for the years ended December 31, 2014, 2013 and 2012 was $1.9 million, $1.8 million and $1.9 million, respectively.

Purchase commitments

As of December 31, 2014, the Company's non-cancelable purchase obligations totaled $1.7 million, primarily related to inventory purchases.

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, working to finalize an agreement to resolve this matter, and as such, has accrued an estimated liability of approximately $0.5 million which is considered to be a probable potential loss. We and the individual defendants continue to deny all allegations in the lawsuit.

16. 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 $0.6 million under this plan for each of the years ended December 31, 2014 and 2013 and $0.5 for the year ended December 31, 2012.

17. 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,		
	2014	2013	2012
United States	$132,596	$149,529	$135,115
International	20,614	22,244	20,884
Total	$153,210	$171,773	$155,999

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

18. Selected Quarterly Data (Unaudited)

Revised consolidated unaudited quarterly financial information for 2014 and 2013 is as follows (in thousands, except per share data). See Note 2, *Summary of Significant Accounting Policies* for additional information regarding revisions to the Company's previously issued financial statements:

	For the Three Months Ended,			
	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014
	(In thousands, except per share amounts)			
Net revenues	$58,649	$29,722	$33.937	$30,902
Gross profit	19,979	9,865	11,691	10,895
Net loss from continuing operations	(295)	(6,239)	(4,883)	(6,404)
Income (loss) from discontinued operations, net of tax	(172)	249	425	1,412
Net loss	(467)	(5,990)	(4,458)	(4,992)
Net loss per basic and diluted common share from continuing operations	$ (0.02)	$ (0.36)	$ (0.28)	$ (0.37)
Net income (loss) per basic and diluted common share from discontinued operations	$ (0.01)	$ 0.01	$ 0.02	$ 0.08
Total net loss per basic and diluted common share	$ (0.03)	$ (0.35)	$ (0.26)	$ (0.29)

	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	$67,451	$33,457	$35,922	$34,943
Gross profit	24,398	12,271	12,770	11,931
Net loss from continuing operations	(6,474)	(3,102)	(1,305)	(3,551)
Income (loss) from discontinued operations, net of tax	1,427	(205)	(252)	(451)
Net loss	(5,047)(1)	(3,307)	(1,557)	(4,002)
Net loss per basic and diluted common share from continuing operations	$ (0.38)	$ (0.18)	$ (0.08)	$ (0.21)
Net income (loss) per basic and diluted common share from discontinued operations	$ 0.08	$ (0.01)	$ (0.01)	$ (0.03)
Total net loss per basic and diluted common share	$ (0.29)	$ (0.19)	$ (0.09)	$ (0.23)

(1) Includes the impact of the recording of an $9.3 million valuation allowance.

Consolidated unaudited quarterly financial information for 2014 and 2013 as initially reported in each quarter prior to December 31, 2014 is as follows (in thousands, except per share data). Revised consolidated unaudited quarterly financial information for 2014 and 2013 is as follows (in thousands, except per share data). See Note 2, *Summary of Significant Accounting Policies* for additional information regarding revisions to the Company's previously issued financial statements:

	For the Three Months Ended,			
	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014
	(In thousands, except per share amounts)			
Net revenues	$58,649	$29,722	$33,937	$30,902
Gross profit	18,873	9,923	11,604	10,957
Net loss from continuing operations	(1,590)	(6,181)	(4,970)	(6,342)
Income (loss) from discontinued operations, net of tax	(172)	62	606	1,489
Net loss	(1,762)	(6,119)	(4,364)	(4,853)
Net loss per basic and diluted common share from continuing operations	$ (0.09)	$ (0.36)	$ (0.29)	$ (0.37)
Net income (loss) per basic common share from discontinued operations	$ (0.01)	$ 0.00	$ 0.04	$ 0.09
Net income (loss) per diluted common share from discontinued operations	$ (0.01)	$ 0.00	$ 0.03	$ 0.09
Total net loss per basic and diluted common share	$ (0.10)	$ (0.35)	$ (0.25)	$ (0.28)

	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	$67,451	$33,457	$35,922	$34,943
Gross profit	24,403	12,328	12,775	11,996
Net loss from continuing operations	(6,108)	(3,064)	(1,300)	(3,570)
Income (loss) from discontinued operations, net of tax	1,449	(205)	(252)	(451)
Net loss	(4,659)(1)	(3,269)	(1,552)	(4,021)
Net loss per basic and diluted common share from continuing operations	$ (0.36)	$ (0.18)	$ (0.08)	$ (0.21)
Net income (loss) per basic and diluted common share from discontinued operations	$ 0.08	$ (0.01)	$ (0.01)	$ (0.03)
Total net loss per basic and diluted common share	$ (0.27)	$ (0.19)	$ (0.09)	$ (0.23)

(1) Includes the impact of the recording of a $9.3 million valuation allowance.

Table of Contents

Index to Financial Statements

The following tables summarize the corrections on each of the affected financial statement line items for the nine months ended and at September 31, 2014:

	September 30, 2014 (Unaudited)		
	As previously reported	Adjustment	As revised
Balance Sheets:			
Deferred costs	$ 3,056	$ 156	$ 3,212
Current assets	$ 38,082	$ 156	$ 38,238
Total assets	$109,039	$ 156	$109,195
Accounts payable	$ 9,586	$ 995	$ 10,581
Deferred revenue	$ 4,530	$ 249	$ 4,779
Total current liabilities	$ 34,329	$ 1,244	$ 35,573
Total liabilities	$ 37,813	$ 1,381	$ 39,194
Accumulated deficit	$ (29,283)	$ (1,225)	$ (30,508)
Total stockholders' equity	$ 71,226	$ (1,225)	$ 70,001
Total liabilities and stockholders' equity	$109,039	$ 156	$109,195

	Nine Months Ended September 30, 2014 (Unaudited)		
	As previously reported	Adjustment	As revised
Statements of Operations:			
Cost of net revenues	$ 62,077	$ 33	$ 62,110
Loss before income taxes	$(19,212)	$ (33)	$(19,245)
Loss from continuing operations	$(17,493)	$ (33)	$(17,526)
Basic and diluted net loss per share of common stock from continuing operations	$ (1.01)	$ 0.00	$ (1.01)

19. Subsequent Events

Departure of an executive officer

Effective January 1, 2015, Sumant Sridharan will terminate his role as the Company's President of CafePress, Inc. Mr. Sridharan will receive a $75,000, bonus, Mr. Sridharan will continue in a consulting role with the Company for six months beginning January 2, 2015 and receive $18,000 per month and continued vesting of his previously granted stock options and restricted stock units.

Art business asset sale

On March 1, 2015, the Company sold its Art business, which transforms photographs and images into canvas works of art and sells such products through its e-commerce websites, pursuant to an asset purchase agreement with Circle Graphics. The Company received proceeds of $31.5 million, including $27.7 million in cash and $3.8 million in escrow for its indemnification obligations pursuant to an escrow agreement between the Company, Circle Graphics and the escrow agent.

The Company also entered into a transition services agreement with Circle Graphics for a period of one year from the closing date, and a commercial agreement whereby certain products purchased on the Company's websites will be exclusively fulfilled by Circle Graphics for a period of three years following the closing date. There is no material relationship between the Company and Circle Graphics other than the asset purchase agreement.

The Company has included the assets and liabilities associated with the Art business as assets and liabilities held for sale in the Company's consolidated balance sheet at December 31, 2014 and the historical operations associated with the Art business is included in income from discontinued operations, net of tax, in the Company's Consolidated Statements of Operations for all periods presented.

Groups business asset sale

On March 6, 2015, the Company sold its Groups business, which engages in providing personalized apparel and merchandise for groups and organizations through its e-commerce websites, pursuant to an asset purchase agreement with Logo Sportswear. The Company received proceeds of $9.7 million, including $8.7 million in cash and $1.0 million in escrow for its indemnification obligations pursuant to an escrow agreement between the Company, Logo Sportswear and the escrow agent.

In connection with the sale of the Groups business, the Company also entered into a transition services agreement for a period of one year from the closing date, and a referral agreement with Logo Sportswear for a period of two years following the closing date. There is no material relationship between the Company and Logo Sportswear other than the asset purchase agreement.

The Company has included the assets and liabilities associated with the Groups business as assets and liabilities held for sale in the Company's consolidated balance sheet at December 31, 2014 and the historical operations associated with the Groups business is included in income from discontinued operations, net of tax, in the Company's Consolidated Statements of Operations for all periods presented.

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

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures" as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving their objectives. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. Additionally, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on management's evaluation, with the participation of our Chief Executive Officer and our Chief 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 were not effective as of December 31, 2014 because of a material weakness in the Company's internal control over financial reporting as described below.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures which:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with appropriate authorization of management and the Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

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, 2014 using the criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our management identified the following material weakness that existed as of December 31, 2014:

> *We did not maintain effective controls over the preparation, review and approval of certain account reconciliations. Specifically, the Company did not maintain effective controls over the underlying data supporting account reconciliations prepared for accounts payable and prepaid inventory.*

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The identified material weakness resulted in the revision to our previously reported interim and annual financial statements for the years ended December 31, 2013 and 2012. Management concludes that the material weakness described above existed as of December 31, 2014 and could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. As a result, we have concluded we did not maintain effective internal control over financial reporting as of December 31, 2014. Notwithstanding the material weakness described above, management has concluded that the Company's consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K are fairly stated in all material respects in accordance with generally accepted accounting principles.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Our internal control over financial reporting is not subject to attestation by the company's independent registered public accounting firm due to an exemption established by the JOBS Act for "emerging growth companies."

Remediation Plan

Prior to identifying the material weakness, management has been implementing an improved internal control structure within the Company's financial reporting processes. As part of this, the designs of our business process review controls were significantly improved during the quarter ended December 31, 2014. These newly designed business process review controls are the controls which identified the material weakness noted above.

Because the implementation of these controls occurred during the last quarter of our fiscal year, management has not had sufficient time to test the operating effectiveness of these controls. Management believes these newly improved controls are sufficient to mitigate the material weakness and management will be testing the operating effectiveness of these controls during fiscal year 2015.

We will continue to actively plan for and implement additional control procedures to improve our overall control environment and expect these efforts to continue throughout 2015.

Changes in Internal Control over Financial Reporting

As described above under *Remediation Plan*, there were changes in our internal control over financial reporting during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. Other Information

None.

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 Practice” in our Definitive Proxy Statement in connection with our 2015 Annual Meeting of Stockholders to be held on May 25, 2015 (or the Proxy Statement), which will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2014.

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, 2014, 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	2,992,904	$ 8.91	1,581,816
Equity compensation plans not approved by security holders	—	—	
Total	2,992,904	$ 8.91	1,581,816(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 2014, the number of shares reserved for issuance under the 2012 Stock Plan was increased by 686,765. 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.

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 60.

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	

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	10-K	001-35468	10.6	3/31/14	
10.7+	2014 Cash Bonus Plan	10-K	001-35468	10.7	3/31/14	
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+	Amended Employment Agreement with Garett Jackson	8-K	001-35468	10.1	4/4/14	
10.13	Third Amendment and Modification of Lease by and among the Company, Riverport Group, LLC and 6901, LLC, dated July 17, 2014.	8-K	001-35468	10.1	7/18/14	
10.14+	Offer Letter with Fred E. Durham III	8-K	001-35468	10.1	8/4/14	
10.15+	Change of Control Agreement with Fred E. Durham III	8-K	001-35468	10.2	8/4/14	
10.16+	Offer Letter with Maheesh Jain	8-K	001-35468	10.3	8/4/14	
10.17+	Change of Control Agreement with Maheesh Jain	8-K	001-35468	10.4	8/4/14	
10.18+	Separation Agreement and Release with Bob Marino dated August 3, 2014	8-K	001-35468	10.5	8/4/14	
10.19+	Consulting Agreement with Bob Marino dated August 3, 2014	8-K	001-35468	10.6	8/4/14	
10.20	Settlement Agreement and Mutual General Release, dated September 30, 2014, by and between the Company, LSW Holdings, Inc. f/k/a Logo'd Softwear, Inc. and Frank Nevins.	8-K	001-35468	10.1	10/3/14	
10.21+	Separation Agreement and Release with Wes Herman dated January 8, 2014	10-K	001-35468	10.12	3/31/14	
10.22+	Release of Claims Agreement with Wes Herman dated January 8, 2014	10-K	001-35468	10.13	3/31/14	
10.23	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	

[Table of Contents](#)

[Index to Financial Statements](#)

Exhibit Number	Description	Where Located Form	File No.	Exhibit No.	Filing Date	Filed herewith
10.24	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	
10.25	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	
10.26	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	
10.27+	Transition Agreement and Release with Sumant Sridharan dated January 9, 2015	8-K	001-35468	10.1	1/13/2015	
10.28+	Consulting Agreement with Sumant Sridharan dated January 9, 2015.	8-K	001-35468	10.2	1/13/2015	
10.29+	2015 Cash Bonus Plan	8-K	001-35468	10.1	2/11/2015	
10.30	Asset Purchase Agreement, dated as of February 11, 2015, by and between CafePress Inc. and Circle Graphics, Inc.	8-K	001-35468	10.1	3/3/2015	
10.31	Asset Purchase Agreement, dated as of March 9, 2015, by and between CafePress Inc. and Logo Sportswear, Inc.	8-K	001-35468	10.1	3/9/15	
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 109)					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

Table of Contents

Index to Financial Statements

Exhibit Number	Description	Where Located Form	File No.	Exhibit No.	Filing Date	Filed herewith
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Schema Linkbase Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Label Linkbase Document					X
101.PRE	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.

Table of Contents

Index to Financial Statements

(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, 2014	$ 9,564	$ 3,374	$ —	$ —	$ 12,938
Year Ended December 31, 2013	297	9,267	—	—	9,564
Year Ended December 31, 2012	58	—	—	239	297

(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.

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/ Fred E. Durham III
Fred E. Durham III
President and Chief Executive Officer

Date: March 31, 2015

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Fred E. Durham and Garett Jackson, 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/ Fred E. Durham III **Fred E. Durham III**	Chief Executive Officer (Principal Executive Officer) and Director	March 31, 2015
/s/ Garett Jackson **Garett Jackson**	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 31, 2015
/s/ Brad W. Buss **Brad W. Buss**	Director	March 31, 2015
/s/ Patrick J. Connolly **Patrick J. Connolly**	Director	March 31, 2015
/s/ Douglas M. Leone **Douglas M. Leone**	Director	March 31, 2015
/s/ Michael Dearing **Michael Dearing**	Director	March 31, 2015
/s/ Diane M. Irvine **Diane M. Irvine**	Director	March 31, 2015

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	10-K	001-35468	10.6	3/31/14	
10.7+	2014 Cash Bonus Plan	10-K	001-35468	10.7	3/31/14	
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+	Amended Employment Agreement with Garett Jackson	8-K	001-35468	10.1	4/4/14	
10.13	Third Amendment and Modification of Lease by and among the Company, Riverport Group, LLC and 6901, LLC, dated July 17, 2014.	8-K	001-35468	10.1	7/18/14	
10.14+	Offer Letter with Fred E. Durham III	8-K	001-35468	10.1	8/4/14	
10.15+	Change of Control Agreement with Fred E. Durham III	8-K	001-35468	10.2	8/4/14	
10.16+	Offer Letter with Maheesh Jain	8-K	001-35468	10.3	8/4/14	
10.17+	Change of Control Agreement with Maheesh Jain	8-K	001-35468	10.4	8/4/14	
10.18+	Separation Agreement and Release with Bob Marino dated August 3, 2014	8-K	001-35468	10.5	8/4/14	
10.19+	Consulting Agreement with Bob Marino dated August 3, 2014	8-K	001-35468	10.6	8/4/14	
10.20	Settlement Agreement and Mutual General Release, dated September 30, 2014, by and between the Company, LSW Holdings, Inc. f/k/a Logo'd Softwear, Inc. and Frank Nevins.	8-K	001-35468	10.1	10/3/14	
10.21+	Separation Agreement and Release with Wes Herman dated January 8, 2014	10-K	001-35468	10.12	3/31/14	
10.22+	Release of Claims Agreement with Wes Herman dated January 8, 2014	10-K	001-35468	10.13	3/31/14	
10.23	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	
10.24	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	
10.25	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	
10.26	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	
10.27+	Transition Agreement and Release with Sumant Sridharan dated January 9, 2015	8-K	001-35468	10.1	1/13/2015	

Exhibit Number	Description	Where Located: Form	File No.	Exhibit No.	Filing Date	Filed herewith
10.28+	Consulting Agreement with Sumant Sridharan dated January 9, 2015.	8-K	001-35468	10.2	1/13/2015	
10.29+	2015 Cash Bonus Plan	8-K	001-35468	10.1	2/11/2015	
10.30	Asset Purchase Agreement, dated as of February 11, 2015, by and between CafePress Inc. and Circle Graphics, Inc.	8-K	001-35468	10.1	3/3/2015	
10.31	Asset Purchase Agreement, dated as of March 9, 2015, by and between CafePress Inc. and Logo Sportswear, Inc.	8-K	001-35468	10.1	3/9/15	
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 109)					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	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Schema Linkbase Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Label Linkbase Document					X
101.PRE	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.

(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 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, 333-187368 and 333-195991) of CafePress Inc. of our report dated March 31, 2015 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
San Jose, California
March 31, 2015

Exhibit 31.1

PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Fred E. Durham III, 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, 2015

/s/ Fred E. Durham III

Fred E. Durham III
Chief Executive Officer

Exhibit 31.2

PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Garett Jackson, 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, 2015

/s/ Garett Jackson
Garett Jackson
Chief Financial Officer

Exhibit 32.1

SECTION 1350 CERTIFICATIONS

I, Fred E. Durham III, Chief Executive Officer of CafePress Inc. (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Annual Report on Form 10-K of the Company for the year ended December 31, 2014 (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, 2015

/s/ Fred E. Durham III

Fred E. Durham III
Chief Executive Officer

Exhibit 32.2

SECTION 1350 CERTIFICATIONS

I, Garett Jackson, Chief Financial Officer of CafePress Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Annual Report on Form 10-K of the Company for the year ended December 31, 2014 (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, 2015

/s/ Garett Jackson

Garett Jackson
Chief Financial Officer