

Amber Road, Inc.

Form 10-Q

November 09, 2018

Amber Road, Inc.10-QSeptember 30, 2018false2018Q3Accelerated

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

or

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

For the Transition Period from _____ to _____.

Commission file number 001-36360

AMBER ROAD, INC.

(Exact name of registrant as specified in its charter)

Delaware 22-2590301

**(State or other
jurisdiction of
incorporation
or organization)** **(I.R.S. Employer
Identification
Number)**

One Meadowlands Plaza, East Rutherford, NJ 07073

(Address and zip code of principal executive offices)

(201) 935-8588

(Registrant's telephone number, including area code)

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒

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

Emerging growth
company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☐

On November 5, 2018, the registrant had outstanding 27,792,234 shares of common stock, \$0.001 par value per share.

AMBER ROAD, INC.

FORM 10-Q

For the Quarterly Period Ended September 30, 2018

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Amber Road, the Amber Road logo, Global Knowledge, Enterprise Technology Framework and other trademarks of Amber Road appearing in this report on Form 10-Q are the property of Amber Road. All other trademarks, service marks and trade names in this report on Form 10-Q are the property of their respective owners. We have omitted the ® and ™ designations, as applicable, for the trademarks used in this report on Form 10-Q.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “will,” “would” or the negative or plural of these similar expressions or variations. Such forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, including those discussed in the section titled “Risk Factors”, set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K for the year ended December 31, 2017, and in our other SEC filings. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this Quarterly Report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. As used in this report, the terms "Amber Road", "we", "us", and "our" mean Amber Road, Inc. and its subsidiaries unless the context indicates otherwise.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****AMBER ROAD, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(Unaudited)**

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 10,140,432 | \$ 9,360,601 |
| Accounts receivable, net | 12,603,370 | 16,957,044 |
| Unbilled receivables | 1,122,441 | 884,104 |
| Deferred commissions | 4,026,733 | 4,400,015 |
| Prepaid expenses and other current assets | 2,436,187 | 1,715,534 |
| Total current assets | 30,329,163 | 33,317,298 |
| Property and equipment, net | 10,218,127 | 9,370,104 |
| Goodwill | 43,739,860 | 43,768,269 |
| Other intangibles, net | 4,214,467 | 4,999,885 |
| Deferred commissions | 8,638,543 | 6,734,326 |
| Deposits and other assets | 1,378,937 | 1,180,163 |
| Total assets | \$ 98,519,097 | \$ 99,370,045 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,238,368 | \$ 2,650,582 |
| Accrued expenses | 8,170,708 | 7,589,482 |
| Current portion of capital lease obligations | 1,390,224 | 1,352,456 |
| | 35,628,497 | 37,812,239 |

| | | |
|---|-------------|-------------|
| Deferred revenue | | |
| Current portion of term loan, net of discount | 714,391 | 714,391 |
| Total current liabilities | 47,142,188 | 50,119,150 |
| Capital lease obligations, less current portion | 1,440,732 | 1,461,101 |
| Deferred revenue, less current portion | 94,162 | 1,830,706 |
| Term loan, net of discount, less current portion | 12,303,598 | 12,839,392 |
| Revolving credit facility | 6,000,000 | 6,000,000 |
| Other noncurrent liabilities | 1,777,158 | 1,619,744 |
| Total liabilities | 68,757,838 | 73,870,093 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' equity: | | |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; issued and outstanding 27,618,995 and 27,288,985 shares at September 30, 2018 and December 31, 2017, respectively | 27,619 | 27,289 |
| Additional paid-in capital | 205,433,858 | 195,203,097 |
| Accumulated other | (1,820,143) | (1,822,396) |

comprehensive
loss

| | | |
|---------------------|---------------|---------------|
| Accumulated deficit | (173,880,075) | (167,908,038) |
|---------------------|---------------|---------------|

| | | |
|----------------------------|------------|------------|
| Total stockholders' equity | 29,761,259 | 25,499,952 |
|----------------------------|------------|------------|

| | | |
|--|---------------|---------------|
| Total liabilities and stockholders' equity | \$ 98,519,097 | \$ 99,370,045 |
|--|---------------|---------------|

See accompanying notes to condensed consolidated financial statements.

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AMBER ROAD, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------------|-------------------------------------|----------------|------------------------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue: | | | | |
| Subscription | \$ 15,857,436 | \$ 14,944,160 | \$ 46,373,970 | \$ 43,532,217 |
| Professional services | 6,303,562 | 5,269,090 | 16,907,775 | 14,910,883 |
| Total revenue | 22,160,998 | 20,213,250 | 63,281,745 | 58,443,100 |
| Cost of revenue (1): | | | | |
| Cost of subscription revenue | 5,358,242 | 4,903,483 | 16,170,349 | 16,066,645 |
| Cost of professional services revenue | 4,102,453 | 4,247,519 | 12,727,948 | 12,396,228 |
| Total cost of revenue | 9,460,695 | 9,151,002 | 28,898,297 | 28,462,873 |
| Gross profit | 12,700,303 | 11,062,248 | 34,383,448 | 29,980,227 |
| Operating expenses (1): | | | | |
| Sales and marketing | 5,523,108 | 5,551,239 | 17,443,921 | 17,043,562 |
| Research and development | 3,515,997 | 3,830,431 | 11,066,004 | 11,201,577 |
| General and administrative | 4,840,543 | 3,517,187 | 15,577,665 | 11,247,825 |
| Total operating expenses | 13,879,648 | 12,898,857 | 44,087,590 | 39,492,964 |
| Loss from operations | (1,179,345) | (1,836,609) | (9,704,142) | (9,512,737) |
| Interest income | 3,029 | 1,238 | 6,661 | 2,564 |
| Interest expense | (325,253) | (272,293) | (964,423) | (751,644) |
| Loss before income taxes | (1,501,569) | (2,107,664) | (10,661,904) | (10,261,817) |
| Income tax expense | 113,201 | 130,039 | 317,943 | 906,557 |
| Net loss | \$ (1,614,770) | \$ (2,237,703) | \$ (10,979,847) | \$ (11,168,374) |

Net loss per
share (Note
10):

| | | | | | | | | |
|----------------------|----|--------|----|--------|----|--------|----|--------|
| Basic and diluted | \$ | (0.06) | \$ | (0.08) | \$ | (0.40) | \$ | (0.41) |
|----------------------|----|--------|----|--------|----|--------|----|--------|

Weighted-average
shares
outstanding
(Note 10):

| | | | | |
|----------------------|------------|------------|------------|------------|
| Basic and diluted | 27,871,168 | 27,471,248 | 27,717,793 | 27,377,058 |
|----------------------|------------|------------|------------|------------|

(1) Includes
stock-based
compensation as
follows:

| | Three Months Ended September 30, 2018 | | 2017 | | 2018 | | Nine Months Ended September 30, 2017 | |
|--|---|-----------|------|-----------|------|-----------|--|-----------|
| Cost of subscription revenue | \$ | 178,358 | \$ | 214,033 | \$ | 756,014 | \$ | 591,965 |
| Cost of professional services revenue | | 146,954 | | 153,357 | | 564,141 | | 405,129 |
| Sales and marketing | | 215,433 | | 321,226 | | 1,177,833 | | 780,626 |
| Research and development | | 449,065 | | 401,567 | | 1,680,615 | | 987,427 |
| General and administrative | | 1,470,133 | | 734,564 | | 5,560,416 | | 1,513,898 |
| | \$ | 2,459,943 | \$ | 1,824,747 | \$ | 9,739,019 | \$ | 4,279,045 |

See accompanying notes to condensed consolidated financial statements.

AMBER ROAD, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------------|------------------------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss | \$ (1,614,770) | \$ (2,237,703) | \$ (10,979,847) | \$ (11,168,374) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation | 32,524 | 43,085 | 2,253 | (231,583) |
| Total other comprehensive income (loss) | 32,524 | 43,085 | 2,253 | (231,583) |
| Comprehensive loss | \$ (1,582,246) | \$ (2,194,618) | \$ (10,977,594) | \$ (11,399,957) |

See accompanying notes to condensed consolidated financial statements.

AMBER ROAD, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| Nine Months Ended September 30, | | | |
|--|--------------|-----------|--------------|
| 2018 | | 2017 | |
| Cash flows from operating activities: | | | |
| Net loss | (10,979,847) | \$ | (11,168,374) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 2,761,482 | 4,015,240 | |
| Bad debt expense | 63,221 | 305,612 | |
| Stock-based compensation | 9,739,019 | 4,279,045 | |
| Changes in fair value of contingent consideration liability | | 18,525 | |
| Accretion of debt discount | 26,706 | 28,981 | |

Changes
in
operating
assets
and
liabilities:

Accounts
receivable
and
unbilled
receivables

3,239,595

Prepaid
expenses
and
other
assets

823,889

Accounts
payable

(967,975)

Accrued
expenses

(1,172,824)

Settlement
of
contingent
accrued
compensation
related
to
former
ecVision
founder

(2,366,469)

Other
liabilities

(264,429)

Deferred
revenue

477,278

Net
cash
provided
by
(used
in)

(2,751,906)

operating
activities

Cash
flows
from
investing
activities:

(189,073)

(169,739)

| | |
|--|--------------|
| Capital expenditures | |
| Addition of capitalized software development costs | (2,532,519) |
| | (1,217,126) |
| Cash paid for deposits | (46,522) |
| | (205,264) |
| Net cash used in investing activities | (2,768,114) |
| | (1,592,129) |
| Cash flows from financing activities: | |
| Proceeds from revolving line of credit | 18,350,000 |
| | 18,350,000 |
| Payments on revolving line of credit | (18,350,000) |
| | (18,250,000) |
| Payments on term loan | (562,500) |
| | (468,750) |
| Debt financing costs | |
| | (35,701) |
| Repayments on capital lease obligations | (1,100,659) |
| | (1,237,031) |
| | 492,072 |
| | 175,056 |

| | |
|--|----------------------------|
| Proceeds from the exercise of stock options | |
| Contingent consideration related to ecVision acquisition | (1,308,525) |
| Net cash used in financing activities | (1,171,087) (2,774,951) |
| Effect of exchange rate on cash equivalents and restricted cash | (6,654) |
| Net decrease in cash, cash equivalents and restricted cash | (7,125,640) |
| Cash, cash equivalents and restricted cash at beginning of period | 9,417,001 15,464,274 |

| | | | |
|--|------------|----|-----------|
| Cash, cash equivalents and restricted cash at end of period | 10,196,832 | \$ | 8,338,634 |
|--|------------|----|-----------|

Reconciliation of cash, cash
equivalents and restricted cash
to the condensed consolidated
balance sheet:

| | | | |
|------------------------------------|------------|----|-----------|
| Cash and cash equivalents | 10,140,432 | \$ | 8,282,234 |
|------------------------------------|------------|----|-----------|

| | | | |
|--|--------|--------|--|
| Restricted cash in deposits and other assets | 56,400 | 56,400 | |
|--|--------|--------|--|

| | | | |
|--|------------|----|-----------|
| Total cash, cash equivalents and restricted cash | 10,196,832 | \$ | 8,338,634 |
|--|------------|----|-----------|

Supplemental
disclosures
of
cash
flow
information:

| | | | |
|---------------------------------|---------|----|---------|
| Cash paid for interest | 937,716 | \$ | 717,057 |
|---------------------------------|---------|----|---------|

| | | | |
|---|-----------|-----------|--|
| Non-cash property and equipment acquired under | 1,148,058 | 1,638,819 | |
|---|-----------|-----------|--|

capital
lease
Non-cash
property
and
equipment
purchases
in
accounts
payable

46,545

See accompanying notes to condensed consolidated financial statements.

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AMBER ROAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) Background

Amber Road, Inc. (we, our or us) is a leading provider of a cloud-based global trade management solution, including modules for logistics contract and rate management, supply chain visibility and event management, international trade compliance, Global Knowledge trade content database, supply chain collaboration with overseas factories and vendors, and duty management solutions to importers and exporters, nonvessel owning common carriers (resellers), and ocean carriers. Our solution is primarily delivered using an on-demand, cloud-based, delivery model. We are incorporated in the state of Delaware and our corporate headquarters are located in East Rutherford, New Jersey. We also have offices in McLean, Virginia; Raleigh, North Carolina; Munich, Germany; Bangalore, India; Shenzhen and Shanghai, China; and Hong Kong.

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements and footnotes have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (GAAP) in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for the fair statement have been included. The accompanying condensed consolidated financial statements include our accounts and those of our wholly-owned subsidiaries primarily located in India, China and Europe. All significant intercompany balances and transactions have been eliminated in consolidation. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for other interim periods or future years. The consolidated balance sheet as of December 31, 2017 is derived from the audited financial statements as of that date. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Form 10-K for the year ended December 31, 2017.

(b) Use of Estimates

The preparation of the condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the carrying amount of intangibles and goodwill; valuation allowance for receivables and deferred income tax assets; revenue; capitalization of software costs; and valuation of share-based payments. Actual results could differ from those estimates.

(c) Revenue from Contracts with Customers

Adoption of Accounting Standards Codification Topic 606

Effective January 1, 2018, we adopted the requirements of Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers (ASC 606), and all the related amendments (the new revenue standard) using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit as of the adoption date. The comparative information for 2017 has not been restated and continues to be reported under the accounting standards in effect for that period.

Revenue Recognition

We primarily generate revenue from the sale of subscriptions and subscription-related professional services. In instances involving subscriptions, revenue is generated under customer contracts with multiple elements, which are comprised of (1) subscription fees that provide the customers with access to our on-demand application and content, unspecified solution and content upgrades, and customer support, (2) professional services associated with consulting services (primarily implementation services), and (3) transaction-related fees (including publishing services). Our initial customer contracts usually have contract terms from 3 years to 5 years in length. Typically, the customer does not take possession of the software nor does the customer have the right to take possession of the software supporting the on-demand application service. However, in certain instances, we have customers that take possession of the

software whereby the application is installed on the customer's premises. Our subscription service arrangements typically may only be terminated for cause and do not contain refund provisions.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract

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AMBER ROAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

The subscription fees typically begin the first month following contract execution, whether or not we have completed the solution's implementation. In addition, any services performed by us for our customers are not essential to the functionality of our products.

Subscription Revenue for Hosted and On-Premise Customers

Subscription revenue, which primarily consists of fees to provide customers access to our solution, is recognized ratably over contract terms beginning on the commencement date of each contract, which is the date our service is made available to customers. Typically, amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

Transaction-related revenue is recognized as the transactions occur.

Professional Services Revenue for Hosted Customers

Professional services revenue primarily consists of fees for deployment of our solution. The majority of professional services contracts are on a time and material basis. When these services are not combined with subscription revenue as a single unit of accounting, as discussed below, this revenue is recognized as the services are rendered for time and material contracts, and when the milestones are achieved and accepted by the customer for fixed price contracts.

Professional Services Revenue for On-Premise Customers

For customers that take possession of the software, billings for professional services will be recognized as revenue when services are performed, unlike under the previous standard where revenue from these billings was deferred and amortized ratably over the subscription term of the related contract. The adoption of ASC 606 will reduce revenue due to the loss of deferred services revenue from professional services billings delivered prior to December 31, 2017 for on-premise installations of our software. Deferred revenue associated with on-premise professional services at December 31, 2017 will not be amortized in 2018 and beyond.

Multiple Performance Obligations

Some of our contracts with customers contain multiple performance obligations that generally include subscription, professional services (primarily implementation) as well as transaction-related fees.

For contracts with enterprise customers (customers with annual revenues that we believe are greater than \$1 billion), we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing objectives, taking into consideration market conditions and other factors, including the value of our contracts, the solution sold, taking into account the modules included, term of the arrangement, and base transaction volume, customer demographics, and geographic locations.

For contracts with mid-market customers (customers with annual revenues that we believe are less than \$1 billion), both subscription and professional services are combined and there is only one observable price. For these contracts that bundle the performance obligations into one annual fee, the transaction price is allocated based on the standard professional service rates and implementation hours.

Other Revenue Items

Sales tax collected from customers and remitted to governmental authorities is accounted for on a net basis and, therefore, is not included in revenue and cost of revenue in the condensed consolidated statements of operations. We classify customer reimbursements received for direct costs paid to third parties and related expenses as revenue, in accordance with ASC 606.

Costs to Obtain and Fulfill a Contract

We defer commission costs that are incremental and directly related to the acquisition of customer contracts.

Commission costs are accrued and deferred upon execution of the sales contract by the customer. Payments to sales personnel are made shortly after the receipt of the related customer payment. Under ASC 606, deferred commissions

are amortized over an estimated customer life of 6 years, which differs from the previous standard whereby deferred commissions were

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AMBER ROAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

amortized over the initial customer contract term. We determined the period of amortization of deferred commissions under ASC 606 by taking into consideration our customer contracts, our technology and other factors.

Our commission costs deferred and amortized in the period are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------|-------------------------------------|--------------|------------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Commission costs deferred | \$ 972,405 | \$ 1,126,236 | \$ 3,043,814 | \$ 2,805,883 |
| Commission costs amortized | 1,034,965 | 1,377,788 | 3,161,566 | 3,862,549 |

Financial Statement Impact of Adopting ASC 606

We adopted ASC 606 using the modified retrospective method. The cumulative effect of applying the new guidance to all contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to accumulated deficit as of the adoption date. As a result of applying the modified retrospective method to adopt the new revenue guidance, the following adjustments were made to the following balance sheet accounts as follows:

| | As Reported | Adjustments | | | As Adjusted |
|-----------------------------------|-------------------|----------------------|-------------------------------|---------------------------|-----------------|
| | December 31, 2017 | Subscription Revenue | Professional Services Revenue | Cost to Obtain a Contract | January 1, 2018 |
| Deferred commissions, current | \$ 4,400,015 | \$ — | \$ — | \$ (562,607) | \$ 3,837,408 |
| Deferred commissions, non-current | 6,734,326 | — | — | 2,211,294 | 8,945,620 |
| Deferred revenue, current | 37,812,239 | 229,093 | (2,170,118) | — | 35,871,214 |
| Deferred revenue, non-current | 1,830,706 | — | (1,418,098) | — | 412,608 |
| Accumulated deficit | (167,908,038) | (229,093) | 588,216 | 1,648,687 | (162,900,228) |

Impact of New Revenue Standard on Financial Statement Line Items

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our condensed consolidated balance sheet as of September 30, 2018 and our condensed consolidated statement of operations for the three and nine months ended September 30, 2018 is as follows:

| | September 30, 2018 | | |
|-----------------------|--------------------|-------------------------------------|---------------------------------|
| | As Reported | Balance Without Adoption of ASC 606 | Effect of Change Higher/(Lower) |
| Balance Sheet | | | |
| Deferred commissions, | \$ 4,026,733 | \$ 4,205,572 | \$ (178,839) |

| | | | |
|-----------------------------------|---------------|---------------|-----------|
| current | | | |
| Deferred commissions, non-current | 8,638,543 | 6,232,037 | 2,406,506 |
| Deferred revenue, current | 35,628,497 | 37,460,392 | 1,831,895 |
| Deferred revenue, non-current | 94,162 | 1,527,616 | 1,433,454 |
| Accumulated deficit | (173,880,075) | (179,376,091) | 5,496,016 |

| | Three Months Ended September 30, 2018 | | | | Nine Months Ended September 30, 2018 | |
|---|--|---|---------------------------------------|---------------|---|---------------------------------------|
| | As Reported | Balance Without Adoption of ASC 606 | Effect of Change Higher/(Lower) | As Reported | Balance Without Adoption of ASC 606 | Effect of Change Higher/(Lower) |
| <u>Statement of Operations</u> | | | | | | |
| Subscription revenue | \$ 15,857,436 | 15,828,468 | 28,968 | \$ 46,373,970 | 46,267,085 | 106,885 |
| Professional services revenue | 6,303,562 | 6,238,856 | 64,706 | 16,907,775 | 17,108,434 | (200,659) |
| Sales and marketing | 5,523,108 | 5,698,114 | 175,006 | 17,443,921 | 18,022,901 | 578,980 |
| Net loss | (1,614,770) | (1,883,450) | 268,680 | (10,979,847) | (11,465,053) | 485,206 |

AMBER ROAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Deferred Revenue and Performance Obligations

Deferred revenue from subscriptions represents amounts collected from (or invoiced to) customers in advance of earning subscription revenue. Typically, we bill our annual subscription fees in advance of providing the service. Deferred revenue from professional services represents revenue for time and material contracts where the revenue is recognized when milestones are achieved and accepted by the customer for fixed price contracts.

| | September 30, 2018 | December 31, 2017 |
|-------------------------------|-----------------------|----------------------|
| Current: | | |
| Subscription revenue | \$ 35,485,525 | \$ 35,247,750 |
| Professional services revenue | 142,972 | 2,564,489 |
| Total current | 35,628,497 | 37,812,239 |
| Noncurrent: | | |
| Subscription revenue | 94,162 | 412,608 |
| Professional services revenue | — | 1,418,098 |
| Total noncurrent | 94,162 | 1,830,706 |
| Total deferred revenue | \$ 35,722,659 | \$ 39,642,945 |

The amount of subscription revenue and professional services revenue recognized that was included in the beginning balance of deferred revenue is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------|-------------------------------------|--------------|------------------------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Subscription revenue | \$ 6,641,678 | \$ 6,424,284 | \$ 32,594,189 | \$ 30,172,577 |
| Professional services revenue | 28,797 | 355,463 | 539,599 | 1,469,051 |

As of September 30, 2018, \$135,833,899 of revenue is expected to be recognized from remaining performance obligations for subscription contracts and is expected to be recognized over the next 6.0 years. Remaining performance obligations for professional services contracts are recognized within one year or less.

(d) Cost of Revenue

Cost of subscription revenue. Cost of subscription revenue consists primarily of personnel and related costs of our hosting, support, and content teams, including salaries, benefits, bonuses, payroll taxes, stock-based compensation and allocated overhead, as well as software license fees, hosting costs, Internet connectivity, and depreciation expenses directly related to delivering our solutions, as well as amortization of capitalized software development costs. Our cost of subscription revenue is generally expensed as the costs are incurred.

Cost of professional services revenue. Cost of professional services revenue consists primarily of personnel and related costs, including salaries, benefits, bonuses, payroll taxes, stock-based compensation, the costs of contracted third-party vendors, reimbursable expenses and allocated overhead. As our personnel are employed on a full-time basis, our cost of professional services is largely fixed in the short term, while our professional services revenue may fluctuate, leading to fluctuations in professional services gross profit. Cost of professional services revenue is generally expensed as costs are incurred.

(e) Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents at September 30, 2018 and December 31, 2017 consists of the following:

| | September 30, 2018 | December 31, 2017 |
|-----------------------|-----------------------|----------------------|
| Cash | \$ 10,096,943 | \$ 9,318,074 |
| Money market accounts | 43,489 | 42,527 |
| | \$ 10,140,432 | \$ 9,360,601 |

AMBER ROAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(f) Fair Value of Financial Instruments and Fair Value Measurements

Our financial instruments consist of cash equivalents, accounts receivable, accounts payable, and accrued expenses. Management believes that the carrying values of these instruments are representative of their fair value due to the relatively short-term nature of those instruments.

Our estimate of fair value for financial assets and financial liabilities is based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available.

Management determines fair value using the following hierarchy:

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

Level 2 — Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; or

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 following table provides the financial assets and liabilities classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

| | September 30, 2018 | December 31, 2017 |
|--|--------------------|-------------------|
| Cash equivalents - money market accounts | \$ 43,489 | \$ 42,527 |
| Restricted cash - money market accounts | 56,400 | 56,400 |
| Total assets measured at fair value on a recurring basis | \$ 99,889 | \$ 98,927 |

(g) Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on historical write-off experience, the industry, and the economy. We review our allowance for doubtful accounts monthly. Past-due balances over 90 days and over a specified amount are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance-sheet credit exposure related to our customers. Typically, we record unbilled receivables for contracts on which revenue has been recognized, but for which the customer has not yet been billed.

(h) Major Customers and Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. Our customer base is principally comprised of enterprise and mid-market companies within industries including Chemical/Pharmaceutical, High Technology/Electronics, Industrial/Manufacturing, Logistics, Oil & Gas, and Retail/Apparel. We do not require collateral from our customers. For the three and nine months ended September 30, 2018, one customer accounted for 9.8% and 10.9%, respectively, of our total revenue. For the three and nine months ended September 30, 2017, one customer accounted for 12.0% and

11.0%, respectively, of our total revenue. As of September 30, 2018 and December 31, 2017, no single customer accounted for more than 10% of our total accounts receivable.

(i) Geographic Information

Disaggregation of Revenue

We sell our subscription contracts and related professional services to customers primarily in two geographical markets. Revenue by geographic location based on the billing address of our customers is as follows:

| <u>Country</u> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------|---|---------------|--|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| United States | \$ 16,784,908 | \$ 15,239,856 | \$ 47,946,950 | \$ 44,184,884 |
| International | 5,376,090 | 4,973,394 | 15,334,795 | 14,258,216 |
| Total revenue | \$ 22,160,998 | \$ 20,213,250 | \$ 63,281,745 | \$ 58,443,100 |

For the three and nine months ended September 30, 2018 and 2017, no single country other than the United States had revenue greater than 10% of our total revenue.

AMBER ROAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Long-lived assets by geographic location is as follows:

| <u>Country</u> | <u>September 30,</u> <u>2018</u> | <u>December 31,</u> <u>2017</u> |
|-------------------|-------------------------------------|------------------------------------|
| United States | \$ 9,397,055 | \$ 8,535,281 |
| International | 821,072 | 834,823 |
| Total | | |
| long-lived assets | \$ 10,218,127 | \$ 9,370,104 |

(j) Adjustments to Previously Reported Amounts

Immaterial Correction of an Error. During the third quarter of 2018, we revised previously reported stock-based compensation expense for the periods ended March 31, 2018 and June 30, 2018 related to certain performance stock units due to a change in performance conditions. In accordance with Staff Accounting Bulletin (SAB) No. 99, Materiality, and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, management evaluated the materiality of the error from qualitative and quantitative perspectives, and concluded the error was immaterial to the prior periods. The correction of the immaterial error resulted in an increase of \$2,246,644 and \$747,119 to stock-based compensation for the three months ended March 31, 2018 and June 30, 2018, respectively.

(k) Recent Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The adoption of this standard is not expected to have a material effect on our condensed consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash, which amends ASC 230, Statement of Cash Flows. This ASU requires that a statement of cash flows explain the change during the reporting period in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents. We adopted this standard on January 1, 2018 using the retrospective transition approach. The adoption of this standard did not have a material effect on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which amends ASC 230, Statement of Cash Flows. This ASU provides guidance on the statement of cash flows presentation of certain transactions where diversity in practice exists. The adoption of this standard on January 1, 2018 did not have a material effect on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The standard requires lessees to recognize lease assets and lease liabilities on the balance sheet and requires expanded disclosures about leasing arrangements. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. We plan to adopt this standard on a modified retrospective basis and are currently evaluating the effect that the updated standard will have on our condensed consolidated financial statements but believe the most significant changes will be related to the recognition of new right-of-use assets and lease liabilities on our balance sheet for real estate operating leases. At September 30, 2018, we had long-term operating leases with \$12,563,887 of remaining minimum lease payments. The new standard will require the present value of these leases to be recorded in the condensed consolidated balance sheets as a right of use asset and lease liability.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), a new accounting standard that requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those

goods or services. The FASB has also issued several updates to ASU 2014-09. We adopted this standard on January 1, 2018 using the modified retrospective method. See 2(c) above for an explanation of the effect the adoption of this standard had on our condensed consolidated financial statements.

AMBER ROAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(3) Property and Equipment

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| Computer software and equipment | \$ 15,673,056 | \$ 14,296,247 |
| Software development costs | 16,513,391 | 13,980,872 |
| Furniture and fixtures | 1,741,743 | 1,741,918 |
| Leasehold improvements | 2,546,634 | 2,546,686 |
| Total property and equipment | 36,474,824 | 32,565,723 |
| Less: accumulated depreciation and amortization | (26,256,697) | (23,195,619) |
| Total property and equipment, net | \$ 10,218,127 | \$ 9,370,104 |

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|---------------------------------------|---|------------|--|--------------|
| | | 2017 | 2018 | |
| Depreciation and amortization expense | \$ 954,721 | \$ 747,012 | \$ 2,983,003 | \$ 3,162,631 |

Certain development costs of our software solution are capitalized in accordance with ASC Topic 350-40, Internal Use Software, which outlines the stages of computer software development and specifies when capitalization of costs is required. Projects that are determined to be in the development stage are capitalized and amortized over their useful lives of five years. Projects that are determined to be within the preliminary stage are expensed as incurred.

Information related to capitalized software costs is as follows:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|----------------------------|---|------------|--|--------------|
| | | 2017 | 2018 | |
| Software costs capitalized | \$ 963,427 | \$ 377,717 | \$ 2,532,519 | \$ 1,217,126 |
| Software development costs | \$ 442,604 | 553,480 | 1,356,491 | 1,639,622 |

amortized

(1)

(1) Included in cost of subscription revenue on the accompanying condensed consolidated statements of operations.

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|-------------------------|
| Capitalized software costs not yet subject to amortization | | \$ 1,720,269 \$ 824,738 |

(4) Accrued Expenses

| | September 30, 2018 | December 31, 2017 |
|---------------------------|-----------------------|----------------------|
| Accrued bonus | \$ 3,061,165 | \$ 1,980,218 |
| Accrued commissions | 2,023,588 | 1,901,132 |
| Deferred rent | 412,399 | 380,077 |
| Accrued professional fees | 873,594 | 712,345 |
| Accrued taxes | 776,644 | 805,555 |
| Other accrued expenses | 1,023,318 | 1,810,155 |
| Total | \$ 8,170,708 | \$ 7,589,482 |

(5) Leases

We have several noncancelable operating leases that expire through 2024. These leases generally contain renewal options for periods ranging from 3 years to 5 years and require us to pay all executory costs such as maintenance and insurance. Rental expense for operating leases is allocated to various line items in the condensed consolidated statements of operations.

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AMBER ROAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Rental expense from operating leases | \$ 825,000 | \$ 957,000 | \$ 2,605,000 | \$ 2,816,000 |

Information related to the carrying value of assets recorded under capital leases and related accumulated amortization is as follows:

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| Carry value of capital leases | \$ 2,727,407 | \$ 3,691,383 |
| Accumulated amortization included in carry value | 6,854,016 | 6,864,443 |

Amortization of assets held under capital leases is allocated to various line items in the condensed consolidated statements of operations.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year), net of sublease income, and future minimum capital lease payments as of September 30, 2018 are as follows:

| | Capital Leases | Operating Leases |
|---|-------------------|---------------------|
| Remainder of 2018 | \$ 456,681 | \$ 1,119,766 |
| 2019 | 1,421,106 | 4,294,056 |
| 2020 | 708,883 | 2,662,112 |
| 2021 | 418,625 | 1,449,152 |
| 2022 | 153,797 | 906,160 |
| 2023 and thereafter | — | 618,474 |
| Total minimum lease payments | 3,159,092 | \$ 11,049,720 |
| Less amount representing interest | (328,136) | |
| Present value of net minimum | 2,830,956 | |

| | | |
|--|-------------|-----------|
| capital lease payments | | |
| Less current installments of obligations | (1,390,224) | |
| under capital leases | | |
| Obligations under capital leases | \$ | 1,440,732 |
| excluding current installments | | |

(6) Debt

In March 2015, we entered into a credit agreement (the Credit Agreement) providing for financing comprised of (i) a senior secured term loan facility (the Term Loan) of \$20,000,000, and (ii) a senior secured revolving credit facility (the Revolver) that was subsequently amended to a borrowing limit of \$15,000,000, and which includes a \$2,000,000 sublimit for the issuance of letters of credit. The Credit Agreement contains customary affirmative and negative covenants for financings of its type that are subject to customary exceptions. As of September 30, 2018, we were in compliance with all the reporting and financial covenants. In February 2017, we negotiated to extend the maturity date for both the Term Loan and the Revolver to December 31, 2019.

The outstanding balance for the Term Loan as of September 30, 2018 was \$13,017,989, net of unaccreted discount and deferred financing costs of \$44,511, and the outstanding balance under the Revolver was \$6,000,000. For the nine months ended September 30, 2018, the weighted average interest rate used was 5.37% for the Term Loan and 6.03% for the Revolver.

The following table reflects the schedule of principal payments for the Term Loan as of September 30, 2018:

| | Principal Payments | |
|----------------------|-----------------------|------------|
| Remainder of 2018 | \$ | 187,500 |
| 2019 | 12,875,000 | |
| | \$ | 13,062,500 |

AMBER ROAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(7) Common Stock

Common stock activity during the nine months ended September 30, 2018 is as follows:

| | Shares | Par Value |
|--|------------|-----------|
| Balance at December 31, 2017 | 27,288,985 | \$ 27,289 |
| Exercise of stock options | 117,108 | 117 |
| Issuance of common stock for vested restricted stock units | 212,902 | 213 |
| Balance at September 30, 2018 | 27,618,995 | \$ 27,619 |

(8) Stock-Based Compensation

We grant stock-based incentive awards to attract, motivate and retain qualified employees (including officers), non-employee directors and consultants, and those of our affiliates. Awards granted under our 2012 Omnibus Incentive Compensation Plan (the 2012 Plan) include common stock options, restricted stock units (RSUs), performance-based restricted stock units (PSUs), and restricted stock awards. The 2002 Stock Option Plan (the 2002 Plan) expired in 2012 and we are no longer making grants under it. Information related to the 2012 Plan and the 2002 Plan as of September 30, 2018 is as follows:

| | 2012 Plan | 2002 Plan |
|--|-----------|-----------|
| Shares of common stock authorized for issuance | 9,646,696 | 4,939,270 |
| Stock options outstanding | 4,282,759 | 230,235 |
| RSUs outstanding | 1,097,294 | — |
| PSUs outstanding | 248,440 | — |
| Shares available for future grant | 2,831,983 | — |
| <i>Stock Options</i> | | |

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The fair value of option grants is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | Three Months Ended September 30, | | Nine Months Ended September 30, |
|--|-------------------------------------|--------|---------------------------------------|
| | 2018 | 2017 | 2018 |
| Risk-free interest rate | | | |
| | 1.99% | 2.72% | 1.92% |
| Expected volatility | | | |
| | 32.65% | 31.22% | 32.66% |
| Expected dividend yield | | | |
| | — | — | — |
| Expected life in years | | | |
| | 6.25 | 6.25 | 6.25 |
| Weighted average fair value of options granted | | | |
| | \$3.27 | \$3.63 | \$2.82 |

Note: There were no options granted during the three months ended September 30, 2018.

The computation of expected volatility for each period is based on historical volatility of comparable public companies. The volatility percentage represents the mean volatility of these companies. The computation of expected life for each period was determined based on the simplified method. The risk-free interest rate is based on U.S. Treasury yields for zero-coupon bonds with a term consistent with the expected life of the options. The forfeiture rate for option grants is an estimate based on forfeitures expected to occur over the vesting period. Information for the 2002 Plan and 2012 Plan is as follows:

| | Options Outstanding | Weighted Average Exercise Price |
|-------------------------------|------------------------|--|
| Balance at December 31, 2017 | 4,632,654 | \$9.79 |
| Granted | 195,150 | 9.88 |
| Exercised | (152,689) | 4.77 |
| Canceled | (89,660) | 7.41 |
| Expired | (72,461) | 13.00 |
| Balance at September 30, 2018 | 4,512,994 | 10.56 |

AMBER ROAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

| | September 30, 2018 | 2017 |
|--|-----------------------|--------------|
| Total intrinsic value of options exercised | \$ 713,510 | \$ 164,786 |
| Weighted average exercise price of fully vested options | \$ 10.56 | \$ 10.21 |
| Weighted average remaining term of fully vested options | 6.0 years | 6.5 years |
| Total unrecognized compensation cost related to non-vested stock options | \$ 2,559,901 | \$ 6,255,749 |
| Weighted average period to recognize compensation cost related to non-vested stock options | 2.7 years | 2.2 years |

| Exercise Price Per Share | Options Outstanding | | Intrinsic Value | Options Exercisable | | Intrinsic Value |
|--------------------------|------------------------|---|-----------------|---------------------|---|-----------------|
| | Options Outstanding | Weighted Average Remaining Contractual Life | | Options Exercisable | Weighted Average Remaining Contractual Life | |
| \$ 2.31 - \$ 3.74 | 399,045 5.1 years | \$ 2,675,621 | 322,726 | 4.6 years | \$ 2,226,865 | |
| 4.13 - 7.20 | 689,227 7.5 years | 2,026,069 | 357,049 | 6.4 years | 1,185,742 | |
| 8.07 - 12.62 | 1,469,564 7.5 years | 1,657,050 | 830,359 | 6.7 years | 1,164,205 | |
| 13.00 - 15.90 | 1,955,158 5.8 years | — | 1,955,158 | 5.8 years | — | |
| | 4,512,994 | \$ 6,358,740 | 3,465,292 | | \$ 4,576,812 | |

Restricted Stock and Performance Stock Units

The following table is a summary of our RSU and PSU activity for the nine months ended September 30, 2018:

| Number of RSU's Outstanding | Number of PSU's Outstanding | Total | Weighted Average Grant Date Fair Value | |
|---|-----------------------------------|-----------|---|--------------------------|
| Balance at December 31, 2017 | 812,262 | 466,499 | 1,278,761 | \$7.41 |
| Granted | 50,000 | 577,268 | 577,268 | 9.57 |
| Vested | — | (209,946) | (209,946) | 6.64 |
| Canceled | (268,059) | (300,349) | (300,349) | 8.12 |
| Balance at September 30, 2018 | 1,094,203 | 248,440 | 1,345,734 | 8.30 |
| | | | | September 30, 2018 |

Total unrecognized compensation cost related to non-vested combined RSU/PSU \$9,368,353

Weighted average period to recognize compensation cost related to non-vested combined RSU/PSU 2.3 years

In 2017, we awarded 198,440 PSUs that entitle recipients to shares of our common stock if certain financial metrics are met for the fiscal year ending December 31, 2018. The PSUs entitle the recipients to an amount of shares of common stock that could range from 0% up to 500% of the number of units granted at the date of vesting depending on the level of achievement of the specified conditions. We expect that the financial metrics will be achieved and the PSUs will vest at 500%.

(9) Income Taxes

Our income tax provision for the three and nine months ended September 30, 2018 and 2017 reflects our estimate of the effective tax rates expected to be applicable for the full fiscal years, adjusted for any discrete events that are recorded in the period in which they occur. The estimates are re-evaluated each quarter based on our estimated tax expense for the full fiscal year. The tax provision for the three and nine months ended September 30, 2018 is primarily related to current foreign income taxes.

We have historically incurred operating losses and, given our cumulative losses and no history of profits, we have recorded a full valuation allowance against our deferred tax assets at September 30, 2018 and December 31, 2017. We have a federal net operating loss (NOL) carryforward of \$90,901,000 and \$82,141,000 as of December 31, 2017 and 2016, respectively. We expect to be in a taxable loss position for 2018. The federal NOL carryforward will begin to expire in 2019. If not used, these NOLs may be subject to limitation under Internal Revenue Code (IRC) Section 382 should there be a greater than 50% ownership change as determined under the regulations.

AMBER ROAD, INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements****(Unaudited)**

Under IRC Section 382, substantial changes in ownership may limit the amount of NOL carryforwards that may be utilized annually in the future to offset taxable income. We completed an IRC Section 382 study through June 30, 2016, which concluded that we have experienced several ownership changes, causing limitations on the annual use of NOL carryforwards. Provided there is sufficient taxable income, \$2,131,290 of NOL carryforwards are expected to expire without utilization between 2019 and 2022. Additionally, our ability to use our NOL carryforwards to reduce future taxable income may be further limited as a result of any future equity transactions, including, but not limited to, an issuance of shares of stock or sales of common stock by our existing stockholders.

For state income tax purposes, we have state NOL carryforwards in a number of jurisdictions in varying amounts and with varying expiration dates from 2018 through 2038.

Tax benefits of uncertain tax positions are recognized only if it is more likely than not that we will be able to sustain a position taken on an income tax return. We have no liability for uncertain positions. Interest and penalties, if any, related to unrecognized tax benefits, would be recognized as income tax expense.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Tax years 2014 and forward remain open for examination for federal tax purposes and tax years 2013 and forward remain open for examination for our more significant state tax jurisdictions. To the extent utilized in future years' tax returns, NOL carryforwards at December 31, 2016 will remain subject to examination until the respective tax year is closed.

On December 22, 2017, H.R. 1 (also, known as the Tax Cuts and Jobs Act (the Act)) was signed into law. Among its numerous changes to the Internal Revenue Code, the Act reduces U.S. federal corporate tax rate from 35% to 21%. As a result, we believe that the most significant impact on our consolidated financial statements will be a reduction in deferred tax assets related to NOLs and other deferred tax assets. Such reduction was offset by an equal reduction to our valuation allowance. Additionally, we have investments in various foreign subsidiaries. At December 31, 2017 and November 2, 2017, the cumulative earnings and profits of these entities combined were negative. Accordingly, we are not liable for the transition tax enacted under the Act. We have completed the accounting for the tax impact of the Act as of December 31, 2017 and have recorded no provisional amounts.

(10) Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | |
|--------------------------------------|---|----------------|-----------------|--|-------------|
| | 2018 | 2017 | | 2018 | 2017 |
| Numerator: | | | | | |
| Net loss | \$ (1,614,770) | \$ (2,237,703) | \$ (10,979,847) | \$ (11,168,374) | |
| Denominator: | | | | | |
| Weighted average shares outstanding | 27,871,168 | 27,471,248 | 27,717,793 | 27,377,058 | |
| Basic and diluted net loss per share | \$ (0.06) | \$ (0.08) | \$ (0.40) | \$ (0.41) | |

Diluted net loss per share does not include the effect of the following antidilutive common equivalent shares:

| Three Months Ended September 30, | | | Nine Months Ended September 30, | |
|---|-------------|-------------|--|--|
| 2018 | 2017 | 2018 | 2017 | |
| 4,512,994 | 4,700,845 | 4,512,994 | 4,700,845 | |

Stock options
outstanding

Restricted

stock and
performance

stock units

| | | | |
|-----------|-----------|-----------|-----------|
| 1,345,734 | 1,109,961 | 1,345,734 | 1,109,961 |
|-----------|-----------|-----------|-----------|

| | | | |
|-----------|-----------|-----------|-----------|
| 5,858,728 | 5,810,806 | 5,858,728 | 5,810,806 |
|-----------|-----------|-----------|-----------|

(11) Commitments and Contingencies

Legal Proceedings

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on our financial position, results of operations, or liquidity.

AMBER ROAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Indemnifications

In the ordinary course of business and under the indemnification clause of our standard customer agreement, we provide indemnifications of varying scope to customers against claims of intellectual property infringement made by third parties arising from the use of our licensed materials. At present, we do not expect to incur any infringement liability as a result of the customer indemnification clauses.

To the extent permitted under Delaware law, we have agreements whereby we indemnify our senior officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences so long as such officer or director may be subject to any possible claim. The maximum potential amount of future payments we could be required to make under these indemnification agreements is undetermined; however, we have director and officer insurance coverage that reduces our exposure and may enable us to recover a portion of any future amounts paid. We believe the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations and cash flows should be read in conjunction with (i) the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (ii) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2017 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC). As discussed in the section titled "Cautionary Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below and in Item 1A in our Annual Report on Form 10-K.

Overview

As a leading provider of cloud based global trade management (GTM) solutions, our mission is to dramatically transform the way companies conduct global trade. We help companies all over the world create value through their global supply chain by improving margins, achieving greater agility and lowering risk. We do this by creating a comprehensive digital model of the global supply chain, which enables collaboration among buyers, sellers and logistics companies. We replace manual and outdated processes with full automation of import and export activities, and we also provide rich data analytics to uncover areas for optimization, and a platform that is responsive and flexible to adapt to the ever-changing nature of global trade.

We deliver our GTM solution using a Software-as-a-Service (SaaS) model and leverage a highly flexible technology framework to quickly and efficiently meet our customers' unique requirements around the world. It can be delivered in individual modules or as a suite, depending on our customers' needs.

We sell our GTM solution to many of the largest enterprises in the world, representing diversified industry verticals including Chemical/Pharmaceutical, High Technology/Electronics, Industrial/Manufacturing, Logistics, Oil & Gas, and Retail/Apparel. Our customers pay us subscription fees and implementation service fees for the use of our solutions under agreements that typically have an initial term of three to five years.

We face a variety of challenges and risks, which we will need to address and manage as we pursue our growth strategy. In particular, the growth of our business and our future success are dependent upon many factors, including our ability to innovate in the face of a rapidly changing technology landscape and changing regulatory environment, manage our future growth effectively and in a cost effective manner, grow and retain our customer base, including our base of large enterprise customers, expand deployment of our solution within existing customers and focus on customer satisfaction. Our management team continuously focuses on these and other challenges. However, we cannot assure you that we will be successful in addressing and managing these and the many challenges and risks that we face.

Key Metrics

We regularly review the following key metrics to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions.

Annualized Recurring Revenue Retention. We believe our annualized recurring revenue retention rate is an important metric to measure the long-term value of customer agreements with regard to revenue and billings visibility. We calculate our annualized recurring revenue retention rate by comparing, for a given quarter, subscription revenue for all customers in the corresponding quarter of the prior year to the subscription revenue from those same customers in the given quarter and calculating the average of the four quarters for the stated year. The annualized recurring revenue retention rate for the quarters ended September 30, 2018 and 2017 was 101% and 102%, respectively.

Adjusted EBITDA. EBITDA consists of net income (loss) plus depreciation and amortization, interest expense (income) and income tax expense (benefit). Adjusted EBITDA consists of EBITDA plus our non-cash stock-based compensation expense and the change in fair value of contingent consideration liability. We use adjusted EBITDA as a measure of operating performance because it assists us in comparing performance on a consistent basis across reporting periods, as it removes from our operating results the impact of our capital structure. We believe adjusted EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a

company's operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of performance exclusive of our capital structure and the method by which assets were acquired.

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Adjusted EBITDA is a financial measure that is not calculated in accordance with generally accepted accounting principles, or GAAP. We have provided below a reconciliation of adjusted EBITDA to net loss, the most directly comparable GAAP financial measure. Our use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- adjusted EBITDA does not reflect the potentially dilutive impact of stock-based compensation;
- adjusted EBITDA does not reflect interest or tax payments that may represent a reduction in cash available to us; and
- other companies, including companies in our industry, may calculate adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider adjusted EBITDA together with other GAAP-based financial performance measures, including various cash flow metrics, net loss and our other GAAP results.

The following table provides a reconciliation of net loss to adjusted EBITDA:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss | \$ (1,614,770) | \$ (2,237,703) | \$ (10,979,847) | \$ (11,168,374) |
| Depreciation and amortization | 1,214,214 | 1,007,083 | 3,761,482 | 4,015,240 |
| Interest expense | 325,253 | 272,293 | 964,423 | 751,644 |
| Interest income | (3,029) | (1,238) | (6,661) | (2,564) |
| Income tax expense | 113,201 | 130,039 | 317,943 | 906,557 |
| EBITDA | 34,869 | (829,526) | (5,942,660) | (5,497,497) |
| Stock-based compensation | 2,459,943 | 1,824,747 | 9,739,019 | 4,279,045 |
| Change in fair value of contingent consideration liability | — | — | — | 18,525 |
| Adjusted EBITDA | \$ 2,494,812 | \$ 995,221 | \$ 3,796,359 | \$ (1,199,927) |

Components of Operating Results

Revenue

Revenue. We primarily generate revenue from the sale of subscriptions and subscription-related professional services. Our subscriptions are multi-year arrangements for software and content, and in certain instances include a transactional component. We derive professional services revenue from implementation, integration and other elements associated with solution and content subscriptions.

We typically invoice subscription customers in advance on an annual basis, with payment due upon receipt of the invoice. We reflect invoiced amounts on our balance sheet as accounts receivable or as cash when collected, and as deferred revenue until earned and recognized as revenue ratably over the performance period. Accordingly, deferred

revenue represents the amount billed to customers that has not yet been earned or recognized as revenue, pursuant to agreements executed during current and prior periods, and does not reflect that portion of a contract to be invoiced to customers on a periodic basis for which payment is not yet due.

Subscription Revenue. We derive our subscription revenue from fees paid to us by our customers for access to our solution. Typically, we recognize the revenue associated with subscription agreements ratably on a straight-line basis over the term of the agreement, provided all criteria required for revenue recognition have been met.

Professional Services Revenue. Professional services revenue consists primarily of fees charged for implementation, integration, training and other services associated with the subscription agreements entered into with our customers. Generally, we charge for professional services to implement our solution on a time and materials basis.

Cost of Revenue

Cost of Subscription Revenue. Cost of subscription revenue consists primarily of personnel and related costs of our hosting, support, and content teams, including salaries, benefits, bonuses, payroll taxes, stock-based compensation and

allocated overhead, software license fees, hosting costs, Internet connectivity, depreciation expenses directly related to delivering our solution, as well as amortization of capitalized software development costs. We generally expense our cost of subscription revenue as we incur the costs. Cost of subscription revenue for the full year 2018 as a percentage of revenue is expected to be consistent with or slightly lower than 2017 expenses.

Cost of Professional Services Revenue. Cost of professional services revenue consists primarily of personnel and related costs of our professional services team, including salaries, benefits, bonuses, payroll taxes, stock-based compensation, the costs of contracted third-party vendors, reimbursable expenses and depreciation, amortization and other allocated costs. As our personnel are employed on a full-time basis, our cost of professional services is largely fixed in the short-term, while our professional services revenue may fluctuate, leading to fluctuations in professional services gross profit. We expense our cost of professional services revenue as we incur the costs. Cost of professional services revenue for 2018 as a percentage of revenue is expected to be consistent with or slightly lower than 2017 expenses.

Operating Expenses

Our operating expenses are classified into three categories: sales and marketing, research and development, and general and administrative.

Sales and Marketing. Sales and marketing expenses primarily consist of personnel and related costs for our sales and marketing staff, including salaries, benefits, commissions, bonuses, payroll taxes and stock-based compensation. It also includes the costs of promotional events, corporate communications, online marketing, solution marketing and other brand-building activities, in addition to depreciation, amortization and other allocated costs. When the initial customer contract is signed and upon any renewal, we capitalize and amortize commission costs under Accounting Standards Codification (ASC) 606 as an expense over the estimated customer life of 6.0 years. If a subscription agreement is terminated, we recognize the unamortized portion of any deferred commission cost as an expense immediately upon such termination. We believe that sales and marketing expenses for the full year 2018 as a percentage of revenue will be consistent with or slightly lower than 2017 expenses as sales and marketing cost remain steady and revenues increase.

Research and Development. Research and development expenses primarily consist of personnel and related costs of our research and development staff, including salaries, benefits, bonuses, payroll taxes, stock-based compensation and costs of certain third-party contractors, as well as depreciation, amortization and other allocated costs. We capitalize development costs related to the development of our solution modules and amortize them over their useful life. We have devoted our solution modules development efforts primarily to enhancing the functionality and expanding the capabilities of our solution. We believe that our research and development expenses for the full year 2018 as a percentage of revenue will be consistent with or slightly lower than 2017 expenses as the number of personnel remains steady and revenues increase.

General and Administrative. General and administrative expenses primarily consist of personnel and related costs for our executive, administrative, finance, information technology, legal, accounting and human resource staffs, including salaries, benefits, bonuses, payroll taxes and stock-based compensation, professional fees, other corporate expenses and depreciation, amortization and other allocated costs. We believe that our general and administrative expenses for the full year 2018 as a percentage of revenue will be higher than 2017 expenses primarily for an increase in stock-based compensation.

Interest and Other Income (Expense)

Interest and other income (expense) consists primarily of interest income on our cash balances, and interest expense on outstanding debt and capital lease obligations.

Income Tax Expense

Because we have generated net losses in all periods to date and recorded a full valuation allowance against our deferred tax assets, we have historically not recorded a provision for federal or state income taxes. The tax provision for the year ended December 31, 2018 will be exclusively related to actual foreign income taxes and is a result of the cost-plus transfer pricing agreements we have in place with our foreign subsidiaries, primarily in India, Germany and the United Kingdom. Realization of any of our deferred tax assets depends upon future earnings, the timing and amount of which are uncertain. Utilization of our net operating losses may be subject to annual limitations due to the ownership change rules under the Internal Revenue Code of 1986, as amended, and similar state provisions. We

completed an Internal Revenue Code Section 382 study through June 2016, which concluded that we have experienced several ownership changes, causing limitations on the annual use of the net operating loss carryforwards. In the event we have future changes in ownership, the availability of net operating losses could be further limited.

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Critical Accounting Policies

We prepare our condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States. The preparation of condensed consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the estimates and judgments used for revenue recognition, stock-based compensation, goodwill, and capitalized software costs have the greatest potential impact on our condensed consolidated financial statements, and consider these to be our critical accounting policies and estimates.

During the nine months ended September 30, 2018, other than the adoption of ASC 606 (see Note 2(c)) in our notes to the condensed consolidated financial statements, there were no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K.

Recent Accounting Pronouncements

For detailed information regarding recently issued accounting pronouncements and the expected impact on our condensed consolidated financial statements, see Note 2, "Summary of Significant Accounting Policies" in the accompanying Notes to our Condensed Consolidated Financial Statements included in Item 1 of this Report on Form 10-Q.

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated, both in dollars and as a percentage of revenue. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------------|---|---------------|--|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue: | | | | |
| Subscription | \$ 15,857,436 | \$ 14,944,160 | \$ 46,373,970 | \$ 43,532,217 |
| Professional services | 6,303,562 | 5,269,090 | 16,907,775 | 14,910,883 |
| Total revenue | 22,160,998 | 20,213,250 | 63,281,745 | 58,443,100 |
| Cost of revenue: | | | | |
| Cost of subscription revenue | 5,358,242 | 4,903,483 | 16,170,349 | 16,066,645 |
| Cost of professional services revenue | 4,102,453 | 4,247,519 | 12,727,948 | 12,396,228 |
| Total cost of revenue | 9,460,695 | 9,151,002 | 28,898,297 | 28,462,873 |
| Gross profit | 12,700,303 | 11,062,248 | 34,383,448 | 29,980,227 |
| Operating expenses: | | | | |
| Sales and marketing | 5,523,108 | 5,551,239 | 17,443,921 | 17,043,562 |
| Research and development | 3,515,997 | 3,830,431 | 11,066,004 | 11,201,577 |
| General and administrative | 4,840,543 | 3,517,187 | 15,577,665 | 11,247,825 |
| Total operating expenses | 13,879,648 | 12,898,857 | 44,087,590 | 39,492,964 |
| Loss from operations | (1,179,345) | (1,836,609) | (9,704,142) | (9,512,737) |
| Interest income | 3,029 | 1,238 | 6,661 | 2,564 |
| Interest expense | (325,253) | (272,293) | (964,423) | (751,644) |
| Loss before income taxes | (1,501,569) | (2,107,664) | (10,661,904) | (10,261,817) |
| Income tax expense | 113,201 | 130,039 | 317,943 | 906,557 |

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| | | | | | | | | |
|---|------|-------------|------|---------------------------------------|----|--------------|----|--------------|
| Net loss | \$ | (1,614,770) | \$ | (2,237,703) | \$ | (10,979,847) | \$ | (11,168,374) |
| | | | | | | | | |
| Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | | |
| 2018 | 2017 | 2018 | 2017 | | | | | |
| Revenue: | | | | | | | | |
| Subscription | 74% | 73% | 74% | | | | | |
| Professional services | 26 | 27 | 26 | | | | | |
| Total revenue | 100 | 100 | 100 | | | | | |
| Cost of revenue: | | | | | | | | |
| Cost of subscription revenue (1) | | | | | | | | |
| Subscription | 33 | 35 | 37 | | | | | |
| Cost of professional services revenue (1) | | | | | | | | |
| Professional services | 81 | 75 | 83 | | | | | |
| Total cost of revenue | 43 | 46 | 49 | | | | | |
| Gross profit | 55 | 54 | 51 | | | | | |
| Operating expenses: | | | | | | | | |
| Sales and marketing | | | | | | | | |
| Sales and marketing | 27 | 28 | 29 | | | | | |
| Research and development | | | | | | | | |
| Research and development | 19 | 17 | 19 | | | | | |
| General and administrative | | | | | | | | |
| General and administrative | 17 | 25 | 19 | | | | | |
| Total operating expenses | 63 | 70 | 67 | | | | | |

| | | | |
|--------------------------|-----|-----|-----|
| Loss from operations | (6) | (6) | (6) |
| Interest income | — | — | — |
| Interest expense | (1) | (2) | (1) |
| Loss before income taxes | (7) | (8) | (7) |
| Income tax expense | 1 | 1 | 2 |
| Net loss | (8) | (9) | (9) |

(1) The table shows cost of revenue as a percentage of each component of revenue.

Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017

On January 1, 2018, we adopted Accounting Standards Codification Topic 606 (ASC 606) using the modified retrospective method. The comparative information for 2017 has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of ASC 606 will reduce 2018 professional services revenue compared to 2017 due to the loss of the amortization of deferred services revenue from professional services billings delivered prior to December 31, 2017 for on-premise installations of our software. Also, under ASC 606, deferred commissions are amortized over an estimated customer life of six years, which differs from the previous standard whereby deferred commissions were amortized over the initial customer contract term. See Note 2(c) in our notes to the condensed consolidated financial statements for an explanation of the effect the adoption of this standard had on our condensed consolidated financial statements.

| <u>Revenue:</u> | Three Months Ended September 30, | | | Change | |
|-----------------------|----------------------------------|---------------|--------------|--------|---|
| | 2018 | 2017 | \$ | | % |
| Subscription | \$ 15,857,436 | \$ 14,944,160 | \$ 913,276 | 6% | |
| Professional services | 6,303,562 | 5,269,090 | 1,034,472 | 19% | |
| Total revenue | \$ 22,160,998 | \$ 20,213,250 | \$ 1,947,748 | 9% | |

Subscription Revenue. The increase was primarily related to an increase in both enterprise and mid-market customers for the three months ended September 30, 2018 compared to 2017. We have increased our customer count through our sales and marketing efforts.

Professional Services Revenue. The increase in professional services revenue was due to projects for new customers and existing customer upgrades, which resulted in higher demand for our professional services during the three months ended September 30, 2018 compared to 2017.

Total Revenue. Revenue from international customers accounted for 24% and 25% of total revenue for the three months ended September 30, 2018 and 2017, respectively. For the three months ended September 30, 2018, one customer accounted for 9.8% of our total revenue and for the three months ended September 30, 2017, one customer accounted for 12.0% of total revenue.

| <u>Cost of Revenue:</u> | Three Months Ended September 30, | | | Change | |
|---------------------------------------|----------------------------------|--------------|------------|--------|---|
| | 2018 | 2017 | \$ | | % |
| Cost of subscription revenue | \$ 5,358,242 | \$ 4,903,483 | \$ 454,759 | 9% | |
| Cost of professional services revenue | 4,102,453 | 4,247,519 | (145,066) | (3%) | |
| Total cost of revenue | \$ 9,460,695 | \$ 9,151,002 | \$ 309,693 | 3% | |

Cost of Subscription Revenue. The increase was primarily the result of a \$0.2 million increase in employee-related compensation costs and a \$0.2 million increase in depreciation, amortization and other allocated costs.

Cost of Professional Services Revenue. The decrease was primarily the result of employee-related compensation costs transferred to our research and development team of \$0.2 million compared to 2017 as our professional services organization temporarily assisted our engineering team and a decrease of \$0.1 million for miscellaneous costs. This was offset by a \$0.2 million increase in employee-related compensation costs.

| <u>Operating Expenses:</u> | Three Months Ended September 30, | | | Change | |
|----------------------------|----------------------------------|------|----|--------|---|
| | 2018 | 2017 | \$ | | % |

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| | | | | |
|----------------------------|---------------|---------------|-------------|------|
| Sales and marketing | \$ 5,523,108 | \$ 5,551,239 | \$ (28,131) | (0%) |
| Research and development | 3,515,997 | 3,830,431 | (314,434) | (8%) |
| General and administrative | 4,840,543 | 3,517,187 | 1,323,356 | 34% |
| Total operating expenses | \$ 13,879,648 | \$ 12,898,857 | \$ 980,791 | 7% |

Sales and Marketing Expenses. The slight decrease was primarily due to a decrease in commission costs of \$0.3 million due to the change in how deferred commission costs are amortized under ASC 606 offset by and increase of \$0.2 million for North America and European marketing events, and a \$0.2 million increase in employee-related compensation costs.

Research and Development Expenses. The decrease was primarily due to higher software development costs capitalized in the period of \$0.6 million compared to 2017, which was offset by an increase in employee-related compensation costs of \$0.3 million.

General and Administrative Expenses. The increase was primarily due to an increase in stock-based compensation costs of \$0.7 million and an increase of \$0.3 million in employee-related costs.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

| <u>Revenue:</u> | Nine Months Ended September 30, | | | Change | |
|------------------------|--|---------------|--------------|---------------|----------|
| | 2018 | 2017 | \$ | | % |
| Subscription | \$ 46,373,970 | \$ 43,532,217 | \$ 2,841,753 | 6.5% | |
| Professional services | 16,907,775 | 14,910,883 | 1,996,892 | 13.4% | |
| Total revenue | \$ 63,281,745 | \$ 58,443,100 | \$ 4,838,645 | 8.3% | |

Subscription Revenue. The increase was primarily related to increases in both enterprise and mid-market customers for the nine months ended September 30, 2018 when compared to the nine months ended September 30, 2017. We have increased our customer count through our increased sales and marketing efforts.

Professional Services Revenue. The increase in professional services revenue was due to projects for new customers and existing customer upgrades, which resulted in higher demand for our professional services during the nine months ended September 30, 2018 compared to 2017.

Total Revenue. Revenue from international customers accounted for 24% of total revenue for both the nine months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018, one customer accounted for 10.9% of our total revenue and for the nine months ended September 30, 2017, one customer accounted for 11.0% of total revenue.

| <u>Cost of Revenue:</u> | Nine Months Ended September 30, | | | Change | |
|---------------------------------------|--|---------------|------------|---------------|----------|
| | 2018 | 2017 | \$ | | % |
| Cost of subscription revenue | \$ 16,170,349 | \$ 16,066,645 | \$ 103,704 | 0.6% | |
| Cost of professional services revenue | 12,727,948 | 12,396,228 | 331,720 | 2.7% | |
| Total cost of revenue | \$ 28,898,297 | \$ 28,462,873 | \$ 435,424 | 1.5% | |

Cost of Subscription Revenue. The increase was primarily the result of higher stock-based compensation costs of \$0.2 million and employee-related compensation costs of \$0.1 million. This was offset by lower depreciation, amortization and other allocated costs of \$0.2 million.

Cost of Professional Services Revenue. The increase was primarily the result of higher employee-related compensation costs of \$0.4 million and stock-based compensation costs of \$0.2 million. This was offset by an increase in employee-related compensation costs transferred to our research and development team of \$0.3 million compared to 2017 as our professional services organization temporarily assisted our engineering team.

| <u>Operating Expenses:</u> | Nine Months Ended September 30, | | | Change | |
|-----------------------------------|--|---------------|--------------|---------------|----------|
| | 2018 | 2017 | \$ | | % |
| Sales and marketing | \$ 17,443,921 | \$ 17,043,562 | \$ 400,359 | 2.3% | |
| Research and development | 11,066,004 | 11,201,577 | (135,573) | (1.2)% | |
| General and administrative | 15,577,665 | 11,247,825 | 4,329,840 | 38.5% | |
| | \$ 44,087,590 | \$ 39,492,964 | \$ 4,594,626 | 11.6% | |

Total operating
expenses

Sales and Marketing Expenses. The increase was primarily due to an increase of \$0.4 million in stock-based compensation costs, an increase of \$0.5 million in employee-related compensation costs, and an increase of \$0.2 million for North American marketing events. This was offset by a decrease in commission costs of \$0.7 million due to the change in how deferred commission costs are amortized under ASC 606.

Research and Development Expenses. The decrease was primarily due to additional software development costs capitalized in the period of \$1.3 million compared to 2017 and lower depreciation, amortization and other allocated costs of \$0.2 million. This was offset by an increase of \$0.7 million in employee-related compensation costs and an increase of \$0.7 million in stock-based compensation costs.

General and Administrative Expenses. The increase was primarily due to an increase of \$4.0 million in stock-based compensation costs.

Liquidity and Capital Resources

| | Nine Months Ended September 30, | |
|-----------------------------|------------------------------------|----------------|
| | 2018 | 2017 |
| Cash provided by (used in): | | |
| Operating activities | \$ 4,913,253 | \$ (2,751,906) |
| Investing activities | (2,768,114) | (1,592,129) |
| Financing activities | (1,171,087) | (2,774,951) |

| | September 30, 2018 | December 31, 2017 |
|---------------------------|-----------------------|----------------------|
| Cash and cash equivalents | \$ 10,140,432 | \$ 9,360,601 |
| Accounts receivable, net | 12,603,370 | 16,957,044 |

Historically, we have financed our operations through the sale of stock and borrowing from credit facilities. Our principal sources of liquidity are our cash and cash equivalents, our accounts receivable, cash from operations and borrowings from our credit facility. We bill our customers in advance for annual subscriptions, while professional services are typically billed on a monthly basis as services are performed. As a result, the amount of our accounts receivable at the end of a period is driven significantly by our annual subscription and professional services billings for the last month of the period, and our cash flows from operations are affected by our collection of amounts due from customers for subscription and professional services billings that resulted in the recognition of revenue in a prior period.

Net Cash Flows from Operating Activities

For the nine months ended September 30, 2018, net cash provided by operating activities was \$4.9 million, which reflects our net loss of \$11.0 million, adjusted for non-cash charges of \$13.6 million consisting primarily of \$9.7 million for stock-based compensation and \$3.8 million for depreciation and amortization. Additionally, we had a \$2.3 million increase in our working capital accounts consisting primarily for an increase of \$4.0 million in accounts and unbilled receivables offset by a \$1.3 million decrease in accounts payable.

For the nine months ended September 30, 2017, net cash used in operating activities was \$2.8 million, which reflects our net loss of \$11.2 million, adjusted for non-cash charges of \$8.6 million consisting primarily of \$4.3 million for stock-based compensation and \$4.0 million for depreciation and amortization. Additionally, we had a \$0.2 million decrease in our working capital accounts consisting primarily of a \$1.0 million for a decrease in accounts payable, a \$1.2 million decrease in accrued expenses and a \$2.4 million decrease for acquisition contingent consideration paid related to the ecVision acquisition. This was offset by a decrease of \$3.2 million in accounts receivable and unbilled receivable.

Our deferred revenue was \$35.7 million at September 30, 2018 and \$39.6 million at December 31, 2017. Deferred revenue reflects the timing of invoicing to new and existing customers offset by amortization of previously billed subscription agreements. Customers are invoiced annually in advance for their annual subscription fee and the invoices are recorded in accounts receivable and deferred revenue, which is then recognized ratably over the term of the subscription agreement. With respect to professional services fees, customers are invoiced as the services are

performed, and the invoices are recorded in accounts receivable. The adoption of ASC 606 on January 1, 2018, required us to change how we account for professional service contracts for on-premise customers, which had a direct impact on deferred revenue. See Note 2 (c) to our condensed consolidated financial statements for the full impact of the adoption of ASC 606.

Net Cash Flows from Investing Activities

For the nine months ended September 30, 2018, net cash used in investing activities was \$2.8 million and primarily consisted of \$2.5 million for capitalization of software development costs.

For the nine months ended September 30, 2017, net cash used in investing activities was \$1.6 million and primarily consisted of \$1.2 million for capitalization of software development costs.

Net Cash Flows from Financing Activities

For the nine months ended September 30, 2018, net cash used in financing activities was \$1.2 million and consisted of capital lease repayments of \$1.1 million and term loan repayments of \$0.6 million offset by cash received of \$0.5 million for stock option exercises.

For the nine months ended September 30, 2017, net cash used in financing activities was \$2.8 million and consisted of \$1.3 million paid for acquisition contingent consideration related to the ecVision acquisition, capital lease repayments of \$1.2 million and term loan repayments of \$0.5 million.

Credit Agreement

In March 2015, we entered into a credit agreement (the Credit Agreement) providing for financing comprised of (i) a senior secured term loan facility (the Term Loan) of \$20.0 million, and (ii) a senior secured revolving credit facility (the Revolver) that was subsequently amended to a borrowing limit of \$15.0 million, and which includes a \$2.0 million sublimit for the issuance of letters of credit. The Credit Agreement contains customary affirmative and negative covenants for financings of its type that are subject to customary exceptions. As of September 30, 2018, we were in compliance with all the reporting and financial covenants. In February 2017, we negotiated to extend the maturity date for both the Term Loan and the Revolver to December 31, 2019.

The outstanding balance for the Term Loan as of September 30, 2018 was \$13.0 million, net of unaccreted discount and deferred financing costs of \$44,511, and the outstanding balance under the Revolver was \$6.0 million. For the nine months ended September 30, 2018, the weighted average interest rate used was 5.37% for the Term Loan and 6.03% for the Revolver.

Off-Balance Sheet Arrangements

As of September 30, 2018, we did 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. Other than our operating leases for office space, we do not engage in off-balance sheet financing arrangements. Our operating lease arrangements do not and are not reasonably likely to have a material current or future effect on our financial condition, results of operations, liquidity, capital resources and capital expenditures. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Capital Resources

Historically, we have incurred net losses and negative cash flows from operations. For the nine months ending September 30, 2018, we have generated positive cash flows from operations. We also have an accumulated deficit of \$173.9 million as of September 30, 2018. Our primary sources of liquidity have been proceeds from our initial public offering, cash and cash equivalents, accounts receivable, cash from operations and borrowings from our credit facility.

Additional financing may be required for us to successfully implement our growth strategy. There can be no assurance that additional financing, if needed, can be obtained on terms acceptable to us. Our ability to maintain successful operations will depend on, among other things, new business, the retention of customers, and the effectiveness of sales and marketing initiatives. If anticipated revenue growth is not achieved, we may be required to curtail spending to reduce cash outflows.

Based upon our existing cash and cash equivalents balances, borrowings from our credit facility and our projected operating results, management believes that we have adequate resources to satisfy our liquidity requirements through at least the next twelve months from issuance of this quarterly report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk. We bill our customers predominately in U.S. dollars and receive payment predominately in U.S. dollars. However, because most of our international sales are denominated in the currency of the country where the purchaser is located, as we continue to expand our direct sales presence in international regions, the portion of our accounts receivable denominated in foreign currencies may continue to increase. Historically, our greatest accounts receivable foreign currency exposure has been related to revenue denominated in Euros. In addition, we incur significant costs related to our operations in India in Rupees, in China in Renminbi, and in Hong Kong dollars. As a result of these factors, our results of operations and cash flows are and will increasingly be subject to fluctuations due to changes in foreign currency exchange rates.

Interest Rate Sensitivity. Interest income is sensitive to changes in the general level of U.S. interest rates. However, based on the nature and current level of our investments, which are primarily cash and cash equivalents, we believe there is no material risk of exposure. Although interest expense related to our credit agreement is sensitive to changes in the Prime rate and the LIBOR rate, we believe that we have no material risk of exposure.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), were effective as of September 30, 2018 to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Our Chief Executive Officer and Chief Financial Officer have concluded that the material weakness in internal control over financial reporting described below that was remediated as of September 30, 2018 does not impact the effectiveness of our disclosure controls and procedures as of such date.

Changes in Internal Control over Financial Reporting

In our third quarter of fiscal year 2018, management determined a deficiency associated with the accounting for performance-based stock units. This deficiency did not have a material impact on our financial results reported herein, and we recorded an immaterial cumulative adjustment for the periods ended March 31, 2018 and June 30, 2018. Management has concluded that the presence of the deficiency within the accounting process related to the performance-based stock units rose to a level of material weakness in our internal control over financial reporting as of March 31, 2018 and June 30, 2018. As of September 30, 2018, management remediated the material weakness by enhancing and adding additional review controls over the accounting for performance-based awards. We will continue to monitor these new controls and implement additional enhancements as needed.

Subject to the foregoing, there were no other changes in our internal control over financial reporting during our quarter ended September 30, 2018, which were identified in connection with management's evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial position, results of operations, or liquidity.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors we previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See exhibits listed under the Exhibit Index below.

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SIGNATURE

Pursuant to the requirements 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.

AMBER ROAD,
INC.

Date: /s/ THOMAS

November By: E.
9, 2018 CONWAY

Thomas E.
Conway

Chief
Financial
Officer

*(Principal
Financial
and*

*Accounting
Officer and
Duly*

*Authorized
Signatory)*

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> |
|----------------------------------|--|
| 31.1* | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u> |
| 31.2* | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u> |
| 32.1** | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350.</u> |
| 32.2** | <u>Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350.</u> |
| 101.INS* | XBRL Instance Document - the instance document does not |

appear in the
Interactive
Data File
because its
XBRL tags
are embedded
within the
Inline XBRL
document.

101.SCH* XBRL
Taxonomy
Extension
Schema
Linkbase
Document.

101.CAL* XBRL
Taxonomy
Calculation
Linkbase
Document.

101.DEF* XBRL
Taxonomy
Extension
Definition
Linkbase
Document.

101.LAB* XBRL
Taxonomy
Label
Linkbase
Document.

101.PRE* XBRL
Taxonomy
Presentation
Linkbase
Document.

* Filed herewith

** Furnished herewith

