

Amber Road, Inc.  
Form 10-Q  
November 10, 2016

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2016

or

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

For the Transition Period from                      to                      .

Commission file number 001-36360

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)

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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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

☐

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

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

Yes ☐ No ☒

On October 31, 2016, the registrant had outstanding 26,819,429 shares of common stock, \$0.001 par value per share.

AMBER ROAD, INC.

FORM 10-Q

For the Quarterly Period Ended September 30, 2016

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2016 and 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
Item 4. <u>Controls and Procedures</u>	<u>28</u>
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>29</u>
Item 1A. <u>Risk Factors</u>	<u>29</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>29</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>29</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>29</u>
Item 5. <u>Other Information</u>	<u>29</u>
Item 6. <u>Exhibits</u>	<u>29</u>
<u>Signature Page</u>	<u>30</u>

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, 2015 filed with the SEC on March 16, 2016, 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, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 15,640,460	\$ 17,854,523
Accounts receivable, net	12,814,302	18,308,547
Unbilled receivables	620,537	1,024,861
Deferred commissions	4,318,424	3,767,432
Prepaid expenses and other current assets	2,216,621	2,003,849
Total current assets	35,610,344	42,959,212
Property and equipment, net	10,107,203	12,180,109
Goodwill	43,902,247	43,913,185
Other intangibles, net	6,528,042	7,673,661
Deferred commissions	8,292,329	7,007,518
Deposits and other assets	929,465	890,059
Total assets	\$ 105,369,630	\$ 114,623,744
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,026,892	\$ 1,451,463
Accrued expenses	12,028,437	8,805,159
Current portion of capital lease obligations	1,212,737	1,598,450
Deferred revenue	30,921,690	30,532,404
Current portion of term loan, net of discount and debt financing costs	499,586	312,086
Total current liabilities	45,689,342	42,699,562
Capital lease obligations, less current portion	1,028,088	1,916,944
Deferred revenue, less current portion	1,964,573	2,393,345
Term loan, net of discount and debt financing costs, less current portion	13,786,286	14,207,850
Revolving credit facility	5,500,000	5,000,000
Other noncurrent liabilities	1,883,861	3,909,728
Total liabilities	69,852,150	70,127,429
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized; issued and outstanding 26,813,663 and 26,260,459 shares at September 30, 2016 and December 31, 2015, respectively	26,814	26,261
Additional paid-in capital	187,131,345	181,457,089
Accumulated other comprehensive loss	(1,219,035 )	(783,209 )
Accumulated deficit	(150,421,644 )	(136,203,826 )
Total stockholders' equity	35,517,480	44,496,315
Total liabilities and stockholders' equity	\$ 105,369,630	\$ 114,623,744

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Subscription	\$14,079,394	\$12,126,795	\$39,358,586	\$34,172,867
Professional services	4,771,407	5,209,392	14,595,827	15,734,841
Total revenue	18,850,801	17,336,187	53,954,413	49,907,708
Cost of revenue (1):				
Cost of subscription revenue	4,964,971	5,129,733	14,988,695	14,438,918
Cost of professional services revenue	3,845,548	4,410,948	11,872,116	12,974,332
Total cost of revenue	8,810,519	9,540,681	26,860,811	27,413,250
Gross profit	10,040,282	7,795,506	27,093,602	22,494,458
Operating expenses (1):				
Sales and marketing	5,488,309	5,994,557	16,968,999	18,196,448
Research and development	4,231,492	4,288,389	12,119,137	11,900,747
General and administrative	3,782,591	3,543,956	11,329,134	13,005,813
Total operating expenses	13,502,392	13,826,902	40,417,270	43,103,008
Loss from operations	(3,462,110 )	(6,031,396 )	(13,323,668 )	(20,608,550 )
Interest income	4,810	20,814	55,858	49,160
Interest expense	(221,370 )	(263,133 )	(643,543 )	(654,760 )
Loss before income taxes	(3,678,670 )	(6,273,715 )	(13,911,353 )	(21,214,150 )
Income tax expense (benefit)	112,580	(10,722 )	306,465	217,469
Net loss	\$(3,791,250 )	\$(6,262,993 )	\$(14,217,818 )	\$(21,431,619 )
Net loss per common share (Note 10):				
Basic and diluted	\$(0.14 )	\$(0.24 )	\$(0.53 )	\$(0.82 )
Weighted-average common shares outstanding (Note 10):				
Basic and diluted	26,809,137	26,204,955	26,609,322	26,082,227

(1) Includes stock-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of subscription revenue	\$219,120	\$271,603	\$638,069	\$659,959
Cost of professional services revenue	128,254	163,527	377,467	435,669
Sales and marketing	238,324	302,850	675,057	698,418
Research and development	304,501	368,035	847,057	861,238
General and administrative	564,626	982,317	1,669,410	2,998,769
	\$1,454,825	\$2,088,332	\$4,207,060	\$5,654,053

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,	
	2016	2015	2016	2015
Net loss	\$(3,791,250)	\$(6,262,993)	\$(14,217,818)	\$(21,431,619)
Other comprehensive loss:				
Foreign currency translation	57,265	(41,826 )	(435,826 )	(218,221 )
Total other comprehensive income (loss)	57,265	(41,826 )	(435,826 )	(218,221 )
Comprehensive loss	\$(3,733,985)	\$(6,304,819)	\$(14,653,644)	\$(21,649,840)

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,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(14,217,818)	\$(21,431,619)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,063,509	5,077,246
Bad debt expense	523,403	78,761
Stock-based compensation	4,207,060	5,654,053
Compensation related to puttable common stock	—	41,073
Acquisition related deferred compensation	851,931	662,613
Changes in fair value of contingent consideration liability	10,469	(1,059,441 )
Amortization of debt financing costs and accretion of debt discount	47,186	38,492
Changes in operating assets and liabilities:		
Accounts receivable and unbilled receivables	5,352,339	3,380,200
Prepaid expenses and other assets	(2,074,943 )	(221,433 )
Accounts payable	(418,732 )	(872,574 )
Accrued expenses	2,669,696	(2,537,302 )
Other liabilities	(2,025,820 )	(228,893 )
Deferred revenue	(27,134 )	665,631
Net cash used in operating activities	(38,854 )	(10,753,193 )
Cash flows from investing activities:		
Capital expenditures	(220,718 )	(930,688 )
Addition of capitalized software development costs	(1,859,969 )	(1,525,903 )
Addition of intangible assets	(275,000 )	(275,000 )
Acquisition, net of cash acquired	—	(25,717,139 )
Cash paid for deposits	(143,836 )	(37,878 )
Decrease in restricted cash	113,094	112,815
Net cash used in investing activities	(2,386,429 )	(28,373,793 )
Cash flows from financing activities:		
Proceeds from revolving line of credit	14,250,000	—
Payments on revolving line of credit	(13,750,000 )	—
Proceeds from term loan	—	20,000,000
Payments on term loan	(281,250 )	(250,000 )
Debt discount and financing costs	—	(186,582 )
Repayments on capital lease obligations	(1,052,029 )	(1,118,401 )
Proceeds from the exercise of stock options	1,467,749	1,299,427
Net cash provided by financing activities	634,470	19,744,444
Effect of exchange rate on cash and cash equivalents	(423,250 )	(241,724 )
Net decrease in cash and cash equivalents	(2,214,063 )	(19,624,266 )
Cash and cash equivalents at beginning of period	17,854,523	41,242,200
Cash and cash equivalents at end of period	\$15,640,460	\$21,617,934
Supplemental disclosures of cash flow information:		
Cash paid for interest	564,401	618,059
Non-cash property and equipment acquired under capital lease	246,286	937,579
Non-cash property and equipment and intangible asset purchases in accounts payable	—	293,374



Non-cash acquisition contingent consideration	—	2,322,531
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See accompanying notes to condensed consolidated financial statements.

7

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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, and Hong Kong, Shenzhen and Shanghai, China.

## (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 the United Kingdom. All significant intercompany balances and transactions have been eliminated in consolidation. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 or for other interim periods or future years. The consolidated balance sheet as of December 31, 2015 is derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. 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 filed with the Securities and Exchange Commission (SEC) on March 16, 2016.

## (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) Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less at the balance sheet date to be cash equivalents. Cash and cash equivalents at September 30, 2016 and December 31, 2015 consists of the following:

	September 30, 2016	December 31, 2015
Cash and cash equivalents	\$15,614,792	\$17,741,387
Money market accounts	25,668	113,136
	\$15,640,460	\$17,854,523

## (d) Fair Value of Financial Instruments and Fair Value Measurements

Our financial instruments consist of cash and 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.

We follow FASB accounting guidance on fair value measurements for financial assets and liabilities measured on a recurring basis. ASC 820, Fair Value Measurements, among other things, defines fair value, establishes a framework for measuring fair value, and requires disclosure about such fair value measurements. Assets and liabilities measured at fair value are based on one or more of three valuation techniques provided for in the standards.

The three value techniques are as follows:

Market	—	Prices and other relevant information generated by market transactions involving identical or
Approach		comparable assets and liabilities;

## AMBER ROAD, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

Income — Techniques to convert future amounts to a single present amount based on market expectations Approach (including present value techniques and option pricing models); and Cost — Amount that currently would be required to replace the service capacity of an asset (often referred to as replacement cost).

The standards clarify that fair value is an exit price, representing the amount that would be received to sell an asset, based on the highest and best use of the asset, or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for evaluating such assumptions, the standards establish a three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value as follows:

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 in which there is little or no market data, which require the reporting entity to develop its own assumptions about what market participants would use in pricing the asset or liability.

The following tables provide the financial assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2016 and December 31, 2015:

	Fair Value Measurements at Reporting Date Using			
	Total	Level 1	Level 2	Level 3
September 30, 2016				
Assets:				
Cash equivalents - money market accounts	\$25,668	\$25,668	\$	—\$—
Restricted cash - money market accounts	56,141	56,141	—	—
Total assets measured at fair value on a recurring basis	\$81,809	\$81,809	\$	—\$—
Liabilities:				
Acquisition contingent consideration liability	\$1,270,000	\$—	\$	—\$1,270,000
Total liabilities measured at fair value on a recurring basis	\$1,270,000	\$—	\$	—\$1,270,000

## December 31, 2015

## Assets:

Cash equivalents - money market accounts	\$113,136	\$113,136	\$	—\$—
Restricted cash - money market accounts	169,235	169,235	—	—
Total assets measured at fair value on a recurring basis	\$282,371	\$282,371	\$	—\$—

## Liabilities:

Acquisition contingent consideration liability	\$1,259,531	\$—	\$	—\$1,259,531
Total liabilities measured at fair value on a recurring basis	\$1,259,531	\$—	\$	—\$1,259,531

Acquisition contingent consideration liability is measured at fair value and is based on significant inputs not observable in the market, which represents a Level 3 measurement. The valuation of contingent consideration uses assumptions we believe would be made by a market participant. The reconciliation of the acquisition contingent consideration liability measured at fair value on a recurring basis using unobservable inputs (Level 3) is as follows:

Balance at December 31, 2015	\$	1,259,531
Mark to estimated fair value recorded as general and administrative expense		10,469
Balance at September 30, 2016	\$	1,270,000

(e) 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,

AMBER ROAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

we record unbilled receivables for contracts on which revenue has been recognized, but for which the customer has not yet been billed.

(f) 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, 2016 and 2015, no single customer accounted for more than 10% of our total revenue. As of September 30, 2016, one customer accounted for 17% of our total accounts receivable and as of December 31, 2015, no single customer accounted for more than 10% of our total accounts receivable.

(g) Revenue

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 have contract terms from, typically, three to five 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 provide our software as a service and follow the provisions of ASC Topic 605, Revenue Recognition (ASC 605) and ASC Topic 985, Software (ASC 985). We commence revenue recognition when all of the following conditions are met:

- There is persuasive evidence of an arrangement;
- The service has been or is being provided to the customer;
- The collection of the fees is probable; and
- The amount of fees to be paid by the customer is fixed or determinable.

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

Subscription Revenue

Subscription revenue 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

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.

Multiple-Deliverable Arrangements

We enter into arrangements with multiple deliverables that generally include subscription, professional services (primarily implementation) as well as transaction-related fees.

We allocate revenue to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE), if available, third party evidence (TPE), if VSOE is not available, or estimated selling prices (ESP), if neither VSOE nor TPE is available. As we have been unable to establish VSOE or TPE for the elements of our arrangements, we establish the ESP for each element primarily by considering the weighted average of actual sales prices of professional services sold on a standalone basis and subscription including various

## AMBER ROAD, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

add-on modules if and when sold together without professional services, and other factors such as gross margin objectives, pricing practice and growth strategy. We have established processes to determine ESP and allocate revenue in multiple-deliverable arrangements using ESP.

For those contracts in which the customer accesses our software via an on-demand application, we account for these contracts in accordance with ASC 605-25, Revenue Recognition—Multiple-Element Arrangements. The majority of these agreements represent multiple-element arrangements, and we evaluate each element to determine whether it represents a separate unit of accounting. The consideration allocated to subscription is recognized as revenue ratably over the contract period. The consideration allocated to professional services is recognized as the services are performed, which is typically over the first three to six months of an arrangement.

For those contracts in which the customer takes possession of the software, we account for such transactions in accordance with ASC 985, Software. We account for these contracts as subscriptions and recognize the entire arrangement fee (subscription and services) ratably over the term of the agreement. In addition, as we do not have VSOE for services, any add-on services entered into during the term of the subscription are recognized over the remaining term of the agreement.

**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 605. The amounts included of such customer reimbursements in professional services revenue and cost of professional services revenue for the three months ended September 30, 2016 and 2015 were \$123,206 and \$128,853, respectively, and were \$425,237 and \$372,738, for the nine months ended September 30, 2016 and 2015, respectively.

**(h) 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.

**(i) Deferred Commissions**

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. Deferred commissions are amortized over the term of the related noncancelable customer contract and are recoverable through the related future revenue streams. Our commission costs deferred and amortized in the period are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Commission costs deferred	\$3,096,999	\$970,574	\$5,259,754	\$2,030,782
Commission costs amortized	1,159,173	939,282	3,423,951	2,614,613



(j) Stock-Based Compensation

We recognize stock-based compensation as an expense in the condensed consolidated financial statements and measure that cost based on the estimated grant-date fair value using the Black-Scholes option pricing model.

## AMBER ROAD, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

## (k) Geographic Information

Revenue by geographic location based on the billing address of our customers is as follows:

Country	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
United States	\$ 14,900,697	\$ 12,316,340	\$ 42,459,132	\$ 38,300,294
International	3,950,104	5,019,847	11,495,281	11,607,414
Total revenue	\$ 18,850,801	\$ 17,336,187	\$ 53,954,413	\$ 49,907,708

Long-lived assets by geographic location is as follows:

Country	September	December
	30,	31,
	2016	2015
United States	\$ 8,838,568	\$ 10,658,129
International	1,268,635	1,521,980
Total long-lived assets	\$ 10,107,203	\$ 12,180,109

## (l) Recent Accounting Pronouncements

In March, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation-Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance also contains two practical expedients under which nonpublic entities can use the simplified method to estimate the expected term of an award and make a one-time election to switch from fair value measurement to intrinsic value measurement for liability-classified awards. This standard is effective for us in the first quarter of 2017. We are evaluating the effect that ASU 2016-09 will have on our condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. 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. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. This standard is effective for us beginning in the first quarter of fiscal 2019. We are currently evaluating the effect that the updated standard will have on our condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires an entity to record debt issuance costs as a direct deduction from the debt liability, rather than recording as a separate asset. The new standard is effective for annual reporting periods beginning after December 15, 2015. We implemented the provisions of ASU 2015-03 as of January 1, 2016. The application of this guidance decreased other assets and decreased current and long-term debt by \$54,581 and \$63,677, respectively, in the condensed consolidated balance sheet at December 31, 2015, and decreased other assets and decreased current and long-term debt by \$54,581 and \$22,742, respectively, in the condensed consolidated balance sheet at September 30, 2016.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to

customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. Accordingly, the updated standard is effective for us in the first quarter of 2018. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our condensed consolidated financial statements.

## AMBER ROAD, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

## (3) Acquisition

In March 2015, we acquired ecVision (International) Inc. (ecVision), a cloud-based provider of global sourcing and collaborative supply chain solutions for brand-focused companies. ecVision offers a cloud-based supply chain collaboration platform that optimizes product lifecycle and supply chain processes and their products help customers effectively manage their relationships with product suppliers, raw material vendors, product testing and social compliance audit firms, and global logistics companies. The acquisition of ecVision expands our suite of global supply chain capabilities, allowing us to offer more services at the starting point of the global supply chain and providing greater market differentiation.

The acquisition of ecVision was accounted for under the purchase method of accounting and its operating results are included in the accompanying condensed consolidated financial statements from the date of acquisition.

As part of the purchase agreement, an earnout payment to ecVision's former equityholders of up to \$5,176,000 was to be made on June 1, 2016 if certain GAAP revenue growth metrics were achieved from April 1, 2015 through March 31, 2016. These metrics were not achieved. Therefore, no earnout payment was made on June 1, 2016.

In addition, on June 1, 2017, we will pay to ecVision's former equityholders \$3,675,000 if the founder of ecVision has not been terminated by us for "Cause" and if he has not left us without "Good Reason," as such terms are defined in the merger agreement. The contingent retention consideration is classified within current liabilities in the condensed consolidated balance sheet and is being marked-to-market within general and administrative expense in the condensed consolidated statement of operations each quarter through March 2017, which is the end of the retention period. At September 30, 2016, the fair value of the contingent retention consideration was \$1,270,000.

The revenue and net loss of the combined entity as if the acquisition date had been January 1, 2015 are as follows:

	Nine Months Ended
Supplemental pro forma information (unaudited):	September 30, 2015
Revenue	\$51,857,870
Net loss	(22,867,305 )

## (4) Consolidated Balance Sheet Components

Components of property and equipment, accrued expenses, deferred revenue and other noncurrent liabilities consisted of the following:

## (a) Property and Equipment

	September 30, 2016	December 31, 2015
Computer software and equipment	\$ 15,627,541	\$ 15,584,883
Software development costs	13,387,416	12,651,316
Furniture and fixtures	1,960,729	2,140,523
Leasehold improvements	2,933,252	3,081,861
Total property and equipment	33,908,938	33,458,583
Less: accumulated depreciation and amortization	(23,801,735 )	(21,278,474 )
Total property and equipment, net	\$ 10,107,203	\$ 12,180,109

Depreciation and amortization expense related to property and equipment was \$1,349,046 and \$1,454,674 for the three months ended September 30, 2016 and 2015, respectively, and was \$3,922,355 and \$4,153,483 for the nine months ended September 30, 2016 and 2015, respectively.

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.

## AMBER ROAD, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

Information related to capitalized software costs is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Software costs capitalized	\$456,049	\$585,418	\$1,859,969	\$1,525,903
Software costs amortized <sup>(1)</sup>	525,381	\$565,208	1,450,377	1,625,903

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

	September 30, 2016	December 31, 2015
Capitalized software costs not yet subject to amortization	\$782,906	\$290,155

## (b) Accrued Expenses

	September 30, 2016	December 31, 2015
Accrued bonus	\$2,077,530	\$1,843,719
Accrued commission	3,840,982	2,989,495
Deferred rent	211,809	230,224
Accrued severance	1,325	293,828
Accrued professional fees	793,922	815,893
Accrued taxes	462,045	705,032
Accrued contingent consideration and acquisition compensation	3,059,521	29,000
Other accrued expenses	1,581,303	1,897,968
Total	\$12,028,437	\$8,805,159

## (c) Deferred revenue

	September 30, 2016	December 31, 2015
Current:		
Subscription revenue	\$29,375,788	\$28,766,188
Professional services revenue	1,545,902	1,455,578
Other	—	310,638
Total current	30,921,690	30,532,404
Noncurrent:		
Subscription revenue	165,073	375,244
Professional services revenue	1,799,500	2,018,101
Total noncurrent	1,964,573	2,393,345
Total deferred revenue	\$32,886,263	\$32,925,749

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 that is being deferred and amortized over the remaining term of the related subscription contract related to customers who have taken possession of the software.

See note 2(g).

(d) Other Noncurrent Liabilities

	September 30, 2016	December 31, 2015
Deferred rent	\$1,883,861	\$1,732,607
Acquisition contingent consideration liability	—	1,230,531
Acquisition compensation costs	—	946,590
Total	\$1,883,861	\$3,909,728

## AMBER ROAD, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

## (5) Leases

We have several noncancelable operating leases that expire through 2024. These leases generally contain renewal options for periods ranging from three to five years and require us to pay all executory costs such as maintenance and insurance. Rental expense for operating leases for the three months ended September 30, 2016 and 2015 was approximately \$888,000 and \$906,000, respectively, and was \$2,793,000 and \$2,609,000 for the nine months ended September 30, 2016 and 2015, respectively, and is allocated to various line items in the condensed consolidated statements of operations.

The carrying value of assets recorded under capital leases was \$1,857,284 and \$2,862,025 as of September 30, 2016 and December 31, 2015, respectively, which includes accumulated amortization of \$5,264,845 and \$4,021,656, respectively. 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) and future minimum capital lease payments as of September 30, 2016 are as follows:

	Capital Leases	Operating Leases
Remainder of 2016	\$385,994	\$1,094,706
2017	1,090,270	4,110,437
2018	517,276	3,157,441
2019	307,210	3,169,983
2020	134,261	2,329,109
2021 and thereafter	—	3,575,948
Total minimum lease payments	2,435,011	\$17,437,624
Less amount representing interest	(194,186 )	
Present value of net minimum capital lease payments	2,240,825	
Less current installments of obligations under capital leases	(1,212,737 )	
Obligations under capital leases excluding current installments	\$1,028,088	

## (6) Debt

In connection with the ecVision acquisition (Note 3), in March 2015 we entered into a 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 amended in November 2015 to allow for a borrowing limit of \$10,000,000, and includes a \$2,000,000 sublimit for the issuance of letters of credit. The maturity date of the credit agreement is March 4, 2018. The credit agreement contains customary affirmative and negative covenants for financings of its type that are subject to customary exceptions. As of September 30, 2016, we were in compliance with all the reporting and financial covenants.

The outstanding balance for the Term Loan as of September 30, 2016 was \$14,285,872, net of unaccreted discount and deferred financing costs of \$89,128 and the outstanding balance under the Revolver was \$5,500,000. For the period ended September 30, 2016, the interest rate used was 4.34% for the Term Loan and 5.00% for the Revolver.

The following table reflects the schedule of principal payments for the Term Loan as of September 30, 2016:

	Principal Payments
Remainder of 2016	\$93,750
2017	656,250
2018	13,625,000
	\$14,375,000





## AMBER ROAD, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

## (7) Stockholders' Equity

## Common Stock

The following table presents our activity for common stock during the nine months ended September 30, 2016:

	Shares	Amount
Balance at December 31, 2015	26,260,459	\$26,261
Exercise of common stock options	535,434	535
Common stock issued for contingent consideration	6,506	7
Issuance of common stock for vested restricted stock units	11,264	11
Balance at September 30, 2016	26,813,663	\$26,814

## (8) Stock-based Compensation

Our 2012 Omnibus Incentive Compensation Plan (the 2012 Plan) allows us to grant common stock options, restricted stock units (RSUs), including performance-based restricted stock units (PSUs), and restricted stock awards to our employees (including officers), non-employee consultants and non-employee directors and those of our affiliates. As of September 30, 2016, we had authorized 5,146,696 awards to be issued under the 2012 Plan, had 3,610,297 options outstanding, 975,163 RSUs outstanding, of which 310,545 were PSUs, and 113,028 awards were available for future grant.

Under our 2002 stock option plan (the 2002 Plan), we had 4,939,270 shares authorized and 418,135 options outstanding as of September 30, 2016. The 2002 Plan expired in 2012 and we are no longer making grants under it.

## Stock Options

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,	
	2016	2015	2016	2015
Risk-free interest rate	*	*	1.29%	1.71 - 1.72%
Expected volatility	*	*	33.62%	37.41 - 39.32%
Expected dividend yield	*	*	—	—
Expected life in years	*	*	6.25	6.25
Weighted average fair value of options granted	*	*	\$1.32	\$3.35

\* There were no options granted during the three months ended September 30, 2016 and 2015.

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. Information for the 2002 Plan and 2012 Plan is as follows:

	Options Outstanding	Exercise Price Per Share	Weighted Average Exercise Price
Balance at December 31, 2015	4,402,943	\$1.75 - \$15.90	\$9.38
Granted	248,728	\$3.74	3.74

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Exercised	(535,434 )	\$1.75 - \$8.08	2.74
Canceled	(47,391 )	\$3.74 - \$13.00	9.02
Expired	(40,414 )	\$1.75	1.75
Balance at September 30, 2016	4,028,432	\$2.31 - \$15.90	9.99

The total intrinsic value of options exercised during the nine months ended September 30, 2016 was \$3,093,061.

## AMBER ROAD, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

Options outstanding and exercisable under the 2002 Plan and the 2012 Plan at September 30, 2016 were as follows:

Exercise Price Per Share	Options Outstanding			Options Exercisable		
	Options Outstanding	Weighted Average Remaining Contractual Life	Intrinsic Value	Options Exercisable	Weighted Average Remaining Contractual Life	Intrinsic Value
\$2.31 - \$ 3.74	692,567	6.0 years	\$4,679,165	442,420	4.2 years	\$3,183,095
\$4.06 - \$ 6.14	253,048	7.0 years	1,016,047	168,078	6.6 years	628,928
\$8.07 - \$12.62	937,859	8.2 years	1,346,635	375,426	8.1 years	540,534
\$13.00 - \$15.90	2,144,958	7.8 years	—	1,083,727	7.7 years	—
	4,028,432		\$7,041,847	2,069,651		\$4,352,557

The weighted average exercise price and weighted average remaining term of fully vested options as of September 30, 2016 are \$9.60 and 6.9 years, respectively.

As of September 30, 2016 and December 31, 2015, there was \$8,010,642 and \$11,268,573, respectively, of total unrecognized compensation expense related to non-vested stock options. That cost is expected to be recognized over a weighted average period of 2.0 years.

## Restricted Stock Units

The following table is a summary of our RSU activity for the nine months ended September 30, 2016:

	Number of RSU's Outstanding	Weighted Average Grant Date Fair Value
Balance at December 31, 2015	392,522	\$8.07
Granted	664,618	3.90
Vested	(81,977)	8.08
Balance at September 30, 2016	975,163	5.22

Unvested RSUs at September 30, 2016 have a weighted-average grant date fair value of \$5.22 per share.

Unrecognized stock-based compensation with respect to non-vested RSUs was \$1,878,884 as of September 30, 2016 and was expected to be recognized over a weighted-average period of 3.0 years.

## (9) Income Taxes

Our income tax provision for the three and nine months ended September 30, 2016 and 2015 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, 2016 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, 2016 and December 31, 2015. We have a federal net operating loss (NOL) carryforward of approximately \$73,533,000 and \$64,600,000 as of December 31, 2015 and December 31, 2014, respectively. We expect to be in a taxable loss position for 2016. The federal NOL carryforward will begin to expire in 2019. For state income tax purposes, we have net operating loss carryforwards in a number of jurisdictions in varying amounts and with varying expiration dates from 2016 through 2035.

The Internal Revenue Code contains provisions that limit the yearly utilization of net operating loss carryforwards if there has been an ownership change, as defined. Such an ownership change, as described in Section 382 of the Internal Revenue Code, may limit our ability to utilize our NOL carryforwards on a yearly basis. As a result, to the extent that any single-year limitation is not utilized to the full amount of the limitation, such unused amount is carried over to subsequent years until the earlier of its utilization or the expiration of the relevant carryforward period. We have not yet made a determination regarding the potential impact of these amounts.

We believe that we have not taken an uncertain tax position on prior tax filings and therefore have not recorded a liability for unrecognized tax benefits.

## AMBER ROAD, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Tax years 2012 and forward remain open for examination for federal tax purposes and for our more significant state tax jurisdictions. To the extent utilized in future years tax returns, NOL carryforwards at December 31, 2015 will remain subject to examination until the respective tax year is closed. In May 2016, we concluded an examination by the U.S. Internal Revenue Service, in connection with the 2012 tax year. The result of such examination was the reduction of federal net operating loss carryforwards aggregating approximately \$1,200,000.

## (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,	
	2016	2015	2016	2015
Basic and diluted net loss per share:				
Numerator:				
Net loss	\$(3,791,250) \$(6,262,993)		\$(14,217,818) \$(21,431,619)	
Denominator:				
Weighted average shares outstanding	26,809,137	26,204,955	26,609,322	26,082,227
Basic and diluted net loss per share	\$(0.14 ) \$(0.24 )		\$(0.53 ) \$(0.82 )	

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,	
	2016	2015	2016	2015
Stock options outstanding	4,028,432	4,469,847	4,028,432	4,469,847
Restricted stock units	975,163	402,185	975,163	402,185
	5,003,595	4,872,032	5,003,595	4,872,032

## (11) Commitments and Contingencies

## (a) 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.

## (b) Other

Under the indemnification clauses of our standard customer agreements, we guarantee to defend and indemnify the customer against any claim based upon any failure to satisfy the warranty set forth in the contract associated with infringements of any patent, copyright, trade secret, or other intellectual property right. At present, we do not expect to incur any infringement liability as a result of the customer indemnification clauses.

## 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, 2015 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 16, 2016. 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 improve the way companies manage their international supply chains and conduct global trade. Our GTM solution automates the global supply chain across sourcing, logistics, cross-border trade, and regulatory compliance activities to dramatically improve operating efficiencies and financial performance. It combines enterprise-class software, trade content sourced from government agencies and transportation providers in 147 countries, and a global supply chain network connecting our customers with their trading partners, including suppliers, freight forwarders, customs brokers and transportation carriers. By automating more GTM processes, we enable our customers to enjoy significantly lower supply chain costs compared to legacy systems through faster and more predictable delivery times, less labor, reduced in-transit inventories, and reduced international trading costs such as brokerage fees, logistics fees, transportation costs and customs duties.

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 our customer base, 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, 2016 and 2015 was 102% and 98%, 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, the change in fair value of contingent consideration liability, puttable stock compensation,

acquisition compensation costs, purchase accounting adjustment to deferred revenue and acquisition related costs. 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.

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 equity-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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net loss	\$(3,791,250)	\$(6,262,993)	\$(14,217,818)	\$(21,431,619)
Depreciation and amortization	1,729,448	1,818,477	5,063,509	5,077,246
Interest expense	221,370	263,133	643,543	654,760
Interest income	(4,810)	(20,814)	(55,858)	(49,160)
Income tax expense	112,580	(10,722)	306,465	217,469
EBITDA	(1,732,662)	(4,212,919)	(8,260,159)	(15,531,304)
Stock-based compensation	1,454,825	2,088,332	4,207,060	5,654,053
Puttable stock compensation	—	13,691	—	41,073
Change in fair value of contingent consideration liability	10,000	(772,000)	10,469	(1,059,441)
Purchase accounting deferred revenue adjustment	—	447,531	69,095	1,220,624
Acquisition compensation costs	283,977	118,169	851,931	662,613
Acquisition related costs	—	97,500	5,420	1,245,721
Adjusted EBITDA	\$16,140	\$(2,219,696)	\$(3,116,184)	\$(7,766,661)

#### 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. Full year cost of subscription revenue for 2016 is expected to be consistent with or slightly higher compared to 2015 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. Full year cost of professional services revenue for 2016 is expected to decrease compared to 2015 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 as an expense ratably over the term of the related customer contract in proportion to the recognition of the subscription revenue. 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 2016 as a percentage of revenue will be consistent with or slightly lower than 2015 expenses.

**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 research and 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 2016 as a percentage of revenue will be consistent with or slightly lower than 2015 expenses.

**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 2016 as a percentage of revenue will be consistent with or slightly lower than 2015 expenses.

#### **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 three and

21

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nine months ended September 30, 2016 is primarily 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 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 have not yet made a determination regarding the potential impact of these limitations. Moreover, in the event we have future changes in ownership, the availability of net operating losses could be further limited. Additionally, in May 2016, we concluded an examination by the U.S. Internal Revenue Service, in connection with the 2012 tax year. The result of such examination was the reduction of federal net operating loss carryforwards aggregating approximately \$1,200,000.

#### Critical Accounting Policies

We prepare our 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, deferred revenue, stock-based compensation, goodwill, capitalized software costs, and income taxes 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, 2016, 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 that we filed with the SEC on March 16, 2016.

#### 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 Condensed Consolidated Financial Statements included in Item 1 of this 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, 2016		September 30, 2015		Nine Months Ended September 30, 2016		2015	
Revenue:								
Subscription	\$	14,079,394	\$	12,126,795	\$	39,358,586	\$	34,172,867
Professional services		4,771,407		5,209,392		14,595,827		15,734,841
Total revenue		18,850,801		17,336,187		53,954,413		49,907,708
Cost of revenue:								
Cost of subscription revenue		4,964,971		5,129,733		14,988,695		14,438,918
Cost of professional services revenue		3,845,548		4,410,948		11,872,116		12,974,332
Total cost of revenue		8,810,519		9,540,681		26,860,811		27,413,250
Gross profit		10,040,282		7,795,506		27,093,602		22,494,458
Operating expenses:								
Sales and marketing		5,488,309		5,994,557		16,968,999		18,196,448
Research and development		4,231,492		4,288,389		12,119,137		11,900,747
General and administrative		3,782,591		3,543,956		11,329,134		13,005,813
Total operating expenses		13,502,392		13,826,902		40,417,270		43,103,008
Loss from operations		(3,462,110 )		(6,031,396 )		(13,323,668 )		(20,608,550 )
Interest income		4,810		20,814		55,858		49,160
Interest expense		(221,370 )		(263,133 )		(643,543 )		(654,760 )
Loss before income taxes		(3,678,670 )		(6,273,715 )		(13,911,353 )		(21,214,150 )
Income tax expense (benefit)		112,580		(10,722 )		306,465		217,469
Net loss		\$(3,791,250 )		\$(6,262,993 )		\$(14,217,818 )		\$(21,431,619 )

	Three Months Ended September 30, 2016		2015		Nine Months Ended September 30, 2016		2015	
Revenue:								
Subscription	75	%	70	%	73	%	68	%
Professional services	25		30		27		32	
Total revenue	100		100		100		100	
Cost of revenue:								
Cost of subscription revenue (1)	35		42		38		42	
Cost of professional services revenue (1)	81		85		81		82	
Total cost of revenue	47		55		50		55	
Gross profit	53		45		50		45	
Operating expenses:								
Sales and marketing	29		35		31		36	
Research and development	22		25		22		24	
General and administrative	20		20		21		26	
Total operating expenses	71		80		74		86	
Loss from operations	(18 )		(35 )		(24 )		(41 )	
Interest income	0		0		0		0	
Interest expense	(1 )		(2 )		(1 )		(1 )	

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Loss before income taxes	(19 )	(37 )	(25 )	(42 )
Income tax expense (benefit)	1	0	1	0
Net loss	(20 )%	(37 )%	(26 )%	(42 )%

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

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Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

Revenue:

	Three Months Ended September 30,		Change	
	2016	2015	\$	%
Subscription	\$14,079,394	\$12,126,795	\$1,952,599	16.1 %
Professional services	4,771,407	5,209,392	(437,985)	(8.4)%
Total revenue	\$18,850,801	\$17,336,187	\$1,514,614	8.7 %

Subscription Revenue. The increase was primarily related to an increase in both enterprise and mid-market customers for the three months ended September 30, 2016 compared to 2015. We have increased our customer count through our sales and marketing efforts.

Professional Services Revenue. The decrease was primarily due to our Quick Start program, which allows new customers to implement our solution quicker, resulting in lower professional services revenue compared to last year. Also, there was less demand for our services from existing customers when compared to last year.

Total Revenue. Revenue from international customers accounted for 21% and 29% of total revenue for the three months ended September 30, 2016 and 2015, respectively. For the three months ended September 30, 2016 and 2015, no customer accounted for more than 10% of total revenue.

Cost of Revenue:

	Three Months Ended September 30,		Change	
	2016	2015	\$	%
Cost of subscription revenue	\$4,964,971	\$5,129,733	\$(164,762)	(3.2)%
Cost of professional services revenue	3,845,548	4,410,948	(565,400)	(12.8)%
Total cost of revenue	\$8,810,519	\$9,540,681	\$(730,162)	(7.7)%

Cost of Subscription Revenue. The decrease in dollar amount was primarily the result of lower stock compensation costs of \$0.1 million and lower depreciation, amortization and other allocated costs of \$0.1 million.

Cost of Professional Services Revenue. The decrease in dollar amount was primarily the result of lower employee costs of \$0.5 million due to lower average headcount and a \$0.1 million decrease in outside services costs.

Operating Expenses:

	Three Months Ended September 30,		Change	
	2016	2015	\$	%
Sales and marketing	\$5,488,309	\$5,994,557	\$(506,248)	(8.4)%
Research and development	4,231,492	4,288,389	(56,897)	(1.3)%
General and administrative	3,782,591	3,543,956	238,635	6.7 %
Total operating expenses	\$13,502,392	\$13,826,902	\$(324,510)	(2.3)%

Sales and Marketing Expenses. The decrease in dollar amount was primarily due to lower costs for North American and European marketing events of \$0.2 million and lower travel costs of \$0.1 million. Also, there were lower stock compensation costs of \$0.1 million and lower depreciation, amortization and other allocated costs of \$0.1 million.

Research and Development Expenses. The decrease in dollar amount was primarily due to lower stock compensation costs of \$0.1 million and lower travel costs of \$0.1 million. This was offset by higher employee related costs of \$0.1 million.

General and Administrative Expenses. The increase in dollar amount was primarily for an increase of \$0.8 million related to fair value mark-to-market treatment for contingent consideration related to the ecVision acquisition in March 2015 offset by lower stock compensation costs of \$0.4 million and lower professional fees of \$0.2 million.

Income Tax Expense:

	Three Months Ended September 30,		Change	
	2016	2015	\$	%
Income tax expense (benefit)	\$112,580	\$(10,722)	123,302	(1,150.0)%

Income Tax Expense. Income tax expense is primarily related to our foreign operations.



## Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

## Revenue:

	Nine Months Ended September 30,		Change	
	2016	2015	\$	%
Subscription	\$39,358,586	\$34,172,867	\$5,185,719	15.2 %
Professional services	14,595,827	15,734,841	(1,139,014 )	(7.2 )%
Total revenue	\$53,954,413	\$49,907,708	\$4,046,705	8.1 %

Subscription Revenue. The increase was primarily related to increases in both enterprise and mid-market customers for the nine months ended September 30, 2016 when compared to 2015. We have increased our customer count through our sales and marketing efforts. Also, the increase in revenue was aided by the recognition of a full nine months of revenue from ecVision in 2016 compared to seven months in 2015. We acquired ecVision in March 2015.

Professional Services Revenue. The decrease was primarily due to our Quick Start program, which allows new customers to implement our solution quicker, resulting in lower professional services revenue compared to last year. Also, there was less demand for our services from existing customers when compared to last year.

Total Revenue. Revenue from international customers accounted for 22% and 23% of total revenue for the nine months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, no customer accounted for more than 10% of total revenue.

## Cost of Revenue:

	Nine Months Ended September 30,		Change	
	2016	2015	\$	%
Cost of subscription revenue	\$14,988,695	\$14,438,918	\$549,777	3.8 %
Cost of professional services revenue	11,872,116	12,974,332	(1,102,216)	(8.5)%
Total cost of revenue	\$26,860,811	\$27,413,250	\$(552,439)	(2.0)%

Cost of Subscription Revenue. The increase in dollar amount was primarily for higher employee costs of \$0.5 million, higher software maintenance costs of \$0.2 million and higher depreciation, amortization and other allocated costs of \$0.1 million. This was offset by lower travel, recruiting and outside services costs totaling \$0.3 million.

Cost of Professional Services Revenue. The decrease in dollar amount was primarily for lower employee costs of \$0.6 million due to lower average headcount, lower stock compensation costs of \$0.1 million and a \$0.4 million decrease for employee-related costs transferred to research and development as our professional services organization temporarily assisted our engineering team.

## Operating Expenses:

	Nine Months Ended September 30,		Change	
	2016	2015	\$	%
Sales and marketing	\$16,968,999	\$18,196,448	\$(1,227,449)	(6.7 )%
Research and development	12,119,137	11,900,747	218,390	1.8 %
General and administrative	11,329,134	13,005,813	(1,676,679 )	(12.9)%
Total operating expenses	\$40,417,270	\$43,103,008	\$(2,685,738)	(6.2 )%

Sales and Marketing Expenses. The decrease in dollar amount was primarily due to a \$0.7 million decrease in costs for North American and European marketing events, a \$0.4 million decrease in travel costs, and \$0.6 million in lower employee costs primarily due to lower average headcount that was offset by a \$0.6 million increase in commission costs.

Research and Development Expenses. The increase in dollar amount was the result of higher acquisition compensation costs of \$0.2 million related to the ecVision acquisition and \$0.4 million of employee-related costs transferred from our professional services organization as they temporarily assisted our engineering team. This was offset by higher software development costs capitalized in the period of \$0.3 million.

General and Administrative Expenses. The decrease in dollar amount was primarily due to decreases in professional fees of \$1.2 million for lower legal and accounting fees, \$0.7 million in miscellaneous taxes and \$1.3 million in lower

stock compensation costs. This was offset by an increase of \$1.0 million related to fair value mark-to-market treatment for contingent consideration related to the ecVision acquisition in March 2015 and an increase in rent costs of \$0.2 million.

# Income Tax Expense:

	Nine Months Ended		Change	
	September 30,			
	2016	2015	\$	%
Income tax expense (benefit)	\$306,465	\$217,469	88,996	40.9%

Income Tax Expense (Benefit). Income tax expense (benefit) is primarily related to our foreign operations.

# Liquidity and Capital Resources

	Nine Months Ended	
	September 30,	
	2016	2015
Cash provided by (used in):		
Operating activities	\$(38,854 )	\$(10,753,193)
Investing activities	(2,386,429 )	(28,373,793 )
Financing activities	634,470	19,744,444

	September 30, 2016	December 31, 2015
Cash and cash equivalents	\$15,640,460	\$17,854,523
Accounts receivable, net	12,814,302	18,308,547

Historically, we have financed our operations through the sale of stock and borrowing from credit facilities. In March 2014, we closed our initial public offering and received net proceeds of \$53.1 million. 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, 2016, net cash used in operating activities was \$38,854, which reflects our net loss of \$14.2 million, adjusted for non-cash charges of \$10.7 million consisting primarily of \$4.2 million for stock-based compensation and \$5.1 million for depreciation and amortization. Additionally, we had a \$3.5 million increase in our working capital accounts consisting primarily of a decrease of \$5.4 million in accounts receivable and an increase of \$2.7 million in accrued expenses offset by a \$2.1 million increase in prepaid expenses and other assets and a \$2.0 million decrease in other liabilities.

For the nine months ended September 30, 2015, net cash used in operating activities was \$10.8 million, which reflects our net loss of \$21.4 million, adjusted for non-cash charges of \$10.5 million consisting primarily of \$5.7 million for stock-based compensation and \$5.1 million for depreciation and amortization. Additionally, we had a \$0.2 million increase in our working capital accounts consisting primarily of a decrease of \$3.7 million in accounts receivable offset by a decrease of \$2.5 million in accrued expenses.

Our deferred revenue was \$32.9 million at September 30, 2016 and \$32.9 million at December 31, 2015. 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. Where appropriate based on revenue recognition criteria, professional services invoices are initially recorded in deferred revenue, which are then recognized ratably over the remaining term of the subscription agreement.

# Net Cash Flows from Investing Activities

For the nine months ended September 30, 2016, net cash used in investing activities was \$2.4 million and primarily consisted of \$1.9 million for capitalization of software development costs. In general, our capital expenditures are for our network infrastructure to support our increasing customer base and growth in new business and for internal use, such as equipment for our employees.

For the nine months ended September 30, 2015, net cash used in investing activities was \$28.4 million, of which \$25.7 million was related to the acquisition of ecVision. Investing activities also consist of various capital expenditures of \$0.9 million and capitalization of \$1.5 million of software development costs.

#### Net Cash Flows from Financing Activities

For the nine months ended September 30, 2016, net cash provided by financing activities was \$0.6 million and consists of capital lease repayments of \$1.1 million and term loan repayments of \$0.3 million offset by net borrowings from our revolving credit facility of \$0.5 million and proceeds from the exercise of stock options of \$1.5 million.

For the nine months ended September 30, 2015, net cash provided by financing activities was \$19.7 million and consists of proceeds from our term loan of \$20.0 million and \$1.3 million in proceeds from the exercise of stock options. This was offset by capital lease repayments of \$1.1 million.

#### Credit Agreement

In connection with the ecVision acquisition (Note 3), in March 2015 we entered into a 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 amended in November 2015 to allow for a borrowing limit of \$10,000,000, and includes a \$2,000,000 sublimit for the issuance of letters of credit. The maturity date of the credit agreement is March 4, 2018. The credit agreement contains customary affirmative and negative covenants for financings of its type that are subject to customary exceptions. As of September 30, 2016, we were in compliance with all the reporting and financial covenants.

The outstanding balance for the Term Loan as of September 30, 2016 was \$14,285,872, net of unaccreted discount of \$89,128 and the outstanding balance under the Revolver was \$5,500,000. For the period ended September 30, 2016, the interest rate used was 4.34% for the Term Loan and 5.00% for the Revolver.

#### Off-Balance Sheet Arrangements

As of September 30, 2016, 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 and have an accumulated deficit of \$150,421,644 as of September 30, 2016. Our primary sources of liquidity have been proceeds from our IPO, 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.

In connection with the ecVision acquisition, on June 1, 2017, we will pay to ecVision's former equityholders \$3,675,000 if the founder of ecVision has not been terminated from his employment with us for "Cause" and if he has not left his employment with us without "Good Reason," as such terms are defined in the ecVision merger agreement. Based upon our existing cash balance, borrowings and our projected operating results, management believes that we have adequate resources to satisfy our liquidity requirements for at least the next twelve months.

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 and since our acquisition of EasyCargo in 2013 and ecVision in 2015, we also have foreign currency risk related to those operations 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**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms, and that such information is accumulated and communicated to us, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and we necessarily were required to apply our judgment in evaluating whether the benefits of the controls and procedures that we adopt outweigh their costs.

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, an evaluation as of September 30, 2016 was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of September 30, 2016, were effective for the purposes stated above.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We 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, 2015, which was filed with the Securities and Exchange Commission on March 16, 2016.

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.

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: November 10, 2016 By: /s/ THOMAS E. CONWAY

Thomas E. Conway  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



## EXHIBIT INDEX

Exhibit Number	Description
31.1*	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
31.2*	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
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350
101.INS*	XBRL Instance 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