
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): November 8, 2018

CHANNELADVISOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

001-35940
(Commission File Number)

56-2257867
(IRS Employer Identification No.)

**3025 Carrington Mill Boulevard
Morrisville, NC 27560**
(Address of principal executive offices, including zip code)

(919) 228-4700
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

Item 2.02 Results of Operations and Financial Condition.

On November 8, 2018, ChannelAdvisor Corporation (the “*Registrant*”) issued a press release announcing its financial results for the quarter ended September 30, 2018. A copy of the press release is attached hereto as Exhibit 99.1 and incorporated by reference herein.

In accordance with General Instruction B.2. of Form 8-K, the information in this Item 2.02, and Exhibit 99.1 hereto, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any of the Registrant's filings under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any incorporation language in such a filing, except as expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

| Exhibit Number | Exhibit Description |
|-----------------------|---|
| 99.1 | Press Release, dated November 8, 2018, “ChannelAdvisor Announces Third Quarter 2018 Financial Results.” |

SIGNATURES

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 hereunto duly authorized.

CHANNELADVISOR CORPORATION

By: /s/ Mark E. Cook

Mark E. Cook

Chief Financial Officer

Date: November 8, 2018



ChannelAdvisor Reports Third Quarter 2018 Results

Revenue and adjusted EBITDA exceed expectations for the third consecutive quarter

Research Triangle Park, NC - November 8, 2018 - ChannelAdvisor Corporation (NYSE: ECOM), a leading provider of cloud-based e-commerce solutions that enable brands and retailers to increase global sales, today reported financial results for the quarter ended September 30, 2018.

“ChannelAdvisor delivered its third consecutive quarter of exceeding expectations for revenue and adjusted EBITDA,” said David Spitz, Chief Executive Officer of ChannelAdvisor. “Our third quarter top-line results were driven by continued strength in GMV, improved revenue retention and increased strategic partnership revenue, which, when combined with our efforts to control our expenses, led to adjusted EBITDA out-performance as well.”

“We remain committed to delivering revenue growth and margin expansion. With a product strategy focused on initiatives to help brands and manufacturers effectively compete in the rapidly evolving digital economy, we believe we have positioned ourselves to capitalize on serving this key customer segment. We believe this strategy, coupled with our efforts to improve direct sales efficiencies and expand indirect channels, provides us with a solid framework to increase sales and profitability.”

Third Quarter 2018 Financial Results

- **Revenue:** Total revenue was \$32.3 million for the third quarter 2018, an increase of 7.4% from the year-ago period. Fixed subscription fees were \$25.7 million, or 79.5% of total revenue, an increase of 7.6% from the year-ago period. Variable subscription fees were \$6.6 million, or 20.5% of total revenue, an increase of 6.5% from the year-ago period.
 - **Gross Profit:** GAAP gross profit was \$24.7 million, representing a 76.5% gross margin for the third quarter 2018, compared with \$22.8 million and 75.7%, respectively, for the year-ago period. Non-GAAP gross profit was \$25.0 million, representing a 77.4% non-GAAP gross margin for the third quarter 2018, compared with \$23.1 million and 76.7%, respectively, for the year-ago period.
 - **Net Loss:** GAAP net loss was \$(2.3) million for the third quarter 2018, compared with \$(4.1) million for the year-ago period. GAAP net loss per share was \$(0.08) based on 27.3 million weighted average shares outstanding for the third quarter 2018, compared with \$(0.15) and 26.4 million shares then outstanding, respectively, for the year-ago period. Non-GAAP net income, which excludes non-cash stock-based compensation, was \$0.7 million for the third quarter 2018, or \$0.03 per share, compared with non-GAAP net loss of \$(1.2) million, or \$(0.05) per share, for the year-ago period.
 - **Adjusted EBITDA:** Adjusted EBITDA, a non-GAAP measure, was \$2.3 million for the third quarter 2018, compared with \$0.4 million for the year-ago period. Adjusted EBITDA excludes depreciation, amortization, income tax expense, interest income (expense) and stock-based compensation expense.
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- **Cash:** Cash and cash equivalents totaled \$48.9 million as of September 30, 2018, compared with \$53.4 million as of December 31, 2017. Cash generated from operations was \$1.1 million for the nine months ended September 30, 2018, compared with cash used in operations of \$(2.2) million for the year-ago period.

Operating Highlights

- **New and Expanded Marketplaces Partnerships:** Increased the number of supported marketplaces to 111 as of the end of third quarter 2018 from 80 as of the end of the third quarter 2017, and significantly expanded strategic alliance with Google to support its new program, Shopping Actions, granting brands greater leverage in the marketplace.
- **New Strategic Logistics Partnership:** Established strategic partnership with DHL, providing new opportunities for brands and retailers to expand sales in foreign markets through DHL's fulfillment and shipping to customers around the world.
- **Average Revenue per Customer (ARPC):** ARPC, calculated on a trailing twelve-month basis, was \$46,073 for the twelve months ended September 30, 2018, an increase of 10.4% from the year-ago period reflecting continued progress in ChannelAdvisor's strategy of focusing on larger customers.
- **Customer Count:** Total customer count was 2,815 at the end of the third quarter 2018, compared with 2,902 customers at the end of the third quarter 2017.

Financial Outlook

Based on the information available as of today, ChannelAdvisor is issuing guidance for its fourth quarter 2018 and updating guidance for the full year 2018 from amounts previously provided on August 9, 2018.

| <i>(in millions, except percentages)</i> | Q4 2018 | Full Year 2018 (updated) |
|--|-----------------|-----------------------------|
| Revenue | \$34.2 - \$35.0 | \$130.6 - \$131.4 |
| YY Growth | 0% - 3% | 7% |
| Adjusted EBITDA | \$3.2 - \$4.0 | \$7.6 - \$8.4 |
| As a Percentage of Revenue (at the midpoint) | 10% | 6% |
| Stock-based Compensation Expense | \$2.7 - \$3.1 | \$10.7 - \$11.1 |
| Weighted Average Shares Outstanding | 27.3 | 27.2 |

Refer to the "Adjusted EBITDA Guidance Reconciliation" table included with the financial tables at the end of this release for the reconciliation to the most comparable GAAP financial measure.

Conference Call Information

Event: ChannelAdvisor Third Quarter 2018 Financial Results Conference Call
Date: Thursday, November 8, 2018
Time: 4:30 p.m. ET
Live Call: (855) 638-4821, Passcode 6078882, Toll free
(704) 288-0612, Passcode 6078882, Toll
Webcast: <http://ir.channeladvisor.com> (live and replay)

Key Financial and Operating Metrics

Average revenue per customer is revenue for a particular period divided by the average monthly number of customers during the period, which is calculated by taking the sum of the number of customers at the end of each month in the period and dividing by the number of months in the period.

Number of customers includes all customers who subscribe to at least one of the company's solutions.

Non-GAAP Financial Measures

This press release contains the following non-GAAP financial measures: non-GAAP net income (loss) and adjusted EBITDA.

ChannelAdvisor believes that these non-GAAP measures of financial results provide useful information to management and investors relating to ChannelAdvisor's financial condition and results of operations. The company's management uses these non-GAAP measures to compare the company's performance to that of prior periods for trend analyses, and for budgeting and planning purposes. The company believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing the company's financial measures with other software companies, many of which present similar non-GAAP financial measures to investors, and that it allows for greater transparency with respect to key metrics used by management in its financial and operational decision-making.

Management of the company does not consider these non-GAAP measures in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of these non-GAAP financial measures is that they exclude significant expenses that are required by GAAP to be recorded in the company's financial statements. In order to compensate for these limitations, management presents non-GAAP financial measures together with GAAP results. Non-GAAP measures should be considered in addition to results and guidance prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results. Reconciliation tables of the most comparable GAAP financial measures to the non-GAAP financial measures used in this press release are included with the financial tables at the end of this release. ChannelAdvisor urges investors to review the reconciliation and not to rely on any single financial measure to evaluate the company's business. In addition, other companies, including companies in our industry, may calculate similarly named non-GAAP measures differently than we do, which limits their usefulness in comparing our financial results with theirs.

About ChannelAdvisor

ChannelAdvisor (NYSE: ECOM) is a leading e-commerce cloud platform whose mission is to connect and optimize the world's commerce. For nearly two decades, ChannelAdvisor has helped brands and retailers worldwide improve their online performance by expanding sales channels, connecting with consumers around the world, optimizing their operations for peak performance and providing actionable analytics to improve competitiveness. Thousands of customers depend on ChannelAdvisor to securely power their sales and optimize fulfillment on channels such as Amazon, eBay, Facebook, Google, Walmart and hundreds more. For more information, visit channeladvisor.com.

Cautionary Language Concerning Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding our financial outlook and guidance for the fourth quarter and full year 2018 and expectations regarding our growth and that of the e-commerce industry. These forward-looking statements are made as of the date of this release and are based on current expectations, estimates, forecasts and projections, as well as the current beliefs and assumptions of management. Forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that

are beyond ChannelAdvisor's control. ChannelAdvisor's actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including but not limited to, risks detailed in ChannelAdvisor's Annual Report on Form 10-K for the year ended December 31, 2017 and its Quarterly Report on Form 10-Q that will be filed for the quarter ended September 30, 2018, as well as other documents that may be filed by the company from time to time with the Securities and Exchange Commission. These documents are available on the 'SEC Filings' section of the Investor Relations page of our website at <http://ir.channeladvisor.com>. In particular, the following factors, among others, could cause results to differ materially from those expressed or implied by such forward-looking statements: our reliance for a significant portion of our revenue on sales by our customers on the Amazon and eBay marketplaces and through advertisements on Google; our ability to respond to rapid changes in channel technologies or requirements; our ability to compete successfully against current and future competitors, which could include the channels themselves; our reliance in part on a pricing model under which a portion of the subscription fees we receive from customers is variable, based upon the amount of transaction volume that those customers process through our platform; our reliance on non-redundant data centers and cloud computing providers to deliver our SaaS solutions; the potential that the e-commerce market does not grow, or grows more slowly than we expect, particularly on the channels that our solutions support; challenges and risks associated with our increasing international operations; and security or privacy breaches. The forward-looking statements included in this press release represent ChannelAdvisor's views as of the date of this press release. ChannelAdvisor undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, these forward-looking statements should not be relied upon as representing ChannelAdvisor's views as of any date subsequent to the date of this press release.

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ChannelAdvisor Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

| | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|--|---------------------------|--------------------------|
| | (unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 48,890 | \$ 53,422 |
| Accounts receivable, net of allowance of \$945 and \$609 as of September 30, 2018 and December 31, 2017, respectively | 21,712 | 27,452 |
| Prepaid expenses and other current assets | 8,569 | 16,462 |
| Total current assets | 79,171 | 97,336 |
| Property and equipment, net | 12,964 | 10,877 |
| Goodwill | 23,486 | 23,486 |
| Intangible assets, net | 2,046 | 2,503 |
| Deferred contract costs, net of current portion | 10,425 | — |
| Long-term deferred tax assets, net | 4,536 | 5,550 |
| Other assets | 1,490 | 759 |
| Total assets | <u>\$ 134,118</u> | <u>\$ 140,511</u> |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,868 | \$ 7,243 |
| Accrued expenses | 9,258 | 12,611 |
| Deferred revenue | 25,651 | 27,143 |
| Other current liabilities | 4,243 | 4,477 |
| Total current liabilities | 41,020 | 51,474 |
| Long-term capital leases, net of current portion | 1,404 | 641 |
| Lease incentive obligation | 2,348 | 3,328 |
| Other long-term liabilities | 2,530 | 3,157 |
| Total liabilities | 47,302 | 58,600 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding as of September 30, 2018 and December 31, 2017 | — | — |
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 27,311,469 and 26,601,626 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively | 27 | 27 |
| Additional paid-in capital | 269,149 | 262,805 |
| Accumulated other comprehensive loss | (1,521) | (789) |
| Accumulated deficit | (180,839) | (180,132) |
| Total stockholders' equity | 86,816 | 81,911 |
| Total liabilities and stockholders' equity | <u>\$ 134,118</u> | <u>\$ 140,511</u> |

ChannelAdvisor Corporation and Subsidiaries
Unaudited Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|------------|---------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | \$ 32,324 | \$ 30,097 | \$ 96,429 | \$ 88,430 |
| Cost of revenue (1) (2) (3) | 7,606 | 7,309 | 21,934 | 22,149 |
| Gross profit | 24,718 | 22,788 | 74,495 | 66,281 |
| Operating expenses (1) (2): | | | | |
| Sales and marketing (3) | 14,921 | 14,805 | 45,785 | 44,993 |
| Research and development | 5,350 | 5,760 | 16,989 | 15,878 |
| General and administrative | 6,688 | 6,344 | 19,847 | 21,552 |
| Total operating expenses | 26,959 | 26,909 | 82,621 | 82,423 |
| Loss from operations | (2,241) | (4,121) | (8,126) | (16,142) |
| Other income (expense): | | | | |
| Interest income (expense), net | 120 | 67 | 351 | 149 |
| Other income (expense), net | 22 | 36 | 2 | 106 |
| Total other income (expense) | 142 | 103 | 353 | 255 |
| Loss before income taxes | (2,099) | (4,018) | (7,773) | (15,887) |
| Income tax expense | 188 | 37 | 435 | 209 |
| Net loss | \$ (2,287) | \$ (4,055) | \$ (8,208) | \$ (16,096) |
| Net loss per share: | | | | |
| Basic and diluted | \$ (0.08) | \$ (0.15) | \$ (0.30) | \$ (0.61) |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 27,294,134 | 26,439,830 | 27,073,332 | 26,293,650 |

(1) Includes stock-based compensation as follows:

| | | | | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| Cost of revenue (3) | \$ 298 | \$ 298 | \$ 607 | \$ 864 |
| Sales and marketing (3) | 1,003 | 931 | 2,483 | 2,849 |
| Research and development | 581 | 588 | 1,585 | 1,659 |
| General and administrative | 1,092 | 1,023 | 3,348 | 3,760 |
| | <u>\$ 2,974</u> | <u>\$ 2,840</u> | <u>\$ 8,023</u> | <u>\$ 9,132</u> |

(2) Includes depreciation and amortization as follows:

| | | | | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| Cost of revenue (3) | \$ 919 | \$ 949 | \$ 2,671 | \$ 3,099 |
| Sales and marketing (3) | 224 | 267 | 658 | 771 |
| Research and development | 92 | 102 | 280 | 324 |
| General and administrative | 315 | 287 | 900 | 847 |
| | <u>\$ 1,550</u> | <u>\$ 1,605</u> | <u>\$ 4,509</u> | <u>\$ 5,041</u> |

(3) Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications had no impact on our reported operating loss or net loss for the period.

ChannelAdvisor Corporation and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

| | Nine Months Ended September 30, | |
|--|---------------------------------|-------------|
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Net loss | \$ (8,208) | \$ (16,096) |
| Adjustments to reconcile net loss to cash and cash equivalents provided by (used in) operating activities: | | |
| Depreciation and amortization | 4,509 | 5,041 |
| Bad debt expense | 1,036 | 271 |
| Stock-based compensation expense | 8,023 | 9,132 |
| Deferred income taxes | 373 | 154 |
| Other items, net | (667) | (653) |
| Changes in assets and liabilities, net of effects from acquisition: | | |
| Accounts receivable | 4,451 | (1,674) |
| Prepaid expenses and other assets | 10,588 | (1,370) |
| Deferred contract costs | (5,325) | — |
| Accounts payable and accrued expenses | (11,164) | (51) |
| Deferred revenue | (2,514) | 3,042 |
| Cash and cash equivalents provided by (used in) operating activities | 1,102 | (2,204) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (1,586) | (2,427) |
| Payment of internal-use software development costs | (579) | (224) |
| Acquisition, net of cash acquired | — | (2,177) |
| Cash and cash equivalents used in investing activities | (2,165) | (4,828) |
| Cash flows from financing activities | | |
| Repayment of capital leases | (2,092) | (2,586) |
| Proceeds from exercise of stock options | 1,086 | 625 |
| Payment of statutory tax withholding related to net-share settlement of restricted stock units | (2,130) | (2,581) |
| Cash and cash equivalents used in financing activities | (3,136) | (4,542) |
| Effect of currency exchange rate changes on cash and cash equivalents | (333) | 332 |
| Net decrease in cash and cash equivalents | (4,532) | (11,242) |
| Cash and cash equivalents, beginning of period | 53,422 | 65,420 |
| Cash and cash equivalents, end of period | \$ 48,890 | \$ 54,178 |

Reconciliation of GAAP Gross Profit and GAAP Gross Margin to Non-GAAP Gross Profit and Non-GAAP Gross Margin

(unaudited; dollars in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-----------|---------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | \$ 32,324 | \$ 30,097 | \$ 96,429 | \$ 88,430 |
| Gross profit (GAAP) | \$ 24,718 | \$ 22,788 | \$ 74,495 | \$ 66,281 |
| Plus: Stock-based compensation expense included within cost of revenue | 298 | 298 | 607 | 864 |
| Gross profit (Non-GAAP) | \$ 25,016 | \$ 23,086 | \$ 75,102 | \$ 67,145 |
| Gross margin (GAAP) | 76.5% | 75.7% | 77.3% | 75.0% |
| Gross margin (Non-GAAP) | 77.4% | 76.7% | 77.9% | 75.9% |

Reconciliation of GAAP Operating Expenses to Non-GAAP Operating Expenses

(unaudited; in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-----------|---------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Operating expenses (GAAP) | \$ 26,959 | \$ 26,909 | \$ 82,621 | \$ 82,423 |
| Less: Stock-based compensation expense included within operating expenses | 2,676 | 2,542 | 7,416 | 8,268 |
| Less: One-time charge for VDAs related to sales taxes | — | — | — | 2,539 |
| Operating expenses (Non-GAAP) | \$ 24,283 | \$ 24,367 | \$ 75,205 | \$ 71,616 |

Reconciliation of GAAP Loss from Operations and GAAP Operating Margin to Non-GAAP Income (Loss) from Operations and Non-GAAP Operating Margin

(unaudited; dollars in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|------------|---------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | \$ 32,324 | \$ 30,097 | \$ 96,429 | \$ 88,430 |
| Loss from operations (GAAP) | \$ (2,241) | \$ (4,121) | \$ (8,126) | \$ (16,142) |
| Plus: Stock-based compensation expense | 2,974 | 2,840 | 8,023 | 9,132 |
| Plus: One-time charge for VDAs related to sales taxes | — | — | — | 2,539 |
| Income (loss) from operations (Non-GAAP) | \$ 733 | \$ (1,281) | \$ (103) | \$ (4,471) |
| Operating margin (GAAP) | (6.9)% | (13.7)% | (8.4)% | (18.3)% |
| Operating margin (Non-GAAP) | 2.3 % | (4.3)% | (0.1)% | (5.1)% |

Reconciliation of GAAP Net Loss to Non-GAAP Net Income (Loss)

(unaudited; in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|------------|---------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss (GAAP) | \$ (2,287) | \$ (4,055) | \$ (8,208) | \$ (16,096) |
| Plus: Stock-based compensation expense | 2,974 | 2,840 | 8,023 | 9,132 |
| Plus: One-time charge for VDAs related to sales taxes | — | — | — | 2,539 |
| Net income (loss) (Non-GAAP) | \$ 687 | \$ (1,215) | \$ (185) | \$ (4,425) |

Reconciliation of GAAP Net Loss to Adjusted EBITDA

(unaudited; in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|------------|---------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss (GAAP) | \$ (2,287) | \$ (4,055) | \$ (8,208) | \$ (16,096) |
| Adjustments: | | | | |
| Interest (income) expense, net | (120) | (67) | (351) | (149) |
| Income tax expense | 188 | 37 | 435 | 209 |
| Depreciation and amortization expense | 1,550 | 1,605 | 4,509 | 5,041 |
| Total adjustments | 1,618 | 1,575 | 4,593 | 5,101 |
| EBITDA | (669) | (2,480) | (3,615) | (10,995) |
| Stock-based compensation expense | 2,974 | 2,840 | 8,023 | 9,132 |
| One-time charge for VDAs related to sales taxes | — | — | — | 2,539 |
| Adjusted EBITDA | \$ 2,305 | \$ 360 | \$ 4,408 | \$ 676 |

Free Cash Flow Reconciliation

(unaudited; in thousands)

| | Nine Months Ended September 30, | |
|--|---------------------------------|------------|
| | 2018 | 2017 |
| Cash and cash equivalents provided by (used in) operating activities | \$ 1,102 | \$ (2,204) |
| Less: Purchases of property and equipment | (1,586) | (2,427) |
| Free cash flow | \$ (484) | \$ (4,631) |

Adjusted EBITDA Guidance Reconciliation

(unaudited; in millions)

| | Fourth Quarter 2018 | | Full Year 2018 | |
|---|---------------------|----------|----------------|----------|
| | Low | High | Low | High |
| Net loss (estimate) | \$ (1.7) | \$ (0.2) | \$ (9.9) | \$ (8.4) |
| Adjustments (estimates): | | | | |
| Interest (income) expense, net | 0.0 | (0.1) | (0.3) | (0.4) |
| Income tax (benefit) expense | 0.2 | 0.1 | 0.6 | 0.5 |
| Depreciation and amortization expense | 1.6 | 1.5 | 6.1 | 6.0 |
| Total adjustments | 1.8 | 1.5 | 6.4 | 6.1 |
| EBITDA | 0.1 | 1.3 | (3.5) | (2.3) |
| Stock-based compensation expense (estimate) | 3.1 | 2.7 | 11.1 | 10.7 |
| Adjusted EBITDA guidance | \$ 3.2 | \$ 4.0 | \$ 7.6 | \$ 8.4 |