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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended: June 30, 2022

o **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 001-34702

SPS COMMERCE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**41-2015127**
(State or other jurisdiction of incorporation or organization)	***(I.R.S. Employer Identification No.)***

333 South Seventh Street, Suite 1000, Minneapolis, MN 55402
(Address of principal executive offices, including Zip Code)

(612) 435-9400
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of exchange on which registered
Common Stock, par value $0.001 per share	SPSC	The Nasdaq Stock Market LLC (Nasdaq Global Market)

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 x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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. o

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

The number of shares of the registrant’s common stock, par value $0.001 per share, outstanding at July 20, 2022 was 36,015,159 shares.

SPS COMMERCE, INC.
QUARTERLY REPORT ON FORM 10-Q
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Unless the context otherwise requires, for purposes of the Quarterly Report on Form 10-Q, the words "we," "us," "our," the "Company," "SPS," and "SPS Commerce" refer to SPS Commerce, Inc.

PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

SPS COMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except shares)	June 30, 2022	December 31, 2021
ASSETS	(unaudited)	
Current assets		
Cash and cash equivalents	$ 212,725	$ 207,552
Short-term investments	46,513	49,758
Accounts receivable	44,559	38,811
Allowance for credit losses	(4,454)	(4,249)
Accounts receivable, net	40,105	34,562
Deferred costs	48,294	44,529
Other assets	17,912	16,042
Total current assets	365,549	352,443
Property and equipment, net	32,000	31,901
Operating lease right-of-use assets	9,578	10,851
Goodwill	142,960	143,663
Intangible assets, net	53,597	58,587
Other assets		
Deferred costs, non-current	16,371	15,191
Deferred income tax assets	191	182
Other assets, non-current	2,530	3,028
Total assets	$ 622,776	$ 615,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 4,442	$ 8,330
Accrued compensation	25,855	31,661
Accrued expenses	7,508	8,345
Deferred revenue	59,093	50,428
Operating lease liabilities	4,341	4,108
Total current liabilities	101,239	102,872
Other liabilities		
Deferred revenue, non-current	5,281	5,144
Operating lease liabilities, non-current	14,239	16,426
Deferred income tax liabilities	4,997	7,145
Total liabilities	125,756	131,587
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, $0.001 par value; 110,000,000 shares authorized; 38,074,026 and 37,798,610 shares issued; and 36,029,477 and 36,009,257 shares outstanding, respectively	38	38
Treasury Stock, at cost; 2,044,549 and 1,789,353 shares, respectively	(115,900)	(85,677)
Additional paid-in capital	453,922	433,258
Retained earnings	161,443	138,087
Accumulated other comprehensive loss	(2,483)	(1,447)
Total stockholders' equity	497,020	484,259
Total liabilities and stockholders' equity	$ 622,776	$ 615,846

See accompanying notes to these condensed consolidated financial statements.

SPS COMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share amounts) (unaudited)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Revenues	$ 109,178	$ 94,539	$ 214,371	$ 184,633
Cost of revenues	37,530	31,730	72,919	61,700
Gross profit	71,648	62,809	141,452	122,933
Operating expenses				
Sales and marketing	24,582	21,952	49,237	43,307
Research and development	11,432	8,899	22,133	17,605
General and administrative	17,198	15,758	32,666	30,495
Amortization of intangible assets	2,468	2,671	4,938	5,335
Total operating expenses	55,680	49,280	108,974	96,742
Income from operations	15,968	13,529	32,478	26,191
Other expense, net	(1,338)	(383)	(915)	(708)
Income before income taxes	14,630	13,146	31,563	25,483
Income tax expense	3,877	2,963	8,207	5,100
Net income	$ 10,753	$ 10,183	$ 23,356	$ 20,383
Other comprehensive income (expense)				
Foreign currency translation adjustments	(1,743)	172	(1,013)	364
Unrealized loss on investments, net of tax of ($3), ($12), ($4) and $(27), respectively	(8)	(35)	(11)	(80)
Reclassification of (gain) loss on investments into earnings, net of tax of $(8), $11, $(4) and $30, respectively	(23)	33	(12)	90
Total other comprehensive income (expense)	(1,774)	170	(1,036)	374
Comprehensive income	$ 8,979	$ 10,353	$ 22,320	$ 20,757
Net income per share				
Basic	$ 0.30	$ 0.28	$ 0.65	$ 0.57
Diluted	$ 0.29	$ 0.28	$ 0.63	$ 0.55
Weighted average common shares used to compute net income per share				
Basic	36,085	35,903	36,110	35,828
Diluted	36,862	36,753	36,897	36,741

See accompanying notes to these condensed consolidated financial statements.

SPS COMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except shares) (unaudited)	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances, March 31, 2021	35,861,584	$ 37	1,613,250	$ (65,247)	$ 402,860	$ 103,690	$ (817)	$ 440,523
Stock-based compensation	—	—	—	—	7,014	—	—	7,014
Shares issued pursuant to stock awards	36,756	1	—	—	1,227	—	—	1,228
Employee stock purchase plan activity	24,528	—	—	—	2,081	—	—	2,081
Repurchases of common stock	(63,515)	—	63,515	(6,450)	—	—	—	(6,450)
Net income	—	—	—	—	—	10,183	—	10,183
Foreign currency translation adjustments	—	—	—	—	—	—	172	172
Unrealized loss on investments, net of tax	—	—	—	—	—	—	(35)	(35)
Reclassification of loss on investments into earnings, net of tax	—	—	—	—	—	—	33	33
Balances, June 30, 2021	35,859,353	$ 38	1,676,765	$ (71,697)	$ 413,182	$ 113,873	$ (647)	$ 454,749
Balances, March 31, 2022	36,120,518	$ 38	1,910,897	$ (100,903)	$ 442,405	$ 150,690	$ (709)	$ 491,521
Stock-based compensation	—	—	—	—	8,128	—	—	8,128
Shares issued pursuant to stock awards	9,274	—	—	—	186	—	—	186
Employee stock purchase plan activity	33,337	—	—	—	3,203	—	—	3,203
Repurchases of common stock	(133,652)	—	133,652	(14,997)	—	—	—	(14,997)
Net income	—	—	—	—	—	10,753	—	10,753
Foreign currency translation adjustments	—	—	—	—	—	—	(1,743)	(1,743)
Unrealized loss on investments, net of tax	—	—	—	—	—	—	(8)	(8)
Reclassification of gain on investments into earnings, net of tax	—	—	—	—	—	—	(23)	(23)
Balances, June 30, 2022	36,029,477	$ 38	2,044,549	$ (115,900)	$ 453,922	$ 161,443	$ (2,483)	$ 497,020

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances, December 31, 2020	35,487,217	$ 37	1,613,250	$ (65,247)	$ 393,462	$ 93,490	$ (1,021)	$ 420,721
Stock-based compensation	—	—	—	—	13,505	—	—	13,505
Shares issued pursuant to stock awards	409,502	1	—	—	4,029	—	—	4,030
Employee stock purchase plan activity	26,149	—	—	—	2,186	—	—	2,186
Repurchases of common stock	(63,515)	—	63,515	(6,450)	—	—	—	(6,450)
Net income	—	—	—	—	—	20,383	—	20,383
Foreign currency translation adjustments	—	—	—	—	—	—	364	364
Unrealized loss on investments, net of tax	—	—	—	—	—	—	(80)	(80)
Reclassification of loss on investments into earnings, net of tax	—	—	—	—	—	—	90	90
Balances, June 30, 2021	35,859,353	$ 38	1,676,765	$ (71,697)	$ 413,182	$ 113,873	$ (647)	$ 454,749
Balances, December 31, 2021	36,009,257	$ 38	1,789,353	$ (85,677)	$ 433,258	$ 138,087	$ (1,447)	$ 484,259
Stock-based compensation	—	—	—	—	16,624	—	—	16,624
Shares issued pursuant to stock awards	240,381	—	—	—	690	—	—	690
Employee stock purchase plan activity	35,035	—	—	—	3,350	—	—	3,350
Repurchases of common stock	(255,196)	—	255,196	(30,223)	—	—	—	(30,223)
Net income	—	—	—	—	—	23,356	—	23,356
Foreign currency translation adjustments	—	—	—	—	—	—	(1,013)	(1,013)
Unrealized loss on investments, net of tax	—	—	—	—	—	—	(11)	(11)
Reclassification of gain on investments into earnings, net of tax	—	—	—	—	—	—	(12)	(12)
Balances, June 30, 2022	36,029,477	$ 38	2,044,549	$ (115,900)	$ 453,922	$ 161,443	$ (2,483)	$ 497,020

See accompanying notes to these condensed consolidated financial statements.

SPS COMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands) (unaudited)	Six Months Ended June 30, 2022	2021
Cash flows from operating activities		
Net income	$ 23,356	$ 20,383
Reconciliation of net income to net cash provided by operating activities		
Deferred income taxes	(2,160)	351
Depreciation and amortization of property and equipment	7,814	7,294
Amortization of intangible assets	4,938	5,335
Provision for credit losses	2,634	2,831
Stock-based compensation	17,676	14,424
Other, net	8	170
Changes in assets and liabilities		
Accounts receivable	(7,862)	(6,945)
Deferred costs	(5,095)	(3,338)
Other current and non-current assets	(1,423)	(1,201)
Accounts payable	(3,234)	(147)
Accrued compensation	(7,186)	3,246
Accrued expenses	(805)	(2,087)
Deferred revenue	8,802	12,893
Operating leases	(678)	1,449
Net cash provided by operating activities	36,785	54,658
Cash flows from investing activities		
Purchases of property and equipment	(8,191)	(8,738)
Purchases of investments	(114,603)	(44,034)
Maturities of investments	117,500	35,000
Net cash used in investing activities	(5,294)	(17,772)
Cash flows from financing activities		
Repurchases of common stock	(30,223)	(6,450)
Net proceeds from exercise of options to purchase common stock	690	4,030
Net proceeds from employee stock purchase plan	3,350	2,186
Payments for contingent consideration	—	(2,042)
Net cash used in financing activities	(26,183)	(2,276)
Effect of foreign currency exchange rate changes	(135)	65
Net increase in cash and cash equivalents	5,173	34,675
Cash and cash equivalents at beginning of period	207,552	149,692
Cash and cash equivalents at end of period	$ 212,725	$ 184,367

See accompanying notes to these condensed consolidated financial statements.

SPS COMMERCE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – General

Business Description

SPS Commerce is a leading provider of cloud-based supply chain management services across our global retail network. Our products make it easier for retailers, suppliers, grocers, distributors, and logistics firms to orchestrate the management of item data, order fulfillment, inventory control, and sales analytics across omnichannel retail channels. SPS Commerce delivers our products using a full-service model whereby our internal experts monitor, update, and boost network performance on our customers' behalf.

The services offered by SPS Commerce eliminate the need for on-premise software and support staff by taking on that capability on the customer's behalf. The services we provide enable our customers to increase their supply cycle agility, optimize their inventory levels and sell-through, reduce operational costs and gain increased visibility into customer orders, to help ensure that suppliers, grocers, distributors, and logistics firms can satisfy exacting retailer requirements.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of SPS Commerce, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

This interim financial information has been prepared under the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all of the information and notes required by GAAP. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission ("SEC"). We have included all normal recurring adjustments considered necessary to provide a fair presentation of our financial position, results of operations, stockholders' equity, and cash flows for the interim periods presented. Operating results for these interim periods are not necessarily indicative of the results to be expected for the full year.

Use of Estimates

Preparing financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Significant Accounting Policies

There were no material changes in our significant accounting policies during the six months ended June 30, 2022. See Note A to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC, for additional information regarding our significant accounting policies.

Accounting Pronouncements Not Yet Adopted

Standard	Date of Issuance	Description	Date of Required Adoption	Effect on the Financial Statements
ASU 2021-08, Business Combinations (Topic 805) - Accounting for Contract Assets and Contract Liabilities from Contracts with Customers	October 2021	This amendment requires that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, effective for all business combinations in the year of adoption and thereafter.	January 2023	The adoption of this standard may have a material impact on the purchase accounting for business combinations depending on the specific amount of contract assets and liabilities being acquired.

NOTE B – Revenue

We derive our revenues from the following revenue streams:

(in thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Recurring revenues:				
Fulfillment	$ 87,887	$ 75,228	$ 172,618	$ 146,632
Analytics	11,648	10,381	22,944	20,525
Other	1,628	1,331	3,168	2,584
Recurring revenues	101,163	86,940	198,730	169,741
One-time revenues	8,015	7,599	15,641	14,892
Total revenue	$ 109,178	$ 94,539	$ 214,371	$ 184,633

Revenues are the amount that reflects the consideration we are contractually and legally entitled to, as well as expect to collect, in exchange for those services.

Recurring Revenues

Recurring revenues consist of recurring subscriptions from customers that utilize our Fulfillment, Analytics, and Other supply chain management products. Revenue for these products is generally recognized on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our contracts with our recurring revenue customers are recurring in nature, generally ranging from monthly to annual, and generally allow the customer to cancel the contract for any reason with 30 to 90 days' notice. Timing of billings varies by customer and by contract type and generally are either in advance or within 30 days of the service being performed.

Given that the recurring revenue contracts are for one year or less, we have applied the optional exemption to not disclose information about the remaining performance obligations for recurring revenue contracts.

One-time Revenues

One-time revenues consist of set-up fees and miscellaneous fees from customers.

Set-up revenues

Set-up fees are specific for each connection a customer has with a trading partner. These nonrefundable fees are necessary for our customers to utilize our services and do not provide any standalone value. Many of our customers have connections with numerous trading partners.

Set-up fees constitute a material renewal option right that provide customers a significant future incentive that would not be otherwise available to that customer unless they entered into the contract, as the set-up fees will not be incurred again upon contract renewal. As such, set-up fees and related costs are deferred and recognized ratably over two years, which is the estimated period for which a material right is present for our customers.

The table below presents the activity of the portion of the deferred revenue liability relating to set-up fees:

(in thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Balance, beginning of period	$ 14,938	$ 12,102	$ 14,459	$ 11,118
Invoiced set-up fees	4,058	4,343	8,061	8,210
Recognized set-up fees	(3,687)	(3,101)	(7,211)	(5,984)
Balance, end of period	$ 15,309	$ 13,344	$ 15,309	$ 13,344

The entire balance of deferred set-up fees will be recognized within two years. Those that will be recognized within the next year are classified as current, whereas the remainder are classified as non-current.

Miscellaneous one-time revenues

Miscellaneous one-time fees consist of professional services and testing and certification.

The contract period for these one-time fees is for one year or less and recognized at the time service is provided. We have applied the optional exemption to not disclose information about the remaining performance obligations for miscellaneous one-time fee contracts since they have original durations of one year or less.

NOTE C – Deferred Costs

The deferred costs activity was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2022**	**2021**	**2022**	**2021**
Balance, beginning of period	$ 62,610	$ 51,540	$ 59,720	$ 50,595
Incurred deferred costs	17,637	16,036	35,418	29,463
Amortized deferred costs	(15,582)	(13,735)	(30,473)	(26,217)
Balance, end of period	$ 64,665	$ 53,841	$ 64,665	$ 53,841

NOTE D – Financial Instruments

Cash Equivalents and Investments

Cash equivalents and investments consisted of the following:

	June 30, 2022			December 31, 2021		
(in thousands)	**Amortized Cost**	**Unrealized Losses, net**	**Fair Value**	**Amortized Cost**	**Unrealized Gains (Losses), net**	**Fair Value**
Cash equivalents:						
Money market funds	$ 138,729	$ —	$ 138,729	$ 138,205	$ —	$ 138,205
Certificates of deposit	6,904	—	6,904	7,268	—	7,268
Marketable securities:						
Commercial paper	39,634	(25)	39,609	34,984	7	34,991
U.S. treasury securities	—	—	—	7,500	(1)	7,499
	$ 185,267	$ (25)	$ 185,242	$ 187,957	$ 6	$ 187,963

Recurring Fair Value Measurements

The following table details the fair value hierarchy of our assets and liabilities measured at a fair value on a recurring basis:

	June 30, 2022				December 31, 2021			
(in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents:								
Money market funds	$ 138,729	$ —	$ —	$ 138,729	$ 138,205	$ —	$ —	$ 138,205
Certificates of deposit	6,904	—	—	6,904	7,268	—	—	7,268
Marketable securities:								
Commercial paper	—	39,609	—	39,609	—	34,991	—	34,991
U.S. treasury securities	—	—	—	—	—	7,499	—	7,499
	$ 145,633	$ 39,609	$ —	$ 185,242	$ 145,473	$ 42,490	$ —	$ 187,963

See Note E to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC, for additional information regarding the three levels of inputs that may be used to measure fair value.

NOTE E – Allowance for Credit Losses

The allowance for credit losses activity, included in accounts receivable, net, was as follows:

	Six Months Ended June 30,	
(in thousands)	2022	2021
Balance, beginning of period	$ 4,249	$ 4,233
Provision for credit losses	2,634	2,831
Write-offs, net of recoveries	(2,429)	(2,809)
Balance, end of period	$ 4,454	$ 4,255

NOTE F – Property and Equipment, Net

Property and equipment, net consisted of the following:

(in thousands)	June 30, 2022	December 31, 2021
Internally developed software	$ 47,230	$ 44,981
Computer equipment	31,305	29,329
Leasehold improvements	16,650	16,685
Office equipment and furniture	10,929	10,972
Property and equipment, cost	106,114	101,967
Less: accumulated depreciation and amortization	(74,114)	(70,066)
Total property and equipment, net	$ 32,000	$ 31,901

NOTE G – Goodwill and Intangible Assets, Net

Goodwill

The activity in goodwill was as follows:

(in thousands)	Six Months Ended June 30, 2022		Six Months Ended June 30, 2021	
Balance, beginning of period	$	143,663	$	134,853
Foreign currency translation		(703)		233
Remeasurement from provisional purchase accounting amount		—		268
Balance, end of period	$	142,960	$	135,354

Intangible Assets

Intangible assets, net consisted of the following:

($ in thousands)	June 30, 2022 Gross Carrying Amount		Accumulated Amortization		Foreign Currency Translation		Net		Weighted Average Remaining Amortization Period
Subscriber relationships	$	61,142	$	(33,964)	$	(51)	$	27,127	6.0 years
Acquired technology		35,327		(8,857)		—		26,470	6.3 years
	$	96,469	$	(42,821)	$	(51)	$	53,597	6.2 years

($ in thousands)	December 31, 2021 Gross Carrying Amount		Accumulated Amortization		Foreign Currency Translation		Net		Weighted Average Remaining Amortization Period
Subscriber relationships	$	61,270	$	(29,866)	$	(1,395)	$	30,009	6.4 years
Acquired technology		35,316		(6,738)		—		28,578	6.8 years
	$	96,586	$	(36,604)	$	(1,395)	$	58,587	6.6 years

The estimated future annual amortization expense related to intangible assets is as follows:

(in thousands)		
Remainder of 2022	$	4,924
2023		9,777
2024		8,534
2025		8,396
2026		7,392
Thereafter		14,573
Total future amortization	$	53,597

NOTE H – Commitments and Contingencies

Leases

The components of lease expense were as follows:

(in thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Operating lease cost	$ 740	$ 896	$ 1,499	$ 1,436
Variable lease cost	856	950	1,649	1,718
	$ 1,596	$ 1,846	$ 3,148	$ 3,154

Supplemental cash flow information related to leases was as follows:

(in thousands)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 2,176	$ 1,204

Supplemental balance sheet information related to operating leases was as follows:

	June 30, 2022	December 31, 2021
Weighted-average remaining lease term	4.4 years	4.8 years
Weighted-average discount rate	4.0 %	4.0 %

At June 30, 2022, our future minimum payments under operating leases were as follows:

(in thousands)	
Remainder of 2022	$ 2,478
2023	4,690
2024	4,278
2025	3,874
2026	3,770
Thereafter	1,268
Total future gross payments	$ 20,358
Less: imputed interest	(1,778)
Total operating lease liabilities	$ 18,580

Purchase Commitments

We have entered into separate noncancelable agreements with computing infrastructure and customer relationship management vendors for services through 2023. At June 30, 2022, the total remaining purchase commitments were $6.0 million.

NOTE I – Stockholders' Equity

Share Repurchase Programs

Our board of directors has authorized multiple non-concurrent programs to repurchase our common stock. Details of the programs and activity thereunder were as follows:

(in thousands)	Effective Date	Expiration Date	Share Value Authorized for Repurchase	Share Value Repurchased	Unused & Expired Share Repurchase Value	Share Value Available for Future Repurchase
2019 Program	November 2019	November 2021	$ 50,000	$ 29,611	$ 20,389	N/A
2021 Program	November 2021	November 2023	50,000	39,992	N/A	$ 10,008

On July 26, 2022, our board of directors authorized a new share repurchase program ("2022 Program"), effective August 26, 2022, that allows up to $50.0 million of common stock to be repurchased, expiring in July 2024. The 2021 Program will terminate on the effective date of the 2022 Program.

The share repurchase activity by period was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	2022	2021	2022	2021
Shares repurchased cost	$ 14,997	$ 6,450	$ 30,223	$ 6,450
Number of shares repurchased	133,652	63,515	255,196	63,515
Average price per repurchased share	$ 112.21	$ 101.55	$ 118.43	$ 101.55

NOTE J – Stock-Based Compensation

Our equity compensation plans provide for the grant of incentive and nonqualified stock options, as well as other stock-based awards including performance share units ("PSUs"), restricted stock awards ("RSAs"), restricted stock units ("RSUs"), and deferred stock units ("DSUs"), to employees, non-employee directors and other consultants who provide services to us. We also provide an employee stock purchase plan ("ESPP") and 401(k) match to eligible participants.

We recognize stock-based compensation expense based on grant date award fair value. This cost is recognized over the period for which the employee is required to provide service in exchange for the award or the award performance period, except for expenses relating to retirement-eligible employees that have not given their required notice, which is recognized on a pro-rata basis over the notice period prior to retirement. At June 30, 2022, there were approximately 13.2 million shares available for grant under approved equity compensation plans.

Stock-based compensation expense was allocated in the condensed consolidated statements of comprehensive income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2022	2021	2022	2021
Cost of revenues	$ 2,152	$ 1,746	$ 4,331	$ 3,249
Operating expenses				
Sales and marketing	1,958	1,738	3,990	3,220
Research and development	1,380	1,106	2,854	2,017
General and administrative	3,171	2,909	6,501	5,938
	$ 8,661	$ 7,499	$ 17,676	$ 14,424

Stock-based compensation expense by grant type or plan was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2022	2021	2022	2021
Stock options	$ 463	$ 522	$ 940	$ 1,074
PSUs	2,004	1,931	4,703	4,016
RSUs	5,094	4,115	9,732	7,536
RSAs & DSUs	110	110	218	217
ESPP	458	336	1,032	662
401(k) stock match	532	485	1,051	919
	$ 8,661	$ 7,499	$ 17,676	$ 14,424

As of June 30, 2022, there was $44.0 million of unrecognized stock-based compensation expense under our equity compensation plans, which is expected to be recognized on a primarily straight-line basis over a weighted average period of 2.6 years.

Stock Options

Our stock option activity was as follows:

	Six Months Ended June 30, 2022	
	Options (#)	Weighted Average Exercise Price ($/share)
Outstanding, beginning of period	678,650	$ 44.76
Granted	47,171	122.36
Exercised	(18,404)	37.52
Forfeited	(3,759)	85.84
Outstanding, end of period	703,658	$ 49.93

Of the total outstanding options at June 30, 2022, 0.6 million were exercisable. The outstanding and exercisable options had a weighted average exercise price of $41.52 per share and a weighted average remaining contractual life of 3.0 years.

The weighted average grant date fair value of options granted during the six months ended June 30, 2022 was $40.78 per share. This was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Life (in years)	4.3
Volatility	37.4 %
Dividend yield	—
Risk-free interest rate	2.2 %

Performance Share Units, Restricted Stock Units and Awards, and Deferred Stock Units

In each of the quarters ended March 31, 2022, 2021, 2020, and 2019 we granted PSU awards with a target performance level. These awards are earned based upon our Company’s total shareholder return as compared to an indexed total shareholder return over the course of a fiscal based three-year performance period, starting in the year of grant. Earned awards vest in the quarter following the conclusion of the performance period. In the three months ended March 31, 2022, PSU awards granted in 2019 vested at the maximum performance level and less than 0.1 million shares of common stock were issued.

Activity for our PSUs, RSUs, RSAs, and DSUs in aggregate was as follows:

	Six Months Ended June 30, 2022	
	#	Weighted Average Grant Date Fair Value ($/share)
Outstanding, beginning of period	702,160	$ 78.03
Granted	241,902	126.60
Vested and common stock issued	(220,002)	62.49
Forfeited	(16,123)	95.03
Outstanding, end of period	707,937	$ 99.07

The number of PSUs, RSUs, RSAs, and DSUs outstanding at June 30, 2022 included less than 0.1 million units that have vested, but the shares of common stock have not yet been issued, pursuant to the terms of the underlying agreements.

Employee Stock Purchase Plan

Our ESPP activity was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except shares)	**2022**	**2021**	**2022**	**2021**
Amounts for shares purchased	$ 3,203	$ 2,081	$ 3,350	$ 2,186
Shares purchased	33,337	24,528	35,035	26,149

A total of 1.8 million shares of common stock are reserved for issuance under the ESPP as of June 30, 2022.

The fair value was estimated based on the market price of our common stock at the beginning of the offering period using the following assumptions:

Life (in years)	0.5
Volatility	37.4 %
Dividend yield	—
Risk-free interest rate	0.2 %

NOTE K – Income Taxes

We record our interim provision for income taxes by applying our estimated annual effective tax rate to our year-to-date pretax income and adjust the provision for discrete tax items recorded in the period. Differences between our effective tax rate and statutory tax rates are primarily due to the impact of permanently non-deductible expenses partially offset by the federal research and development credits and tax benefits associated with foreign-derived intangible income. Additionally, excess tax benefits generated upon settlement or exercise of stock awards are recognized as a reduction to income tax expense as a discrete tax item in the quarter that the event occurs, creating potentially significant fluctuation in tax expense by quarter and by year. Our provisions for income taxes includes current federal, state, and foreign income tax expense, as well as deferred tax expense.

NOTE L – Other Income and Expense

Other expense, net included the following:

(in thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Investment income	$ 172	$ 79	$ 220	$ 176
Realized loss from foreign currency on cash and investments held	(1,327)	(349)	(859)	(638)
Other expense, net	(183)	(113)	(276)	(246)
Total other expense, net	$ (1,338)	$ (383)	$ (915)	$ (708)

NOTE M – Net Income Per Share

The components and computation of basic and diluted net income per share were as follows:

(in thousands, except per share amounts)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Numerator				
Net income	$ 10,753	$ 10,183	$ 23,356	$ 20,383
Denominator				
Weighted average common shares outstanding, basic	36,085	35,903	36,110	35,828
Options to purchase common stock	391	505	405	536
PSUs, RSUs, RSAs, and DSUs	386	345	382	377
Weighted average common shares outstanding, diluted	36,862	36,753	36,897	36,741
Net income per share				
Basic	$ 0.30	$ 0.28	$ 0.65	$ 0.57
Diluted	$ 0.29	$ 0.28	$ 0.63	$ 0.55

The number of outstanding potential common shares that were excluded from the calculation of diluted net income per share as they were anti-dilutive was as follows:

(in thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Anti-dilutive shares	242	129	211	93

NOTE N – Geographic Information

Revenue

The percentage of domestic revenue, which we define as the percentage of consolidated revenue that was attributable to customers based within the U.S., was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Domestic revenue	84 %	84 %	84 %	84 %

No single jurisdiction outside of the U.S. had revenues in excess of 10%.

Property and Equipment

The percentage of property and equipment, net located at subsidiary and office locations outside of the U.S. was as follows:

	June 30, 2022	December 31, 2022
International property and equipment	13 %	12 %

NOTE O - Subsequent Events

Business Acquisitions

Effective July 19, 2022, we acquired all of the outstanding equity ownership interests of GCommerce, Inc., a leading EDI provider within the automotive aftermarket industry. Pursuant to the definitive agreement, the purchase price of approximately $45 million was paid in cash at closing, and is subject to post-closing adjustments.

Stockholders' Equity

See Note I for information regarding the authorization of a new share repurchase program on July 26, 2022.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements regarding us, our business prospects and our results of operations are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects, and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. In some cases, you can identify forward-looking statements by the following words: "anticipate," "assume," "believe," "continue," "could," "estimate," "expect," "intend," "may," "ongoing," "plan," "potential," "predict," "project," "should," "will," "would," or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Similarly, statements that describe our future plans, objectives or goals are also forward-looking. Forward-looking statements may also be made from time to time in oral presentations, including telephone conferences and/or webcasts open to the public. Shareholders, potential investors and others are cautioned that all forward-looking statements involve risks and uncertainties that could cause results in future periods to differ materially from those anticipated by some of the statements made in this report, including the risks and uncertainties described under the heading "Risk Factors" appearing in our Annual Report on Form 10-K for the year ended December 31, 2021, as may be updated in our subsequent Quarterly Reports on Form 10-Q from time to time. We expressly disclaim any intent or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that advise interested parties of the risks and factors that may affect our business.

Overview

SPS Commerce is a leading provider of cloud-based supply chain management services across our global retail network. Our products make it easier for retailers, suppliers, grocers, distributors, and logistics firms to orchestrate the management of item data, order fulfillment, inventory control, and sales analytics across omnichannel retail channels. SPS Commerce delivers our products using a full-service model whereby our internal experts monitor, update, and boost network performance on our customers' behalf.

The services offered by SPS Commerce eliminate the need for on-premise software and support staff by taking on that capability on the customer's behalf. The services we provide enable our customers to increase their supply cycle agility, optimize their inventory levels and sell-through, reduce operational costs and gain increased visibility into customer orders, to help ensure that suppliers, grocers, distributors, and logistics firms can satisfy exacting retailer requirements.

We plan to continue to grow our business by further penetrating the supply chain management market, increasing revenues from our customers as their businesses grow, expanding our distribution channels, expanding our international presence and, from time to time, developing new products and applications. We also intend to selectively pursue acquisitions that will add customers, allow us to expand into new regions, or allow us to offer new functionalities.

Key Financial Terms, Metrics and Non-GAAP Measures

We have several key financial terms and metrics, as discussed in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC, under the heading "*Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

To supplement our financial statements, we provide investors with Adjusted EBITDA, Adjusted EBITDA Margin, and non-GAAP income per share, all of which are non-GAAP financial measures. We believe that these non-GAAP measures provide useful information to our management, board of directors, and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare our performance to that of prior periods for trend analyses and planning purposes. Adjusted EBITDA is also used for purposes of determining executive and senior management incentive compensation.

These non-GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP. These non-GAAP financial measures exclude significant expenses and income that are required by GAAP to be recorded in our financial statements and are subject to inherent limitations. Investors should review the reconciliations of non-GAAP financial measures to the comparable GAAP financial measures that are included in this "*Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

Results of Operations

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

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

	Three Months Ended June 30,					
	2022		2021		Change	
(dollars in thousands)	$	% of revenue[1]	$	% of revenue[1]	$	%
Revenues	$ 109,178	100.0 %	$ 94,539	100.0 %	$ 14,639	15.5 %
Cost of revenues	37,530	34.4	31,730	33.6	5,800	18.3
Gross profit	71,648	65.6	62,809	66.4	8,839	14.1
Operating expenses						
Sales and marketing	24,582	22.5	21,952	23.2	2,630	12.0
Research and development	11,432	10.5	8,899	9.4	2,533	28.5
General and administrative	17,198	15.8	15,758	16.7	1,440	9.1
Amortization of intangible assets	2,468	2.3	2,671	2.8	(203)	(7.6)
Total operating expenses	55,680	51.0	49,280	52.1	6,400	13.0
Income from operations	15,968	14.6	13,529	14.3	2,439	18.0
Other expense, net	(1,338)	(1.2)	(383)	(0.4)	(955)	249.4
Income before income taxes	14,630	13.4	13,146	13.9	1,484	11.3
Income tax expense	3,877	3.6	2,963	3.1	914	30.8
Net income	$ 10,753	9.8 %	$ 10,183	10.8 %	$ 570	5.6 %

(1) Amounts in column may not foot due to rounding

Revenues - Revenues increased for the 86th consecutive quarter. The increase in revenue resulted from two primary factors: the increase in recurring revenue customers, which is driven primarily by continued business growth and by business acquisitions, and the increase in average recurring revenues per recurring revenue customer, which we also refer to as wallet share.

- The number of recurring revenue customers increased 12% to 38,650 at June 30, 2022 from 34,550 at June 30, 2021 primarily due to sales and marketing efforts to acquire new customers and due to recent acquisitions.
- Wallet share increased 4% to $10,550 for the three months ended June 30, 2022 from $10,150 for the same period in 2021. This was primarily attributable to increased usage of our products by our recurring revenue customers.

Recurring revenues increased 16% to $101.2 million for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. Recurring revenues from recurring revenue customers accounted for 93% and 92% of our total revenues for the three months ended June 30, 2022 and 2021, respectively. We anticipate that the number of recurring revenue customers and wallet share will continue to increase as we execute our growth strategy focused on further penetrations of our market.

Cost of Revenues - The increase in cost of revenues was primarily due to increased headcount, which resulted in an increase of $4.7 million in personnel-related costs and an increase of $0.5 million in software subscriptions.

Sales and Marketing Expenses - The increase in sales and marketing expense was primarily due to increased headcount, which resulted in an increase of $2.0 million in personnel-related costs.

Research and Development Expenses - The increase in research and development expense was primarily due to increased headcount, which resulted in an increase of $2.1 million in personnel-related costs.

General and Administrative Expenses - The increase in general and administrative expense was primarily related to supporting continued business growth, including an increase in headcount which resulted in an increase in personnel-related costs of $0.8 million. Additionally, there was an increase in professional fees of $0.8 million, which was offset by a decrease of $0.8 million in charitable contributions.

Amortization of Intangible Assets - The decrease in amortization of intangible assets was driven by the full amortization of previously acquired intangible assets as partially offset by acquired intangible assets related to recent business combinations.

Other Expense, Net - The increase in net other expenses was primarily due to unfavorable foreign currency exchange rate changes.

Income Tax Expense - The increase in income tax expense was primarily driven by a decrease in the excess tax deductions due to the current quarter equity award settlements. Excess tax benefits generated upon the settlement or exercise of stock awards are recognized as a reduction to income tax expense and, as a result, we expect that our annual effective income tax rate will fluctuate.

Adjusted EBITDA - Adjusted EBITDA, which is a non-GAAP measure of financial performance, consists of net income adjusted for income tax expense, depreciation and amortization expense, stock-based compensation expense, realized gain or loss from foreign currency on cash and investments held, investment income or loss, and other adjustments as necessary for a fair presentation.

For the three months ended June 30, 2021, other adjustments included disposals of cloud hosting arrangement implementation costs.

The following table provides a reconciliation of net income to Adjusted EBITDA:

	Three Months Ended June 30,	
(in thousands)	**2022**	**2021**
Net income	$ 10,753	$ 10,183
Income tax expense	3,877	2,963
Depreciation and amortization of property and equipment	3,950	3,529
Amortization of intangible assets	2,468	2,671
Stock-based compensation expense	8,661	7,499
Realized loss from foreign currency on cash and investments held	1,327	349
Investment income	(172)	(79)
Other	—	213
Adjusted EBITDA	$ 30,864	$ 27,328

Adjusted EBITDA Margin - Adjusted EBITDA Margin, which is a non-GAAP measure of financial performance, consists of Adjusted EBITDA divided by revenue. Margin, the comparable GAAP measure of financial performance, consists of net income divided by revenue.

The following table provides a comparison of Margin to Adjusted EBITDA Margin:

	Three Months Ended June 30,	
(in thousands, except Margin and Adjusted EBITDA Margin)	**2022**	**2021**
Revenue	$ 109,178	$ 94,539
Net income	10,753	10,183
Margin	10 %	11 %
Adjusted EBITDA	30,864	27,328
Adjusted EBITDA Margin	28 %	29 %

Non-GAAP Income per Share - Non-GAAP income per share, which is a non-GAAP measure of financial performance, consists of net income plus stock-based compensation expense, amortization expense related to intangible assets, realized gain or loss from foreign currency on cash and investments held, other adjustments as necessary for a fair presentation, and the corresponding tax impacts of the adjustments to net income, divided by the weighted average number of shares of common and diluted stock outstanding during each period.

For the three months ended June 30, 2021, other adjustments included disposals of cloud hosting arrangement implementation costs.

To quantify the tax effects, we recalculated income tax expense excluding the direct book and tax effects of the specific items constituting the non-GAAP adjustments. The difference between this recalculated income tax expense and GAAP income tax expense is presented as the income tax effect of the non-GAAP adjustments.

The following table provides a reconciliation of net income to non-GAAP income per share:

	Three Months Ended June 30,	
(in thousands, except per share amounts)	**2022**	**2021**
Net income	$ 10,753	$ 10,183
Stock-based compensation expense	8,661	7,499
Amortization of intangible assets	2,468	2,671
Realized loss from foreign currency on cash and investments held	1,327	349
Other	—	213
Income tax effects of adjustments	(3,491)	(3,999)
Non-GAAP income	$ 19,718	$ 16,916
Shares used to compute non-GAAP income per share		
Basic	36,085	35,903
Diluted	36,862	36,753
Non-GAAP income per share		
Basic	$ 0.55	$ 0.47
Diluted	$ 0.53	$ 0.46

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

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

	Six Months Ended June 30,				Change	
	2022		2021			
(dollars in thousands)	$	% of revenue[1]	$	% of revenue[1]	$	%
Revenues	$ 214,371	100.0 %	$ 184,633	100.0 %	$ 29,738	16.1 %
Cost of revenues	72,919	34.0	61,700	33.4	11,219	18.2
Gross profit	141,452	66.0	122,933	66.6	18,519	15.1
Operating expenses						
Sales and marketing	49,237	23.0	43,307	23.5	5,930	13.7
Research and development	22,133	10.3	17,605	9.5	4,528	25.7
General and administrative	32,666	15.2	30,495	16.5	2,171	7.1
Amortization of intangible assets	4,938	2.3	5,335	2.9	(397)	(7.4)
Total operating expenses	108,974	50.8	96,742	52.4	12,232	12.6
Income from operations	32,478	15.2	26,191	14.2	6,287	24.0
Other expense, net	(915)	(0.4)	(708)	(0.4)	(207)	29.2
Income before income taxes	31,563	14.7	25,483	13.8	6,080	23.9
Income tax expense	8,207	3.8	5,100	2.8	3,107	60.9
Net income	$ 23,356	10.9 %	$ 20,383	11.0 %	$ 2,973	14.6 %

(1) Amounts in column may not foot due to rounding

Revenues - The increase in revenue resulted from two primary factors: the increase in recurring revenue customers, which is driven primarily by continued business growth and by business acquisitions, and the increase in average recurring revenues per recurring revenue customer, which we also refer to as wallet share.

- The number of recurring revenue customers increased 12% to 38,650 at June 30, 2022 from 34,550 at June 30, 2021.
- Wallet share increased 4% to $10,450 for the six months ended June 30, 2022 from $10,100 for the same period in 2021. The increase was primarily attributable to increased usage of our solutions by our recurring revenue customers.

Recurring revenues increased 17% to $198.7 million for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. Recurring revenues from recurring revenue customers accounted for 93% and 92% of our total revenues for the six months ended June 30, 2022 and 2021, respectively. We anticipate that the number of recurring revenue customers and wallet share will continue to increase as we execute our growth strategy focused on further penetrations of our market.

Cost of Revenues - The increase in cost of revenues was primarily due to increased headcount, which resulted in an increase of $8.4 million in personnel-related costs, an increase of $1.1 million in stock-based compensation, and an increase of $1.0 million of software subscriptions. Additionally, as we continued to invest in the infrastructure supporting our platform, depreciation expense increased by $0.8 million.

Sales and Marketing Expenses - The increase in sales and marketing expense was primarily due to increased headcount, which resulted in an increase of $3.7 million in personnel-related costs, an increase of $0.8 million in stock-based compensation, and an increase of $0.7 million in variable compensation earned by sales personnel.

Research and Development Expenses - The increase in research and development expense was primarily due to increased headcount, which resulted in an increase of $3.2 million in personnel-related costs, an increase of $0.8 million in stock-based compensation, and an increase of $0.6 million in software subscriptions.

General and Administrative Expenses - The increase in general and administrative expense was primarily related to supporting continued business growth, including an increase in headcount, which resulted in an increase in personnel-related costs of $1.6 million and an increase in stock-based compensation of $0.6 million. This was partially offset by a decrease of $1.3 million in charitable contributions.

Amortization of Intangible Assets - The decrease in amortization of intangible assets was driven by the full amortization of previously acquired intangible assets as partially offset by acquired intangible assets related to recent business combinations.

Other Expense, Net - The increase in net other expenses was primarily due to unfavorable foreign currency exchange rate changes.

Income Tax Expense - The increase in income tax expense was primarily driven by a decrease in the excess tax deductions due to the current period equity award settlements, partially offset by a decrease in nondeductible executive compensation. Excess tax benefits generated upon the settlement or exercise of stock awards are recognized as a reduction to income tax expense and, as a result, we expect that our annual effective income tax rate will fluctuate.

Adjusted EBITDA - Adjusted EBITDA, which is a non-GAAP measure of financial performance, consists of net income adjusted for income tax expense, depreciation and amortization expense, stock-based compensation expense, realized gain or loss from foreign currency on cash and investments held, investment income or loss, and other adjustments as necessary for a fair presentation.

For the six months ended June 30, 2021, other adjustments included disposals of cloud hosting arrangement implementation costs and accelerated tenant improvement benefit, which was incurred as part of executing a lease agreement. This tenant improvement adjustment was partially offset by accelerated depreciation, which is included within Depreciation and amortization of property and equipment and was also incurred as part of executing a lease agreement.

The following table provides a reconciliation of net income to Adjusted EBITDA:

	Six Months Ended June 30,	
(in thousands)	**2022**	**2021**
Net income	$ 23,356	$ 20,383
Income tax expense	8,207	5,100
Depreciation and amortization of property and equipment	7,814	7,294
Amortization of intangible assets	4,938	5,335
Stock-based compensation expense	17,676	14,424
Realized loss from foreign currency on cash and investments held	859	638
Investment income	(220)	(176)
Other	—	(213)
Adjusted EBITDA	$ 62,630	$ 52,785

Adjusted EBITDA Margin - Adjusted EBITDA Margin, which is a non-GAAP measure of financial performance, consists of Adjusted EBITDA divided by revenue. Margin, the comparable GAAP measure of financial performance, consists of net income divided by revenue.

The following table provides a comparison of Margin to Adjusted EBITDA Margin:

(in thousands, except Margin and Adjusted EBITDA Margin)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Revenue	$ 214,371	$ 184,633
Net income	23,356	20,383
Margin	11 %	11 %
Adjusted EBITDA	62,630	52,785
Adjusted EBITDA Margin	29 %	29 %

Non-GAAP Income per Share - Non-GAAP income per share, which is a non-GAAP measure of financial performance, consists of net income plus stock-based compensation expense, amortization expense related to intangible assets, realized gain or loss from foreign currency on cash and investments held, other adjustments as necessary for a fair presentation, and the corresponding tax impacts of the adjustments to net income, divided by the weighted average number of shares of common and diluted stock outstanding during each period.

For the six months ended June 30, 2021, other adjustments included disposals of cloud hosting arrangement implementation costs and accelerated tenant improvement benefit, which was incurred as part of executing a lease agreement. This tenant improvement adjustment was partially offset by accelerated depreciation, which is included within Depreciation and amortization of property and equipment and was also incurred as part of executing a lease agreement.

To quantify the tax effects, we recalculated income tax expense excluding the direct book and tax effects of the specific items constituting the non-GAAP adjustments. The difference between this recalculated income tax expense and GAAP income tax expense is presented as the income tax effect of the non-GAAP adjustments.

The following table provides a reconciliation of net income to non-GAAP income per share:

(in thousands, except per share amounts)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Net income	$ 23,356	$ 20,383
Stock-based compensation expense	17,676	14,424
Amortization of intangible assets	4,938	5,335
Realized loss from foreign currency on cash and investments held	859	638
Other	—	(213)
Income tax effects of adjustments	(6,710)	(7,974)
Non-GAAP income	$ 40,119	$ 32,593
Shares used to compute non-GAAP income per share		
Basic	36,110	35,828
Diluted	36,897	36,741
Non-GAAP income per share		
Basic	$ 1.11	$ 0.91
Diluted	$ 1.09	$ 0.89

Critical Accounting Policies and Estimates

This discussion of our financial condition and results of operations is based upon our condensed consolidated financial statements, which are prepared in accordance with GAAP and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. Our actual results may differ from these estimates under different assumptions or conditions.

A critical accounting policy or estimate is one that is both material to the presentation of our financial statements and requires us to make difficult, subjective, or complex judgments relating to uncertain matters that could have a material effect on our financial condition and results of operations. Accordingly, we believe that our policies for revenue recognition, internal-use software, and business combinations are the most critical to fully understand and evaluate our financial condition and results of operations.

During the six months ended June 30, 2022, there were no changes in our critical accounting policies or estimates. For additional information regarding our critical accounting policies and estimates, see the discussion under "Critical Accounting Policies and Estimates" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC.

Liquidity and Capital Resources

As of June 30, 2022, our principal sources of liquidity were cash and cash equivalents and short-term investments totaling $259.2 million and net accounts receivable of $40.1 million. Our investments are selected in accordance with our investment policy, with a goal of maintaining liquidity and capital preservation. Our cash equivalents and short-term investments are held in highly liquid money market funds, certificates of deposits, and commercial paper.

The summary of activity within the condensed consolidated statements of cash flows was as follows:

	Six Months Ended June 30,	
(in thousands)	**2022**	**2021**
Net cash provided by operating activities	$ 36,785	$ 54,658
Net cash used in investing activities	(5,294)	(17,772)
Net cash used in financing activities	(26,183)	(2,276)

Net Cash Flows from Operating Activities

The decrease in cash provided by operating activities was primarily driven by changes in the amount and timing of settlement of operating assets and liabilities, primarily the change in accrued compensation.

Net Cash Flows from Investing Activities

The decrease in cash used in investing activities was primarily due to increased maturities of investments, partially offset by increased purchases of investments.

Net Cash Flows from Financing Activities

The increase in cash used in financing activities was primarily due to the increase in cash used for share repurchases.

Contractual and Commercial Commitment Summary

Our contractual obligations and commercial commitments as of June 30, 2022 are summarized below:

	Payments Due by Period				
(in thousands)	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**	**Total**
Operating lease obligations, including imputed interest	$ 5,012	$ 8,459	$ 6,887	$ —	$ 20,358
Purchase commitments	5,516	515	—	—	6,031
Total	$ 10,528	$ 8,974	$ 6,887	$ —	$ 26,389

Future Capital Requirements

Our future capital requirements may vary significantly from those now planned and will depend on many factors, including:

- costs to develop and implement new products and applications, if any;
- sales and marketing resources needed to further penetrate our market and gain acceptance of new products and applications that we may develop;
- expansion of our operations in the U.S. and internationally;
- response of competitors to our products and applications; and
- use of capital for acquisitions, if any.

Historically, we have experienced increases in our expenditures consistent with the growth in our operations and personnel, and we anticipate that our expenditures will continue to increase as we expand our business.

We believe our cash, cash equivalents, investments and our cash flows from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

Foreign Currency Exchange and Inflation Rate Changes

For information regarding the effect of foreign currency exchange rate changes, refer to the section entitled “Foreign Currency Exchange Risk,” included in Part I, Item 3, “Quantitative and Qualitative Disclosures About Market Risk” of this Quarterly Report on Form 10-Q.

Inflation and changing prices did not have a material effect on our business during the six months ended June 30, 2022 and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity Risk

The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss. We are exposed to market risk related to changes in interest rates. However, based on the nature and current level of our cash, cash equivalents, and investments, we believe there is no material risk of exposure. We do not enter into investments for trading or speculative purposes.

We did not have any variable interest rate outstanding debt as of June 30, 2022. Therefore, we do not have any material risk to interest rate fluctuations.

Foreign Currency Exchange Risk

Due to international operations, we have revenue, expenses, assets, and liabilities that are denominated in currencies other than the U.S. dollar, primarily the Australian and Canadian dollars. Our condensed consolidated balance sheet, results of operations, and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates.

Our sales are primarily denominated in U.S. dollars. Our expenses are generally denominated in the local currencies in which our operations are located. As of June 30, 2022 , we maintained approximately 5% of our total cash and cash equivalents and investments in foreign currencies.

We believe that a hypothetical 10% change in foreign currency exchange rates or an inability to access foreign funds would not materially affect our ability to meet our operational needs, result in a material foreign currency loss or have a material impact on our consolidated financials.

We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk, although we may do so in the future.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2022.

Changes in Internal Control over Financial Reporting

In November 2021, we acquired the Genius Central business. Pursuant to the SEC’s general guidance that an assessment of a recently acquired business may be omitted from our scope for a period not to exceed one year from the date of acquisition, the scope of our most recent assessment did not include Genius Central. We are currently in the process of incorporating internal controls specific to Genius Central that we believe are appropriate and necessary to consolidate and report upon our financial results. Our assessment of the effectiveness of internal control over financial reporting as of December 31, 2022 will include Genius Central. As of and for the three and six months ended June 30, 2022, excluding net intangible assets and goodwill, Genius Central represented less than 1% of our consolidated assets and approximately 1% of our consolidated revenues.

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. – OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any material legal proceedings. From time to time, we may be named as a defendant in legal actions or otherwise be subject to claims arising from our normal business activities. Any such actions, even those that lack merit, could result in the expenditure of significant financial and managerial resources. We believe that we have obtained adequate insurance coverage or rights to indemnification in connection with potential legal proceedings that may arise.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed under the heading *"Risk Factors"* in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC.

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

(c) Share Repurchases

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program[1]	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program [2]
April 1 - 30, 2022	36,778	$ 124.88	36,778	$ 20,412,000
May 1 - 31, 2022	45,132	107.02	45,132	15,582,000
June 1 - 30, 2022	51,742	107.73	51,742	10,008,000
Total	133,652	$ 112.21	133,652	$ 10,008,000

For more information regarding our share repurchase programs, refer to Note I to our condensed consolidated financial statements, included in Part I of this Quarterly Report on Form 10-Q.

(1) Under our share repurchase program announced by our board of directors on October 28, 2021, we can repurchase up to $50.0 million of our common stock in the open market or in privately negotiated purchases, or both, through November 28, 2023. Our share repurchase activity during the three months ended June 30, 2022 is included in this column.

(2) On July 26, 2022 (announced July 27, 2022), a new share repurchase program was authorized, effective August 26, 2022, that allows up to $50.0 million of common stock to be repurchased in the open market or in privately negotiated purchases, or both, expiring in July 2024. The current program, described in (1) above, will terminate on the effective date of the new share repurchase program.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

Number	Description
3.1	Ninth Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed with the SEC on May 21, 2020).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on October 17, 2017).
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T (filed herewith). The XBRL instance document does not appear in the Interactive Data File because its tags are embedded within the Inline XBRL document.
104	The cover page from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in Inline XBRL.

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 thereunto duly authorized.

Dated: July 27, 2022	**SPS COMMERCE, INC.**
	/s/ KIMBERLY NELSON
	Kimberly Nelson
	Executive Vice President and Chief Financial Officer
	(principal financial and accounting officer)

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Archie Black, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SPS Commerce, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ ARCHIE BLACK

Archie Black
Chief Executive Officer
(principal executive officer)
July 27, 2022

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Kimberly Nelson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SPS Commerce, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ KIMBERLY NELSON

Kimberly Nelson
Executive Vice President and Chief Financial Officer
(principal financial and accounting officer)
July 27, 2022

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of SPS Commerce, Inc. (the “Company”) for the period ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Executive Officer and the Chief Financial Officer of the Company, hereby certify, pursuant to and for purposes of 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ARCHIE BLACK

Archie Black
Chief Executive Officer
(principal executive officer)

/s/ KIMBERLY NELSON

Kimberly Nelson
Executive Vice President and Chief Financial Officer
(principal financial and accounting officer)

July 27, 2022