SPS COMMERCE

2022 ANNUAL REPORT

THE DRIVING **FORCE** IN RETAIL EVOLUTION.

TO OUR STOCKHOLDERS

2022 was another strong year for SPS Commerce. The ongoing transition to omnichannel retail and increasing complexity in supply chain management continued to fuel the need for automation. The fourth quarter of 2022 represented our 88th consecutive quarter of revenue growth, driven by our network effect, community go-to market approach, retail expertise and execution, all of which culminate in excellent customer experience and underscore SPS Commerce's competitive differentiation.

For the full year 2022, revenue grew 17% to $450.9 million. Recurring revenue grew 18% year-over-year, led by Fulfillment growth of 19%. Adjusted EBITDA[1] grew 24% to $132.3 million, resulting in adjusted EBITDA margin[1] of 29%. The total number of recurring revenue customers increased 13% year-over-year, to 42,300 and wallet share, or average recurring revenue per recurring revenue customer, increased 4% to $10,500.

In addition to our strong financial performance, achievements in 2022 include:

- Continued momentum in Analytics sales with 10% year-over-year growth.
- The acquisition of GCommerce, a software solution provider known for its expertise in the automotive aftermarket industry; and, the acquisition of InterTrade Systems, to strengthen our leadership across apparel and general merchandise markets.
- We repurchased 361,745 SPS Commerce shares in 2022, for a total consideration of $43.2 million.
- We ended the year with total cash and investments of $214.3 million.

Over the years, SPS Commerce has consistently executed on our mission to connect all retail trading partners through the easiest-to-join and use network. Since 2017, we realigned our sales force, increased our focus on digital marketing, and launched a new fulfillment solution and add-on products. We also remained laser focused on improving customer experience as we significantly enhanced full-service, omnichannel supply chain solutions and system integrations through internal development and targeted acquisitions.

These strategic investments are consistent with our core value—Win Today, Win Tomorrow—which helped us build the world's largest cloud retail network and positions us for continued success. Beyond this year, we maintain our annual revenue growth expectations of 15% or greater, and we continue to expect adjusted EBITDA[1] dollar growth of 15% to 25% as we invest in the business to capitalize on market dynamics and support current and future growth. In the long-term, we maintain our target model for adjusted EBITDA margin[1] of 35%.

In closing, I would like to thank all our employees for their dedication to the company and the success of over 115,000 SPS Commerce customers around the globe to date. We continue to deliver profitable growth and invest in the future to capitalize on existing and new opportunities across our expanding addressable market.

Sincerely,

Archie Black
CEO

[1] Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP measures of financial performance. We believe that these non-GAAP measures provide useful information to management, our board of directors, and investors regarding certain financial and business trends relating to its financial condition and results of operations. Our management uses these non-GAAP measures to compare the company's 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. A reconciliation of these non-GAAP measures can be found within the 'Results of Operations' section of Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, within the attached Form 10-K.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended: December 31, 2022

or

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

For the Transition Period from_______to_______

Commission file number 001-34702

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)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

As of June 30, 2022, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of shares of the registrant's common stock held by non-affiliates of the registrant (based upon the closing sale price of $113.05 per share on the Nasdaq Global Market on such date) was approximately $4.1 billion.

The number of shares of the registrant's common stock, par value $0.001 per share, outstanding as of February 10, 2023 was 36,312,238 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 12, 2023 (the "2023 Proxy Statement"), which is expected to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, are incorporated by reference in Part III of this Annual Report on Form 10-K.

Auditor Firm Id:	185	Auditor Name:	KPMG, LLP	Auditor Location:	Minneapolis, MN

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

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K 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 in Part I, Item IA, "Risk Factors" of this Annual Report on Form 10-K for the year ended December 31, 2022, as may be updated in our subsequent Quarterly Reports on Form 10-Q or other filings 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 Securities and Exchange Commission ("SEC") that advise interested parties of the risks and factors that may affect our business.

PART I

Item 1. 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, grocers, distributors, suppliers, and logistics firms to communicate and collaborate by simplifying how they manage and share item, inventory, order and sales data across omnichannel retail channels. We deliver our products using a full-service model, which includes industry-leading technology and a team of experts that optimize, update, and operate the technology on customers' behalf.

Our products enable customers to increase supply chain performance, optimize inventory levels and sell-through, reduce operational costs, improve order visibility, and satisfy consumer demands for a seamless omnichannel experience.

As of December 31, 2022, we had 42,300 customers with ongoing contracts to pay us monthly fees, which we refer to as recurring revenue customers. In addition to our recurring revenue customers, to date we have provided our cloud-based supply chain management services to 72,700 other organizations, and we refer to the combination as our customers. Once connected to the SPS Commerce cloud-based retail network, our customers often require additional integrations to new organizations that represent an expansion of our cloud-based network and new sources of revenues for us.

For the years ended December 31, 2022, 2021, and 2020, we generated revenues of $450.9 million, $385.3 million, and $312.6 million, respectively. Our quarter ended December 31, 2022 represented our 88th consecutive quarter of revenue growth. Recurring revenues from recurring revenue customers accounted for 93%, 92%, and 94% of our total revenues for the years ended December 31, 2022, 2021, and 2020, respectively. Our revenues are not concentrated with any customer, as our largest customer represented less than 1% of total revenues for the years ended December 31, 2022, 2021, and 2020.

Increasing Demand for a Retail Network

The retail industry has undergone many changes in recent years, which have accelerated the need for a more automated supply chain. To navigate disruptions and meet growing consumer demands, companies across the retail ecosystem need to integrate their operations and communications from wholesale, eCommerce, and marketplace sales channels into a single omnichannel process. These channels no longer operate independently but instead in an interconnected fashion as consumers demand more buying and delivery options. The coordination needed to manage multiple channels adds complexity to supply chains and trading partner relationships.

The SPS Commerce retail network offers a single destination where companies can manage item details, orders, shipments, invoices, and much more for any customer and any channel. The network provides businesses with a comprehensive view of retail transactions, enabling them to optimize inventory and fulfill orders efficiently, regardless of channel. Customers use our retail network to manage all channels in a single system, saving time and reducing errors.

Our Products

SPS Commerce operates one of the largest retail networks in the world to improve the way retailers, grocers, distributors, suppliers, and logistics firms manage digital item catalogs, fulfill omnichannel orders, optimize sell-through performance, and automate new trading relationships. To date, 115,000 customers across 85 countries have used SPS Commerce products to expand and optimize the performance of their trading relationships through the network.

Our products fundamentally change how organizations communicate information to manage their omnichannel, supply chain, and other business requirements. Our products replace traditional, manual, or disparate approaches (such as email, phone, and fax), multiple channel-specific solution providers, as well as custom-built, point-to-point integrations by delivering a single smart connection to the entire SPS Commerce retail network of prebuilt connections to thousands of global trading partners.

Our products include:

- ***Fulfillment*** - Our Fulfillment product is a full-service electronic data interchange ("EDI") solution that scales as a business grows. Companies can use a single system to manage orders and logistics from all sales channels, including wholesale, eCommerce, and marketplaces. Fulfillment is configurable for any trading partner, document or business system used for order management and offers a full suite of tools to help businesses efficiently manage their supply chain.

- ***Analytics*** - Our Analytics product enables organizations to improve visibility into how products are selling through a single connection across all sales channels, including wholesale, eCommerce, and marketplaces. Analytics improves access and usage of sales and inventory data through a combination of our analytics applications, network of connections, and industry-leading expertise.
- ***Other Products*** - We provide several complementary products, such as:
    - Assortment - Our Assortment product simplifies the communication of robust, accurate item data by automatically translating item attributes, and hierarchies through a single connection across all sales channels.
    - Community - Our Community product allows organizations to accelerate digitization of their supply chain and improve collaboration with suppliers through proven change management and onboarding programs.

In addition to these offerings, we also provide one-time services such as professional services and testing and certification.

Growing Our Network

As one of the largest providers of cloud-based services for retail supply chain management, SPS Commerce enables trading partner relationships among retailer, grocer, distributor, supplier, and logistics firms that naturally lead to new customer acquisition opportunities.

"Network Effect"

Once connected to our retail network, trading partners can exchange electronic supply chain information with each other. The value of our network increases with the number of trading partners connected to it. After joining our retail network, customers often find that many of their existing or new trading partners are already on the network, allowing for easy connections. The addition of each new customer enables that new customer to communicate with our existing customers and permits our existing customers to do business with the new customer. This "network effect" of adding additional customers to our products' infrastructure creates a significant opportunity for existing customers to realize incremental sales by working with our new trading partners and vice versa. As a result of this increased volume of activity among our network participants, we earn additional revenues from these participants.

Customer Acquisition Sources

Community - As retailers and suppliers reshape how they do business in an omnichannel landscape, they need to bring new capabilities and services to their trading partner networks. Our Community product is designed to manage this process and bring suppliers into compliance with new requirements. For instance, a supplier may wish to collaborate with their retailers around point-of-sale analytics data, or a retailer may decide to change the workflow or protocol by which it interacts with its suppliers. In each case, the supplier and retailer may engage us to work with their trading partner base to enable the new capability. Performing these programs on behalf of retailers and suppliers generates supplier sales leads for us.

Referrals from Our Customers - We also receive sales leads from our customers seeking to communicate electronically with their trading partners. For example, a supplier may refer a third-party logistics provider or manufacturer, which is not in our network, to us.

Direct Marketing - We employ various marketing strategies. Our marketing programs include a variety of lead generating activities including digital marketing, conferences and trade shows, sponsored events, and public relations activities targeted at key decision makers within our prospective customers.

Channel Partners - In addition to the customer acquisition sources identified above, we market and sell our products through a variety of channel partners, including software providers, resellers, system integrators, and logistics partners. For example, software partners such as Microsoft, NetSuite, Oracle, SAP, Sage, and their business partner communities generate sales for us as part of broader enterprise resource planning, warehouse management system and/or transportation management system sales efforts. Our logistics partners also drive new sales both by providing leads and by embedding our products as part of their service offerings.

Our Growth Strategy

Our objective is to be the leading global retail network and provider of supply chain management products. Key elements of our strategy include:

- ***Further Penetrate Our Current Market*** - We believe the global supply chain management market is underpenetrated. As the retail industry continues to respond to the changing requirements of the omnichannel marketplace, and as the supply chain ecosystem becomes more complex and geographically dispersed, we believe the demand for supply chain management solutions will increase. We intend to continue leveraging our relationships with customers and their trading partners to obtain new sales leads.
- ***Increase Revenues from Our Customer Base*** - We believe our overall customer satisfaction is strong and will lead our customers to further expand their use of our products they have purchased, as well as purchase additional products to continue improving the performance of their trading partner relationships, generating additional revenues for us. We also expect to introduce new products to sell to our customers. We believe our position as the incumbent supply chain management solution provider to our customers, our integration into our recurring revenue customers' business systems, and the modular nature of our cloud-based products are conducive to deploying additional products with customers.
- ***Expand Our Distribution Channels*** - We intend to grow our business by expanding our sales capacity to gain new customers. We also believe there are valuable opportunities to promote and sell our products through collaboration with other providers.
- ***Expand Our International Presence*** - We believe our presence in Asia Pacific, as well as in Europe, represents a significant competitive advantage. We plan to increase our global sales efforts to obtain new customers around the world. We intend to leverage our current global presence to increase the number of integrations we have with retailers in foreign markets to make our products more valuable to their trading partners based overseas.
- ***Enhance and Expand Our Services*** - We intend to further improve and develop the functionality and features of our cloud-based products, including, from time to time, developing new offerings and applications.
- ***Selectively Pursue Strategic Acquisitions*** - The nature of our market provides an opportunity for selective acquisitions. We plan to continue to evaluate potential acquisitions based on the number of new customers, revenue, functionality, or geographic reach the acquisition would provide relative to the purchase price, and our ability to integrate and operate the acquired business. In 2022, we acquired GCommerce, Inc. ("GCommerce"), a leading EDI provider within the automotive aftermarket industry. Also in 2022, we acquired InterTrade Systems Inc. ("InterTrade"), a leading EDI provider within the apparel and general merchandising markets. These acquisitions further extend the capabilities of our network and added new customers and technology.

Our Market Opportunity

We believe we have a significant market opportunity to help organizations accelerate their omnichannel retail strategies with our retail network and supply chain products.

- ***Omnichannel retail requires new connections/transactions*** - Each sales channel (wholesale, eCommerce, and marketplaces) brings new trading partners to the supply chain process. As customers expand their business, the SPS Commerce retail network is a core part of their omnichannel strategy. Each additional channel brings more reliance and volume to the network and increases customer revenue.
- ***Retail needs automation*** - With increased retail store openings and closings, labor shortages, supply chain disruptions, and new buying patterns, retailers are demanding more from their trading partners as they need to be agile and transition their businesses as markets change. Businesses using SPS Commerce products to automate supply chain functions with their trading partners can pivot quickly to new delivery models and capture market share. The visibility into orders, shipments, and inventory gained by automating trading relationships on the SPS Commerce retail network is critical to their success and offers a competitive advantage.
- ***Consumers want new products*** - Retail assortments are ever-changing with seasonality shifts and new product introductions from companies of all sizes. Consumers want the latest products and retailers are continually chasing trends, offering differentiated items, and introducing new products and suppliers to their supply chains. As retailers evolve, their trading partner relationships must support any new product

introductions or new suppliers to achieve their merchandising goals. The SPS Commerce retail network automates these relationships to quickly secure product details, initiate orders, and track performance to help keep operations running smoothly.

Technology, Development and Operations

Technology

SPS Commerce was an early provider of cloud-services to the retail supply chain management industry, launching the first version of what would become our current services in 1997. We use commercially available hardware and cloud-services with a combination of proprietary and commercially available software.

Our cloud-service model treats all customers as logically separate tenants within a shared virtual infrastructure. As a result, we spread the cost of delivering our products across our customer base. Because we do not manage thousands of distinct applications with their own business logic and database schemes, we can scale our business faster than traditional software vendors, even those that modified their products to be accessible over the internet.

Development

Our research and development efforts focus on maintaining, improving, and enhancing our existing products, as well as developing new products and applications. Our multi-tenant products serve all of our customers, which allows us to maintain relatively low research and development expenses and release software updates more frequently compared to traditional on-premise licensed software products that support multiple versions. Our development efforts take place at our U.S. locations in Minnesota and New Jersey, as well as in Melbourne, Australia; Toronto, Canada; and Kyiv, Ukraine.

Operations

We operate our infrastructure in third-party data centers located throughout the United States ("U.S.") and in Australia, as well as provisioned services with cloud providers. In most cases, infrastructure and services are managed by us.

We have internal and third-party monitoring software that continually checks our cloud-based network and key underlying components for continuous availability and performance, helping ensure that the network is always available and providing desired service levels. We have a technology team that includes system provisioning, management, maintenance, monitoring, and back-up.

We operate a service architecture using industry best practices to ensure multiple points of redundancy, high availability, and scale as needed. Our databases are replicated between locations with a defined recovery point objective.

Sales & Marketing

We sell our products through an employed global sales force that focuses on retailers, grocers, distributors, suppliers, and logistics firms.

Our marketing teams focus on driving awareness and demand for our products through the following activities:

- ***Demand Generation*** - Engages with target audiences using the latest digital marketing strategies to bring opportunities to our sales teams.
- ***Communications*** - Manages our brand, public relations, and go-to-market support.
- ***Product Marketing*** - Equips our sales teams, performs market studies, and promotes the unique capabilities of each of our products using our go-to-market strategies.
- ***Events*** - Highlights our presence at industry trade shows and orchestrates virtual and in-person events.

Customer Success

The Customer Success team includes retail and technology experts who implement our products on our customers' behalf, provide ongoing support, and collaborate with accounts to identify opportunities for added value from their existing products. This team focuses on delivering services that build customer satisfaction and result in high customer retention rates.

Competition

Vendors in the supply chain management industry offer products through three delivery methods: traditional on-premise software, cloud-based managed services, and cloud-based full-service products.

The market for cloud-based supply chain management products is fragmented and rapidly evolving. Cloud-service vendors compete directly with each other based mainly on the following:

- the breadth of pre-built network connections to retailers, third-party logistics providers, and other trading partners;
- a history of establishing and maintaining reliable connections with trading partners;
- the reputation of the cloud-service vendor in the supply chain management industry;
- price;
- specialization in a customer market segment;
- speed and quality with which the cloud-service vendor can integrate its customers to their trading partners;
- functionality of the cloud-service product, such as the ability to integrate the product with a customer's business systems;
- breadth of complementary supply chain management products the cloud-service vendor offers; and
- training and customer support services provided during and after a customer's initial integration.

We expect to encounter new and increased competition as this market segment consolidates and matures. Consolidation among cloud-service vendors could create a direct competitor that can compete with us more effectively than the numerous, smaller vendors currently offering cloud-service supply chain management products. Increased competition from cloud-service vendors could reduce our market share, revenues, and operating margins or otherwise adversely affect our business.

Cloud-service vendors also compete with traditional on-premise software companies. Traditional on-premise software companies focused on supply chain integration management include IBM Sterling and OpenText. These companies offer a "do-it-yourself" method in which customers purchase, install, and manage specialized software, hardware, and value-added networks for their supply chain integration needs. This method requires customers to invest in staff to operate and maintain the software. Traditional on-premise software companies use a single-tenant approach in which information maps to retailers are built for and used by one supplier, as compared to cloud-service products that allow multiple customers to share information maps with a retailer.

Managed service providers focused on the supply chain management market include IBM Sterling, OpenText, TrueCommerce and many other small providers. These companies offer a cloud-based product in which they develop and maintain the core technology, while the customer's internal staff is responsible for the day-to-day customization, optimization, and operations of the technology.

In contrast, full-service providers, including SPS Commerce, offer cloud-based products and expert resources that customize, optimize, and operate the technology. This approach offloads the time-intensive process of managing these products, which is not a core competency for most businesses.

Customers of traditional on-premise software providers must typically make significant upfront investments in the supply chain management products these competitors provide, which can decrease customers' willingness to abandon their investments in favor of a cloud-service product. Cloud-service vendors compete with these traditional software products based on the total cost of ownership and flexibility.

Intellectual Property and Proprietary Content

SPS Commerce relies on a combination of copyright, trademark, and trade secret laws as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We enter into confidentiality and proprietary rights agreements with our employees, consultants and additional third parties, and control access to software, documentation, and other proprietary information. We have registered trademarks and pending trademark applications in the U.S. and certain foreign countries.

Depending on the jurisdiction, trademarks are generally valid as long as they are in use or their registrations are properly maintained, and they have not been found to have become generic. Registrations of trademarks can also generally be renewed indefinitely as long as the trademarks are in use. We have one patent we acquired through the acquisition of GCommerce. Our trade secrets consist primarily of the software we have developed for our SPS Commerce cloud-based products and network. Our software is also protected under copyright law, but we do not have any registered copyrights.

Human Capital

As of December 31, 2022, our employees worked across the following functional areas:

	# of Employees
Cost of revenues	1,122
Sales and marketing	557
Research and development	359
General and administrative	177
Total employees	2,215

Substantially all of our employees are employed on a full-time basis, 84% of which are based in North America. We also engage independent contractors to support our operations. None of our employees are represented by a labor union.

We believe our employees have and will continue to be a primary reason for our growth and success. SPS values diversity, equity, and inclusion and believes that our differences make us, our customers, and our communities better. We strive to create an organization where every employee feels welcomed and is empowered to do their best work. Our core values drive our culture and are foundational to how we create an engaging workplace, how we train and develop our teams, and how we identify the right talent for the organization. Our values guide our interactions with our customers, partners, and one another.

We offer our employees pay and benefits packages that we believe are competitive with others in our industry, as well as within the local markets in which we operate, and that align individual performance with our success. To foster an engaged and motivated team we provide training, development, review and feedback programs to develop employees' expertise and skillsets, as well as strive to provide a safe, harassment-free work environment guided by principles of fair and equal treatment. As a result, we believe our employees are committed to building strong, innovative, and long-term relationships with each other and our organization in order to succeed together and with our customers. The health and wellness of our employees is also very important to us. We have, where possible, offered remote work flexibility, without significant impacts to productivity.

We support several Employee Resource Groups ("ERGs") to encourage connections across the globe and support a sense of belonging at SPS. Current ERGs include the Black Business Resource Group, the Diversity & Inclusion Group, the LGBTQ+ Resource Group, and Women in Tech. These groups provide support for employees and allies, give employees the chance to build community and connections, develop and grow, as well as further shape our culture to create a more inclusive workplace.

Company Information

We were originally incorporated as St. Paul Software, Inc., a Minnesota corporation, on January 28, 1987. On May 30, 2001, we reincorporated in Delaware under our current name, SPS Commerce, Inc. Our principal executive offices are located at the address listed below. Our telephone number is (612) 435-9400 and our website address is *www.spscommerce.com*. Information on our website does not constitute part of this Annual Report on Form 10-K or any other report we file or furnish with the SEC.

SPS Commerce, Inc.
333 South Seventh Street
Suite 1000
Minneapolis, MN 55402

Available Information

We provide free access to various reports that we file with or furnish to the SEC through our website at *www.spscommerce.com*, as soon as reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports. Our SEC reports can be accessed through the investor relations section of our website or through the SEC's website at *www.sec.gov*. Stockholders may also request copies of these documents by writing to us at the address above, with attention to "Investor Relations".

Item 1A. Risk Factors

Set forth below and elsewhere in this Annual Report on Form 10-K, and in other documents we file with the SEC, are risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this Annual Report on Form 10-K and in other written and oral communications from time to time. You should carefully consider all of the following risks and the other information in this Report and our other filings with the SEC before you decide to invest in our Company or to maintain or increase your investment. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks. In assessing these risks, you should also refer to the other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes.

The risks included in this section are not the only ones we face. We operate in a very competitive and rapidly changing environment. New risk factors emerge from time-to-time, and it is not possible for management to predict all such risk factors, nor can it assess the potential impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those in any forward-looking statements. If any of the following risks actually occur, our business, results of operations, financial condition and future prospects would likely suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Business

If we are unable to attract new customers, or sell additional products to existing customers, or if our customers do not increase their use of our products, our revenue growth and profitability will be adversely affected.

To increase our revenue and achieve and maintain profitability, we believe that we must regularly add new customers, sell additional products to existing customers, and our customers must increase their use of the products for which they currently subscribe. We intend to grow our business by retaining and attracting talent, developing strategic relationships with resellers, including resellers that incorporate our applications in their offerings, and increasing our marketing activities. If we are unable to hire or retain quality personnel, convert companies that have been referred to us by our existing network into paying customers, ensure the effectiveness of our marketing programs, or if our existing or new customers do not perceive our products to be of sufficiently high value and quality, we might not be able to increase sales and our operating results will be adversely affected. If we fail to sell our products to existing or new customers, we will not generate anticipated revenues from these products, our operating results will suffer, and we will not be able to grow our revenues or maintain profitability as planned.

We do not have long-term contracts with most of our recurring revenue customers, and therefore a lack of success in maintaining or improving forecasted renewal rates will have adverse effects on revenue and financial results.

Most of our contracts with our recurring revenue customers allow the customer to cancel the contract for any reason with 30 to 90 days' notice. Our continued success therefore depends significantly on our ability to meet or exceed our recurring revenue customers' expectations because most recurring revenue customers do not make long-term commitments to use our products. In addition, if our reputation in the supply chain management industry is harmed or diminished for any reason, our recurring revenue customers have the ability to terminate their relationship with us on short notice and seek alternative supply chain management solutions. We may also not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate because of several factors, including their dissatisfaction with our services, the cost of our services compared to the cost of services offered by our competitors and reductions in our customers' spending levels. If a significant number of recurring revenue customers seek to terminate their relationship with us, our business, results of operations and financial condition would be adversely affected in a short period of time.

Economic weakness and uncertainty could adversely affect our revenue, lengthen our sales cycles, and make it more difficult for us to forecast operating results accurately.

Our revenues depend significantly on general economic conditions and the sustainability and health of retailers. Economic weakness and constrained retail spending may result in slower growth, or reductions, in revenues and gross profits in the future. We have experienced, and may experience in the future, reduced spending in our business due to financial turmoil affecting the U.S. and global economy, and other macroeconomic factors affecting spending behavior. Uncertainty about future economic conditions increases the difficulty of forecasting operating results and making decisions about future investments. In addition, economic conditions or uncertainty may cause customers and potential customers to reduce or delay technology purchases, including purchases of our products. Our sales cycles may lengthen if purchasing decisions are delayed as a result of uncertain technology or development budgets or contract negotiations become more protracted or difficult as customers institute additional internal approvals for technology purchases. Delays or reductions in technology spending could have a material adverse effect on demand for our products, and consequently our results of operations and prospects.

Our continued growth could significantly strain our personnel resources and infrastructure, and if we are unable to implement appropriate controls and procedures to manage our growth, we may not be able to implement our business plan successfully.

We have experienced a period of rapid growth in our headcount and operations. To the extent that we are able to sustain such growth, it might place a significant strain on our management, administrative, operational, and financial resources, and infrastructure. Our success will depend in part upon the ability of our senior management to manage this growth effectively. To do so, we must continue to hire, train, and manage new employees as needed. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. If we fail to successfully manage our growth, we will be unable to execute our business plan as expected.

If we fail to attract, retain, and train members of our senior management team, including our Chief Executive Officer and other key personnel, our business plan would be impacted, and we might not be able to implement it successfully.

Given the complex nature of the cloud-based technology through which our business operates and the speed with which such technology advances, our future success is dependent, in large part, upon our ability to attract, retain and train highly qualified key executive, managerial, technology, and sales personnel. Competition for talented personnel is intense and we cannot be certain that we can retain our key personnel or that we can attract, assimilate, or retain such personnel in the future to adequately scale our business. Additionally, the loss of any key or a significant number of personnel in our technology, customer success, or sales teams might significantly delay or prevent the achievement of our business objectives and could materially harm our business, customer relationships, results of operations and financial condition.

If the market for cloud-based supply chain management products declines or does not maintain its historical growth rates, our revenues may decline or fail to grow, and we may incur operating losses.

We derive, and expect to continue to derive, substantially all of our revenues from providing cloud-based supply chain management products to retailers, grocers, distributors, suppliers, and logistics firms. The market for these products has historically experienced growth, but it is uncertain whether these products will continue or sustain growing levels of demand and market acceptance. Our success will depend on the willingness of retailers and their trading partners to accept our products as an alternative to traditional licensed hardware and software products.

Some retailers, grocers, distributors, suppliers, or logistics firms may be reluctant or unwilling to use our cloud-based products for a number of reasons, including their potential significant initial investment to replace existing investments in supply chain management hardware and licensed software and perceived loss of control over user data with a cloud-based product. Other factors that may limit market acceptance of our cloud-based supply chain management products include:

- our ability to maintain high levels of customer satisfaction;
- our ability to maintain continuity of service for all users of our cloud-based products;
- the price, performance, and availability of competing products, both new and existing; and
- our ability to address customers' confidentiality and security concerns about information stored within our cloud-based products.

If customers do not perceive the benefits of our cloud-based supply chain management products, or if customers are unwilling to accept our cloud-based products as an alternative to the on-premise software or other options approach, demand for our products may not continue to grow or may grow more slowly than we expect, either of which would adversely affect our revenues, growth prospects, and overall operating results.

The markets in which we participate are highly competitive, and our failure to compete successfully would make it difficult for us to add and retain customers and would reduce or impede the growth of our business.

The markets for supply chain management products are increasingly competitive and global. We expect competition to increase in the future both from existing competitors and new companies that may enter our markets. We face competition from:

- cloud-service providers that deliver business-to-business information systems using a multi-tenant approach;
- traditional on-premise software providers; and
- managed service providers that combine traditional on-premise software with professional technology services.

Moreover, our industry is highly fragmented, and we believe it is likely that our existing competitors will continue to consolidate or will be acquired. In addition, some of our competitors may enter into new alliances with each other or may establish or strengthen cooperative relationships with systems integrators, third-party consulting firms or other parties. New entrants not currently considered to be competitors may also enter the market through new technology offerings, acquisitions, partnerships, or other strategic relationships. Any such new offerings, consolidation, acquisition, alliance or cooperative relationship could lead to pricing pressure, loss of customers and loss of market share, and could result in one or more competitors with greater financial, technical, marketing, service and other resources, all of which could have a material adverse effect on our business, operating results and financial condition. Increased competition could reduce our market share, revenues, and operating margins, increase our costs of operations, and otherwise adversely affect our business.

To remain competitive, we will need to invest continuously in software development, marketing, customer service and support, product delivery and other cloud-based network infrastructure. However, we cannot assure you that new or established competitors will not offer products that are superior to ours or lower in price than ours, or both. We may not have sufficient resources to continue the investments in all areas of software development, marketing, customer service and support and infrastructure needed to maintain our competitive position which may diminish our market share and business prospects.

We may not be able to successfully integrate or otherwise operate newly acquired companies or businesses, which could adversely affect our financial results.

Acquisitions involve numerous risks including:

- incurring significantly higher than anticipated capital expenditures and operating expenses;
- failing to assimilate the operations, customers, and personnel of the acquired company or business;
- disrupting our ongoing business;
- dissipating or distracting our management resources;
- dilution to existing stockholders from the issuance of equity securities;
- liabilities or other problems associated with the acquired business;
- becoming subject to adverse tax consequences, substantial depreciation, or deferred compensation charges;
- improper compliance with laws and regulations and exposure to other contingent liabilities;
- failing to maintain uniform standards, controls, and policies; and
- impairing relationships with employees and customers as a result of changes in management.

Fully integrating an acquired company or business into our operations may take a significant amount of time and resources. In addition, we may only be able to conduct limited due diligence on an acquired company's operations. Following an acquisition, we may be subject to liabilities arising from an acquired company's past or present operations, including liabilities related to data security, encryption and privacy of customer data, and these liabilities may be greater than the warranty and indemnity limitations that we negotiate. We cannot assure you that we will be successful in overcoming these risks or any other problems encountered with acquisitions. To the extent we do not successfully avoid or overcome the risks or problems related to any acquisitions, our results of operations and financial condition could be adversely affected. Future acquisitions also could impact our financial position and capital needs and could cause substantial fluctuations in our quarterly and yearly results of operations. We also may not be able to achieve anticipated synergies or financial results post acquisition, which could negatively impact our operations and financial results. Acquisitions could include significant goodwill and intangible assets, which may result in future impairment charges that would reduce our stated earnings.

Because our long-term success depends, in part, on our ability to expand the sales of our products to customers located outside of the United States and expand operations to support such expansion, our business will be increasingly susceptible to risks associated with international operations.

Our limited experience in operating our business outside of the United States increases the risk that our current and any future international expansion efforts will not be successful. Expanding international sales and operations subjects us to new risks that, generally, we have not faced in the U.S., including:

- misjudging the markets and competitive landscape of foreign jurisdictions;
- fluctuations in currency exchange rates;
- unexpected changes in foreign regulatory requirements;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations;
- differing technology standards;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems and restrictions on the repatriation of earnings;
- localization of our products, including translation into foreign languages and associated expenses;
- the burdens of complying with a wide variety of foreign laws and different legal standards, including laws and regulations related to privacy;
- increased financial accounting and reporting burdens and complexities;
- political, social, and economic instability abroad, terrorist attacks and security concerns in general;
- greater potential for corruption and bribery; and
- reduced or varied protection for intellectual property rights in some countries.

The occurrence of any one of these risks could adversely affect our international business and, consequently, our results of operations generally. Additionally, operating in international markets also requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required in establishing, acquiring, or integrating operations in other countries will produce desired levels of revenues or profitability.

In addition, we operate in parts of the world that are recognized as having governmental corruption problems and where local customs and practices may not foster strict compliance with anti-corruption laws. Our continued operation and potential expansion outside the U.S. could increase the risk of such violations in the future. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures will protect us from unauthorized, reckless, or criminal acts committed by our employees or agents, including by third parties we utilize in foreign jurisdictions. In the event that we believe, or have reason to believe, that our employees or agents have or may have violated applicable anti-corruption laws, including the U.S. Foreign Corrupt Practices Act, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in severe civil and criminal sanctions and penalties, which could disrupt our business and have a material adverse effect on our reputation, results of operations or financial condition.

Any unrest, military activities, or sanctions impacting our international operations, should they occur, could disrupt operations, and have a material adverse effect on our business. Any such disruption to our operations may be prolonged and require a transition to alternative workforce locations. An alternative workforce location may be more expensive to train, staff, and operate and may cause delays and shortfalls in programming deliverables and services, thus potentially harming our business. Given our significant international workforce in Ukraine and the Philippines and the potentially volatile political and civil unrest situations in both areas, including but not limited to Russian interference and civil unrest with multiple groups, respectively, we are more susceptible to disruptions there. Those potentially disruptive environments are out of our control and we cannot predict the outcome of future developments or reactions to such developments by the U.S., European, Asian, Oceanic, United Nations or other international authorities and organizations.

Our failure to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies could reduce our ability to compete successfully and adversely affect our results of operations.

We may need to raise additional capital due to shortfalls in cash flow or for other reasons, and we may not be able to obtain debt or additional equity financing on favorable terms, if at all. If we raise additional equity financing, our security holders may experience significant dilution of their ownership interests and the value of shares of our common stock could decline. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness, force us to maintain specified liquidity or other ratios or restrict our ability to pay dividends or make acquisitions. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop and enhance our products;
- continue to expand our technology development, sales, and marketing organizations;
- acquire new or complementary technologies, products, or businesses;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

Our inability to do any of the foregoing could reduce our ability to compete successfully and adversely affect our results of operations.

The extent to which public health emergencies such as epidemics, pandemics, or similar outbreaks may adversely impact our business, results of operations and financial condition will depend on on-going and future developments and outcomes, which are highly uncertain and cannot be predicted.

Our business operations and financial results may be adversely impacted by public health emergencies, such as epidemics, pandemics, and similar outbreaks. Despite our efforts to manage these impacts, their ultimate impact also depends on factors beyond our knowledge or control, including the duration and severity of any such outbreak and actions taken to contain its spread and mitigate its public health effects.

Public health emergencies could have adverse impacts on our business operations by limiting our employees' ability to work and travel, disrupting our third-party technology providers, or causing internal operational workflow to change, among other potentially unforeseen circumstances given the uncertainties related to public health emergencies.

Additionally, public health emergencies may cause significant disruptions and changes in the economic or political conditions in markets in which we operate. This may cause significant volatility in demand for our services due to, among other adverse impacts, disruption and downturns in our customers' businesses and related supply chains, an acceleration of existing customer bankruptcies, or our customers' inability to pay for our services when due or in full. Although certain customers may have a reduced demand for our services, we also may see increased demand by certain customer segments, potentially offsetting reduced demand.

The COVID-19 pandemic could have adverse impacts on our business, including causing significant volatility in demand for our services due to disruption and downturns in our customers' businesses and related supply chains, disruptions to our third party technology providers, limitations on our employees' ability to work and travel, and significant changes in the economic or political conditions in markets in which we operate.

Products and Service Offerings

Any new products and changes to existing products we pursue could fail to attract or retain customers or generate expected revenues.

Our ability to retain, increase, and engage our customers and to increase our revenues depends heavily on our ability to identify, develop, and launch successful new products. We may introduce significant changes to our existing products or develop and introduce new and unproven products which include or use technologies with which we have little or no prior development or operating experience. If new or enhanced products fail to garner expected customer demand in a timely manner or at all, we may fail to generate sufficient revenues, operating margin, or other value to justify our investments and our business may be adversely affected.

Our business is dependent on our ability to maintain and scale our technical infrastructure, and any failure to effectively maintain or scale such infrastructure could damage our reputation, result in a potential loss of revenue, and adversely affect our financial results.

Our reputation and ability to attract, retain and serve our customers is dependent upon the reliable performance of our cloud-based products and our underlying technical infrastructure and cloud providers. As our user base and the amount and types of information shared on our cloud-based network continue to grow, we will need an increasing amount of technical infrastructure, including network capacity and computing power, to continue to satisfy the needs of our users. It is possible that we or our cloud providers may fail to effectively maintain and scale our technical infrastructure to accommodate these increased demands. Any failure to effectively maintain and grow our technical infrastructure could result in interruptions or delays in service which may damage our reputation, result in a potential loss of customers, and adversely affect our financial results.

Our inability to adapt to rapid technological change could impair our ability to remain competitive.

The industry in which we compete is characterized by rapid technological change, frequent introductions of new products and evolving industry standards. Existing products can become obsolete and unmarketable when vendors introduce products utilizing new technologies or new industry standards emerge, and as a result, it is difficult for us to predict the life cycles of our products. Our ability to attract new customers and increase revenues from customers will depend in significant part on our ability to anticipate technological changes, and the corresponding impact on customer needs, evolving requirements, and future industry standards, and to continue to enhance our existing products or introduce or acquire new products to keep pace with such technological developments. The success of our enhanced or new products depend on several factors, including the timely completion, introduction and market acceptance of the enhancement or product. Any new product we develop or acquire might not be introduced in a timely or cost-effective manner and might not achieve the broad market acceptance necessary to generate expected revenues. If any of our competitors or new market entrants implement new technologies or upgrades to existing technologies before we are able to implement them, they may be able to provide more effective products than ours at lower prices. Any delay or failure in the introduction of new or enhanced products could adversely affect our business, results of operations and financial condition.

We rely on third-party infrastructure, software and services that could take a significant time, and involve a complex transition, to replace or upgrade.

We rely on infrastructure, software and services licensed from third parties to offer our cloud-based supply chain management products. This infrastructure, software, and services, as well as related maintenance and updates, may not continue to be available to us on commercially reasonable terms, or at all. If we lose the right to use or upgrade any of these licenses, our customers could experience delays or be unable to access our products until we can obtain and integrate equivalent technology. There might not always be commercially reasonable alternatives to the third-party infrastructure, software, and services that we currently license. Any such alternatives could be more difficult or costly to replace than what we currently license, and integration of the alternatives into our cloud-based products could require significant work and resources and delays. Any delays or failures associated with our cloud-based products could damage our reputation with current and potential customers and have an adverse effect on our business.

Interruptions or delays from third-party data centers or to the telecommunications infrastructure we use or rely on could impair the delivery of our products and our business could suffer.

We use third-party data centers, located in the U.S. and internationally, as well as provision services from cloud providers, to conduct our operations. Our ability to deliver our services depends on the development and maintenance of telecommunications infrastructure by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, bandwidth capacity, and security. Our operations depend on the protection of the equipment and information we store in these third-party centers, or utilize from third-party providers, against damage or service interruptions that may be caused by fire, flood, severe storm, power loss, telecommunications failures, natural disasters, war, criminal act, military action, terrorist attack, financial failure of the service provider, and other events beyond our control. In addition, third-party malfeasance, such as intentional misconduct by computer hackers, unauthorized intrusions, computer viruses, ransomware, or denial of service attacks, may also cause substantial service disruptions. A prolonged service disruption affecting our products could damage our reputation with potential customers, cause us to lose existing customers, expose us to liability, or otherwise adversely affect our business. We may also incur significant costs for using alternative equipment or taking other actions in preparation for, or in reaction to, events that damage the data centers or infrastructure we use or rely on, including the additional expense of transitioning to substitute facilities or service providers.

A failure to protect the integrity and security of our customers' information and prevent cyber-attacks could materially damage our reputation, expose us to claims and litigation, and lead to service disruptions and harm our business. Additionally, the growing costs to avoid or reduce the risks of such a failure could adversely affect our results of operations.

As demonstrated by the frequency and sophistication of material and high-profile data security breaches within the retail industry; computer malware, viruses, computer hacking, phishing attacks, spamming, ransomware, and other cyber threats have become more prevalent in our industry. Given the interconnected nature of the retail supply chain, our significant presence in the retail industry, and the occurrence of cyber-attacks on our system in the past, we believe that we are an attractive target for such attacks.

Our business involves the collection and use of confidential information of our customers and their trading partners which sometimes requires our direct access to our customers' information systems. Our security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers via cyber-attacks, employee error, malfeasance, system errors or vulnerabilities, including vulnerabilities of our third-party vendors and customers, and result in someone obtaining unauthorized access to our customers' information and information systems. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as usernames, passwords, or other information in order to gain access to our customers' data or our data or IT systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Malicious third parties may also conduct attacks designed to temporarily deny customers access to our services.

Any failure to maintain performance, reliability, security and availability of our cloud-based products to the satisfaction of our customers, or any unauthorized access to our customers' information or systems may cause service disruptions, harm our reputation, impair our ability to retain existing customers and attract new customers and expose us to legal claims or government action, each of which could have a material adverse impact on our financial condition, results of operations and growth prospects. Although we are allocating more resources to address cyber threats and safeguard our products and services, including insurance in the event of a breach, we cannot assure you that these efforts to protect this confidential information and prevent unauthorized access to such information systems will be successful, and the growing costs related to these efforts could adversely affect our results of operations. In addition, because of the critical nature of information security and system access, any actual or perceived failure of our security measures could cause existing or potential customers not to use our products and harm our reputation.

Businesses in the retail industry have experienced material sales declines after discovering data security breaches, and our business could be similarly impacted in the event of a breach or other cyber incident. Furthermore, many U.S. states and international jurisdictions have enacted laws requiring companies to notify consumers of data security breaches involving their personal data. These mandatory disclosures regarding a data security breach often lead to widespread negative publicity, which may cause our customers to lose confidence in our products and the effectiveness of our data security measures.

We may experience service failures or interruptions due to defects in the hardware, software, infrastructure, third-party components or processes that comprise our existing or new products, any of which could adversely affect our business.

Technology products like ours may contain undetected defects in the hardware, software, infrastructure, third-party components or processes that are part of the products we provide. If these defects lead to service failures, we could experience delays or lost revenues, diversion of technology resources, negative media attention or increased service costs as a result of performance claims during the period required to correct the cause of the defects. We cannot be certain that defects will be avoided in our upgraded or new products, resulting in loss of, or delay in, market acceptance, which could have an adverse effect on our business, results of operations and financial condition.

Because customers use our cloud-based supply chain management products for critical business processes, any defect in our products, any disruption to our products or any error in execution could cause recurring revenue customers to cancel their contracts with us, cause potential customers to not join our network and harm our reputation. We could also be subject to litigation for actual or alleged losses to our customers' businesses, which may require us to spend significant time and money in litigation or arbitration or to pay significant settlements or damages. We do not currently maintain any warranty reserves. Moreover, defending a lawsuit, regardless of its merit, could be costly and divert management's attention and could cause our business to suffer.

The insurers under our existing liability insurance policy could deny coverage of a future claim that results from an error or defect in our technology or a resulting disruption in our products, or our existing liability insurance might not be adequate to cover any or all of the damages and other costs of such a claim. Moreover, we cannot assure you that our current liability insurance coverage will continue to be available to us on acceptable terms or at all. The successful assertion against us of one or more large claims that exceeds, or is not insured by, our insurance coverage, or the occurrence of changes in our liability insurance policy, including an increase in premiums or imposition of large deductible or co-insurance requirements, could have an adverse effect on our business, financial condition, and operating results.

If open source, or other no-cost products and services, expand into enterprise application and supply chain software or products, our prices, revenues, and operating results may decline.

The open source community is comprised of many different formal and informal groups of software developers and individuals who have created a wide variety of software and have made that software available for use, distribution, and modification, often free of charge. If developers contribute effective and scalable enterprise and supply chain application software to the open source community, or if competitors make such software or service available at no cost, we may need to lower our product pricing and alter our distribution strategy to compete successfully, and our revenues and operating results may decline as a result.

The use of open source software in our products may expose us to additional risks and harm our intellectual property.

Some of our products use or incorporate software that is subject to one or more open source licenses. Open source software is typically licensed under terms that require making the software freely accessible, usable, and modifiable. Failure to comply with these licenses may subject us to onerous requirements, such as offering our products that incorporate the open source software for no cost or making the source code we create based upon, incorporating, or using the open source software available for modifications or derivative works. If an author or third-party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our services that contained the open source software and required to comply with the foregoing conditions, which could disrupt the distribution and sale of some of our products.

While we monitor the use of a majority of open source software in our products, processes and technology and work to ensure that open source software is not used in such a way as to require us to disclose the source code to the related product or products, such use could inadvertently occur. Additionally, if a third-party software provider has incorporated certain types of open source software into software we license from such third-party for our products, we could, under certain circumstances, be required to disclose the source code to our products. This could harm our intellectual property position and have a material adverse effect on our business, results of operations and financial condition.

If we fail to protect our intellectual property and proprietary rights adequately, our business could suffer material adverse effects.

We believe that proprietary technology is essential to establishing and maintaining our leadership position. We seek to protect our intellectual property through trade secrets, copyrights, confidentiality, non-compete and nondisclosure agreements, license agreements, trademarks, domain names and other measures, some of which afford only limited protection. We do not have any registered copyrights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or reverse engineer aspects of our technology or to obtain and use information that we regard as proprietary. We cannot assure you that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar or superior technology or design around our intellectual property. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the U.S. intellectual property protections may also be unavailable, limited or difficult to enforce in some countries, which could make it easier for competitors to capture market share. Our failure to adequately protect our intellectual property and proprietary rights could adversely affect our business, financial condition, and results of operations.

In addition, if we resort to legal proceedings to enforce our intellectual property rights or to determine the validity and scope of the intellectual property or other proprietary rights of others, the proceedings could be burdensome and expensive, even if we were to prevail. Any such legal proceedings, including litigation, that are pursued in the future could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results, or financial condition, regardless of whether we prevail in such proceedings.

An assertion by a third-party that we are infringing its intellectual property, whether or not correct, could subject us to costly and time-consuming litigation or expensive licenses and our business might be materially harmed.

The supply chain management industry and its enabling technologies are characterized by the existence of a large number of patents, copyrights, trademarks, and trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. As we seek to extend our products, we could be constrained by the intellectual property rights of others.

We might not prevail in any intellectual property infringement litigation against us given, among other reasons, the complex technical issues, and inherent uncertainties in such litigation. Moreover, defending such claims, regardless of their merit, could be time-consuming and distracting to management, result in costly litigation or settlement, cause development delays, require us to enter into royalty or licensing agreements or require us to redesign our products to avoid infringement. If our products violate any third-party proprietary rights, we could be required to withdraw those products from the market, re-develop those products or seek to obtain licenses from third parties, which might not be available on reasonable terms or at all. Any efforts to re-develop our products, obtain licenses from third parties on favorable terms or license a substitute technology might be unsuccessful and, in any case, might substantially increase our costs and harm our business, financial condition and operating results. We also face risk of infringement or misappropriation claims if we hire an employee or contractor who possesses third-party proprietary information and who decides to use such information in connection with our products, services, or business processes without such third-party's authorization. Regardless of the source of such misuse of third-party intellectual property, any resulting withdrawal of our products from the market might materially harm our business, financial condition, and operating results.

In addition, we incorporate open source software into our cloud-based products. Given the nature of open source software, third parties might assert copyright and other intellectual property infringement claims against us based on our use of certain open source software programs. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our products. In that event, we could be required to seek licenses from third parties in order to continue offering our products, to re-develop our products or to discontinue sales of our products, or to release our proprietary software code under the terms of an open source license, any of which could have a material adverse effect on our business.

Regulation

Privacy concerns and laws, evolving regulation of the internet and cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations may limit the use and adoption of our products and adversely affect our business.

Regulation related to the provision of services on the internet is increasing, as federal, state, and foreign governments continue to adopt new laws and regulations addressing eCommerce generally, data privacy and the collection, processing, storage and use of personal information, including but not limited to the European Union's General Data Protection Regulation. We are particularly sensitive to these risks because the internet and the collection, processing, storage, and use of personal information are critical components of our cloud-based business model. Further, laws are increasingly aimed at the use of personal information for marketing purposes, such as the European Union's e-Privacy Directive, and the country-specific regulations that implement that directive. Such laws and regulations are subject to differing interpretations and are inconsistent among jurisdictions. These and other requirements could reduce demand for our products or restrict our ability to store and process data or, in some cases, impact our ability to offer, or develop new, services and products in certain locations.

In addition to government activity, privacy advocacy and other industry groups have established or may establish new self-regulatory standards that may place additional burdens on us. Our customers may expect us to meet voluntary certification or other standards established by third parties. If we are unable to maintain these certifications or meet these standards, it could adversely affect our ability to provide our products to certain customers and could harm our business.

The costs of compliance with and other burdens imposed by laws, regulations and standards are significant and may limit the use and adoption of our services and reduce overall demand for them, or lead to material fines, penalties, or liabilities for noncompliance.

Furthermore, concerns regarding data privacy may cause our customers' customers to resist providing the data necessary to allow our customers to use our service effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales and adoption of our cloud-based products.

Industry-specific regulation is evolving, and unfavorable or burdensome industry-specific laws, regulations or interpretive positions could harm our business.

Our customers and potential customers do business in a variety of industries. Regulators in certain industries have adopted and may in the future adopt regulations or interpretive positions regarding the use of cloud computing and other outsourced services. The costs of compliance with, and other burdens imposed by, industry-specific laws, regulations and interpretive positions may limit customers' use and adoption of our services and reduce overall demand for our services. In addition, an inability to satisfy the standards of certain voluntary third-party certification bodies that our customers may expect may have an adverse impact on our business. If in the future we are unable to achieve or maintain these industry-specific certifications or other requirements or standards relevant to our customers, it may harm our business.

In some cases, industry-specific laws, regulations, or interpretive positions may also apply directly to us as a service provider. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on our business.

Ownership of Our Common Stock

Our results of operations may fluctuate in the future, which could result in volatility in our stock price.

Our quarterly revenues and results of operations have varied in the past and may fluctuate in the future. Fluctuations in our results of operations may be due to a number of factors, including, but not limited to, those listed below and identified throughout this "Risk Factors" section:

- our ability to retain and increase sales to customers and attract new customers, including our ability to maintain and increase our number of recurring revenue customers;
- the timing and success of introductions of new products or upgrades by us or our competitors;
- the strength of the U.S. and global economy, in particular, as it affects the U.S. retail sector;
- the financial condition of our customers;
- changes in our pricing policies or those of our competitors;
- competition, including entry into the industry by new competitors;
- the amount and timing of our expenses, including stock-based compensation and expenditures related to expanding our operations, supporting new customers, performing research and development, or introducing new products;
- changes in laws and regulations impacting our business;
- regulatory compliance costs and unforeseen legal expenses, including litigation and settlement costs;
- the timing, size, integration and operational success of potential future acquisitions;
- changes in the payment terms for our products; and
- system or service failures, security breaches or network downtime.

Due to the foregoing factors, and other risks, including those identified in this "Risk Factors" section, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on these comparisons of our past results of operations as an indication of our future performance.

Our operating results in one or more future quarters may fluctuate, fall below the expectations of securities analysts and investors, or be less than any guidance we may provide to the market. If this occurs, the trading price of our common stock could decline significantly.

Our stock price may be volatile.

Our stock price has fluctuated and may fluctuate in the future, depending on a number of factors, including:

- fluctuations in our guidance and quarterly financial results or the guidance or quarterly financial results of companies perceived to be similar to us;
- fluctuations in our recorded revenue, even during periods of significant sales order activity;
- fluctuations in stock market volume;
- changes in estimates of our financial results or recommendations by securities analysts;
- failure of any of our products to achieve or maintain market acceptance;
- changes in market valuations of companies perceived to be similar to us;
- success of competitive products or services;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant products, contracts, acquisitions, or strategic alliances;
- legal or regulatory developments in the U.S., foreign countries, or both;
- litigation involving our company, our general industry or both;
- additions or departures of key personnel;
- investors' general perception of us; and
- changes in general economic, industry and market conditions.

In addition, if the market for software or technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition, or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

Our charter documents and Delaware law may delay, discourage, or inhibit a takeover that stockholders consider favorable.

Provisions of our certificate of incorporation and bylaws and applicable provisions of Delaware law may delay, discourage, or inhibit transactions involving an actual or potential change in our control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests, and may ultimately result in the market price of our common stock being lower than it would be without these provisions. These provisions:

- permit our board of directors to issue up to 5,000,000 shares of preferred stock, with any rights, preferences and privileges as our board may designate, including the right to approve an acquisition or other change in our control;
- provide that the authorized number of directors may be changed by resolution of the board of directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder's notice; and
- do not provide for cumulative voting rights.

In addition, Section 203 of the Delaware General Corporation Law generally limits our ability to engage in any business combination with certain persons who own 15% or more of our outstanding voting stock or any of our associates or affiliates who at any time in the past three years have owned 15% or more of our outstanding voting stock. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirers at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock.

We do not intend to declare dividends on our stock in the foreseeable future.

We currently intend to retain all future earnings for the operation and expansion of our business and, therefore, do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. Investors may need to sell all or part of their holdings of our common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Any payment of future cash dividends on our common stock will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, financial condition, future prospects, contractual restrictions, and other factors deemed relevant by our board of directors. Therefore, you should not expect to receive dividend income from shares of our common stock.

General

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our operating results and financial condition.

We are subject to income taxes in the U.S. and various foreign jurisdictions, and our domestic and international tax liabilities will be subject to the allocation of expenses in differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of tax valuation allowances;
- expiration of, or detrimental changes in, research and development tax credit laws;
- tax effects of stock-based compensation;
- costs related to intercompany restructurings;
- changes in tax laws, regulations, accounting principles or interpretations thereof; and
- future earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated earnings in countries where we have higher statutory tax rates.

In addition, we are subject to audits of our income, sales, and other taxes by the Internal Revenue Service and other foreign and state tax authorities. Outcomes from these audits could have an adverse effect on our operating results and financial condition.

Our failure to maintain adequate internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 or to prevent or detect material misstatements in our annual or interim financial statements in the future could result in inaccurate financial reporting, or could otherwise harm our business and investor confidence in our financial reporting.

Ensuring that we have internal financial and accounting controls and procedures adequate to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated periodically. The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we are required to perform annual system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Furthermore, implementing any appropriate future changes to our internal control over financial reporting may entail substantial costs in order to modify our existing accounting systems, may take a significant period of time to complete and may distract our officers, directors, and employees from the operation of our business. If we are not able to comply with the requirements of Section 404 in the future, or if material weaknesses are identified, our business could be harmed and investor confidence in our financial reporting diminished.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters, including our principal administrative, marketing, sales, technical support, and research and development facilities, are located in Minneapolis, Minnesota. This location includes approximately 198,000 square feet of space and is under lease through 2027. We lease other smaller facilities across the U.S. and international locations. We believe that our current facilities are suitable and adequate to meet our current needs and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations. For additional information regarding obligations under operating leases, see Note I of our consolidated financial statements, included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Item 3. 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. We believe that we have obtained adequate insurance coverage and/or rights to indemnification in connection with potential legal proceedings that may arise.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market Information - Our common stock is and has been traded on the Nasdaq Global Market under the symbol "SPSC" since April 22, 2010, the date of our initial public offering.

Stockholders of Record - As of February 10, 2023, we had 68 stockholders of record of our common stock, excluding holders whose stock is held either in nominee name and/or street name brokerage accounts.

Dividends - We have not declared or paid cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the operation and expansion of our business, and, therefore, we do not expect to pay cash dividends on our common stock in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, outstanding indebtedness and plans for expansion and restrictions imposed by lenders, if any.

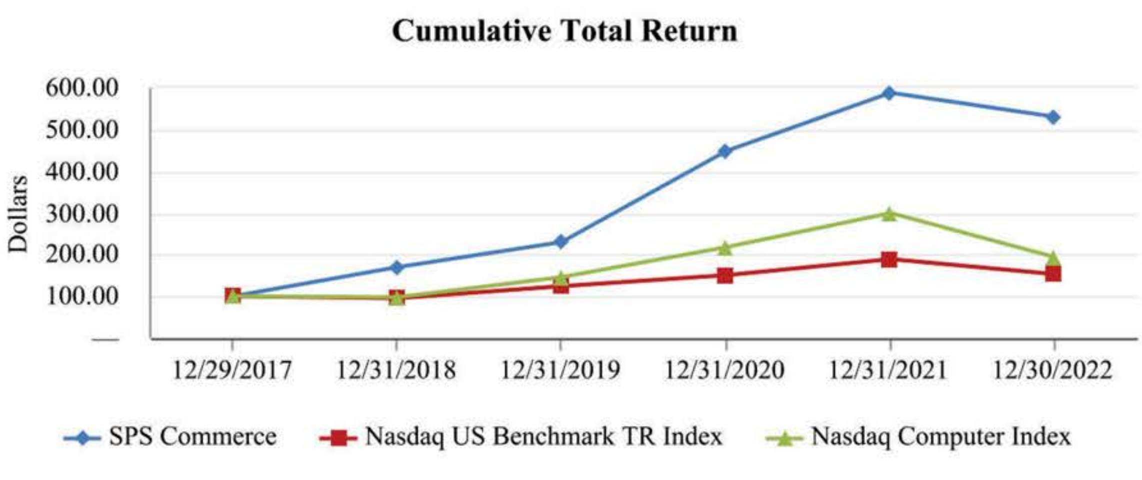
Stock Performance Graph and Cumulative Total Return

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, the following information relating to the price performance of our common stock shall not be deemed to be "filed" with the SEC or to be "soliciting material" under the Securities Exchange Act of 1934, as amended, ("Exchange Act"), and it shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended ("Securities Act"), or the Exchange Act, except to the extent we specifically incorporate it by reference into such filing.

The table and graph below compare the cumulative total stockholder return of our common stock with that of the Nasdaq US Benchmark TR Index and the Nasdaq Computer Index from December 31, 2017 through December 31, 2022, utilizing the last trading day of each respective year. The return assumes that $100 was invested in shares of our common stock and the other indexes at the close of market on December 29, 2017, the last trading day of 2017, and that dividends, if any, were reinvested. The comparisons in this table and graph are based on historical data and are not intended to forecast or be indicative of future performance of our common stock.

Comparison of Cumulative Total Returns of SPS Commerce, Inc. to Comparable Indexes

Date	SPS Commerce	Nasdaq US Benchmark TR Index	Nasdaq Computer Index
12/29/2017	$ 100.00	$ 100.00	$ 100.00
12/31/2018	169.54	94.56	96.32
12/31/2019	228.11	124.03	144.80
12/31/2020	446.96	150.41	217.17
12/31/2021	585.92	189.36	299.39
12/30/2022	528.63	152.00	192.28



Recent Sales of Unregistered Securities; Use of Proceeds from Sales of Registered Securities

Not applicable.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The share repurchase activity for the quarter ended December 31, 2022 was as follows:

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 [(1)]
October 1 - 31, 2022	1,291	$ 120.06	1,291	$ 47,368,000
November 1 - 30, 2022	3,024	119.05	3,024	47,008,000
December 1 - 31, 2022	—	—	—	47,008,000
Total	4,315	$ 119.35	4,315	$ 47,008,000

For more information regarding our share repurchase programs, refer to Note J to our consolidated financial statements, included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

(1) On July 26, 2022 (announced July 27, 2022), our board of directors authorized a program to repurchase up to $50.0 million of our common stock. Under the program, purchases may be made from time to time in the open market or in privately negotiated purchases, or both. The new share repurchase program became effective August 26, 2022 and expires on July 26, 2024.

Item 6. [Reserved]

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

The following discussion and analysis of our financial condition and results of operations should be read together with our audited consolidated financial statements and related notes which are included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. Our actual results could differ materially from those anticipated in the forward-looking statements included in this discussion as a result of certain factors, including, but not limited to, those discussed in Part I, Item 1A, "Risk Factors" of this Annual Report on Form 10-K.

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, grocers, distributors, suppliers, and logistics firms to communicate and collaborate by simplifying how they manage and share item, inventory, order and sales data across omnichannel retail channels. We deliver our products using a full-service model, which includes industry-leading technology and a team of experts that optimize, update, and operate the technology on customers' behalf.

Our products enable customers to increase supply chain performance, optimize inventory levels and sell-through, reduce operational costs, improve order visibility, and satisfy consumer demands for a seamless omnichannel experience.

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 Financial Measures

Sources of Revenues

Fulfillment - Our Fulfillment product is a full-service EDI solution that scales as a business grows. Companies can use a single system to manage orders and logistics from all sales channels, including wholesale, eCommerce, and marketplaces. Fulfillment is configurable for any trading partner, document or business system used for order management and offers a full suite of tools to help businesses efficiently manage their supply chain.

Analytics - Our Analytics product enables organizations to improve visibility into how products are selling through a single connection across all sales channels, including wholesale, eCommerce, and marketplaces. Analytics improves access and usage of sales and inventory data through a combination of our analytics applications, network of connections, and industry-leading expertise.

Other Products - We provide several complementary products, such as:

- Assortment - Our Assortment product simplifies the communication of robust, accurate item data by automatically translating item attributes, and hierarchies through a single connection across all sales channels.
- Community - Our Community product allows organizations to accelerate digitization of their supply chain and improve collaboration with suppliers through proven change management and onboarding programs.

Cost of Revenues and Operating Expenses

Cost of Revenues - Cost of revenues consist primarily of personnel costs for our customer success and implementation teams, customer support personnel, and application support personnel, as well as amortization related to internally developed software.

Sales and Marketing Expenses - Sales and marketing expenses consist primarily of personnel costs for our sales, marketing, product management teams, and commissions earned by our sales personnel and referral partners.

Research and Development Expenses - Research and development expenses consist primarily of personnel costs and stock-based compensation expense for development of new and maintenance of existing products, net of amounts capitalized as developed software.

General and Administrative Expenses - General and administrative expenses consist primarily of personnel costs and stock-based compensation expense for finance, human resources, and internal technology support, as well as professional services and other fees, such as bad debt expense and credit card processing fees.

Overhead Allocation - We allocate overhead expenses such as rent, certain employee benefit costs, and depreciation of general office assets to cost of revenues and operating expenses categories based on expense type using department headcount or salary.

Amortization of Intangibles Assets - Amortization expense consists of the expense recognition of acquired intangible assets over their estimated useful lives.

Other Income (Expense), net

Other income (expense) consists primarily of realized gain (loss) from foreign currency on cash and investments held and investment income.

Income Tax Expense

Income tax expense consists primarily of income taxes for U.S. federal jurisdiction in addition to income taxes for various state and international jurisdictions.

Metrics and Non-GAAP Financial Measures

Recurring Revenue Customers - As of December 31, 2022, we had 42,300 customers with ongoing contracts to pay us monthly fees, which we refer to as recurring revenue customers. A small portion of our recurring revenue customers consist of separate units within a larger organization. We treat each of these units, which may include divisions, departments, affiliates and franchises, as distinct customers.

Wallet Share - We calculate average recurring revenues per recurring revenue customer, which we also refer to as wallet share, by dividing the recurring revenues from recurring revenue customers for the period by the average of the beginning and ending number of recurring revenue customers for the period.

Non-GAAP Financial Measures - To supplement our consolidated 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 financial 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 financial 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. We believe these non-GAAP financial measures are useful to an investor as they are widely used in evaluating operating performance. Adjusted EBITDA and Adjusted EBITDA Margin are used to measure operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of capital structure and the method by which assets were acquired.

These non-GAAP financial 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 consolidated 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.*"

Critical Accounting Policies and Estimates

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. On an ongoing basis, we evaluate our estimates, judgments, 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, internally developed software, and business combinations are the most critical to fully understand and evaluate our financial condition and results of operations.

Revenue Recognition

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

Internally Developed Software

Internally developed software consists of capitalized costs incurred during the application development stage, which include costs related to the design of the chosen path, coding, installation of the hardware necessary to run the software, and any testing done before the operational stage. Costs incurred during the preliminary project stage and post-implementation stage are expensed as incurred. Additionally, maintenance of internally developed software are expensed as incurred. Internally developed software is amortized over the estimated useful life, three years, commencing on the date when the asset is ready for its intended use. Amortization is computed using the straight-line method.

Business Combinations

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values as of the acquisition date. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations may require us to make significant estimates and assumptions, especially with respect to intangible assets.

Significant estimates in valuing certain intangible assets may include, but are not limited to, future expected cash flows from acquired customers and developed technology from a market participant perspective, useful lives, and discount rates. Significant estimates in valuing liabilities for contingent consideration may include, but are not limited to, discount rates, projected financial results of the acquired businesses based on our most recent internal forecasts, and factors indicating the probability of achieving the forecasted results.

Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is not to exceed one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Results of Operations

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

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

	Year Ended December 31,				Change	
	2022		2021			
($ in thousands)	$	% of revenue(1)	$	% of revenue(1)	$	%
Revenues	$ 450,875	100.0 %	$ 385,276	100.0 %	$ 65,599	17.0 %
Cost of revenues	153,065	33.9	131,678	34.2	21,387	16.2
Gross profit	297,810	66.1	253,598	65.8	44,212	17.4
Operating expenses						
Sales and marketing	101,772	22.6	88,044	22.9	13,728	15.6
Research and development	45,748	10.1	39,038	10.1	6,710	17.2
General and administrative	67,340	14.9	61,305	15.9	6,035	9.8
Amortization of intangible	11,768	2.6	10,126	2.6	1,642	16.2
Total operating expenses	226,628	50.3	198,513	51.5	28,115	14.2
Income from operations	71,182	15.8	55,085	14.3	16,097	29.2
Other income (expense), net	142	—	(1,544)	(0.4)	1,686	(109.2)
Income before income taxes	71,324	15.8	53,541	13.9	17,783	33.2
Income tax expense	16,190	3.6	8,944	2.3	7,246	81.0
Net income	$ 55,134	12.2 %	$ 44,597	11.6 %	$ 10,537	23.6 %

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

Revenues - Revenues increased for the 88th consecutive quarter. The increase in revenues 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 13% to 42,300 at December 31, 2022 from 37,500 at December 31, 2021 primarily due to sales and marketing efforts to acquire new customers and due to recent acquisitions.
- Wallet share increased 4% to $10,500 at December 31, 2022 from $10,050 at December 31, 2021. This was primarily attributable to increased usage of our products by our recurring revenue customers.

Recurring revenues increased 18% in 2022, as compared to 2021, and accounted for 93% and 92% of our total revenues in 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 $15.6 million in personnel-related costs and an increase of $1.9 million in stock-based compensation.

Sales and Marketing Expenses - The increase in sales and marketing expense was primarily due to increased headcount which resulted in an increase of $9.4 million in personnel-related costs and an increase of $1.3 million in stock-based compensation. Additionally, there was an increase of $1.2 million in sales commissions due to increased sales.

Research and Development Expenses - The increase in research and development expense was primarily due to increased headcount which resulted in increases of personnel costs of $4.4 million and stock-based compensation of $1.3 million.

General and Administrative Expenses - The increase in general and administrative expense was primarily due to increased headcount which resulted in an increase in personnel-related costs of $1.9 million. There was also an increase of $1.3 million in stock-based compensation. Additionally, as we continued to support growing operations, there was an increase in professional fees of $1.6 million and an increase of $1.3 million in software subscriptions, partially offset by a decrease of $1.3 million in bad debt expense.

Amortization of Intangible Assets - The increase in amortization of intangible assets was driven by increased intangible assets related to recent business acquisitions.

Other Income (Expense) - The change was primarily due to increased investment income and favorable foreign currency exchange rate changes.

Income Tax Expense - The increase in income tax expense was driven by an increase in pre-tax income and a decrease in excess tax deductions due to the current period equity award settlements. This was 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 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 year ended December 31, 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:

	Year Ended December 31,	
(in thousands)	**2022**	**2021**
Net income	$ 55,134	$ 44,597
Income tax expense	16,190	8,944
Depreciation and amortization of property and equipment	16,421	14,788
Amortization of intangible assets	11,768	10,126
Stock-based compensation expense	33,399	27,574
Realized loss from foreign currency on cash and investments held	1,026	1,456
Investment income	(1,670)	(278)
Other	—	(192)
Adjusted EBITDA	$ 132,268	$ 107,015

Adjusted EBITDA Margin - Adjusted EBITDA Margin 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:

	Year Ended December 31,	
(in thousands, except Margin and Adjusted EBITDA Margin)	**2022**	**2021**
Revenue	$ 450,875	$ 385,276
Net income	55,134	44,597
Margin	12 %	12 %
Adjusted EBITDA	$ 132,268	$ 107,015
Adjusted EBITDA Margin	29 %	28 %

Non-GAAP Income per Share - Non-GAAP income per share consists of net income adjusted for 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 year ended December 31, 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:

	Year Ended December 31,	
(in thousands, except per share amounts)	**2022**	**2021**
Net income	$ 55,134	$ 44,597
Stock-based compensation expense	33,399	27,574
Amortization of intangible assets	11,768	10,126
Realized loss from foreign currency on cash and investments held	1,026	1,456
Other	—	(192)
Income tax effects of adjustments	(14,639)	(16,454)
Non-GAAP income	$ 86,688	$ 67,107
Shares used to compute non-GAAP income per share		
Basic	36,117	35,928
Diluted	36,953	36,962
Non-GAAP income per share		
Basic	$ 2.40	$ 1.87
Diluted	$ 2.35	$ 1.82

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

The discussion of our results from operations for the year ended December 31, 2021 compared to the year ended December 31, 2020 can be found in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Liquidity and Capital Resources

At December 31, 2022, our principal sources of liquidity were cash and cash equivalents and short-term investments totaling $214.3 million, and net accounts receivable of $39.4 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 instruments, primarily money market funds, certificates of deposits, and commercial paper.

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

	Twelve Months Ended December 31,	
(in thousands)	**2022**	**2021**
Net cash provided by operating activities	$ 100,052	$ 112,893
Net cash used in investing activities	(112,790)	(46,703)
Net cash used in financing activities	(31,631)	(8,361)

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 increase in net cash used in investing activities was primarily due to increased business acquisition activity.

Net Cash Flows from Financing Activities

The increase in net cash used in financing activities was primarily due to the increased repurchases of common stock.

The discussion of our liquidity and capital resources for the year ended December 31, 2021 compared to the year ended December 31, 2020 can be found in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Contractual and Commercial Commitment Summary

Our contractual obligations and commercial commitments as of December 31, 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	$ 4,889	$ 8,854	$ 5,029	$ —	$ 18,772
Purchase commitments	3,126	1,789	—	—	4,915
Total	$ 8,015	$ 10,643	$ 5,029	$ —	$ 23,687

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.

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 cash flows from our 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 II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of this Annual Report on Form 10-K.

During the last three years, inflation and changing prices have not had a material effect on our business and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note A, General, in our Notes to Consolidated Financial Statements in the sections entitled "Recently Adopted Accounting Pronouncements" and "Accounting Pronouncements Not Yet Adopted" as applicable, included in Part II, Item 8, "Financial Instruments and Supplementary Data" of this Annual Report on Form 10-K.

Item 7A. 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 exposure. We do not enter into investments for trading or speculative purposes.

We did not have any variable interest rate outstanding debt as of December 31, 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 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 December 31, 2022, we maintained 11% 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 8. Financial Statements and Supplementary Data

SPS Commerce, Inc. and Subsidiaries Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
SPS Commerce, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of SPS Commerce, Inc. and subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 21, 2023 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the capitalized internal costs for internally developed software

As discussed in Note A to the consolidated financial statements, the Company capitalizes costs incurred for internally developed software during the application development stage. Capitalized internally developed software is recorded within property and equipment and depreciated over the estimated useful life.

We identified the assessment of the capitalized internal costs for internally developed software as a critical audit matter. Subjective auditor judgment was required to assess the stage of software development for new internally developed software or upgrades and enhancements for existing internally developed software, which determines when costs should be capitalized.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's internally developed software process. This included controls related to the evaluation and approval of new internally developed software projects or upgrades and enhancements to existing internally developed software projects, monitoring of the software development stage, and capitalization of internal costs. We examined a sample of capitalized internally developed software costs to evaluate costs that were capitalized for new internally developed software or upgrades and enhancements for existing internally developed software. For each sample, we evaluated the capitalized costs and assessed the stage of software development by inspecting underlying documentation and inquiring of the Company's technology developers performing the internally developed software activities regarding the specific nature, stage of completion, and hours incurred on the project.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Minneapolis, Minnesota
February 21, 2023

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
SPS Commerce, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited SPS Commerce, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements), and our report dated February 21, 2023 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired GCommerce, Inc. and InterTrade Systems Inc. during 2022, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2022, GCommerce, Inc. and InterTrade Systems Inc.'s internal control over financial reporting associated with total assets of 3.7% and total revenues of 1.4% included in the consolidated financial statements of the Company as of and for the year ended December 31, 2022. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of GCommerce, Inc. and InterTrade Systems Inc.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Minneapolis, Minnesota
February 21, 2023

SPS COMMERCE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except shares)	December 31, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 162,893	$ 207,552
Short-term investments	51,412	49,758
Accounts receivable	42,501	38,811
Allowance for credit losses	(3,066)	(4,249)
Accounts receivable, net	39,435	34,562
Deferred costs	52,755	44,529
Other assets	16,319	16,042
Total current assets	322,814	352,443
Property and equipment, net	35,458	31,901
Operating lease right-of-use assets	9,170	10,851
Goodwill	197,284	143,663
Intangible assets, net	88,352	58,587
Other assets		
Deferred costs, non-current	17,424	15,191
Deferred income tax assets	227	182
Other assets, non-current	2,185	3,028
Total assets	$ 672,914	$ 615,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 11,256	$ 8,330
Accrued compensation	30,235	31,661
Accrued expenses	7,451	8,345
Deferred revenue	57,423	50,428
Operating lease liabilities	4,277	4,108
Total current liabilities	110,642	102,872
Other liabilities		
Deferred revenue, non-current	4,771	5,144
Operating lease liabilities, non-current	13,009	16,426
Deferred income tax liabilities	7,419	7,145
Total liabilities	135,841	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; 38,309,144 and 37,798,610 shares issued; and 36,158,046 and 36,009,257 shares outstanding, respectively	38	38
Treasury Stock, at cost; 2,151,098 and 1,789,353 shares, respectively	(128,892)	(85,677)
Additional paid-in capital	476,117	433,258
Retained earnings	193,221	138,087
Accumulated other comprehensive loss	(3,411)	(1,447)
Total stockholders' equity	537,073	484,259
Total liabilities and stockholders' equity	$ 672,914	$ 615,846

See accompanying notes to these consolidated financial statements.

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

	Year Ended December 31,		
(in thousands, except per share amounts)	**2022**	**2021**	**2020**
Revenues	$ 450,875	$ 385,276	$ 312,630
Cost of revenues	153,065	131,678	99,836
Gross profit	297,810	253,598	212,794
Operating expenses			
Sales and marketing	101,772	88,044	75,955
Research and development	45,748	39,038	31,024
General and administrative	67,340	61,305	50,119
Amortization of intangible assets	11,768	10,126	5,538
Total operating expenses	226,628	198,513	162,636
Income from operations	71,182	55,085	50,158
Other income (expense), net	142	(1,544)	2,522
Income before income taxes	71,324	53,541	52,680
Income tax expense	16,190	8,944	7,094
Net income	$ 55,134	$ 44,597	$ 45,586
Other comprehensive income (expense)			
Foreign currency translation adjustments	(2,240)	(514)	1,097
Unrealized gain (loss) on investments, net of tax of $147, ($34), and ($3) respectively	441	(102)	(10)
Reclassification of (gain) loss on investments into earnings, net of tax of ($55), $63, and ($52), respectively	(165)	190	(157)
Total other comprehensive income (expense)	(1,964)	(426)	930
Comprehensive income	$ 53,170	$ 44,171	$ 46,516
Net income per share			
Basic	$ 1.53	$ 1.24	$ 1.29
Diluted	$ 1.49	$ 1.21	$ 1.26
Weighted average common shares used to compute net income per share			
Basic	36,117	35,928	35,226
Diluted	36,953	36,962	36,285

See accompanying notes to these consolidated financial statements.

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

(in thousands, except shares)	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, 2019	34,863,271	$ 36	1,241,348	$ (46,297)	$ 354,115	$ 48,973	$ (1,951)	$ 354,876
Stock-based compensation	—	—	—	—	17,382	—	—	17,382
Shares issued pursuant to stock awards	934,015	1	—	—	18,591	—	—	18,592
Employee stock purchase plan activity	61,833	—	—	—	3,374	—	—	3,374
Repurchases of common stock	(371,902)	—	371,902	(18,950)	—	—	—	(18,950)
Net income	—	—	—	—	—	45,586	—	45,586
Foreign currency translation adjustments	—	—	—	—	—	—	1,097	1,097
Unrealized loss on investments, net of	—	—	—	—	—	—	(10)	(10)
Reclassification of gain on investments into earnings, net of tax	—	—	—	—	—	—	(157)	(157)
Adoption of ASU 2016-13	—	—	—	—	—	(1,069)	—	(1,069)
Balances, December 31, 2020	35,487,217	$ 37	1,613,250	$ (65,247)	$ 393,462	$ 93,490	$ (1,021)	$ 420,721
Stock-based compensation	—	—	—	—	25,686	—	—	25,686
Shares issued pursuant to stock awards	642,417	1	—	—	9,373	—	—	9,374
Employee stock purchase plan activity	55,726	—	—	—	4,737	—	—	4,737
Repurchases of common stock	(176,103)	—	176,103	(20,430)	—	—	—	(20,430)
Net income	—	—	—	—	—	44,597	—	44,597
Foreign currency translation adjustments	—	—	—	—	—	—	(514)	(514)
Unrealized loss on investments, net of	—	—	—	—	—	—	(102)	(102)
Reclassification of loss on investments into earnings, net of tax	—	—	—	—	—	—	190	190
Balances, December 31, 2021	36,009,257	$ 38	1,789,353	$ (85,677)	$ 433,258	$ 138,087	$ (1,447)	$ 484,259
Stock-based compensation	—	—	—	—	31,275	—	—	31,275
Shares issued pursuant to stock awards	440,427	—	—	—	4,908	—	—	4,908
Employee stock purchase plan activity	70,107	—	—	—	6,676	—	—	6,676
Repurchases of common stock	(361,745)	—	361,745	(43,215)	—	—	—	(43,215)
Net income	—	—	—	—	—	55,134	—	55,134
Foreign currency translation adjustments	—	—	—	—	—	—	(2,240)	(2,240)
Unrealized gain on investments, net of	—	—	—	—	—	—	441	441
Reclassification of gain on investments into earnings, net of tax	—	—	—	—	—	—	(165)	(165)
Balances, December 31, 2022	36,158,046	$ 38	2,151,098	$ (128,892)	$ 476,117	$ 193,221	$ (3,411)	$ 537,073

See accompanying notes to these consolidated financial statements.

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

(in thousands)	Year Ended December 31, 2022	2021	2020
Cash flows from operating activities			
Net income	$ 55,134	$ 44,597	$ 45,586
Reconciliation of net income to net cash provided by operating activities			
Deferred income taxes	(3,732)	3,881	4,241
Change in earn-out liability	—	—	(85)
Depreciation and amortization of property and equipment	16,421	14,788	13,127
Amortization of intangible assets	11,768	10,126	5,538
Provision for credit losses	3,359	4,717	5,660
Stock-based compensation	33,399	27,574	18,936
Other, net	220	323	(24)
Changes in assets and liabilities, net of effects of acquisitions			
Accounts receivable	(6,435)	(4,959)	(5,922)
Deferred costs	(10,646)	(9,299)	(3,414)
Other current and non-current assets	2,632	(6,181)	1,201
Accounts payable	144	2,259	1,214
Accrued compensation	(3,786)	6,775	(1,257)
Accrued expenses	(2,829)	1,017	563
Deferred revenue	5,965	14,483	4,432
Operating leases	(1,562)	2,792	(1,234)
Net cash provided by operating activities	100,052	112,893	88,562
Cash flows from investing activities			
Purchases of property and equipment	(19,880)	(19,588)	(16,467)
Purchases of investments	(160,427)	(121,242)	(74,797)
Maturities of investments	158,937	111,193	69,461
Acquisitions of businesses, net	(91,420)	(17,066)	(98,666)
Net cash used in investing activities	(112,790)	(46,703)	(120,469)
Cash flows from financing activities			
Repurchases of common stock	(43,215)	(20,430)	(18,950)
Net proceeds from exercise of options to purchase common stock	4,908	9,374	18,592
Net proceeds from employee stock purchase plan activity	6,676	4,737	3,374
Payment for contingent consideration	—	(2,042)	(688)
Net cash provided by (used in) financing activities	(31,631)	(8,361)	2,328
Effect of foreign currency exchange rate changes on cash and cash equivalents	(290)	31	19
Net increase (decrease) in cash and cash equivalents	(44,659)	57,860	(29,560)
Cash and cash equivalents at beginning of year	207,552	149,692	179,252
Cash and cash equivalents at end of year	$ 162,893	$ 207,552	$ 149,692
Supplemental disclosure of cash flow information			
Cash paid for income taxes	$ 16,076	$ 9,979	$ 1,656
Non-cash financing activities:			
Contingent consideration related to acquisition	2,000	—	—
Net purchases of property and equipment on account	(215)	(683)	(551)

See accompanying notes to these consolidated financial statements.

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, grocers, distributors, suppliers, and logistics firms to communicate and collaborate by simplifying how they manage and share item, inventory, order and sales data across omnichannel retail channels. We deliver our products using a full-service model, which includes industry-leading technology and a team of experts that optimize, update, and operate the technology on customers' behalf.

Our products enable customers to increase supply chain performance, optimize inventory levels and sell-through, reduce operational costs, improve order visibility, and satisfy consumer demands for a seamless omnichannel experience.

Basis of Presentation

The accompanying 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 consolidated financial statements.

Foreign Currency Translation

The functional currency of our foreign operations is generally the applicable local currency. The functional currency is translated into U.S. dollars for balance sheet accounts using current exchange rates in effect as of the balance sheet date and for revenue and expense accounts using an average exchange rate during the year. The translation adjustments are deferred as a component of other comprehensive income within the consolidated statements of comprehensive income and the consolidated statements of stockholders' equity. Gains or losses resulting from transactions denominated in foreign currencies are included in other income (expense), net in our consolidated statements of comprehensive income.

Use of Estimates

Preparing financial statements in conformity with GAAP requires management to make estimates, judgments, 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.

Business Combinations

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated fair values as of the acquisition date. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill.

Assets acquired include tangible and intangible assets. We use estimates and assumptions that we believe are reasonable as a part of the purchase price allocation, which includes the process to determine the value and useful lives of purchased intangible assets and the process to determine the value of any contingent consideration liabilities. We record the acquisition-date fair value of any contingent liabilities, such as earn-out provisions, as part of the consideration transferred, if present. The unsettled earn-out liability, if any, is subsequently remeasured at each reporting date at fair value.

While we believe these estimates and assumptions are reasonable, they are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the fair value of the assets acquired and the liabilities assumed. Any such adjustments would be recorded as an offset to goodwill or a working capital purchase price adjustment as applicable. Upon the conclusion of the measurement period or final determination of the fair values, whichever comes first, any subsequent adjustments would be recorded in our consolidated statements of comprehensive income.

Segment Information

Our Chief Executive Officer acts as the Company's chief operating decision maker and reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable by the chief operating decision maker, or anyone else, for operations, operating results and planning for levels or components below the consolidated unit level. Accordingly, we determined we have one operating and reportable segment, which is supply chain management products.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents in financial institutions in excess of federally insured limits and accounts receivable. Cash and cash equivalents are held with financial institutions that we believe are subject to minimal risk.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of less than 90 days.

Investments

From time to time, we invest in money market funds, certificates of deposit, and marketable securities such as commercial paper, highly liquid debt instruments of the U.S. government, and U.S. corporate debt securities. Investments with remaining maturities of less than one year from the balance sheet date are classified as short-term investments whereas those with remaining maturities of more than one year from the balance sheet date are classified as investments, non-current.

Securities classified as available for sale are carried at fair value and the unrealized gains and losses on these investments, net of taxes, are included in accumulated other comprehensive loss in the consolidated balance sheets. Realized gains or losses are included in other income (expense), net in the consolidated statements of comprehensive income. Certain securities accrue interest that is included in other income (expense), net. When a determination has been made that the fair value of a marketable security is below its amortized cost basis, the portion of the unrealized loss that corresponds to a credit-related factor is realized through a credit allowance on the marketable security and the equivalent expense is realized in other income (expense), net in the consolidated statements of comprehensive income.

Fair Value Measurements

The carrying amounts of our short-term financial instruments, which include cash, cash equivalents, accounts receivable, and accounts payable, approximates fair value due to their short-term nature.

Recurring Fair Value Measurements

We measure certain financial assets at fair value on a recurring basis based on a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs that are used to measure fair value are:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – observable inputs other than Level 1 prices, such as (a) quoted prices for similar assets or liabilities, (b) quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or (c) model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

Nonrecurring Fair Value Measurements

We measure certain assets and liabilities at fair value on a nonrecurring basis, including long-lived assets, goodwill, and indefinite-lived intangible assets.

Accounts Receivable

Accounts receivable are initially recorded upon the sale and invoicing of products to customers. Credit is granted in the normal course of business without collateral. Accounts receivable are stated net of allowances for credit losses, which represent estimated losses resulting from customers not making required payments on accounts receivables. When determining the allowance, we pool our outstanding accounts receivable invoices based on the contractual due date of payment. We take several factors into consideration for estimated credit losses by pool, primarily our historical credit losses, with additional adjustments made for current and future macro-economic conditions and retail bankruptcy trends. We write-off accounts receivable when they are determined to be uncollectible. Changes in the allowance are recorded as bad debt expense and are included in general and administrative expense in our consolidated statements of comprehensive income.

Property and Equipment

Property and equipment, including assets acquired under lease obligations, are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization expense is calculated using the straight-line method over the estimated useful lives when placed in service.

We capitalize and amortize eligible costs to acquire or generate internally developed software that are incurred during the application development stage. Costs incurred during the preliminary project stage and post-implementation stage are expensed as incurred. Amortization expense for internally developed software is calculated using the straight-line method over the estimated useful life, commencing on the date when the asset is ready for its intended use.

The estimated useful lives of property and equipment were as follows:

	Estimated Useful Life
Internally developed software	3 years
Computer equipment	2-3 years
Office equipment and furniture	5-7 years
Leasehold improvements	Shorter of the useful life of the asset or the remaining term of the lease

Significant additions or improvements extending asset lives beyond one year are capitalized, while repairs and maintenance are charged to expense as incurred. The assets and related accumulated depreciation and amortization are adjusted for asset retirements and disposals with the resulting gain or loss included in our consolidated statements of comprehensive income.

Maintenance of internally developed software are expensed as incurred. The assets and related accumulated amortization are adjusted for abandoned internally developed software with the resulting loss included in our consolidated statements of comprehensive income.

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, current operating lease liabilities, and non-current operating lease liabilities in our consolidated balance sheets.

Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We use the implicit interest rate when readily determinable. We estimate the discount rate for a similar collateralized asset by estimating costs of borrowing. The operating lease ROU asset also includes any lease payments made and lease incentives that have been incurred. The options to extend our leases are not recognized as part of our ROU assets and lease liabilities unless it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. For all leases, we combine non-lease components with the related lease components and account for it as a single lease component. The ROU assets are subject to the same impairment process as our long-lived assets. Additionally, we review our lease liabilities for remeasurement whenever there is a triggering event or when relevant facts and circumstances change.

Research and Development

Research and development costs primarily include development, maintenance, and data conversion activities related to our cloud-based supply chain management products and are expensed as incurred. Research and development costs are net of amounts capitalized as developed software.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill is attributed to a trained workforce and other buyer-specific value resulting from expected synergies, including long-term cost savings, which are not included in the fair values of identifiable assets.

We test goodwill for impairment annually at November 30, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is conducted by comparing the fair value of the net assets with the carrying amount of the reporting unit. We determine the fair value of the reporting unit based on our market capitalization at the testing date. If the carrying amount exceeds the fair value of the reporting unit, we would recognize an impairment loss in the consolidated statements of comprehensive income, to the extent that the carrying amount exceeds fair value.

Intangible Assets

Assets acquired in business combinations may include identifiable intangible assets such as subscriber relationships and developed technology. We recognize the fair value of the identifiable intangible assets acquired separately from goodwill. We have determined the fair value and useful lives of our purchased intangible assets using certain estimates and assumptions that we believe are reasonable.

The purchased intangible assets are being amortized on a straight-line basis over their estimated useful lives.

The estimated useful lives for intangible were as follows:

	Estimated Useful Life
Subscriber relationships	7-10 years
Developed technology	3-10 years

Impairment of Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount of an asset group exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets at the date it is tested for recoverability, whether in use or under development. An impairment loss is measured and recorded as an expense in the consolidated statements of comprehensive income as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Revenue Recognition

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

We determine revenue recognition through the following steps:

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

See Note C for further descriptions of our revenue recognition policy.

Deferred Costs

Deferred costs are those that are incurred to fulfill or obtain customer contracts and that are considered incremental and recoverable costs. These consist primarily of customer implementation costs, commissions paid to sales personnel and referral partners, respectively. These costs are deferred and amortized over the expected period of benefit which we have determined to be two years.

Customer implementation costs are based on actual costs incurred. Related amortization expense is included in cost of revenues in the consolidated statements of comprehensive income.

Sales commissions are calculated based on estimated annual recurring revenue to be generated over the customer's initial contract period. Related amortization expense is included in sales and marketing expenses in the consolidated statements of comprehensive income.

Stock-Based Compensation

Stock-based compensation includes grants of incentive and nonqualified stock options, performance share units ("PSUs"), restricted stock awards ("RSAs"), restricted stock units ("RSUs"), deferred stock units ("DSUs"), employee stock purchase plan ("ESPP") activity, and 401(k) stock match and is used to compensate employees, executive officers, and non-employee directors.

We recognize the cost of all stock-based payments based on the grant date fair value of those awards. This cost is recognized over the period for which an 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. For all awards, we recognize forfeitures as they occur.

RSAs result in the issuance of new shares when granted. For other stock-based awards, new shares are issued when the award is exercised, vested, or released according to the terms of the agreement.

Our ESPP allows participating employees to purchase shares of our common stock at a discount through payroll deductions. The plan is available to all employees subject to certain eligibility requirements. Participating employees may purchase common stock, on a voluntary after-tax basis, at a price that is the lower of 85% of the fair market value of our common stock at the beginning or end of each stock purchase period. The plan is a Type B plan, so the number of shares a participants can acquire is variable. Participants purchase more shares as the stock price decreases, up to the total amount originally elected to withhold at the beginning of the offering period. The plan consists of two six-month offering periods, beginning on January 1 and July 1 of each calendar year.

The fair value of stock options and ESPP activity is estimated using the Black-Scholes option valuation model. The fair value for RSAs, RSUs, and DSUs is the closing market value of the underlying stock on the date of grant less the purchase price (if any). The fair value of PSUs is estimated using a Monte Carlo simulation.

Judgment is required in determining the expected volatility of common stock and the expected term individuals will hold their share-based awards prior to exercising. The expected volatility of the options is based on the historical volatility of our common stock. The expected term of the options is derived from historical data on option holder exercises and post-vesting employment termination behavior.

Additional valuation inputs include our expected non-issuance of future common stock dividends and the risk-free interest rate that is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equaling the expected life at the grant date. For PSUs, the Monte Carlo simulation utilizes multiple input variables that determine the probability of satisfying the performance conditions stipulated in the award.

Income Taxes

We account for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in our judgment, it is more likely than not that some or all of the deferred tax asset will not be realized. Deferred tax positions are net by jurisdiction on the consolidated balance sheet.

We assess our ability to realize our deferred tax assets at the end of each reporting period. Realization of our deferred tax assets is contingent upon future taxable earnings. Accordingly, this assessment requires estimates and judgment. If the estimates of future taxable income vary from actual results, our assessment regarding the realization of these deferred tax assets could change. Future changes in the estimated amount of deferred taxes expected to be realized will be reflected in our consolidated financial statements in the period the estimate is changed, with a corresponding adjustment to our operating results.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would "more likely than not" sustain the position following an audit. For tax positions meeting the "more likely than not" threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

It is our practice to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

Net Income Per Share

Basic net income per share has been computed using the weighted average number of shares of common stock outstanding during each period. Diluted net income per share also includes the impact of our outstanding potential common shares, including options, RSAs, RSUs, PSUs, and DSUs. Potential common shares that are anti-dilutive are excluded from the calculation of diluted net income per share.

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 – Business Acquisitions

GCommerce

Effective July 19, 2022, we acquired all of the outstanding equity ownership interests of GCommerce, Inc. ("GCommerce"), a leading EDI provider within the automotive aftermarket industry. Pursuant to the definitive agreement, the purchase price was $45.1 million, including post-closing adjustments. The purchase accounting for the acquisition has not been finalized as of December 31, 2022 due to various items including valuation modeling completion; provisional amounts are primarily related to intangible assets and tax components. We expect to finalize the allocation of the purchase price within the one-year measurement period following the acquisition.

InterTrade

Effective October 4, 2022, we acquired all of the outstanding equity ownership interests of Canadian based InterTrade Systems Inc. ("InterTrade"), a leading EDI provider within the apparel and general merchandising markets. Pursuant to the definitive agreement, the purchase price was $49.1 million, including estimated post-closing adjustments. The purchase accounting for the acquisition has not been finalized as of December 31, 2022 due to various items including valuation modeling completion; provisional amounts are primarily related to intangible assets, net working capital, and tax components. We expect to finalize the allocation of the purchase price within the one-year measurement period following the acquisition.

The definitive agreement included the potential for the seller to receive up to $2.0 million in cash, contingent upon the completion of a technological infrastructure migration project within a specified time period. Given the status of the project, at the date of acquisition as well as at December 31, 2022, we expected to pay the full contingent consideration balance in 2023. As such, $2.0 million was included in accrued expenses in the consolidated balance sheet at December 31, 2022.

Purchase Price Allocations

We accounted for the acquisitions as business combinations. We allocated each purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition dates:

	2022 Acquisition Activity			
	GCommerce			InterTrade
(in thousands)	Acquisition Date Estimated Fair Value as of September 30, 2022	Adjustments	Acquisition Date Estimated Fair Value as of December 31, 2022	Acquisition Date Estimated Fair Value as of December 31, 2022
Cash paid at transaction date	$ 45,153	$ —	$ 45,153	$ 47,165
Contingent consideration	—	—	—	2,000
Post-closing adjustments	(64)	—	(64)	(93)
Total consideration	$ 45,089	$ —	$ 45,089	$ 49,072
Estimated fair value of assets and liabilities				
Cash	$ 230	$ —	$ 230	$ 668
Accounts receivable	467	—	467	1,302
Other current assets	288	—	288	1,903
Operating lease right-of-use asset	934	—	934	—
Intangible assets				
Subscriber relationships	18,225	(925)	17,300	17,640
Developed technology	2,025	275	2,300	4,410
Deferred income tax assets	5,291	1,440	6,731	101
Accounts payable	(266)	—	(266)	(2,337)
Accrued compensation	(321)	—	(321)	—
Deferred revenue	(262)	—	(262)	(397)
Operating lease liability	(934)	—	(934)	—
Deferred income tax liabilities	(5,144)	537	(4,607)	(6,228)
Total fair value of assets and liabilities acquired	$ 20,533	$ 1,327	$ 21,860	$ 17,062
Goodwill	$ 24,556	$ (1,327)	$ 23,229	$ 32,010

The following table summarizes the estimated useful lives for each acquired intangible asset, each of which are subject to finalization:

	Estimated Useful Life	
	GCommerce	InterTrade
Subscriber relationships	8.0 years	8.0 years
Developed technology	5.0 years	6.0 years

NOTE C – Revenue

We derive our revenues from the following revenue streams:

(in thousands)	Year Ended December 31, 2022	2021	2020
Recurring revenues:			
Fulfillment	$ 364,148	$ 306,851	$ 251,272
Analytics	46,894	42,674	38,824
Other	8,005	5,481	4,920
Recurring Revenues	419,047	355,006	295,016
One-time revenues	31,828	30,270	17,614
Total revenue	$ 450,875	$ 385,276	$ 312,630

Revenues are the amount that reflects the consideration we are contractually and legally entitled to, as well as the amount we 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 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)	Year Ended December 31, 2022	2021
Balance, beginning of year	$ 14,459	$ 11,118
Invoiced set-up fees	15,457	15,931
Recognized set-up fees	(14,917)	(12,590)
Balance, end of year	$ 14,999	$ 14,459

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 fees

Miscellaneous fees primarily 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.

Deferred Revenue

In the year ended December 31, 2022, we recognized revenue of $50.4 million from amounts included in deferred revenue at December 31, 2021.

NOTE D – Deferred Costs

The deferred costs activity was as follows:

(in thousands)	Year Ended December 31, 2022	2021
Balance, beginning of year	$ 59,720	$ 50,595
Incurred deferred costs	72,509	64,076
Amortized deferred costs	(62,050)	(54,951)
Balance, end of year	$ 70,179	$ 59,720

NOTE E – Fair Value Measurements

Cash Equivalents and Investments

Cash equivalents and investments, as measured at fair value on a recurring basis, consisted of the following:

		December 31, 2022			December 31, 2021		
(in thousands)	Fair Value Level	Amortized Cost	Unrealized Gains (Losses), net	Fair Value	Amortized Cost	Unrealized Gains (Losses), net	Fair Value
Cash equivalents:							
Money market funds	Level 1	$ 73,368	$ —	$ 73,368	$ 138,205	$ —	$ 138,205
Investments:							
Certificates of deposit	Level 1	6,813	—	6,813	7,268	—	7,268
Marketable securities:							
Commercial paper	Level 2	44,224	375	44,599	34,984	7	34,991
U.S. treasury securities	Level 2	—	—	—	7,500	(1)	7,499
		$ 124,405	$ 375	$ 124,780	$ 187,957	$ 6	$ 187,963

NOTE F – Allowance for Credit Losses

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

(in thousands)	Year Ended December 31, 2022	2021	2020
Balance, beginning of year	$ 4,249	$ 4,233	$ 1,469
Provision for credit losses	3,359	4,717	5,660
Write-offs, net of recoveries	(4,542)	(4,790)	(4,319)
Initial allowance for business combination acquired receivables	—	89	354
Adoption of ASU 2016-13	—	—	1,069
Balance, end of year	$ 3,066	$ 4,249	$ 4,233

NOTE G – Property and Equipment, net

Property and equipment, net consisted of the following:

(in thousands)	December 31, 2022	2021
Internally developed software	$ 49,994	$ 44,981
Computer equipment	30,310	29,329
Leasehold improvements	16,531	16,685
Office equipment and furniture	10,981	10,972
Property and equipment, cost	107,816	101,967
Less: accumulated depreciation and amortization	(72,358)	(70,066)
Total property and equipment, net	$ 35,458	$ 31,901

Depreciation and amortization expense of property and equipment was as follows:

(in thousands)	Year Ended December 31, 2022	2021	2020
Depreciation and amortization expense	$ 16,421	$ 14,788	$ 13,127

NOTE H – Goodwill and Intangible Assets, net

Goodwill

The activity in goodwill was as follows:

(in thousands)	Year Ended December 31, 2022	2021
Balance, beginning of year	$ 143,663	$ 134,853
Additions from business acquisitions	56,566	8,914
Foreign currency translation	(1,618)	(372)
Remeasurement from provisional purchase accounting amount	(1,327)	268
Balance, end of year	$ 197,284	$ 143,663

Intangible Assets

Intangible assets, net consisted of the following:

($ in thousands)	December 31, 2022				
	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net	Weighted Average Remaining Amortization Period
Subscriber relationships	$ 80,101	$ (22,255)	$ (171)	$ 57,675	6.8 years
Developed technology	40,610	(9,934)	1	30,677	5.4 years
	$ 120,711	$ (32,189)	$ (170)	$ 88,352	6.4 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
Developed 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)	
2023	$ 15,289
2024	14,098
2025	13,960
2026	12,956
2027	12,493
Thereafter	19,556
Total future amortization	$ 88,352

NOTE I – Commitments and Contingencies

Leases

We are engaged in a lease agreement for our current headquarters located in Minneapolis, Minnesota where we lease approximately 198,000 square feet under an agreement that expires in 2027. The lease also has two options to extend the term for five years each at a market rate determined in accordance with the lease. We lease other smaller facilities across the U.S. and international locations.

The components of lease expense were as follows:

(in thousands)	Year Ended December 31, 2022	2021	2020
Operating lease cost	$ 3,087	$ 3,089	$ 2,719
Variable lease cost	3,576	3,660	3,578
	$ 6,663	$ 6,749	$ 6,297

Supplemental cash flow information related to leases was as follows:

(in thousands)	December 31, 2022	December 31, 2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 4,639	$ 3,757
Right-of-use assets obtained in exchange for operating lease liabilities	934	992

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

	December 31, 2022	December 31, 2021
Weighted-average remaining lease term	3.9 years	4.8 years
Weighted-average discount rate	4.0 %	4.0 %

At December 31, 2022, our future minimum payments under operating leases were as follows:

(in thousands)	
2023	$ 4,889
2024	4,485
2025	4,369
2026	3,764
2027	1,265
Total future payments	18,772
Less: imputed interest	(1,486)
Total operating lease liabilities	$ 17,286

Purchase Commitments

We have entered into separate noncancelable agreements with computing infrastructure, customer relationship management, and performance and security data analytics vendors for services through 2025. At December 31, 2022, the total remaining purchase commitments were $4.9 million.

Contingencies

We may be involved in various claims and legal actions in the normal course of business. We believe that the outcome of any such claim or legal action is not expected to have a material effect on our financial position, results of operations, or cash flows.

NOTE J – Stockholders' Equity

Share Repurchase Program

Our board of directors has authorized multiple non-concurrent programs to repurchase our common stock. Details of the programs and activity thereunder through December 31, 2022 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	August 2022	50,000	49,992	8	N/A
2022 Program	August 2022	July 2024	50,000	2,992	N/A	$ 47,008

The share repurchase activity by period was as follows:

(in thousands, except shares and per share amounts)	Year Ended December 31, 2022	2021	2020
Number of shares repurchased	361,745	176,103	371,902
Shares repurchased cost	$ 43,215	$ 20,430	$ 18,950
Average price per repurchased share	$ 119.46	$ 116.01	$ 50.95

NOTE K – 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 PSUs, RSAs, RSUs, and DSUs, to employees, non-employee directors and other consultants who provide services to us. We also provide an ESPP and 401(k) stock 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 December 31, 2022 there were 13.2 million shares available for grant under approved equity compensation plans.

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

(in thousands)	Year Ended December 31, 2022	2021	2020
Cost of revenues	$ 8,684	$ 6,760	$ 3,948
Operating expenses			
Sales and marketing	7,590	6,248	4,119
Research and development	5,634	4,384	3,626
General and administrative	11,491	10,182	7,243
	$ 33,399	$ 27,574	$ 18,936

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

(in thousands)	Year Ended December 31, 2022	2021	2020
Stock options	$ 1,903	$ 2,057	$ 2,232
PSUs	7,509	6,417	3,219
RSUs	19,282	15,388	10,367
RSAs & DSUs	437	434	446
ESPP	2,144	1,391	1,117
401(k) stock match	2,124	1,887	1,555
	$ 33,399	$ 27,574	$ 18,936

As of December 31, 2022, there was $38.6 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 2.4 years.

Stock Options

Options generally vest over four years and, upon vesting, the holder is given the option to purchase shares of common stock at a specific strike price until expiration, which is generally seven years from the grant date.

Our stock option activity was as follows:

	Options (#)	Weighted Average Exercise Price ($/share)
Outstanding at December 31, 2019	1,543,912	30.03
Granted	127,974	59.02
Exercised	(712,074)	26.11
Forfeited	(14,926)	43.14
Outstanding at December 31, 2020	944,886	36.71
Granted	53,223	105.53
Exercised	(311,378)	30.10
Forfeited	(8,081)	68.62
Outstanding at December 31, 2021	678,650	44.76
Granted	56,430	122.59
Exercised	(164,393)	29.86
Forfeited	(7,990)	92.48
Outstanding at December 31, 2022	562,697	56.24

Of the total outstanding options at December 31, 2022, 0.5 million were exercisable. The outstanding and exercisable options had a weighted average exercise price of $47.80 per share and a weighted average remaining contractual life of 2.9 years.

The table below presents additional information related to our stock options:

	Year Ended December 31,		
(in thousands, except per share data)	2022	2021	2020
Fair value of options vested	$ 1,996	$ 2,509	$ 3,000
Intrinsic value of options exercised	16,705	27,713	31,737
Intrinsic value of options outstanding	40,692	66,235	67,918
Weighted-average fair value per share of options granted	41.34	31.31	16.18

The fair values of the options granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2022	2021	2020
Life (in years)	4.3	4.4	4.0
Volatility	38 %	35 %	33 %
Dividend yield	—	—	—
Risk-free interest rate	2.50 %	0.59 %	0.99 %

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

In 2022, 2021, and 2020 we granted PSU awards with certain target performance levels. 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. Expense is recognized on a straight-line basis over the performance period, regardless of whether the market condition is satisfied as the likelihood of the market condition being met is included in the fair-value measurement of the award. In 2022, PSU awards granted in 2019 were earned and vested at the maximum performance level and less than 0.1 million shares of common stock were issued.

RSUs generally vest over four years and, upon vesting, the holder is entitled to receive shares of our common stock.

RSAs vest over one year and, upon vesting, the holder is entitled to receive shares of our common stock. In lieu of RSAs, a participant may elect to receive DSUs with one year vesting, but the participant directs delayed receipt of common shares of up to ten years after the end of service to us.

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

	(#)	Weighted Average Grant Date Fair Value ($/share)
Outstanding at December 31, 2019	797,546	38.80
Granted	331,264	62.78
Vested and common stock issued	(222,606)	36.06
Forfeited	(167,782)	30.09
Outstanding at December 31, 2020	738,422	52.37
Granted	314,290	101.85
Vested and common stock issued	(331,669)	44.14
Forfeited	(18,883)	66.35
Outstanding at December 31, 2021	702,160	78.03
Granted	312,880	126.44
Vested and common stock issued	(276,872)	64.12
Forfeited	(26,010)	99.37
Outstanding at December 31, 2022	712,158	103.93

The number of PSUs, RSUs, RSAs, and DSUs outstanding at December 31, 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 agreements.

Employee Stock Purchase Plan

Our ESPP activity was as follows:

	Year Ended December 31,		
(in thousands, except share data)	2022	2021	2020
Amounts for shares purchased	$ 6,676	$ 4,737	$ 3,374
Shares purchased	70,107	55,726	61,833

A total of 1.7 million shares of common stock are remaining for issuance under the plan at December 31, 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:

	Year Ended December 31,		
	2022	2021	2020
Life (in years)	0.5	0.5	0.5
Volatility	42 %	32 %	43 %
Dividend yield	—	—	—
Risk-free interest rate	1.27 %	0.07 %	0.96 %

Note L – Income Taxes

Our provision for income taxes was comprised of the following components:

(in thousands)	Year Ended December 31, 2022	2021	2020
Current			
Federal	$ 13,881	$ 1,559	$ —
State	4,149	1,890	1,249
Foreign	1,990	1,610	1,608
Deferred			
Federal	(2,530)	4,294	4,462
State	(751)	(88)	244
Foreign	(549)	(321)	(469)
	$ 16,190	$ 8,944	$ 7,094

Our income tax expense differed from the amounts computed by applying the U.S. federal income tax rate to pretax income as a result of the following:

	Year Ended December 31, 2022	2021	2020
U.S. statutory federal income tax rate	21.0 %	21.0 %	21.0 %
Increase (decrease) resulting from:			
U.S. state income taxes, net of federal tax effect	4.6	4.5	4.5
Tax impact of stock activity	(4.7)	(12.8)	(12.9)
Nondeductible compensation	3.5	5.0	1.8
Research and development credit	(1.5)	(1.1)	(0.6)
Foreign derived intangible income	(1.4)	(1.3)	(1.3)
Other	1.2	1.4	1.0
Effective tax rate	22.7 %	16.7 %	13.5 %

The significant components of our deferred tax assets and liabilities were as follows:

(in thousands)	December 31, 2022	December 31, 2021
Deferred tax assets		
Net operating loss and credit carryforwards	$ 9,970	$ 4,828
Stock-based compensation expense	5,084	3,934
Accrued expenses	4,469	5,174
Operating lease liabilities	4,384	5,235
Research and development capitalized	9,591	—
Other deferred tax assets	2,408	2,778
Gross deferred tax assets	35,906	21,949
Less: valuation allowance	(1,873)	(1,815)
Total net deferred tax assets	$ 34,033	$ 20,134
Deferred tax liabilities		
Deferred costs	$ (17,696)	$ (15,126)
Right-of-use assets	(2,338)	(2,787)
Depreciation and amortization	(20,282)	(8,820)
Other deferred tax liabilities	(909)	(364)
Total deferred tax liabilities	(41,225)	(27,097)
Net deferred tax liabilities	$ (7,192)	$ (6,963)

Amounts for the year ended December 31, 2021 have been reclassified to be consistent with the current classification.

As of December 31, 2022, we had net operating loss carryforwards of $40.9 million for U.S. federal tax purposes and $4.5 million for state tax purposes. If not utilized, the loss carryforwards will expire between 2023 and 2036 for federal tax purposes and between 2026 and 2042 for state tax purposes. Section 382 of the U.S. Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that might be used to offset taxable income when a corporation has undergone significant changes in stock ownership. As of December 31, 2022, all $40.9 million of our net operating loss carryforwards are subject to Section 382 limitations, of which we believe $6.8 million of federal losses will expire unused due to Section 382 limitations. Accordingly, our deferred tax assets are reported net of the Section 382 limitations.

We are subject to income taxes for U.S. federal and various state and international jurisdictions. We are generally subject to U.S. federal and state tax examinations for most prior tax years due to our net operating loss and R&D credit carryforwards and the utilization of the carryforwards in years still open under statute.

NOTE M – Other Income and Expense

Other income (expense), net included the following:

(in thousands)	Year Ended December 31, 2022	2021	2020
Investment income	$ 1,670	$ 278	$ 1,208
Realized gain (loss) from foreign currency on cash and investments held	(1,026)	(1,456)	1,753
Change in earn-out liability	—	—	(85)
Other expense, net	(502)	(366)	(354)
Total other income (expense), net	$ 142	$ (1,544)	$ 2,522

Effective January 1, 2021, all realized gains or losses and interest income on our investments are included in investment income. Previously, realized gains and losses were included in other income (expense), net and interest income was included in interest income, net. Additionally, realized gains or losses from foreign currency on cash and investments held were previously included in other income (expense), net. Amounts for the year ended December 31, 2020 have been reclassified to be consistent with the current classification.

NOTE N – 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)	Year Ended December 31, 2022	2021	2020
Numerator			
Net income	$ 55,134	$ 44,597	$ 45,586
Denominator			
Weighted average common shares outstanding, basic	36,117	35,928	35,226
Options to purchase common stock	382	529	611
PSUs, RSUs, RSAs, and DSUs	454	505	448
Weighted average common shares outstanding, diluted	36,953	36,962	36,285
Net income per share			
Basic	$ 1.53	$ 1.24	$ 1.29
Diluted	$ 1.49	$ 1.21	$ 1.26

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)	Year Ended December 31, 2022	2021	2020
Anti-dilutive shares	75	31	26

NOTE O – Retirement Savings Plan

We sponsor a 401(k) retirement savings plan for our employees. Employees can contribute up to 80% of their compensation, subject to the limits established by law, and we match 50% of the employee's contribution up to the first 6% of pre-tax annual compensation. A portion of our match is in Company stock, which is purchased from the open market by our plan provider and immediately deposited into the employee's 401(k) account. Additionally, we make statutory contributions to retirement plans as required by local foreign government regulations.

Our total contributions to the plan were as follows:

(in thousands)	Year Ended December 31, 2022	2021	2020
Retirement contributions	$ 5,386	$ 4,790	$ 3,889

NOTE P – 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:

	Year Ended December 31, 2022	2021	2020
Domestic revenue	84 %	84 %	85 %

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:

	December 31,	
	2022	**2021**
International property and equipment	13 %	12 %

NOTE Q– Related Party Transactions

The SPS Commerce Foundation (the "Foundation") is a Minnesota non-profit organization exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed in 2015 to engage in, advance, support, promote and administer charitable activities. The directors of the Foundation are also our corporate officers. These directors receive no compensation from the Foundation or us for the management services performed for the Foundation. The Foundation is not a subsidiary of ours and the financial results of the Foundation are not consolidated with our financial statements. We have no current legal obligations for future commitments to the Foundation. Our contributions to the Foundation were as follows:

	Year Ended December 31,		
(in thousands)	**2022**	**2021**	**2020**
Foundation contributions	$ 2,750	$ 2,400	$ 1,800

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

None.

Item 9A. Controls and Procedures

Assessment of Disclosure Controls and Procedures

We assessed the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2022, the end of the period covered by this Annual Report on Form 10-K. This assessment was done under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Disclosure controls and procedures means controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed such that information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on this assessment, our CEO and CFO have concluded that as of December 31, 2022, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive and financial officers, we assessed our internal control over financial reporting as of December 31, 2022, based on criteria for effective internal control over financial reporting established in the *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that we maintained effective internal control over financial reporting as of December 31, 2022 based on the specified criteria.

Pursuant to the SEC's general guidance that the assessment of a recently acquired business' internal control over financial reporting may be omitted in the year of acquisition, as of December 31, 2022, our scope of the assessment of our internal control over financial reporting excluded GCommerce and InterTrade, which were acquired in July 2022 and in October 2022, respectively. Our assessment of the effectiveness of internal control over financial reporting as of December 31, 2023 will include GCommerce and InterTrade.

As of December 31, 2022, excluding net intangible assets and goodwill, GCommerce and InterTrade combined represented 3.7% of our consolidated assets. For the twelve months ended December 31, 2022, GCommerce and InterTrade combined represented 1.4% of our consolidated revenues.

The effectiveness of our internal control over financial reporting as of December 31, 2022 has been audited by KPMG LLP, our independent registered public accounting firm, as stated in their report, which is included under Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

The information included in this Item 9B is provided in lieu of filing such information on a Current Report on Form 8-K under Item 5.03 Amendments to Articles of Incorporation or Bylaws; Changes in Fiscal Year.

On February 17, 2023, the Board of Directors of the Company amended and restated the Company's Amended and Restated Bylaws (as so amended and restated, the "Bylaws"), primarily to implement certain procedural mechanisms related to stockholder nominations of directors under Rule 14a-19 ("Rule 14a-19") under the Securities Exchange Act of 1934, as amended. These amendments took immediate effect. The amendments implement the following changes to the Bylaws, among other things:

- require a stockholder soliciting proxies in support of nominations of persons, other than the Company's nominees, for election to the Company's Board of Directors to certify their compliance with Rule 14a-19 and, upon request of the Company, to deliver reasonable evidence of such compliance to the Company no later than five business days prior to the date of the applicable meeting of stockholders;
- provide that, unless otherwise required by law, if a stockholder provides notice under Rule 14a-19 and subsequently: (i) notifies the Company that such stockholder no longer intends to solicit proxies in support of director nominees other than the Company's director nominees in accordance with Rule 14a-19; (ii) fails to comply with the requirements of Rule 14a-19; or (iii) fails to provide reasonable evidence sufficient to satisfy the Company that the requirements of Rule 14a-19 have been met, then the stockholder's nominations shall be deemed null and void and the Company shall disregard any proxies or votes solicited for any nominee proposed by such stockholder;
- establish additional rules governing the conduct of meetings of stockholders;
- update references to meetings using remote communication;
- reserve white proxy cards for use by the Company's Board of Directors only; and
- incorporate other technical, clarifying and conforming changes.

The foregoing description of the amendments to the Bylaws is qualified in its entirety by reference to the text of the Bylaws. The Bylaws, along with a copy marked to show changes from the prior version, are included as Exhibits 3.2 and 3.3, respectively, to this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not Applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be included in the 2023 Proxy Statement under the captions "Election of Directors," "Executive Compensation," and "Information Regarding the Board of Directors and Corporate Governance" and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item will be included in the 2023 Proxy Statement under the captions "Executive Compensation," and "Security Ownership" and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be included in the 2023 Proxy Statement under the caption "Security Ownership" and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be included in the 2023 Proxy Statement under the captions "Certain Relationships and Related Transactions," "Information Regarding the Board of Directors and Corporate Governance," and "Election of Directors" and is incorporated herein by the reference.

Item 14. Principal Accounting Fees and Services

The information required by this item will be included in the 2023 Proxy Statement under the caption "Audit Committee Report and Payment of Fees to Our Independent Auditor" and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as a part of this Annual Report on Form 10-K:

(a) Financial Statements: The financial statements filed as a part of this report are listed in Part II, Item 8.

(b) Financial Statement Schedules: The schedules are either not applicable or the required information is presented in the consolidated financial statements or notes thereto.

(c) Exhibits: The exhibits incorporated by reference or filed as a part of this Annual Report on Form 10-K are listed in the Exhibit Index prior to the signatures to this report.

EXHIBIT INDEX

		Incorporated By Reference			
Exhibit Number	*Exhibit Description*	*Form*	*Date of First Filing*	*Exhibit Number*	*Filed Herewith*
3.1	Ninth Amended and Restated Certificate of Incorporation	8-K	05/21/2020	3.2	
3.2	Amended and Restated Bylaws, effective as of February 17, 2023				X
3.3	Amended and Restated Bylaws, marked to show amendments effective as of February 17, 2023				X
4.1	Description of Capital Stock	10-K	2/23/2021	4.1	
10.1	2010 Equity Incentive Plan, as amended effective October 29, 2014**	10-K	02/20/2015	10.6	
10.2	Form of Incentive Stock Option Agreement under 2010 Equity Incentive Plan**	8-K	02/17/2012	10.2	
10.3	Form of Non-Statutory Stock Option Agreement (Employee) under 2010 Equity Incentive Plan**				X
10.4	Form of Non-Statutory Stock Option Agreement (Director) under 2010 Equity Incentive Plan**	8-K	02/17/2012	10.4	
10.5	Form of Restricted Stock Unit Award Agreement under 2010 Equity Incentive Plan**				X
10.6	Form of Restricted Stock Award Agreement under 2010 Equity Incentive Plan**	10-Q	05/08/2012	10.6	
10.7	Form of Performance Stock Unit Agreement under 2010 Equity Incentive Plan**				X
10.8	Form of Deferred Stock Unit Agreement under 2010 Equity Incentive Plan	10-Q	04/26/2019	10.2	
10.9	Form of Indemnification Agreement for Independent Directors**	S-1/A	01/11/2010	10.18	
10.10	Form of Indemnification Agreement for Archie C. Black**	S-1/A	01/11/2010	10.19	
10.11	Management Incentive Plan**	8-K	02/03/2016	10.2	
10.12	Amended and Restated Executive Severance and Change in Control Agreement between the Company and Archie C. Black**	8-K	02/18/2020	10.1	
10.13	Form of Amended and Restated Executive Severance and Change in Control Agreement**	8-K	02/18/2020	10.2	
10.14	Non-Employee Director Compensation Summary**				X
21.1	Subsidiaries of the registrant				X
23.1	Consent of KPMG LLP				X
24.1	Power of Attorney (included on signature page)				X
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended				X

Exhibit Number	Exhibit Description	Incorporated By Reference Form	Date of First Filing	Exhibit Number	Filed Herewith
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended				X
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				X
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T				X
104	The cover page from the Annual Report on Form 10-K for the year ended December 31, 2022, formatted in Inline XBRL				X

** Indicates management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 21, 2023

SPS COMMERCE, INC.

By: /s/ ARCHIE BLACK

Archie Black
Chief Executive Officer

Each of the undersigned hereby appoints Archie Black and Kimberly Nelson, and each of them (with full power to act alone), as attorneys and agents for the undersigned, with full power of substitution, for and in the name, place and stead of the undersigned, to sign and file with the Securities and Exchange Commission under the Securities Exchange Act of 1934, any and all amendments and exhibits to this annual report on Form 10-K and any and all applications, instruments, and other documents to be filed with the Securities and Exchange Commission pertaining to this annual report on Form 10-K or any amendments thereto, with full power and authority to do and perform any and all acts and things whatsoever requisite and necessary or desirable. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 21, 2023.

Name and Signature	Title
/s/ ARCHIE BLACK Archie Black	*Chief Executive Officer and Director* *(principal executive officer)*
/s/ KIMBERLY NELSON Kimberly Nelson	*Executive Vice President and Chief Financial Officer* *(principal financial and accounting officer)*
/s/ JAMES RAMSEY James Ramsey	*Director*
/s/ MARTY RÉAUME Marty Réaume	*Director*
/s/ TAMI RELLER Tami Reller	*Director*
/s/ PHILIP SORAN Philip Soran	*Director*
/s/ ANNE SEMPOWSKI WARD Anne Sempowski Ward	*Director*
/s/ SVEN WEHRWEIN Sven Wehrwein	*Director*

Executive Officers
Archie Black, Chief Executive Officer
Kim Nelson, Executive Vice President and Chief Financial Officer
Jim Frome, President and Chief Operating Officer

Board of Directors
Archie Black
James Ramsey
Marty Réaume
Tami Reller
Phil Soran
Anne Sempowski Ward
Sven Wehrwein

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Market Listing
Nasdaq Global Market Symbol: SPSC

Annual Meeting
Friday, May 12, 2023

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Transfer Agent & Registrar
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Mendota Heights, MN 55120 USA
(800) 468-9716
shareowneronline.com

Legal Counsel
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