

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended: September 30, 2023

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
*(State or other jurisdiction of
incorporation or organization)*

41-2015127
*(I.R.S. Employer
Identification No.)*

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding at October 19, 2023 was 36,697,608 shares.

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



PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

SPS COMMERCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except shares)	September 30, 2023	December 31, 2022
ASSETS	(unaudited)	
Current assets		
Cash and cash equivalents	\$ 178,702	\$ 162,893
Short-term investments	60,628	51,412
Accounts receivable	48,218	42,501
Allowance for credit losses	(3,077)	(3,066)
Accounts receivable, net	45,141	39,435
Deferred costs	59,525	52,755
Other assets	15,743	16,319
Total current assets	359,739	322,814
Property and equipment, net	36,209	35,458
Operating lease right-of-use assets	8,315	9,170
Goodwill	252,045	197,284
Intangible assets, net	103,597	88,352
Other assets		
Deferred costs, non-current	19,521	17,424
Deferred income tax assets	6,805	227
Other assets, non-current	1,177	2,185
Total assets	\$ 787,408	\$ 672,914
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 6,195	\$ 11,256
Accrued compensation	41,474	30,235
Accrued expenses	8,900	7,451
Deferred revenue	71,853	57,423
Operating lease liabilities	4,449	4,277
Total current liabilities	132,871	110,642
Other liabilities		
Deferred revenue, non-current	6,849	4,771
Operating lease liabilities, non-current	10,563	13,009
Deferred income tax liabilities	10,281	7,419
Total liabilities	160,564	135,841
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; 38,847,028 and 38,309,144 shares issued; and 36,695,930 and 36,158,046 shares outstanding, respectively	39	38
Treasury Stock, at cost; 2,151,098 shares	(128,892)	(128,892)
Additional paid-in capital	520,313	476,117
Retained earnings	240,034	193,221
Accumulated other comprehensive loss	(4,650)	(3,411)
Total stockholders' equity	626,844	537,073
Total liabilities and stockholders' equity	\$ 787,408	\$ 672,914



SPS COMMERCE, INC.

See accompanying notes to these condensed consolidated financial statements.

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Form 10-Q for the Quarterly Period ended September 30, 2023

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

(in thousands, except per share amounts) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues	\$ 135,661	\$ 114,486	\$ 391,945	\$ 328,857
Cost of revenues	45,521	38,605	133,029	111,524
Gross profit	90,140	75,881	258,916	217,333
Operating expenses				
Sales and marketing	30,289	25,334	89,722	74,571
Research and development	13,558	11,135	39,438	33,268
General and administrative	21,906	16,724	64,275	49,390
Amortization of intangible assets	3,788	2,998	11,118	7,936
Total operating expenses	69,541	56,191	204,553	165,165
Income from operations	20,599	19,690	54,363	52,168
Other income (expense), net	1,702	(695)	4,859	(1,610)
Income before income taxes	22,301	18,995	59,222	50,558
Income tax expense	5,459	3,132	12,409	11,339
Net income	\$ 16,842	\$ 15,863	\$ 46,813	\$ 39,219
Other comprehensive income (expense)				
Foreign currency translation adjustments	(2,966)	(2,296)	(1,446)	(3,309)
Unrealized gain on investments, net of tax of \$190, \$53, \$459 and \$49, respectively	570	158	1,376	147
Reclassification of gain on investments into earnings, net of tax of \$(137), \$(13), \$(390), and \$(17), respectively	(412)	(39)	(1,169)	(51)
Total other comprehensive expense	(2,808)	(2,177)	(1,239)	(3,213)
Comprehensive income	\$ 14,034	\$ 13,686	\$ 45,574	\$ 36,006
Net income per share				
Basic	\$ 0.46	\$ 0.44	\$ 1.28	\$ 1.09
Diluted	\$ 0.45	\$ 0.43	\$ 1.25	\$ 1.06
Weighted average common shares used to compute net income per share				
Basic	36,728	36,093	36,584	36,104
Diluted	37,584	36,915	37,417	36,942

See accompanying notes to these condensed consolidated financial statements.



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

(in thousands) (unaudited)	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities		
Net income	\$ 46,813	\$ 39,219
Reconciliation of net income to net cash provided by operating activities		
Deferred income taxes	(11,906)	(2,092)
Depreciation and amortization of property and equipment	13,964	11,983
Amortization of intangible assets	11,118	7,936
Provision for credit losses	4,004	2,889
Stock-based compensation	36,097	25,636
Other, net	1,711	43
Changes in assets and liabilities		
Accounts receivable	(8,800)	(3,999)
Deferred costs	(7,543)	(7,174)
Other current and non-current assets	2,814	2,202
Accounts payable	(5,289)	129
Accrued compensation	8,073	(4,388)
Accrued expenses	(169)	(3,035)
Deferred revenue	10,042	8,261
Operating leases	(1,417)	(1,127)
Net cash provided by operating activities	99,512	76,483
Cash flows from investing activities		
Purchases of property and equipment	(15,467)	(13,894)
Purchases of investments	(102,763)	(134,276)
Maturities of investments	95,000	132,500
Acquisition of business, net	(70,218)	(44,923)
Net cash used in investing activities	(93,448)	(60,593)
Cash flows from financing activities		
Repurchases of common stock	—	(42,700)
Net proceeds from exercise of options to purchase common stock	5,524	2,457
Net proceeds from employee stock purchase plan activity	4,481	3,588
Net cash provided by (used in) financing activities	10,005	(36,655)
Effect of foreign currency exchange rate changes	(260)	(557)
Net increase (decrease) in cash and cash equivalents	15,809	(21,322)
Cash and cash equivalents at beginning of period	162,893	207,552
Cash and cash equivalents at end of period	\$ 178,702	\$ 186,230

See accompanying notes to these condensed consolidated financial statements.



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

NOTE A – General

Business Description

SPS Commerce is a leading provider of cloud-based supply chain management services across our global retail network. Our products make it easier for retailers, 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 unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of SPS Commerce, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

This interim financial information has been prepared under the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all of the information and notes required by GAAP. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission (“SEC”). We have included all normal recurring adjustments considered necessary to provide a fair presentation of our financial position, results of operations, stockholders’ equity, and cash flows for the interim periods presented. Operating results for these interim periods are not necessarily indicative of the results to be expected for the full year.

Use of Estimates

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

Significant Accounting Policies

There were no material changes in our significant accounting policies during the nine months ended September 30, 2023. See Note A to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC, for additional information regarding our significant accounting policies.

Accounting Pronouncements Recently Adopted

Standard	Date of Issuance	Description	Date of 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 has not had a material impact on the purchase accounting for business combinations.



NOTE B – Business Acquisitions

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. During the quarter ended June 30, 2023, provisional amounts were adjusted by \$3.1 million, primarily relating to a \$3.9 million decrease in estimated value of intangible assets and the corresponding \$1.0 million change to the deferred tax position, with the offsets to goodwill. During the quarter ended September 30, 2023, there were no significant adjustments made to provisional amounts. The purchase accounting has been finalized as of September 30, 2023.

TIE Kinetix

Effective September 13, 2023, we acquired all of the outstanding equity ownership interests of TIE Kinetix Holding B.V. ("TIE Kinetix"), a leading provider of supply chain digitalization including EDI and e-invoicing in Europe. Pursuant to the definitive agreement, the purchase price was €63.9 million (\$68.7 million at the September 13, 2023 exchange rate), net of cash acquired. The purchase accounting for the acquisition has not been finalized as of September 30, 2023; 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.

Purchase Price Allocations

We accounted for the acquisitions as business combinations. We allocated the 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:

(in thousands)	InterTrade			TIE Kinetix	
	Acquisition Date Estimated Fair Value as of	Adjustment	Acquisition Date Estimated Fair Value as of	Acquisition Date Estimated Fair Value as of	
	December 31, 2022		September 30, 2023	September 30, 2023	September 30, 2023
Cash paid at transaction date	\$ 47,165	\$ —	\$ 47,165	\$ 73,558	
Contingent consideration	2,000	—	2,000		
Post-closing adjustments	(93)	116	23		
Total consideration	\$ 49,072	\$ 116	\$ 49,188	\$ 73,558	
Estimated fair value of assets and liabilities acquired:					
Cash	\$ 668	\$ —	\$ 668	\$ 4,859	
Accounts receivable	1,302	(94)	1,208	1,347	
Other assets	1,903	—	1,903	2,981	
Intangible assets					
Subscriber relationships	17,640	(3,960)	13,680	18,183	
Developed technology	4,410	(501)	3,909	12,122	
Current liabilities	(2,337)	(35)	(2,372)	(3,606)	
Deferred revenue	(397)	202	(195)	(6,421)	
Deferred income tax liabilities, net	(6,127)	1,030	(5,097)	(6,112)	
Total fair value of assets and liabilities acquired	\$ 17,062	\$ (3,358)	\$ 13,704	\$ 23,354	
Goodwill	\$ 32,010	\$ 3,475	\$ 35,485	\$ 50,205	



The following table summarizes the estimated useful lives for each acquired intangible asset:

	Estimated Useful Life	
	InterTrade	TIE Kinetix
Subscriber relationships	8.0 years	8.0 years
Developed technology	6.0 years	6.0 years

Other Acquisition Activity

During the third quarter of 2023, the Company had other acquisition activity resulting in a total purchase price of \$1.5 million, paid in cash. Assets acquired were primarily comprised of developed technology and customer relationships, totaling \$0.9 million of estimated fair value. The remainder of the consideration transferred, \$0.6 million, was allocated to goodwill.

NOTE C – Revenue

We derive our revenues from the following revenue streams:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Recurring revenues:				
Fulfillment	\$ 110,900	\$ 92,952	\$ 318,069	\$ 265,570
Analytics	13,098	11,902	38,177	34,846
Other	3,373	1,699	9,949	4,867
Recurring revenues	127,371	106,553	366,195	305,283
One-time revenues	8,290	7,933	25,750	23,574
Total revenue	\$ 135,661	\$ 114,486	\$ 391,945	\$ 328,857

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 generally are either in advance or within 30 days of the service being performed.

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

One-time Revenues

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

Set-up revenues

Set-up fees are specific for each connection a customer has with a trading partner. These nonrefundable fees are necessary for our customers to utilize our services and do not provide any standalone value. Many of our customers have connections with numerous trading partners. Set-up fees constitute a material renewal option right that provide customers a significant future incentive that would not be otherwise available to that customer unless they entered into the contract, as the set-up fees will not be incurred again upon contract renewal. As such, set-up fees and related costs are deferred and recognized ratably over two years which is the estimated period for which a material right is present for our customers.



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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 16,978	\$ 15,309	\$ 14,999	\$ 14,459
Invoiced set-up fees	4,496	3,715	14,493	11,776
Recognized set-up fees	(4,225)	(3,805)	(12,243)	(11,016)
Balance, end of period	\$ 17,249	\$ 15,219	\$ 17,249	\$ 15,219

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

Miscellaneous one-time revenues

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

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

NOTE D – Deferred Costs

The deferred costs activity was as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 75,255	\$ 64,665	\$ 70,179	\$ 59,720
Incurred deferred costs	20,094	17,442	57,632	52,860
Amortized deferred costs	(16,303)	(15,551)	(48,765)	(46,024)
Balance, end of period	\$ 79,046	\$ 66,556	\$ 79,046	\$ 66,556

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:

(in thousands)	Fair Value Level	September 30, 2023			December 31, 2022		
		Amortized Cost	Unrealized Gains (Losses), net	Fair Value	Amortized Cost	Unrealized Gains (Losses), net	Fair Value
Cash equivalents:							
Money market funds	Level 1	\$ 120,100	\$ —	\$ 120,100	\$ 73,368	\$ —	\$ 73,368
Investments:							
Certificates of deposit	Level 1	6,431	—	6,431	6,813	—	6,813
Marketable securities:							
Commercial paper	Level 2	53,546	651	54,197	44,224	375	44,599
		\$ 180,077	\$ 651	\$ 180,728	\$ 124,405	\$ 375	\$ 124,780



NOTE F – Allowance for Credit Losses

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

(in thousands)	Nine Months Ended September 30,	
	2023	2022
Balance, beginning of period	\$ 3,066	\$ 4,249
Provision for credit losses	4,004	2,889
Write-offs, net of recoveries	(3,993)	(3,480)
Balance, end of period	<u>\$ 3,077</u>	<u>\$ 3,658</u>

NOTE G – Property and Equipment, Net

Property and equipment, net consisted of the following:

(in thousands)	September 30, 2023	December 31, 2022
Internally developed software	\$ 57,933	\$ 49,994
Computer equipment	34,048	30,310
Leasehold improvements	15,361	16,531
Office equipment and furniture	10,993	10,981
Property and equipment, cost	118,335	107,816
Less: accumulated depreciation and amortization	(82,126)	(72,358)
Total property and equipment, net	<u>\$ 36,209</u>	<u>\$ 35,458</u>

NOTE H – Goodwill and Intangible Assets, Net

Goodwill

The activity in goodwill was as follows:

(in thousands)	Nine Months Ended September 30, 2023
Balance, beginning of period	\$ 197,284
Foreign currency translation	(1,162)
Addition from business acquisition(s)	50,842
Remeasurement from provisional purchase accounting amount	5,081
Balance, end of period	<u>\$ 252,045</u>

Intangible Assets

Intangible assets, net consisted of the following:

(\$ in thousands)	September 30, 2023				
	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net	Weighted Average Remaining Amortization Period
Subscriber relationships	\$ 97,734	\$ (28,771)	\$ (4,173)	\$ 64,790	6.7 years
Acquired technology	53,505	(13,995)	(703)	38,807	5.3 years
	<u>\$ 151,239</u>	<u>\$ (42,766)</u>	<u>\$ (4,876)</u>	<u>\$ 103,597</u>	<u>6.1 years</u>



(\$ 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
Acquired technology	40,610	(9,934)	1	30,677	5.7 years
	<u>\$ 120,711</u>	<u>\$ (32,189)</u>	<u>\$ (170)</u>	<u>\$ 88,352</u>	<u>6.4 years</u>

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

(in thousands)	
Remainder of 2023	\$ 4,718
2024	17,899
2025	17,761
2026	16,757
2027	16,294
Thereafter	30,168
Total future amortization	<u>\$ 103,597</u>

NOTE I – Commitments and Contingencies

Leases

The components of lease expense were as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease cost	\$ 729	\$ 788	\$ 2,306	\$ 2,287
Variable lease cost	909	963	2,787	2,612
	<u>\$ 1,638</u>	<u>\$ 1,751</u>	<u>\$ 5,093</u>	<u>\$ 4,899</u>

Supplemental cash flow information related to leases was as follows:

(in thousands)	Nine Months Ended September 30,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 3,835	\$ 3,399
Right-of-use assets obtained in exchange for operating lease liabilities	1,072	934

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

	September 30, 2023	December 31, 2022
Weighted-average remaining lease term	3.3 years	3.9 years
Weighted-average discount rate	3.7 %	4.0 %



At September 30, 2023, our future minimum payments under operating leases were as follows:

(in thousands)	
Remainder of 2023	\$ 767
2024	5,415
2025	4,589
2026	3,942
2027	1,297
Thereafter	97
Total future gross payments	\$ 16,107
Less: imputed interest	(1,095)
Total operating lease liabilities	\$ 15,012

Purchase Commitments

We have entered into separate noncancelable agreements with computing infrastructure, productivity software, customer relationship management, and performance and security data analytics vendors for services through 2026. At September 30, 2023, our remaining purchase commitments and estimated purchase timing were as follows:

(in thousands)	
Remainder of 2023	\$ 2,129
2024	11,527
2025	11,178
2026	4,264
Total estimated future purchases	\$ 29,098

NOTE J – Stockholders' Equity

Share Repurchase Programs

Our board of directors has authorized multiple non-concurrent programs to repurchase our common stock. Details of the programs and activity thereunder through September 30, 2023 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
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)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Number of shares repurchased	—	102,234	—	357,430
Shares repurchased cost	\$ —	\$ 12,477	\$ —	\$ 42,700
Average price per repurchased share	\$ —	\$ 122.04	\$ —	\$ 119.46



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 performance share units (“PSUs”), restricted stock awards (“RSAs”), restricted stock units (“RSUs”), and deferred stock units (“DSUs”), to employees, non-employee directors and other consultants who provide services to us. We also provide an employee stock purchase plan (“ESPP”) and 401(k) match to eligible participants.

We recognize stock-based compensation expense based on grant date award fair value. This cost is recognized over the period for which the employee is required to provide service in exchange for the award or the award performance period, except for expenses relating to retirement-eligible employees that have not given their required notice, which is recognized on a pro-rata basis over the notice period prior to retirement. At September 30, 2023, there were 12.8 million shares available for grant under approved equity compensation plans.

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of revenues	\$ 2,506	\$ 2,146	\$ 7,595	\$ 6,477
Operating expenses				
Sales and marketing	2,428	1,845	7,379	5,835
Research and development	1,798	1,396	5,387	4,250
General and administrative	4,704	2,573	15,736	9,074
	<u>\$ 11,436</u>	<u>\$ 7,960</u>	<u>\$ 36,097</u>	<u>\$ 25,636</u>

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock options	\$ 487	\$ 461	\$ 1,472	\$ 1,401
PSUs	2,812	1,541	10,236	6,244
RSUs & DSUs	6,722	4,735	20,165	14,467
RSAs	122	110	345	328
ESPP	637	577	1,974	1,609
401(k) stock match	656	536	1,905	1,587
	<u>\$ 11,436</u>	<u>\$ 7,960</u>	<u>\$ 36,097</u>	<u>\$ 25,636</u>

As of September 30, 2023, there was \$50.3 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

Our stock option activity was as follows:

	Nine Months Ended September 30, 2023	
	Options (#)	Weighted Average Exercise Price (\$/share)
Outstanding, beginning of period	562,697	\$ 56.24
Granted	39,949	152.08
Exercised	(154,279)	35.80
Forfeited	(2,236)	127.39
Outstanding, end of period	446,131	\$ 71.54

Of the total outstanding options at September 30, 2023, 0.4 million were exercisable. The outstanding and exercisable options had a weighted average exercise price of \$59.61 per share and a weighted average remaining contractual life of 2.9 years.

The weighted average grant date fair value of options granted during the nine months ended September 30, 2023 was \$56.29 per share. This was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

Life (in years)	4.2
Volatility	39.3 %
Dividend yield	—
Risk-free interest rate	4.0 %

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

In each of the quarters ended March 31, 2023, 2022, 2021, and 2020 we granted PSU awards with a target performance level. These awards are earned based upon our Company's total shareholder return as compared to an indexed total shareholder return over the course of a fiscal based three-year performance period, starting in the year of grant. Earned awards vest in the quarter following the conclusion of the performance period. In the three months ended March 31, 2023, PSU awards granted in 2020 vested at the maximum performance level and 0.1 million shares of common stock were issued.

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

	Nine Months Ended September 30, 2023	
	#	Weighted Average Grant Date Fair Value (\$/share)
Outstanding, beginning of period	712,158	\$ 103.93
Granted	352,457	163.26
Vested and common stock issued	(341,570)	77.06
Forfeited	(7,607)	118.37
Outstanding, end of period	715,438	\$ 145.83

The number of PSUs, RSUs, RSAs, and DSUs outstanding at September 30, 2023 included 0.1 million units that have vested, but the shares of common stock have not yet been issued, pursuant to the terms of the underlying agreements.



Employee Stock Purchase Plan

Our ESPP activity was as follows:

(in thousands, except shares)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Amounts for shares purchased	\$ 344	\$ 238	\$ 4,481	\$ 3,588
Shares purchased	3,159	2,481	41,384	37,516

A total of 1.7 million shares of common stock are reserved for issuance under the ESPP as of September 30, 2023.

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

Life (in years)	0.5
Volatility	40.1 %
Dividend yield	—
Risk-free interest rate	4.6 %

NOTE L – Income Taxes

We record our interim provision for income taxes by applying our estimated annual effective tax rate to our year-to-date pre-tax income and adjust the provision for discrete tax items recorded in the period. Our provisions for income taxes includes current federal, state, and foreign income tax expense, as well as deferred tax expense.

Differences between our effective tax rate and statutory tax rates are primarily due to the impact of permanently non-deductible expenses partially offset by the federal research and development credits and tax benefits associated with foreign-derived intangible income. Additionally, excess tax benefits generated upon settlement or exercise of stock awards are recognized as a reduction to income tax expense as a discrete tax item in the quarter that the event occurs, creating potentially significant fluctuation in tax expense by quarter and by year.

NOTE M – Other Income and Expense

Other income (expense), net included the following:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Investment income	\$ 2,635	\$ 586	\$ 5,372	\$ 806
Realized gain (loss) from foreign currency on cash and investments held	98	(1,151)	525	(2,010)
Other expense, net	(1,031)	(130)	(1,038)	(406)
Total other income (expense), net	\$ 1,702	\$ (695)	\$ 4,859	\$ (1,610)



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)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator				
Net income	\$ 16,842	\$ 15,863	\$ 46,813	\$ 39,219
Denominator				
Weighted average common shares outstanding, basic	36,728	36,093	36,584	36,104
Options to purchase common stock	256	379	279	396
PSUs, RSUs, RSAs, and DSUs	600	443	554	442
Weighted average common shares outstanding, diluted	37,584	36,915	37,417	36,942
Net income per share				
Basic	\$ 0.46	\$ 0.44	\$ 1.28	\$ 1.09
Diluted	\$ 0.45	\$ 0.43	\$ 1.25	\$ 1.06

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Anti-dilutive shares	40	107	43	222

NOTE O – Geographic Information**Revenue**

Domestic revenue, which we define as revenue that was attributable to customers based within the U.S., was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Domestic revenue	84 %	85 %	84 %	84 %

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

Property and Equipment

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

	September 30, 2023	December 31, 2022
International property and equipment	14 %	13 %



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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward looking statements regarding us, our business prospects and our results of operations are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. In some cases, you can identify forward-looking statements by the following words: “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would,” or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Similarly, statements that describe our future plans, objectives or goals are also forward-looking. Forward-looking statements may also be made from time to time in oral presentations, including telephone conferences and/or webcasts open to the public. Shareholders, potential investors, and others are cautioned that all forward-looking statements involve risks and uncertainties that could cause results in future periods to differ materially from those anticipated by some of the statements made in this report, including the risks and uncertainties described under the heading “Risk Factors” appearing in our Annual Report on Form 10-K for the year ended December 31, 2022, as may be updated in our subsequent Quarterly Reports on Form 10-Q from time to time. We expressly disclaim any intent or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that advise interested parties of the risks and factors that may affect our business.

Overview

SPS Commerce is a leading provider of cloud-based supply chain management services across our global retail network. Our products make it easier for retailers, 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 Measures

We have several key financial terms, metrics, and non-GAAP measures as discussed in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC, under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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.”



Results of Operations

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

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

(\$ in thousands)	Three Months Ended September 30,					
	2023		2022		Change	
	\$	% of revenue ⁽¹⁾	\$	% of revenue ⁽¹⁾	\$	%
Revenues	\$ 135,661	100.0 %	\$ 114,486	100.0 %	\$ 21,175	18.5 %
Cost of revenues	45,521	33.6	38,605	33.7	6,916	17.9
Gross profit	90,140	66.4	75,881	66.3	14,259	18.8
Operating expenses						
Sales and marketing	30,289	22.3	25,334	22.1	4,955	19.6
Research and development	13,558	10.0	11,135	9.7	2,423	21.8
General and administrative	21,906	16.1	16,724	14.6	5,182	31.0
Amortization of intangible assets	3,788	2.8	2,998	2.6	790	26.4
Total operating expenses	69,541	51.3	56,191	49.1	13,350	23.8
Income from operations	20,599	15.2	19,690	17.2	909	4.6
Other income (expense), net	1,702	1.3	(695)	(0.6)	2,397	(344.9)
Income before income taxes	22,301	16.4	18,995	16.6	3,306	17.4
Income tax expense	5,459	4.0	3,132	2.7	2,327	74.3
Net income	\$ 16,842	12.4 %	\$ 15,863	13.9 %	\$ 979	6.2 %

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

Revenues - Revenues increased for the 91st consecutive quarter. The increase in revenue resulted from two primary factors: the increase in recurring revenue customers, which is driven primarily by continued business growth and by business acquisitions, and the increase in average recurring revenues per recurring revenue customer, which we also refer to as wallet share.

- The number of recurring revenue customers increased 13% to 44,500 at September 30, 2023 from 39,550 at September 30, 2022 primarily due to sales and marketing efforts to acquire new customers and due to recent acquisitions.
- Wallet share increased 7% to \$11,650 for the three months ended September 30, 2023 from \$10,900 for the same period in 2022. This was primarily attributable to increased usage of our products by our recurring revenue customers.

Recurring revenues increased 20% to \$127.4 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022. Recurring revenues accounted for 94% of our total revenues for the three months ended September 30, 2023 compared to 93% for the three months ended September 30, 2022. 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 penetration of our market.

Cost of Revenues - The increase in cost of revenues was primarily due to increased headcount, which resulted in an increase of \$5.5 million in personnel-related costs.

Sales and Marketing Expenses - The increase in sales and marketing expense was primarily due to increased headcount, which resulted in an increase of \$3.2 million in personnel-related costs.

Research and Development Expenses - The increase in research and development expense was primarily due to increased headcount, which resulted in an increase of \$1.8 million in personnel-related costs.



General and Administrative Expenses - The increase in general and administrative expense was primarily related to increased stock-based compensation of \$2.1 million. Additionally, the increase was due to supporting continued business growth, including an increase in headcount which resulted in an increase in personnel-related costs of \$1.8 million. Finally, there was an increase in credit loss expense of \$1.3 million due primarily to overall business growth.

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

Other Income (Expense), Net - The increase in other income (expense), net was primarily due to favorable investment returns and foreign currency exchange rate changes.

Income Tax Expense - The increase in income tax expense was primarily driven by the increase in pre-tax income, and reduction in the excess tax deductions from the current period equity award settlements as compared to prior year. 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. Other adjustments included the expense impact from acquisition-related employee severance costs. Net income is the comparable GAAP measure of financial performance.

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

(in thousands)	Three Months Ended September 30,	
	2023	2022
Net income	\$ 16,842	\$ 15,863
Income tax expense	5,459	3,132
Depreciation and amortization of property and equipment	4,675	4,169
Amortization of intangible assets	3,788	2,998
Stock-based compensation expense	11,436	7,960
Realized (gain) loss from foreign currency on cash and investments held	(98)	1,151
Investment income	(2,635)	(586)
Other	1,036	—
Adjusted EBITDA	\$ 40,503	\$ 34,687

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:

(in thousands, except Margin and Adjusted EBITDA Margin)	Three Months Ended September 30,	
	2023	2022
Revenue	\$ 135,661	\$ 114,486
Net income	16,842	15,863
Margin	12 %	14 %
Adjusted EBITDA	40,503	34,687
Adjusted EBITDA Margin	30 %	30 %



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, including the expense impact from acquisition-related employee severance costs, 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. Net income per share, the comparable GAAP measure of financial performance, consists of net income divided by the weighted average number of shares of common and diluted stock outstanding during each period.

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 per share to non-GAAP income per share:

(in thousands, except per share amounts)	Three Months Ended September 30,	
	2023	2022
Net income	\$ 16,842	\$ 15,863
Stock-based compensation expense	11,436	7,960
Amortization of intangible assets	3,788	2,998
Realized (gain) loss from foreign currency on cash and investments held	(98)	1,151
Other	1,036	—
Income tax effects of adjustments	(4,981)	(4,866)
Non-GAAP income	\$ 28,023	\$ 23,106
Shares used to compute net income and non-GAAP income per share		
Basic	36,728	36,093
Diluted	37,584	36,915
Net income per share, basic	\$ 0.46	\$ 0.44
Non-GAAP adjustments to net income per share, basic	0.30	0.20
Non-GAAP income per share, basic	\$ 0.76	\$ 0.64
Net income per share, diluted	\$ 0.45	\$ 0.43
Non-GAAP adjustments to net income per share, diluted	0.30	0.20
Non-GAAP income per share, diluted	\$ 0.75	\$ 0.63



Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

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

(\$ in thousands)	Nine Months Ended September 30,					
	2023		2022		Change	
	\$	% of revenue ⁽¹⁾	\$	% of revenue ⁽¹⁾	\$	%
Revenues	\$ 391,945	100.0 %	\$ 328,857	100.0 %	\$ 63,088	19.2 %
Cost of revenues	133,029	33.9	111,524	33.9	21,505	19.3
Gross profit	258,916	66.1	217,333	66.1	41,583	19.1
Operating expenses						
Sales and marketing	89,722	22.9	74,571	22.7	15,151	20.3
Research and development	39,438	10.1	33,268	10.1	6,170	18.5
General and administrative	64,275	16.4	49,390	15.0	14,885	30.1
Amortization of intangible assets	11,118	2.8	7,936	2.4	3,182	40.1
Total operating expenses	204,553	52.2	165,165	50.2	39,388	23.8
Income from operations	54,363	13.9	52,168	15.9	2,195	4.2
Other income (expense), net	4,859	1.2	(1,610)	(0.5)	6,469	(401.8)
Income before income taxes	59,222	15.1	50,558	15.4	8,664	17.1
Income tax expense	12,409	3.2	11,339	3.4	1,070	9.4
Net income	\$ 46,813	11.9 %	\$ 39,219	11.9 %	\$ 7,594	19.4 %

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

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

- The number of recurring revenue customers increased 13% to 44,500 at September 30, 2023 from 39,550 at September 30, 2022 primarily due to sales and marketing efforts to acquire new customers and due to recent acquisitions.
- Wallet share increased 7% to \$11,250 for the nine months ended September 30, 2023 from \$10,550 for the same period in 2022. The increase was primarily attributable to increased usage of our solutions by our recurring revenue customers.

Recurring revenues increased 20% to \$366.2 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Recurring revenues from recurring revenue customers accounted for 93% of our total revenues for the nine months ended September 30, 2023 and 2022, 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 increases of \$16.3 million in personnel-related costs and \$2.0 million of software subscriptions. Additionally, the increase was due to a \$1.1 million increase in stock-based compensation.

Sales and Marketing Expenses - The increase in sales and marketing expense was primarily due to increased headcount, which resulted in increases of \$10.2 million in personnel-related costs and \$1.9 million in variable compensation earned by sales personnel and referral partners. Additionally, the increase was due to a \$1.5 million increase in stock-based compensation.



Research and Development Expenses - The increase in research and development expense was primarily due to increased headcount, which resulted in an increase of \$4.1 million in personnel-related costs. Additionally, the increase was due to a \$1.1 million increase in stock-based compensation.

General and Administrative Expenses - The increase in general and administrative expense was primarily related to increased stock-based compensation of \$6.7 million. Additionally, the increase was due to supporting continued business growth, including an increase in headcount which resulted in an increase in personnel-related costs of \$4.3 million and software subscriptions of \$1.0 million. Finally, there was an increase in credit loss expense of \$1.1 million due primarily to overall business growth.

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

Other Income (Expense), Net - The increase in other income (expense), net was primarily due to favorable investment returns and foreign currency exchange rate changes.

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

Adjusted EBITDA - Adjusted EBITDA 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. Other adjustments included the expense impacts from acquisition-related employee severance costs and disposals of certain capitalized internally developed software. Net income is the comparable GAAP measure of financial performance.

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

(in thousands)	Nine Months Ended September 30,	
	2023	2022
Net income	\$ 46,813	\$ 39,219
Income tax expense	12,409	11,339
Depreciation and amortization of property and equipment	13,964	11,983
Amortization of intangible assets	11,118	7,936
Stock-based compensation expense	36,097	25,636
Realized (gain) loss from foreign currency on cash and investments held	(525)	2,010
Investment income	(5,372)	(806)
Other	1,170	—
Adjusted EBITDA	\$ 115,674	\$ 97,317

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:

(in thousands, except Margin and Adjusted EBITDA Margin)	Nine Months Ended September 30,	
	2023	2022
Revenue	\$ 391,945	\$ 328,857
Net income	46,813	39,219
Margin	12 %	12 %
Adjusted EBITDA	115,674	97,317
Adjusted EBITDA Margin	30 %	30 %

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, including the expense impacts from acquisition-related employee severance costs and disposals of certain capitalized internally developed software, 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. Net income per share, the comparable GAAP measure of financial performance, consists of net income divided by the weighted average number of shares of common and diluted stock outstanding during each period.

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 per share to non-GAAP income per share:

(in thousands, except per share amounts)	Nine Months Ended September 30,	
	2023	2022
Net income	\$ 46,813	\$ 39,219
Stock-based compensation expense	36,097	25,636
Amortization of intangible assets	11,118	7,936
Realized (gain) loss from foreign currency on cash and investments held	(525)	2,010
Other	1,170	—
Income tax effects of adjustments	(16,089)	(11,576)
Non-GAAP income	\$ 78,584	\$ 63,225
Shares used to compute net income and non-GAAP income per share		
Basic	36,584	36,104
Diluted	37,417	36,942
Net income per share, basic	\$ 1.28	\$ 1.09
Non-GAAP adjustments to net income per share, basic	0.86	0.66
Non-GAAP income per share, basic	\$ 2.14	\$ 1.75
Net income per share, diluted	\$ 1.25	\$ 1.06
Non-GAAP adjustments to net income per share, diluted	0.86	0.66
Non-GAAP income per share, diluted	\$ 2.11	\$ 1.72



Critical Accounting Policies and Estimates

This discussion of our financial condition and results of operations is based upon our condensed consolidated financial statements, which are prepared in accordance with GAAP and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The preparation of these 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.

During the nine months ended September 30, 2023, there were no changes in our critical accounting policies or estimates. For additional information regarding our critical accounting policies and estimates, see the discussion under "Critical Accounting Policies and Estimates" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC.

Liquidity and Capital Resources

As of September 30, 2023, our principal sources of liquidity were cash and cash equivalents and short-term investments totaling \$239.3 million and net accounts receivable of \$45.1 million. Our investments are selected in accordance with our investment policy, with a goal of maintaining liquidity and capital preservation. Our cash equivalents and short-term investments are held in highly liquid money market funds, certificates of deposits, and commercial paper.

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

(in thousands)	Nine Months Ended September 30,	
	2023	2022
Net cash provided by operating activities	\$ 99,512	\$ 76,483
Net cash used in investing activities	(93,448)	(60,593)
Net cash provided by (used in) financing activities	10,005	(36,655)

Net Cash Flows from Operating Activities

The increase in cash provided by operating activities was primarily driven by changes in the amount and timing of settlement of operating assets and liabilities, in addition to increased net income.

Net Cash Flows from Investing Activities

The increase in cash used in investing activities was primarily due to acquisition activity.

Net Cash Flows from Financing Activities

The change in cash provided by (used in) financing activities was primarily due to the decrease in cash used for share repurchases.



Contractual and Commercial Commitment Summary

Our contractual obligations and commercial commitments as of September 30, 2023 are summarized below:

(in thousands)	Payments Due by Period				
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Operating lease obligations, including imputed interest	\$ 4,982	\$ 8,782	\$ 2,264	\$ 79	\$ 16,107
Purchase commitments	11,518	17,580	—	—	29,098
Total	\$ 16,500	\$ 26,362	\$ 2,264	\$ 79	\$ 45,205

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 I, Item 3, “Quantitative and Qualitative Disclosures About Market Risk” of this Quarterly Report on Form 10-Q.

Inflation and changing prices did not have a material effect on our business during the nine months ended September 30, 2023 and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity Risk

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

We did not have any variable interest rate outstanding debt as of September 30, 2023. 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 dollar, Canadian dollar, and Euro. 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 September 30, 2023, we maintained 12% of our total cash and cash equivalents and investments in foreign currencies.

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In October 2022, we acquired the InterTrade business and in September 2023, we acquired the TIE Kinetix business. 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, the scope of our most recent assessment did not include InterTrade or TIE Kinetix. We are currently in the process of incorporating internal controls specific to InterTrade and TIE Kinetix that we believe are appropriate and necessary to consolidate and report upon our financial results.

As of September 30, 2023, excluding net intangible assets and goodwill, InterTrade and TIE Kinetix combined represented 4.5% of our consolidated assets. For the nine months ended September 30, 2023, InterTrade and TIE Kinetix combined represented 3.2% of our consolidated revenues.



PART II. – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed under the heading “*Risk Factors*” in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC, except for the below which replaces the risk factor titled, “*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.*”

If we fail to attract, retain, and train members of our senior management team and other key personnel, or if we are not able to successfully manage the transition of our Chief Executive Officer or our President and Chief Operating Officer, our business could be adversely affected.

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.

Further, we have announced the planned retirement of our Chief Executive Officer, Archie Black, and the appointment of his successor, Chad Collins, effective October 2, 2023, and the planned retirement of our President and Chief Operating Officer, James Frome, effective December 31, 2024. Leadership transitions and management changes involve inherent risks, can be difficult to manage and may cause uncertainty or a disruption, which could adversely affect our business.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

(c) Share Repurchases

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.

We did not make any repurchases under the program during the quarter ended September 30, 2023. For more information regarding our share repurchase programs, refer to Note J to our condensed consolidated financial statements, included in Part I of this Quarterly Report on Form 10-Q.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.



Item 5. Other Information

Insider Adoption or Termination of Trading Arrangements

During the three months ended September 30, 2023, the following directors and officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted written plans for the sale of our securities that are intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act:

Name	Title	Adoption Date	Earliest Sale Date	Expiration or Termination Date	Aggregate Number of Shares of the Company's Common Stock to be Sold
Archie Black	Chief Executive Officer ⁽¹⁾ and Director	August 29, 2023	November 29, 2023	March 31, 2025	34,482
Kimberly Nelson	Chief Financial Officer	August 1, 2023	October 31, 2023	May 30, 2024	47,608
Philip Soran	Director	August 8, 2023	November 7, 2023	May 20, 2024	6,052
Marty Reaume	Director	August 9, 2023	November 8, 2023	August 9, 2024	6,570

⁽¹⁾ As previously reported, effective October 2, 2023 Archie Black retired as the Company's Chief Executive Officer.

There were no other Rule 10b5-1(c) trading arrangements or non-Rule 10b5-1(c) trading arrangements adopted, modified or terminated by the Company's officers and directors during the three months ended September 30, 2023.

Item 6. Exhibits

Number	Description
3.1	Ninth Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed with the SEC on May 21, 2020).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to our Form 10-K filed with the SEC on February 21, 2023).
10.1	Offer Letter between Chad Collins and SPS Commerce, Inc., dated as of July 6, 2023 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on July 6, 2023).
10.2	Executive Severance and Change in Control Agreement, effective as of October 2, 2023, by and between Chad Collins and SPS Commerce, Inc. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on July 6, 2023).
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T (filed herewith). The XBRL instance document does not appear in the Interactive Data File because its tags are embedded within the Inline XBRL document.
104	The cover page from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: October 26, 2023

SPS COMMERCE, INC.

/s/ KIMBERLY NELSON

Kimberly Nelson

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



SPS COMMERCE, INC.

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Chadwick Collins, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SPS Commerce, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ CHADWICK COLLINS

Chadwick Collins

Chief Executive Officer

(principal executive officer)

October 26, 2023

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Kimberly Nelson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SPS Commerce, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ KIMBERLY NELSON

Kimberly Nelson

Executive Vice President and Chief Financial Officer

(principal financial and accounting officer)

October 26, 2023

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

In connection with the Quarterly Report on Form 10-Q of SPS Commerce, Inc. (the “Company”) for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Executive Officer and the Chief Financial Officer of the Company, hereby certify, pursuant to and for purposes of 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CHADWICK COLLINS

Chadwick Collins
Chief Executive Officer
(principal executive officer)

/s/ KIMBERLY NELSON

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

October 26, 2023