

**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: **June 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 July 20, 2023 was 36,651,156 shares.

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



## PART I. – FINANCIAL INFORMATION

## Item 1. Financial Statements

SPS COMMERCE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except shares)	June 30, 2023	December 31, 2022
<b>ASSETS</b>	(unaudited)	
Current assets		
Cash and cash equivalents	\$ 209,264	\$ 162,893
Short-term investments	60,914	51,412
Accounts receivable	48,092	42,501
Allowance for credit losses	(3,100)	(3,066)
Accounts receivable, net	44,992	39,435
Deferred costs	56,250	52,755
Other assets	13,556	16,319
Total current assets	384,976	322,814
Property and equipment, net	35,211	35,458
Operating lease right-of-use assets	7,973	9,170
Goodwill	202,786	197,284
Intangible assets, net	77,633	88,352
Other assets		
Deferred costs, non-current	19,005	17,424
Deferred income tax assets	6,676	227
Other assets, non-current	1,278	2,185
Total assets	\$ 735,538	\$ 672,914
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 6,163	\$ 11,256
Accrued compensation	28,637	30,235
Accrued expenses	6,714	7,451
Deferred revenue	66,381	57,423
Operating lease liabilities	4,073	4,277
Total current liabilities	111,968	110,642
Other liabilities		
Deferred revenue, non-current	5,724	4,771
Operating lease liabilities, non-current	11,058	13,009
Deferred income tax liabilities	5,807	7,419
Total liabilities	134,557	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; 38,797,917 and 38,309,144 shares issued; and 36,646,819 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	508,484	476,117
Retained earnings	223,192	193,221
Accumulated other comprehensive loss	(1,842)	(3,411)
Total stockholders' equity	600,981	537,073
Total liabilities and stockholders' equity	\$ 735,538	\$ 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 June 30, 2023

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

(in thousands, except per share amounts) (unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues	\$ 130,416	\$ 109,178	\$ 256,284	\$ 214,371
Cost of revenues	44,544	37,530	87,508	72,919
Gross profit	85,872	71,648	168,776	141,452
Operating expenses				
Sales and marketing	30,349	24,582	59,433	49,237
Research and development	13,318	11,432	25,880	22,133
General and administrative	21,693	17,198	42,369	32,666
Amortization of intangible assets	3,479	2,468	7,330	4,938
Total operating expenses	68,839	55,680	135,012	108,974
Income from operations	17,033	15,968	33,764	32,478
Other income (expense), net	1,882	(1,338)	3,157	(915)
Income before income taxes	18,915	14,630	36,921	31,563
Income tax expense	4,233	3,877	6,950	8,207
Net income	\$ 14,682	\$ 10,753	\$ 29,971	\$ 23,356
Other comprehensive income (expense)				
Foreign currency translation adjustments	1,615	(1,743)	1,520	(1,013)
Unrealized gain (loss) on investments, net of tax of \$136, \$(3), \$269 and \$(4), respectively	408	(8)	806	(11)
Reclassification of gain on investments into earnings, net of tax of \$(127), \$(8), \$(252), and \$(4), respectively	(381)	(23)	(757)	(12)
Total other comprehensive income (expense)	1,642	(1,774)	1,569	(1,036)
Comprehensive income	\$ 16,324	\$ 8,979	\$ 31,540	\$ 22,320
Net income per share				
Basic	\$ 0.40	\$ 0.30	\$ 0.82	\$ 0.65
Diluted	\$ 0.39	\$ 0.29	\$ 0.80	\$ 0.63
Weighted average common shares used to compute net income per share				
Basic	36,593	36,085	36,511	36,110
Diluted	37,426	36,862	37,327	36,897

See accompanying notes to these condensed consolidated financial statements.



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

(in thousands, except shares) (unaudited)	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balances, March 31, 2022	36,120,518	\$ 38	1,910,897	\$ (100,903)	\$ 442,405	\$ 150,690	\$ (709)	\$ 491,521
Stock-based compensation	—	—	—	—	8,128	—	—	8,128
Shares issued pursuant to stock awards	9,274	—	—	—	186	—	—	186
Employee stock purchase plan activity	33,337	—	—	—	3,203	—	—	3,203
Repurchases of common stock	(133,652)	—	133,652	(14,997)	—	—	—	(14,997)
Net income	—	—	—	—	—	10,753	—	10,753
Foreign currency translation adjustments	—	—	—	—	—	—	(1,743)	(1,743)
Unrealized loss on investments, net of tax	—	—	—	—	—	—	(8)	(8)
Reclassification of loss on investments into earnings, net of tax	—	—	—	—	—	—	(23)	(23)
Balances, June 30, 2022	36,029,477	\$ 38	2,044,549	\$ (115,900)	\$ 453,922	\$ 161,443	\$ (2,483)	\$ 497,020
Balances, March 31, 2023	36,532,756	\$ 39	2,151,098	\$ (128,892)	\$ 489,716	\$ 208,510	\$ (3,484)	\$ 565,889
Stock-based compensation	—	—	—	—	12,237	—	—	12,237
Shares issued pursuant to stock awards	78,387	—	—	—	2,636	—	—	2,636
Employee stock purchase plan activity	35,676	—	—	—	3,895	—	—	3,895
Net income	—	—	—	—	—	14,682	—	14,682
Foreign currency translation adjustments	—	—	—	—	—	—	1,615	1,615
Unrealized gain on investments, net of tax	—	—	—	—	—	—	408	408
Reclassification of gain on investments into earnings, net of tax	—	—	—	—	—	—	(381)	(381)
Balances, June 30, 2023	36,646,819	\$ 39	2,151,098	\$ (128,892)	\$ 508,484	\$ 223,192	\$ (1,842)	\$ 600,981

  

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balances, December 31, 2021	36,009,257	\$ 38	1,789,353	\$ (85,677)	\$ 433,258	\$ 138,087	\$ (1,447)	\$ 484,259
Stock-based compensation	—	—	—	—	16,624	—	—	16,624
Shares issued pursuant to stock awards	240,381	—	—	—	690	—	—	690
Employee stock purchase plan activity	35,035	—	—	—	3,350	—	—	3,350
Repurchases of common stock	(255,196)	—	255,196	(30,223)	—	—	—	(30,223)
Net income	—	—	—	—	—	23,356	—	23,356
Foreign currency translation adjustments	—	—	—	—	—	—	(1,013)	(1,013)
Unrealized loss on investments, net of tax	—	—	—	—	—	—	(11)	(11)
Reclassification of loss on investments into earnings, net of tax	—	—	—	—	—	—	(12)	(12)
Balances, June 30, 2022	36,029,477	\$ 38	2,044,549	\$ (115,900)	\$ 453,922	\$ 161,443	\$ (2,483)	\$ 497,020
Balances, December 31, 2022	36,158,046	\$ 38	2,151,098	\$ (128,892)	\$ 476,117	\$ 193,221	\$ (3,411)	\$ 537,073
Stock-based compensation	—	—	—	—	23,412	—	—	23,412
Shares issued pursuant to stock awards	450,548	1	—	—	4,818	—	—	4,819
Employee stock purchase plan activity	38,225	—	—	—	4,136	—	—	4,136
Net income	—	—	—	—	—	29,971	—	29,971
Foreign currency translation adjustments	—	—	—	—	—	—	1,520	1,520
Unrealized gain on investments, net of tax	—	—	—	—	—	—	806	806
Reclassification of gain on investments into earnings, net of tax	—	—	—	—	—	—	(757)	(757)
Balances, June 30, 2023	36,646,819	\$ 39	2,151,098	\$ (128,892)	\$ 508,484	\$ 223,192	\$ (1,842)	\$ 600,981

See accompanying notes to these condensed consolidated financial statements..



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

(in thousands) (unaudited)	Six Months Ended June 30,	
	2023	2022
<b>Cash flows from operating activities</b>		
Net income	\$ 29,971	\$ 23,356
Reconciliation of net income to net cash provided by operating activities		
Deferred income taxes	(8,654)	(2,160)
Depreciation and amortization of property and equipment	9,289	7,814
Amortization of intangible assets	7,330	4,938
Provision for credit losses	2,491	2,634
Stock-based compensation	24,661	17,676
Other, net	1,143	8
Changes in assets and liabilities		
Accounts receivable	(9,937)	(7,862)
Deferred costs	(5,136)	(5,095)
Other current and non-current assets	3,614	(1,423)
Accounts payable	(4,414)	(3,234)
Accrued compensation	(2,910)	(7,186)
Accrued expenses	(728)	(805)
Deferred revenue	9,909	8,802
Operating leases	(959)	(678)
Net cash provided by operating activities	55,670	36,785
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(9,769)	(8,191)
Purchases of investments	(68,579)	(114,603)
Maturities of investments	60,000	117,500
Net cash used in investing activities	(18,348)	(5,294)
<b>Cash flows from financing activities</b>		
Repurchases of common stock	—	(30,223)
Net proceeds from exercise of options to purchase common stock	4,819	690
Net proceeds from employee stock purchase plan activity	4,136	3,350
Net cash provided by (used in) financing activities	8,955	(26,183)
Effect of foreign currency exchange rate changes		
Net increase in cash and cash equivalents	46,371	5,173
Cash and cash equivalents at beginning of period	162,893	207,552
Cash and cash equivalents at end of period	\$ 209,264	\$ 212,725

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 six months ended June 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 may have a material impact on the purchase accounting for future 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. During the quarter ended March 31, 2023, provisional amounts were adjusted by \$1.6 million, primarily relating to a \$1.5 million decrease in the estimated value of deferred income tax assets, with the corresponding offset to goodwill. During the quarter ending June 30, 2023, there were no significant adjustments made to provisional amounts. The purchase accounting for the acquisition has been finalized as of June 30, 2023.

### 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 June 30, 2023 due to various items including valuation modeling completion; provisional amounts are primarily related to intangible assets. We expect to finalize the allocation of the purchase price within the one-year measurement period following the acquisition. 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.

### TIE Kinetix

On July 26, 2023, we entered into a purchase agreement with TIE Kinetix N.V. ("TIE Kinetix"), a leading provider of supply chain digitalization including EDI and e-invoicing in Europe, to acquire the business and operations of TIE Kinetix by purchasing the equity of its wholly owned operating subsidiary. The purchase price is €64.5 million (\$71.4 million at the July 26, 2023 exchange rate), net of cash acquired. The transaction is subject to customary closing conditions and is expected to close during the quarter ending September 30, 2023, upon the approval of the shareholders of TIE Kinetix.

## NOTE C – Revenue

We derive our revenues from the following revenue streams:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Recurring revenues:				
Fulfillment	\$ 105,500	\$ 87,887	\$ 207,169	\$ 172,618
Analytics	12,709	11,648	25,079	22,944
Other	3,314	1,628	6,576	3,168
Recurring revenues	121,523	101,163	238,824	198,730
One-time revenues	8,893	8,015	17,460	15,641
Total revenue	\$ 130,416	\$ 109,178	\$ 256,284	\$ 214,371

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 15,287	\$ 14,938	\$ 14,999	\$ 14,459
Invoiced set-up fees	5,739	4,058	9,990	8,061
Recognized set-up fees	(4,048)	(3,687)	(8,011)	(7,211)
Balance, end of period	\$ 16,978	\$ 15,309	\$ 16,978	\$ 15,309

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Balance, beginning of period	\$ 71,809	\$ 62,610	\$ 70,179	\$ 59,720
Incurring deferred costs	19,304	17,637	37,538	35,418
Amortized deferred costs	(15,858)	(15,582)	(32,462)	(30,473)
Balance, end of period	\$ 75,255	\$ 64,665	\$ 75,255	\$ 64,665



**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	June 30, 2023			December 31, 2022		
		Amortized Cost	Unrealized Gains (Losses), net	Fair Value	Amortized Cost	Unrealized Gains (Losses), net	Fair Value
<b>Cash equivalents:</b>							
Money market funds	Level 1	\$ 152,309	\$ —	\$ 152,309	\$ 73,368	\$ —	\$ 73,368
<b>Investments:</b>							
Certificates of deposit	Level 1	6,662	—	6,662	6,813	—	6,813
Marketable securities:							
Commercial paper	Level 2	43,985	305	44,290	44,224	375	44,599
U.S. treasury securities	Level 2	9,827	135	9,962	—	—	—
		<u>\$ 212,783</u>	<u>\$ 440</u>	<u>\$ 213,223</u>	<u>\$ 124,405</u>	<u>\$ 375</u>	<u>\$ 124,780</u>

**NOTE F – Allowance for Credit Losses**

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

(in thousands)	Six Months Ended June 30,	
	2023	2022
Balance, beginning of period	\$ 3,066	\$ 4,249
Provision for credit losses	2,491	2,634
Write-offs, net of recoveries	(2,457)	(2,429)
Balance, end of period	<u>\$ 3,100</u>	<u>\$ 4,454</u>

**NOTE G – Property and Equipment, Net**

Property and equipment, net consisted of the following:

(in thousands)	June 30, 2023	December 31, 2022
Internally developed software	\$ 54,846	\$ 49,994
Computer equipment	32,213	30,310
Leasehold improvements	15,386	16,531
Office equipment and furniture	10,602	10,981
Property and equipment, cost	<u>113,047</u>	<u>107,816</u>
Less: accumulated depreciation and amortization	<u>(77,836)</u>	<u>(72,358)</u>
Total property and equipment, net	<u>\$ 35,211</u>	<u>\$ 35,458</u>



**NOTE H – Goodwill and Intangible Assets, Net****Goodwill**

The activity in goodwill was as follows:

(in thousands)	Six Months Ended June 30, 2023
Balance, beginning of period	\$ 197,284
Foreign currency translation	924
Remeasurement from provisional purchase accounting amount	4,578
Balance, end of period	<u>\$ 202,786</u>

**Intangible Assets**

Intangible assets, net consisted of the following:

(\$ in thousands)	June 30, 2023				
	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net	Weighted Average Remaining Amortization Period
Subscriber relationships	\$ 79,385	\$ (26,376)	\$ (3,068)	\$ 49,941	6.4 years
Acquired technology	40,612	(12,597)	(323)	27,692	5.2 years
	<u>\$ 119,997</u>	<u>\$ (38,973)</u>	<u>\$ (3,391)</u>	<u>\$ 77,633</u>	<u>6.0 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	\$ 7,401
2024	13,665
2025	13,527
2026	12,523
2027	12,060
Thereafter	18,457
Total future amortization	<u>\$ 77,633</u>



**NOTE I – Commitments and Contingencies****Leases**

The components of lease expense were as follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating lease cost	\$ 779	\$ 740	\$ 1,578	\$ 1,499
Variable lease cost	950	856	1,878	1,649
	<u>\$ 1,729</u>	<u>\$ 1,596</u>	<u>\$ 3,456</u>	<u>\$ 3,148</u>

Supplemental cash flow information related to leases was as follows:

(in thousands)	Six Months Ended June 30,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 1,329	\$ 2,176
Right-of-use assets obtained in exchange for operating lease liabilities	268	—

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

	June 30, 2023	December 31, 2022
Weighted-average remaining lease term	3.5 years	3.9 years
Weighted-average discount rate	4.0 %	4.0 %

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

(in thousands)		
Remainder of 2023		\$ 2,563
2024		4,567
2025		4,116
2026		3,766
2027		1,282
Total future gross payments		<u>\$ 16,294</u>
Less: imputed interest		<u>(1,163)</u>
Total operating lease liabilities		<u>\$ 15,131</u>

**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 June 30, 2023, our remaining purchase commitments and estimated purchase timing were as follows:

(in thousands)		
Remainder of 2023		\$ 5,863
2024		11,527
2025		11,178
2026		4,510
Total estimated future purchases		<u>\$ 33,078</u>



**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 June 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Number of shares repurchased	—	133,652	—	255,196
Shares repurchased cost	\$ —	\$ 14,997	\$ —	\$ 30,223
Average price per repurchased share	\$ —	\$ 112.21	\$ —	\$ 118.43

**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 June 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cost of revenues	\$ 2,586	\$ 2,152	\$ 5,089	\$ 4,331
Operating expenses				
Sales and marketing	2,528	1,958	4,951	3,990
Research and development	1,812	1,380	3,589	2,854
General and administrative	5,955	3,171	11,032	6,501
	\$ 12,881	\$ 8,661	\$ 24,661	\$ 17,676



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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Stock options	\$ 494	\$ 463	\$ 985	\$ 940
PSUs	3,499	2,004	7,424	4,703
RSUs	7,381	5,094	13,443	9,732
RSAs & DSUs	115	110	223	218
ESPP	748	458	1,337	1,032
401(k) stock match	644	532	1,249	1,051
	<u>\$ 12,881</u>	<u>\$ 8,661</u>	<u>\$ 24,661</u>	<u>\$ 17,676</u>

As of June 30, 2023, there was \$53.8 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 2.5 years.

### Stock Options

Our stock option activity was as follows:

	Six Months Ended June 30, 2023	
	Options (#)	Weighted Average Exercise Price (\$/share)
Outstanding, beginning of period	562,697	\$ 56.24
Granted	39,483	151.89
Exercised	(143,550)	33.57
Forfeited	(1,916)	123.49
Outstanding, end of period	<u>456,714</u>	<u>\$ 71.36</u>

Of the total outstanding options at June 30, 2023, 0.4 million were exercisable. The outstanding and exercisable options had a weighted average exercise price of \$58.49 per share and a weighted average remaining contractual life of 3.1 years.

The weighted average grant date fair value of options granted during the six months ended June 30, 2023 was \$56.23 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:

	Six Months Ended June 30, 2023	
	#	Weighted Average Grant Date Fair Value (\$/share)
Outstanding, beginning of period	712,158	\$ 103.93
Granted	311,488	162.86
Vested and common stock issued	(305,853)	74.89
Forfeited	(4,613)	115.39
Outstanding, end of period	713,180	\$ 142.04

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

#### Employee Stock Purchase Plan

Our ESPP activity was as follows:

(in thousands, except shares)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Amounts for shares purchased	\$ 3,895	\$ 3,203	\$ 4,136	\$ 3,350
Shares purchased	35,676	33,337	38,225	35,035

A total of 1.7 million shares of common stock are reserved for issuance under the ESPP as of June 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Investment income	\$ 1,611	\$ 172	\$ 2,737	\$ 220
Realized gain (loss) from foreign currency on cash and investments held	290	(1,327)	427	(859)
Other expense, net	(19)	(183)	(7)	(276)
Total other income (expense), net	\$ 1,882	\$ (1,338)	\$ 3,157	\$ (915)

**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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Numerator</b>				
Net income	\$ 14,682	\$ 10,753	\$ 29,971	\$ 23,356
<b>Denominator</b>				
Weighted average common shares outstanding, basic	36,593	36,085	36,511	36,110
Options to purchase common stock	274	391	291	405
PSUs, RSUs, RSAs, and DSUs	559	386	525	382
Weighted average common shares outstanding, diluted	37,426	36,862	37,327	36,897
<b>Net income per share</b>				
Basic	\$ 0.40	\$ 0.30	\$ 0.82	\$ 0.65
Diluted	\$ 0.39	\$ 0.29	\$ 0.80	\$ 0.63

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Anti-dilutive shares	37	242	63	211





**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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Domestic revenue	84 %	84 %	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:

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

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

(\$ in thousands)	Three Months Ended June 30,				Change	
	2023		2022		\$	%
	\$	% of revenue <sup>(1)</sup>	\$	% of revenue <sup>(1)</sup>		
Revenues	\$ 130,416	100.0 %	\$ 109,178	100.0 %	\$ 21,238	19.5 %
Cost of revenues	44,544	34.2	37,530	34.4	7,014	18.7
Gross profit	85,872	65.8	71,648	65.6	14,224	19.9
Operating expenses						
Sales and marketing	30,349	23.3	24,582	22.5	5,767	23.5
Research and development	13,318	10.2	11,432	10.5	1,886	16.5
General and administrative	21,693	16.6	17,198	15.8	4,495	26.1
Amortization of intangible assets	3,479	2.7	2,468	2.3	1,011	41.0
Total operating expenses	68,839	52.8	55,680	51.0	13,159	23.6
Income from operations	17,033	13.1	15,968	14.6	1,065	6.7
Other income (expense), net	1,882	1.4	(1,338)	(1.2)	3,220	(240.7)
Income before income taxes	18,915	14.5	14,630	13.4	4,285	29.3
Income tax expense	4,233	3.2	3,877	3.6	356	9.2
Net income	\$ 14,682	11.3 %	\$ 10,753	9.8 %	\$ 3,929	36.5 %

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

**Revenues** - Revenues increased for the 90th 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 11% to 43,000 at June 30, 2023 from 38,650 at June 30, 2022 primarily due to sales and marketing efforts to acquire new customers and due to recent acquisitions.
- Wallet share increased 8% to \$11,350 for the three months ended June 30, 2023 from \$10,550 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 \$121.5 million for the three months ended June 30, 2023 compared to the three months ended June 30, 2022. Recurring revenues accounted for 93% of our total revenues for the three months ended June 30, 2023 and 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 \$5.0 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 \$3.6 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 \$1.1 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 \$2.8 million. Additionally, the increase was due to supporting continued business growth, including an increase in headcount. The increase in headcount resulted in an increase in personnel-related costs of \$1.1 million.

**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 pre-tax income, as partially offset by changes in the excess tax deductions from 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 impact from the 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)	Three Months Ended June 30,	
	2023	2022
Net income	\$ 14,682	\$ 10,753
Income tax expense	4,233	3,877
Depreciation and amortization of property and equipment	4,663	3,950
Amortization of intangible assets	3,479	2,468
Stock-based compensation expense	12,881	8,661
Realized (gain) loss from foreign currency on cash and investments held	(290)	1,327
Investment income	(1,611)	(172)
Other	134	—
Adjusted EBITDA	\$ 38,171	\$ 30,864

**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 June 30,	
	2023	2022
Revenue	\$ 130,416	\$ 109,178
Net income	14,682	10,753
Margin	11 %	10 %
Adjusted EBITDA	38,171	30,864
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. Other adjustments included the expense impact from the disposals of certain capitalized internally developed software. 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 June 30,	
	2023	2022
Net income	\$ 14,682	\$ 10,753
Stock-based compensation expense	12,881	8,661
Amortization of intangible assets	3,479	2,468
Realized (gain) loss from foreign currency on cash and investments held	(290)	1,327
Other	134	—
Income tax effects of adjustments	(5,199)	(3,491)
Non-GAAP income	\$ 25,687	\$ 19,718
Shares used to compute net income and non-GAAP income per share		
Basic	36,593	36,085
Diluted	37,426	36,862
Net income per share, basic	\$ 0.40	\$ 0.30
Non-GAAP adjustments to net income per share, basic	0.30	0.25
Non-GAAP income per share, basic	\$ 0.70	\$ 0.55
Net income per share, diluted	\$ 0.39	\$ 0.29
Non-GAAP adjustments to net income per share, diluted	0.30	0.24
Non-GAAP income per share, diluted	\$ 0.69	\$ 0.53



### Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

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

(\$ in thousands)	Six Months Ended June 30,					
	2023		2022		Change	
	\$	% of revenue <sup>(1)</sup>	\$	% of revenue <sup>(1)</sup>	\$	%
Revenues	\$ 256,284	100.0 %	\$ 214,371	100.0 %	\$ 41,913	19.6 %
Cost of revenues	87,508	34.1	72,919	34.0	14,589	20.0
Gross profit	168,776	65.9	141,452	66.0	27,324	19.3
Operating expenses						
Sales and marketing	59,433	23.2	49,237	23.0	10,196	20.7
Research and development	25,880	10.1	22,133	10.3	3,747	16.9
General and administrative	42,369	16.5	32,666	15.2	9,703	29.7
Amortization of intangible assets	7,330	2.9	4,938	2.3	2,392	48.4
Total operating expenses	135,012	52.7	108,974	50.8	26,038	23.9
Income from operations	33,764	13.2	32,478	15.2	1,286	4.0
Other income (expense), net	3,157	1.2	(915)	(0.4)	4,072	(445.0)
Income before income taxes	36,921	14.4	31,563	14.7	5,358	17.0
Income tax expense	6,950	2.7	8,207	3.8	(1,257)	(15.3)
Net income	\$ 29,971	11.7 %	\$ 23,356	10.9 %	\$ 6,615	28.3 %

(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 11% to 43,000 at June 30, 2023 from 38,650 at June 30, 2022 primarily due to sales and marketing efforts to acquire new customers and due to recent acquisitions.
- Wallet share increased 7% to \$11,200 for the six months ended June 30, 2023 from \$10,450 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 \$238.8 million for the six months ended June 30, 2023 compared to the six months ended June 30, 2022. Recurring revenues from recurring revenue customers accounted for 93% of our total revenues for the six months ended June 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 an increase of \$10.8 million in personnel-related costs and an increase of \$1.4 million of software subscriptions.

**Sales and Marketing Expenses** - The increase in sales and marketing expense was primarily due to increased headcount, which resulted in an increase of \$7.0 million in personnel-related costs, \$1.0 million in stock-based compensation, and \$1.0 million in variable compensation earned by sales personnel and referral partners.

**Research and Development Expenses** - The increase in research and development expense was primarily due to increased headcount, which resulted in an increase of \$2.3 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 \$4.5 million. Additionally, the increase was due to supporting continued business growth, including an increase in headcount. The increase in headcount resulted in an increase in personnel-related costs of \$2.5 million and an increase of \$1.0 million of software subscriptions. Additionally, there was an increase in charitable contributions of \$1.0 million.

**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 decrease in income tax expense was primarily driven by the change in the excess tax deductions due to the current period equity award settlements, as partially offset by an increase in pre-tax income. 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 the 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)	Six Months Ended June 30,	
	2023	2022
Net income	\$ 29,971	\$ 23,356
Income tax expense	6,950	8,207
Depreciation and amortization of property and equipment	9,289	7,814
Amortization of intangible assets	7,330	4,938
Stock-based compensation expense	24,661	17,676
Realized (gain) loss from foreign currency on cash and investments held	(427)	859
Investment income	(2,737)	(220)
Other	134	—
Adjusted EBITDA	\$ 75,171	\$ 62,630

**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)	Six Months Ended June 30,	
	2023	2022
Revenue	\$ 256,284	\$ 214,371
Net income	29,971	23,356
Margin	12 %	11 %
Adjusted EBITDA	75,171	62,630
Adjusted EBITDA Margin	29 %	29 %



**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. Other adjustments included the expense impact from the disposals of certain capitalized internally developed software. 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)	Six Months Ended June 30,	
	2023	2022
Net income	\$ 29,971	\$ 23,356
Stock-based compensation expense	24,661	17,676
Amortization of intangible assets	7,330	4,938
Realized (gain) loss from foreign currency on cash and investments held	(427)	859
Other	134	—
Income tax effects of adjustments	(11,108)	(6,710)
Non-GAAP income	\$ 50,561	\$ 40,119
Shares used to compute net income and non-GAAP income per share		
Basic	36,511	36,110
Diluted	37,327	36,897
Net income per share, basic	\$ 0.82	\$ 0.65
Non-GAAP adjustments to net income per share, basic	0.56	0.46
Non-GAAP income per share, basic	\$ 1.38	\$ 1.11
Net income per share, diluted	\$ 0.80	\$ 0.63
Non-GAAP adjustments to net income per share, diluted	0.55	0.46
Non-GAAP income per share, diluted	\$ 1.35	\$ 1.09





## 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 six months ended June 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 June 30, 2023, our principal sources of liquidity were cash and cash equivalents and short-term investments totaling \$270.2 million and net accounts receivable of \$45.0 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)	Six Months Ended June 30,	
	2023	2022
Net cash provided by operating activities	\$ 55,670	\$ 36,785
Net cash used in investing activities	(18,348)	(5,294)
Net cash provided by (used in) financing activities	8,955	(26,183)

### 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 the net investment 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 June 30, 2023 are summarized below:

(in thousands)	Payments Due by Period			
	Less Than 1 Year	1-3 Years	3-5 Years	Total
Operating lease obligations, including imputed interest	\$ 4,589	\$ 8,522	\$ 3,183	\$ 16,294
Purchase commitments	13,115	19,963	—	33,078
<b>Total</b>	<b>\$ 17,704</b>	<b>\$ 28,485</b>	<b>\$ 3,183</b>	<b>\$ 49,372</b>

### 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, including the €64.5 million TIE Kinetix acquisition expected to close in the quarter ending September 30, 2023.

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 six months ended June 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 June 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 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 June 30, 2023, we maintained 10% of our total cash and cash equivalents and investments in foreign currencies.

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

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

## **Item 4. Controls and Procedures**

### ***Evaluation of Disclosure Controls and Procedures***

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

### ***Changes in Internal Control over Financial Reporting***

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

In July 2022, we acquired the GCommerce business and in October 2022, we acquired the InterTrade 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 GCommerce or InterTrade. We are currently in the process of incorporating internal controls specific to GCommerce and InterTrade that we believe are appropriate and necessary to consolidate and report upon our financial results.

As of June 30, 2023, excluding net intangible assets and goodwill, GCommerce and InterTrade combined represented 4.2% of our consolidated assets. For the six months ended June 30, 2023, GCommerce and InterTrade combined represented 3.3% 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 and Use of Proceeds

#### (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 June 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 ending June 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated any contract, instruction, or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

**Item 6. Exhibits**

Number	Description
3.1	<a href="#">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).</a>
3.2	<a href="#">Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to our Form 10-K filed with the SEC on February 21, 2023).</a>
10.1	<a href="#">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).</a>
10.2	<a href="#">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).</a>
31.1	<a href="#">Certification of Principal Executive Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).</a>
31.2	<a href="#">Certification of Principal Financial Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith).</a>
32.1	<a href="#">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).</a>
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T (filed herewith). The XBRL instance document does not appear in the Interactive Data File because its tags are embedded within the Inline XBRL document.
104	The cover page from the Quarterly Report on Form 10-Q for the quarter ended June 30, 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: July 27, 2023

**SPS COMMERCE, INC.**

/s/ KIMBERLY NELSON

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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, Archie Black, certify that:

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

/s/ ARCHIE BLACK

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Archie Black

*Chief Executive Officer*

*(principal executive officer)*

July 27, 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)*

July 27, 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 June 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/ ARCHIE BLACK*

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Archie Black

*Chief Executive Officer  
(principal executive officer)*

*/s/ KIMBERLY NELSON*

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Kimberly Nelson

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

July 27, 2023