

SPS COMMERCE INC  
Form 10-Q  
July 27, 2018  
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, 2018

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

For the Transition Period from                      to

Commission file number 001-34702

SPS COMMERCE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware                                      41-2015127  
(State or Other Jurisdiction of   (I.R.S. Employer  
Incorporation or Organization) 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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

(Do not check if a smaller reporting company)

Smaller Reporting Company

Emerging growth company

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

Indicate by check mark whether the registrant 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, 2018 was 17,476,025 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” and “SPS” refer to SPS Commerce, Inc.

#### SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements regarding us, our business prospects and our results of operations that 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. Factors that could cause or contribute to such differences include, but are not limited to, those described under the heading “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission (“SEC”). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. 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.

## PART I. – FINANCIAL INFORMATION

## Item 1. Financial Statements

## SPS COMMERCE, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands, except shares and per share amounts)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$125,385	\$ 123,127
Short-term investments	47,352	40,192
Accounts receivable, less allowance for doubtful accounts of \$864 and \$763, respectively	28,171	24,897
Deferred costs	32,216	29,966
Other current assets	6,762	6,149
Total current assets	239,886	224,331
<b>PROPERTY AND EQUIPMENT, net</b>	18,136	16,856
<b>GOODWILL</b>	50,403	51,613
<b>INTANGIBLE ASSETS, net</b>	14,354	16,529
<b>INVESTMENTS</b>	4,922	5,206
<b>OTHER ASSETS</b>		
Deferred costs	10,328	9,967
Deferred income tax asset	12,061	13,697
Other assets	1,583	1,539
Total assets	\$351,673	\$ 339,738
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$3,709	\$ 4,463
Accrued compensation	14,347	15,228
Accrued expenses	4,758	4,712
Deferred revenue	24,191	17,863
Deferred rent	1,373	1,679
Total current liabilities	48,378	43,945
<b>OTHER LIABILITIES</b>		
Deferred revenue	2,640	2,731
Deferred rent	4,290	3,064
Deferred income tax liability	1,676	1,887
Total liabilities	56,984	51,627
<b>COMMITMENTS and CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, \$0.001 par value; 55,000,000 shares authorized; 17,475,360 and 17,249,153 shares issued; and 17,159,819 and 17,127,006 outstanding, respectively	17	17

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Treasury stock, at cost; 315,541 and 122,147 shares, respectively	(17,684 )	(5,815 )
Additional paid-in capital	313,887	301,863
Retained earnings (accumulated deficit)	59	(8,611 )
Accumulated other comprehensive (loss) income	(1,590 )	657
Total stockholders' equity	294,689	288,111
Total liabilities and stockholders' equity	\$351,673	\$ 339,738

See accompanying notes to these condensed consolidated financial statements.

## SPS COMMERCE, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	\$61,091	\$54,092	\$120,183	\$105,971
Cost of revenues	20,402	18,191	40,160	35,521
Gross profit	40,689	35,901	80,023	70,450
Operating expenses				
Sales and marketing	18,424	18,320	37,071	35,343
Research and development	5,293	5,369	10,425	10,474
General and administrative	9,974	8,139	20,104	15,966
Amortization of intangible assets	1,033	1,117	2,158	2,332
Total operating expenses	34,724	32,945	69,758	64,115
Income from operations	5,965	2,956	10,265	6,335
Other income (expense)				
Interest income, net	547	242	961	433
Other expense, net	(168 )	(102 )	(322 )	(162 )
Total other income, net	379	140	639	271
Income before income taxes	6,344	3,096	10,904	6,606
Income tax expense	928	1,128	2,234	1,653
Net income	\$5,416	\$1,968	\$8,670	\$4,953
Net income per share				
Basic	\$0.32	\$0.11	\$0.51	\$0.29
Diluted	\$0.31	\$0.11	\$0.50	\$0.29
Weighted average common shares used to compute net income per share				
Basic	17,163	17,198	17,140	17,176
Diluted	17,549	17,378	17,446	17,384
Other comprehensive income				
Foreign currency translation adjustments	(1,176 )	935	(2,231 )	2,512
Unrealized gain (loss) on investments, net of tax of \$34, (\$5), \$47 and (\$10)	102	(9 )	141	(17 )
Reclassification of unrealized gain on investments into earnings, net of tax of (\$45), (\$5), (\$53) and (\$15)	(134 )	(8 )	(158 )	(24 )
Comprehensive income	\$4,208	\$2,886	\$6,422	\$7,424

See accompanying notes to these condensed consolidated financial statements.





## SPS COMMERCE, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$8,670	\$4,953
Reconciliation of net income to net cash provided by operating activities		
Deferred income taxes	1,498	1,311
Depreciation and amortization of property and equipment	4,176	3,431
Amortization of intangible assets	2,158	2,332
Provision for doubtful accounts	985	873
Stock-based compensation	6,712	4,486
Other, net	(211 )	9
Changes in assets and liabilities		
Accounts receivable	(4,373 )	(1,607 )
Deferred costs	(2,621 )	(3,213 )
Other current and non-current assets	(710 )	(3 )
Accounts payable	189	195
Accrued compensation	(1,464 )	(835 )
Accrued expenses	62	206
Deferred revenue	6,237	6,017
Deferred rent	939	(249 )
Net cash provided by operating activities	22,247	17,906
Cash flows from investing activities		
Purchases of property and equipment	(6,481 )	(3,334 )
Purchases of investments	(52,116)	(22,350)
Maturities of investments	45,000	21,000