

SPS COMMERCE INC  
Form 10-Q  
October 30, 2013  
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**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, 2013**

**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**

**41-2015127**  
**(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 (§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 or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting 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

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 22, 2013 was 15,273,370 shares.

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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, 2012 as filed with the Securities and Exchange Commission. 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 Commission that advise interested parties of the risks and factors that may affect our business.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SPS COMMERCE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited; in thousands, except share amounts)

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 80,813	\$ 66,050
Accounts receivable, less allowance for doubtful accounts of \$243 and \$227, respectively	11,148	10,940
Deferred costs, current	8,699	7,346
Deferred income taxes, current	1,732	1,732
Prepaid expenses and other current assets	2,848	5,443
Total current assets	105,240	91,511
<b>PROPERTY AND EQUIPMENT, net</b>	<b>10,557</b>	<b>7,670</b>
<b>GOODWILL</b>	<b>25,487</b>	<b>25,487</b>
<b>INTANGIBLE ASSETS, net</b>	<b>17,799</b>	<b>20,240</b>
<b>OTHER ASSETS</b>		
Deferred costs, net of current portion	3,619	3,202
Deferred income taxes, net of current portion	10,698	10,853
Other non-current assets	190	238
	\$ 173,590	\$ 159,201
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,685	\$ 1,857
Accrued compensation and benefits	8,404	6,038
Accrued expenses and other current liabilities	2,665	1,077
Deferred revenue, current	6,452	5,499
Total current liabilities	19,206	14,471
<b>OTHER LIABILITIES</b>		
Deferred revenue, less current portion	8,765	8,312
Deferred rent	3,239	1,601
Total liabilities	31,210	24,384

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; 55,000,000 shares authorized; 15,271,191 and 14,812,759 shares issued and outstanding, respectively	15	15
Additional paid-in capital	189,451	182,645
Accumulated deficit	(47,086)	(47,843)
Total stockholders equity	142,380	134,817
	\$ 173,590	\$ 159,201

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## SPS COMMERCE, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	\$ 27,008	\$ 20,267	\$ 76,418	\$ 54,622
Cost of revenues	8,249	5,945	23,258	15,236
Gross profit	18,759	14,322	53,160	39,386
Operating expenses				
Sales and marketing	10,291	7,840	29,163	21,259
Research and development	2,806	2,088	7,966	5,650
General and administrative	4,284	3,726	12,542	10,079
Amortization of intangible assets	1,007	530	2,441	1,050
Total operating expenses	18,388	14,184	52,112	38,038
Income from operations	371	138	1,048	1,348
Other income (expense)				
Interest expense		(27)		(27)
Interest income	31	6	76	34
Other income (expense)	37	(67)	(95)	(170)
Total other income (expense), net	68	(88)	(19)	(163)
Income before income taxes	439	50	1,029	1,185
Income tax (expense) benefit	(169)	124	(272)	(329)
Net income	\$ 270	\$ 174	\$ 757	\$ 856
Net income per share				
Basic	\$ 0.02	\$ 0.01	\$ 0.05	\$ 0.07
Diluted	\$ 0.02	\$ 0.01	\$ 0.05	\$ 0.06
Weighted average common shares used to compute net income per share				
Basic	15,223	13,042	15,064	12,500
Diluted	15,986	13,894	15,781	13,373

The accompanying notes are an integral part of these condensed consolidated financial statements.





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(Unaudited; in thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 757	\$ 856
Reconciliation of net income to net cash provided by operating activities		
Deferred income taxes	155	220
Depreciation and amortization of property and equipment	3,586	2,117
Amortization of intangible assets	2,441	1,050
Provision for doubtful accounts	315	295
Stock-based compensation	3,120	2,042
Changes in assets and liabilities		
Accounts receivable	(523)	(1,184)
Deferred costs	(1,770)	(1,675)
Prepaid expenses and other current assets	2,643	(484)
Accounts payable	(172)	1,328
Accrued compensation and benefits	2,366	1,516
Accrued expenses and other current liabilities	145	179
Deferred rent	1,638	
Deferred revenue	1,406	2,006
Net cash provided by operating activities	16,107	8,266
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(5,030)	(2,845)
Business acquisitions, net of cash acquired		(26,262)
Net cash used in investing activities	(5,030)	(29,107)
<b>Cash flows from financing activities</b>		
Net proceeds from exercise of options to purchase common stock	3,095	1,137
Excess tax benefit from exercise of options to purchase common stock	40	24
Net proceeds from employee stock purchase plan	551	
Payments of capital lease obligations		(410)
Proceeds from common stock offering		57,940
Stock offering costs		(120)
Net cash provided by financing activities	3,686	58,571
Net increase in cash and cash equivalents	14,763	37,730

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Cash and cash equivalents at beginning of period	66,050	31,985
Cash and cash equivalents at end of period	\$ 80,813	\$ 69,715

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**SPS COMMERCE, INC.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**NOTE A General**

*Business Description*

We are a leading provider of on-demand supply chain management solutions, providing prewired, proven integrations and comprehensive retail performance analytics to thousands of customers worldwide. We provide our solutions through the SPS Commerce platform, a cloud-based software suite that improves the way suppliers, retailers, distributors and other customers manage and fulfill orders. We deliver our solutions to our customers over the Internet using a Software-as-a-Service model and derive the majority of our revenues from thousands of monthly recurring subscriptions from businesses that utilize our solutions.

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and with 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. We have included all normal recurring adjustments considered necessary to give a fair statement of our financial position, results of operations and cash flows for the interim periods shown. Operating results for these interim periods are not necessarily indicative of the results to be expected for the full year. The December 31, 2012 balance sheet data was derived from our audited financial statements at that date. For further information, refer to the consolidated financial statements and accompanying notes for the year ended December 31, 2012 included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 6, 2013.

*Use of Estimates*

Preparing financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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*

During the nine months ended September 30, 2013, there were no material changes in our significant accounting policies. See Note A to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on March 6, 2013, for additional information regarding our significant accounting policies.

*Recent Accounting Pronouncements*

We have evaluated all recent accounting pronouncements and believe that none of them will have a material effect on our consolidated financial statements.



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Intangible assets included the following (in thousands):

	September 30, 2013			December 31, 2012		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Subscriber relationships	\$ 23,160	\$ (5,744)	\$ 17,416	\$ 23,160	\$ (3,850)	\$ 19,310
Non-competition agreements	1,710	(1,327)	383	1,710	(780)	930
	\$ 24,870	\$ (7,071)	\$ 17,799	\$ 24,870	\$ (4,630)	\$ 20,240

Amortization expense for intangible assets was \$1.0 million and \$2.4 million for the three and nine months ended September 30, 2013, and \$530,000 and \$1.1 million for the three and nine months ended September 30, 2012, respectively.

Amortization expense for the three and nine months ended September 30, 2013 included \$290,000 for the impairment of a certain non-competition agreement.

At September 30, 2013, future amortization expense for intangible assets was as follows (in thousands):

Remainder of 2013	\$ 717
2014	2,688
2015	2,578
2016	2,577
2017	2,557
Thereafter	6,682
	\$ 17,799

**NOTE C Line of Credit**

We have a revolving credit agreement with JPMorgan Chase Bank, N.A. which provides for a \$20 million revolving credit facility that we may draw upon from time to time, subject to certain terms and conditions, and will mature on September 30, 2016.

There were no borrowings outstanding at September 30, 2013 and we were in compliance with all covenants under the revolving credit agreement as of that date.

**NOTE D Accrued Expenses and Other Current Liabilities**

In the second quarter of 2013, we entered into an agreement to purchase software licenses. At September 30, 2013, our future payments under this agreement, which are included in accrued expenses and other current liabilities in our consolidated balance sheets, were approximately \$1.4 million for 2014.

**NOTE E 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 restricted stock, to employees, non-employee directors and other consultants who provide services to us. Restricted stock awards result in the issuance of new shares when granted. For other stock-based awards, new shares are issued when the award is exercised, vested or released according to the terms of the agreement. In January 2013, 888,765 additional shares were reserved for future issuance under our 2010 Equity Incentive Plan. At September 30, 2013, there were approximately 1.8 million shares available for grant under approved equity compensation plans.

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We recorded non-cash stock-based compensation expense of \$1.1 million and \$3.1 million for the three and nine months ended September 30, 2013, respectively, and \$715,000 and \$2.0 million for the three and nine months ended September 30, 2012, respectively. This expense was allocated as follows (in thousands):