

SPS COMMERCE INC
Form 10-Q
October 30, 2014
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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, 2014

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 23, 2014 was 16,278,164 shares.

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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, 2013 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)

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 140,822	\$ 131,294
Accounts receivable, less allowance for doubtful accounts of \$257 and \$237, respectively	13,594	11,611
Deferred costs, current	11,132	9,048
Deferred income taxes, current	1,272	1,272
Prepaid expenses and other current assets	3,824	2,850
Total current assets	170,644	156,075
PROPERTY AND EQUIPMENT, net	8,619	9,922
GOODWILL	25,487	25,487
INTANGIBLE ASSETS, net	15,038	17,082
OTHER ASSETS		
Deferred costs, net of current portion	4,876	3,684
Deferred income taxes, net of current portion	9,805	10,870
Other non-current assets	168	210
	\$ 234,637	\$ 223,330
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 2,098	\$ 1,798
Accrued compensation and benefits	10,044	7,981
Accrued expenses and other current liabilities	1,801	2,801
Deferred revenue, current	6,961	6,335
Total current liabilities	20,904	18,915
OTHER LIABILITIES		
Deferred revenue, less current portion	10,237	8,785
Deferred rent	2,577	2,857
Total liabilities	33,718	30,557

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; 16,276,447 and 16,092,121 shares issued and outstanding, respectively	16	16
Additional paid-in capital	245,845	239,549
Accumulated deficit	(44,942)	(46,792)
Total stockholders equity	200,919	192,773
	\$ 234,637	\$ 223,330

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

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SPS COMMERCE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited; in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues	\$ 32,506	\$ 27,008	\$ 92,545	\$ 76,418
Cost of revenues	9,970	8,249	28,852	23,258
Gross profit	22,536	18,759	63,693	53,160
Operating expenses				
Sales and marketing	12,046	10,291	34,500	29,163
Research and development	3,338	2,806	9,677	7,966
General and administrative	5,153	4,284	14,506	12,542
Amortization of intangible assets	645	1,007	2,044	2,441
Total operating expenses	21,182	18,388	60,727	52,112
Income from operations	1,354	371	2,966	1,048
Other income (expense)				
Interest income	52	31	151	76
Other income (expense)	(36)	37	(57)	(95)
Total other income (expense), net	16	68	94	(19)
Income before income taxes	1,370	439	3,060	1,029
Income tax expense	(532)	(169)	(1,210)	(272)
Net income	\$ 838	\$ 270	\$ 1,850	\$ 757
Net income per share				
Basic	\$ 0.05	\$ 0.02	\$ 0.11	\$ 0.05
Diluted	\$ 0.05	\$ 0.02	\$ 0.11	\$ 0.05
Weighted average common shares used to compute net income per share				
Basic	16,254	15,223	16,207	15,064
Diluted	16,780	15,986	16,793	15,781

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

Table of Contents**SPS COMMERCE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities		
Net income	\$ 1,850	\$ 757
Reconciliation of net income to net cash provided by operating activities		
Deferred income taxes	1,065	155
Depreciation and amortization of property and equipment	4,253	3,586
Amortization of intangible assets	2,044	2,441
Provision for doubtful accounts	507	315
Stock-based compensation	3,991	3,120
Changes in assets and liabilities		
Accounts receivable	(2,490)	(523)
Deferred costs	(3,276)	(1,770)
Prepaid expenses and other current assets	(929)	2,643
Accounts payable	300	(172)
Accrued compensation and benefits	2,063	2,366
Accrued expenses and other current liabilities	407	145
Deferred rent	(245)	1,638
Deferred revenue	2,077	1,406
Net cash provided by operating activities	11,617	16,107
Cash flows from investing activities		
Purchases of property and equipment	(4,394)	(5,030)
Net cash used in investing activities	(4,394)	(5,030)
Cash flows from financing activities		
Net proceeds from exercise of options to purchase common stock	1,573	3,095
Excess tax benefit from exercise of options to purchase common stock	60	40
Net proceeds from employee stock purchase plan	672	551
Net cash provided by financing activities	2,305	3,686
Net increase in cash and cash equivalents	9,528	14,763
Cash and cash equivalents at beginning of period	131,294	66,050
Cash and cash equivalents at end of period	\$ 140,822	\$ 80,813

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 cloud-based 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 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 include the accounts of SPS Commerce, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements, which 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, 2013 condensed consolidated 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, 2013 included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on February 20, 2014.

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, 2014, 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, 2013, as filed with the Securities and Exchange Commission on February 20, 2014, for additional information regarding our significant accounting policies.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued new accounting requirements for the recognition of revenue from contracts with customers. These new requirements are effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods. We are currently evaluating the impact of

this guidance on our results of operations and financial position.

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There was no change in our goodwill for the nine months ended September 30, 2014.

Intangible assets included the following (in thousands):

	September 30, 2014			December 31, 2013		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Subscriber relationships	\$ 23,160	\$ (8,270)	\$ 14,890	\$ 23,160	\$ (6,376)	\$ 16,784
Non-competition agreements	1,710	(1,562)	148	1,710	(1,412)	298
	\$ 24,870	\$ (9,832)	\$ 15,038	\$ 24,870	\$ (7,788)	\$ 17,082

Amortization expense for intangible assets was \$645,000 and \$2.0 million for the three and nine months ended September 30, 2014, and \$1.0 million and \$2.4 million for the three and nine months ended September 30, 2013, respectively.

At September 30, 2014, future amortization expense for intangible assets was as follows (in thousands):

Remainder of 2014	\$ 643
2015	2,578
2016	2,578
2017	2,557
2018	2,062
Thereafter	4,620
	\$ 15,038

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, 2014 and we were in compliance with all covenants under the revolving credit agreement as of that date.

NOTE D 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 and restricted stock units, 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 2014, 965,527 additional shares were reserved for future issuance under our 2010 Equity Incentive Plan. At September 30, 2014, there were approximately 2.6 million shares available for grant under approved equity compensation plans.

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We recorded non-cash stock-based compensation expense of \$1.3 million and \$4.0 million for the three and nine months ended September 30, 2014, and \$1.1 million and \$3.1 million for the three and nine months ended September 30, 2013, respectively. This expense was allocated as follows (in thousands):

ewish Health System, and Chairman of the Board for the Solomon R. Guggenheim Foundation. He is also Chair of the Board of Overseers of The Wharton School o

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Management L.L.C., Mr. Gantcher was a private investor from 1999 to 2001. Mr. Gantcher served as vice chairman of CIBC Oppenheimer Corp. from 1997 to 1999.

Mr. Mack serves as a member of the Board of Directors pursuant to an agreement with the Company entered into at the time of the Company's combination with The

ence, qualifications, attributes and skills necessary to serve as a member of the Board of Directors.

nominate, and the Company will support, Messrs. W. Mack and D. Mack (or their successors) for re-election to the Board of Directors for successive terms upon the e

d above, provides the same independent leadership, oversight, and benefits for the company and the Board of Directors that would be provided by an independent Ch

ing of the NYSE Independence Standards and Rule 10A-3 promulgated by the SEC under the Exchange Act. The Board of Directors also has determined that each o

Committee.

les and the corporate governance guidelines of independent voting advisory services such as Institutional Shareholder Services.

COMPENSATION DISCUSSION AND ANALYSIS

2016 Executive Officer Annual Bonus Program

2015 Equity Awards

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2016 Equity Awards

ments of Messrs. Krug and Wagner.

including \$39,750 on behalf of the named executive officers.

2015 Former President and Chief Executive Officer Performance Metrics

2015 Former President and Chief Executive Officer Total Bonus Opportunity

EXECUTIVE COMPENSATION

Summary Compensation Table

Year	Salary(\$)
2015	385,000
2015	385,000
2015	400,000
2015	385,000
2014	325,000
2013	300,000
2015	325,000
2014	220,000
2015	553,200
2014	1,050,000
2013	1,050,000

Grants of Plan-Based Awards

	Grant Date	Threshold	Estimated Fair Value Under Equity Plan Awards
[Name] Chief Executive Officer	06/05/15	28,163	50,000
	06/05/15		
	06/05/15		
Marco Chief Executive Officer	06/05/15	28,163	50,000
	06/05/15		
	06/05/15		

Outstanding Equity Awards At Fiscal Year-End

	Option Awards		
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price
Officer		400,000(2)	1
		400,000(2)	1
Officer			
and Secretary			

Pension Benefits

Non-Qualified Deferred Compensation

Potential Payments Upon Termination or Change In Control

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COMPENSATION OF DIRECTORS

2015 Director Compensation

Compensation Risk Assessment

Equity Compensation Plan Information

PROPOSAL NO. 2
NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION

**PROPOSAL NO. 3
RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM**

**PROPOSAL NO. 4
SHAREHOLDER PROPOSAL**

Supporting Statement

Mack-Cali Realty Corporation's Response to Shareholder Proposal

SUBMISSION OF STOCKHOLDER PROPOSALS

ANNUAL REPORT ON FORM 10-K

OTHER MATTERS

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If you have questions or need assistance voting your shares please contact:

105 Madison Avenue
New York, New York 10016
proxy@mackenziepartners.com
Call Collect: (212) 929-5500
or
Toll-Free (800) 322-2885
