SPS COMMERCE INC
Form 10-Q
April 26, 2019
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: March 31, 2019

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 Incorporation or Organization)	(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)

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	Accelerated filer
Non-accelerated filer	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 April 19, 2019 was 17,914,088 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 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. 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/A for the year ended December 31, 2018 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. In some cases, you can identify forward-looking statements by the following words: “anticipate,” “assumes,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would,” or the ne terms or other comparable terminology, although not all forward-looking statements contain these words. 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 share amounts)

	March 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 143,715	$ 133,859
Short-term investments	41,683	44,537
Accounts receivable, less allowance for doubtful accounts of $1,478 and $1,392, respectively	28,301	27,488
Deferred costs	34,692	34,502
Other current assets	8,858	9,229
Total current assets	257,249	249,615
PROPERTY AND EQUIPMENT, less accumulated depreciation of $43,702 and $41,175, respectively	20,710	20,957
OPERATING LEASE RIGHT-OF-USE ASSETS	15,234	—
GOODWILL	70,075	69,658
INTANGIBLE ASSETS, net	21,572	22,741
OTHER ASSETS		
Deferred costs	11,199	10,973
Deferred income tax asset	9,528	10,456
Other assets	1,630	1,723
Total assets	$ 407,197	$ 386,123
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 4,391	$ 4,440
Accrued compensation	11,974	20,415
Accrued expenses	4,619	4,558
Deferred revenue	28,889	25,328
Deferred rent	—	1,781
Operating lease liabilities	3,509	—
Total current liabilities	53,382	56,522
OTHER LIABILITIES		
Deferred revenue	2,649	2,512
Deferred rent	—	5,371
Operating lease liabilities	17,723	—
Deferred income tax liability	1,315	1,376
Other non-current liabilities	1,424	1,368
Total liabilities	76,493	67,149

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; 17,913,306 and 17,757,628 shares issued; and 17,467,682 and 17,345,736 outstanding, respectively	18	18
Treasury stock, at cost; 445,624 and 411,892 shares, respectively	(28,645)	(25,679)
Additional paid-in capital	339,730	332,592
Retained earnings	22,074	15,261
Accumulated other comprehensive loss	(2,473)	(3,218)
Total stockholders' equity	330,704	318,974
Total liabilities and stockholders' equity	$ 407,197	$ 386,123

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 March 31, 2019	2018
Revenues	$66,934	$59,092
Cost of revenues	21,367	19,758
Gross profit	45,567	39,334
Operating expenses		
Sales and marketing	17,922	18,647
Research and development	6,192	5,132
General and administrative	12,770	10,130
Amortization of intangible assets	1,304	1,125
Total operating expenses	38,188	35,034
Income from operations	7,379	4,300
Other income (expense)		
Interest income, net	577	414
Other expense, net	(47)	(154)
Change in earn-out liability	(56)	—
Total other income, net	474	260
Income before income taxes	7,853	4,560
Income tax expense	1,040	1,306
Net income	$6,813	$3,254
Other comprehensive income (expense)		
Foreign currency translation adjustments	740	(1,055)
Unrealized gain on investments, net of tax of $30 and $13	90	39
Reclassification of unrealized gain on investments into earnings, net of tax of ($31) and ($8)	(93)	(24)
Total other comprehensive income (expense)	737	(1,040)
Comprehensive income	$7,550	$2,214
Net income per share		
Basic	$0.39	$0.19
Diluted	$0.38	$0.19
Weighted average common shares used to compute net income per share		
Basic	17,471	17,093
Diluted	17,992	17,307

See accompanying notes to these condensed consolidated financial statements.

SPS COMMERCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited; in thousands, except per share amounts)

	Common Stock		Treasury Stock		Additional Paid-in	Retained Earnings (Accumulated	Accumulated Other Comprehensive Income	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit)	(Loss)	Equity
Balances, December 31, 2017	17,127,006	$ 17	122,147	$ (5,815)	$ 301,863	$ (8,611)	$ 657	$ 288,111
Stock-based compensation	—	—	—	—	3,181	—	—	3,181
Exercise of stock options and issuance of restricted stock	96,927	—	—	—	715	—	—	715
Repurchases of common stock	(113,984)	—	113,984	(5,871)	—	—	—	(5,871)
Net income	—	—	—	—	—	3,254	—	3,254
Foreign currency translation adjustments	—	—	—	—	—	—	(1,055)	(1,055)
Reclassification of gain on investments into earnings	—	—	—	—	—	—	39	39
Unrealized gain on investments, net of tax	—	—	—	—	—	—	(23)	(23)
Balances, March 31, 2018	17,109,949	17	236,131	$ (11,686)	$ 305,759	$ (5,357)	$ (382)	$ 288,351
Balances, December 31, 2018	17,345,736	$ 18	411,892	$ (25,679)	$ 332,592	$ 15,261	$ (3,218)	$ 318,974
Stock-based compensation	—	—	—	—	4,966	—	—	4,966
Exercise of stock options and issuance of restricted stock	158,439	—	—	—	2,472	—	—	2,472
Repurchases of common stock	(33,732)	—	33,732	(2,966)	—	—	—	(2,966)
Settlement and subsequent return of	(2,761)	—	—	—	(300)	—	—	(300)

shares								
Net income	—	—	—	—	—	6,813	—	6,813
Foreign currency translation adjustments	—	—	—	—	—	—	740	740
Reclassification of gain on investments into earnings	—	—	—	—	—	—	90	90
Unrealized gain on investments, net of tax	—	—	—	—	—	—	(93)	(93)
Adoption of ASU 2018-02	—	—	—	—	—	—	8	8
Balances, March 31, 2019	17,467,682	$ 18	445,624	$(28,645)	$339,730	$ 22,074	$ (2,473)	$ 330,704

See accompanying notes to these condensed consolidated financial statements.

SPS COMMERCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net income	$6,813	$3,254
Reconciliation of net income to net cash provided by operating activities		
Deferred income taxes	838	1,020
Change in earn-out liability	56	—
Depreciation and amortization of property and equipment	2,637	2,083
Amortization of intangible assets	1,304	1,125
Provision for doubtful accounts	655	410
Stock-based compensation	5,294	3,533
Other, net	(240)	(32)
Changes in assets and liabilities		
Accounts receivable	(1,328)	(1,520)
Deferred costs	(414)	(1,628)
Other current and non-current assets	(337)	367
Accounts payable	353	317
Accrued compensation	(8,843)	(3,939)
Accrued expenses	60	(592)
Deferred revenue	3,698	3,680
Deferred rent	—	1,271
Operating leases	(345)	—
Net cash provided by operating activities	10,201	9,349
Cash flows from investing activities		
Purchases of property and equipment	(2,899)	(3,884)
Purchases of investments	(12,447)	(19,927)
Maturities of investments	15,225	17,500
Acquisitions of businesses and intangible assets, net of cash acquired	—	(381)
Net cash used in investing activities	(121)	(6,692)
Cash flows from financing activities		
Repurchases of common stock	(2,966)	(5,871)
Net proceeds from exercise of options to purchase common stock	2,472	715
Net cash used in financing activities	(494)	(5,156)
Effect of foreign currency exchange rate changes	270	(81)
Net increase (decrease) in cash and cash equivalents	9,856	(2,580)
Cash and cash equivalents at beginning of period	133,859	123,127
Cash and cash equivalents at end of period	$143,715	$120,547

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 solutions that make it easier for retailers, suppliers, grocers, distributors and logistics firms to orchestrate the management of item data, order fulfillment, inventory control and sales analytics across all channels. The solutions offered by SPS Commerce eliminate the need for on-premise software and support staff by taking on that capability on the customer's behalf. The solutions SPS Commerce provides allow our customers to increase their supply cycle agility, optimize their inventory levels and sell-through, reduce operational costs and gain increased visibility into customer orders, ensuring that suppliers, grocers, distributors, and logistics firms can satisfy exacting retailer requirements.

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 conformity with U.S. generally accepted accounting principles ("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 provide a fair presentation 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. For further information, refer to the consolidated financial statements and accompanying notes for the year ended December 31, 2018 included in our Annual Report on Form 10-K/A filed with the SEC.

Effective January 1, 2019, we adopted the requirements of Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), and used the effective date as our date of initial application. Consequently, financial information was not updated and the disclosures required under the new standard were not provided for dates and periods before January 1, 2019. The new standard provides several optional practical expedients in transition. We elected the "package of practical expedients," which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We did not elect the use-of hindsight or the practical expedient pertaining to land easements, the latter not being applicable to us. The new standard also provides practical expedients for an entity's ongoing accounting. We elected the short-term lease recognition exemption for all leases that qualify which means we will not recognize right-of-use ("ROU") assets or lease liabilities for these leases. This includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also elected the practical expedient to not separate lease and non-lease components for all leases.

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, 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.

Lease Policy

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, current lease liabilities, and long-term lease liabilities in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We estimate the discount rate for a similar collateralized asset by reviewing quoted costs of borrowing. We use the implicit interest rate when readily determinable. The operating lease ROU asset also includes any lease payments made and lease incentives that have been incurred. The options to extend our leases are not recognized as part of our right-of-use assets and lease liabilities unless it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. For all leases we combine non-lease components with the related lease components and account for it as a single lease component. The ROU assets are subject to the same impairment process as our long-lived assets. Additionally, we review our lease liabilities for remeasurement whenever there is a triggering event or when relevant facts and circumstances change.

Recently Adopted Accounting Pronouncements

Standard	Date of Issuance	Description	Date Adopted	Effect on the Financial Statements
ASU 2016-02, Leases and all related amendments	February 2016	Requires all leases with a term greater than 12 months to be recognized in the statements of financial position and eliminates current real estate-specific lease guidance, while maintaining substantially similar classification criteria for distinguishing between finance leases and operating leases.	January 2019	The adoption of this standard and related amendments resulted in the recognition of approximately $15.7 million in right-of-use assets and lease liabilities on our balance sheet as of January 1, 2019. Comparative periods will continue to be measured and presented under historical guidance, and only the period of adoption and future periods will be subject to this ASU. There was no cumulative effect on retained earnings or other components of equity at the adoption date. For more information see Note H.
ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220)	February 2018	Allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act and requires certain disclosures regarding stranded tax effects in accumulated other comprehensive income.	January 2019	The adoption of this standard did not have a material impact on our consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

Standard	Date of Issuance	Description	Date of Required Adoption	Effect on the Financial Statements
ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements	June 2016	The amendment in this update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses on instruments within its scope, including trade receivables. This update is intended to provide financial statement users with more decision-useful information about the expected credit losses.	January 2020	We are currently evaluating the impact of the adoption on our consolidated financial statements.

Significant Accounting Policies

Except for the accounting policy for leases that was updated as a result of adopting ASU 2016-02, there were no material changes in our significant accounting policies during the three months ended March 31, 2019. See Note A to the consolidated financial statements included in our Annual Report on Form 10-K/A for the year ended December 31, 2018, as filed with the SEC, for additional information regarding our significant accounting policies.

NOTE B – Business Acquisitions

EDIAdmin

On October 3, 2018, we completed our asset acquisition of EDIAdmin, a privately held company providing end-to-end integration solutions, featuring a dedicated Integration Platform as a Service (“iPaaS”) called Cloud Hybrid Integration Platform (“CHIP”) and collaborative managed services for leading systems and applications, both cloud and on-premise. Pursuant to the asset purchase agreement, we paid $7.5 million in cash to the owner of EDIAdmin. The purchase agreement also allowed the seller to receive up to $1.7 million in cash, which becomes payable in first quarter 2020 and 2021 contingent upon the completion of certain revenue milestones at December 31, 2019 and December 31, 2020. The fair value of this contingent consideration was $1.3 million at the date of acquisition and $1.4 million at March 31, 2019. During the quarter ended March 31, 2019, we recognized expense of $0.1 million in our consolidated statements of comprehensive income due to the remeasurement of the contingent liability. See Note E for further disclosures on the remeasurement of the contingent liability.

We allocated the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. Goodwill is attributed to a trained workforce and other buyer-specific value resulting from expected synergies, including long-term cost savings, which are not included in the fair values of identifiable assets. The purchase accounting for the EDIAdmin acquisition was complete as of December 31, 2018. The consolidated balance sheet as of December 31, 2018 reflects the final allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition.

CovalentWorks

On December 18, 2018, we completed our asset acquisition of CovalentWorks, a privately held company providing cloud-based EDI solutions to small- and medium-sized businesses. Pursuant to the asset purchase agreement, we paid $19.4 million in cash and issued $3.4 million in common stock, or 40,478 shares, to the owners of CovalentWorks.

We allocated the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. Goodwill is attributed to a trained workforce and other buyer-specific value resulting from expected synergies, including long-term cost savings, which are not included in the fair values of identifiable assets. The purchase accounting for the CovalentWorks acquisition was finalized during the first quarter of 2019. The purchase price allocation and net working capital adjustment were finalized during the first quarter of 2019. During the quarter ended March 31, 2019, there were no adjustments to the purchase price allocation.

NOTE C – Revenue

We derive our revenues primarily from the following revenue streams (in thousands):

	Three Months Ended March 31, 2019	2018
Recurring revenues:		
Fulfillment	$52,445	$45,364
Analytics	8,873	8,259
Other	1,428	1,237
Recurring Revenues	62,746	54,860
One-time revenues	4,188	4,232
	$66,934	$59,092

Revenues are recognized when our services are made available to our customers, in an amount that reflects the consideration we are contractually and legally entitled to in exchange for those services.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price

- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

Recurring Revenues

Recurring revenues consists of recurring subscriptions from customers that utilize our Fulfillment, Analytics, and Other cloud-based supply chain management solutions. Revenue for these solutions 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, 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 are either in advance or within 30 days of the service being performed.

The deferred revenue liability for recurring revenue contracts are for one year or less and recognized on a ratable basis over the contract term. We have applied the optional exemption under ASC 606-10-50-14(a) and will not disclose information about the remaining performance obligations for contracts which have original durations of one year or less.

One-time Revenues

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

Set-up fees are specific for each connection a customer has with a trading partner and many of our customers have connections with numerous trading partners. Set-up fees related to our cloud-based supply chain management solutions are nonrefundable upfront fees that are necessary for our customers to utilize our cloud-based services. These set-up fees do not provide any standalone value to our customers. Except for our Analytics platform, we have determined the set-up fees represent a material renewal option right to our customers as they will not be incurred again upon renewal. These set-up fees and related costs are deferred and recognized ratably over two years, which is the estimated connection life between the customer and the trading partner. For our Analytics platform, we have determined the set-up fees do not represent a material customer renewal right and, as such, are deferred and recognized ratably over the estimated initial contract term, which is one year.

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

	Three Months Ended March 31,	
	2019	2018
Balances, at beginning of period	$9,857	$10,031
Invoiced set-up fees	2,537	2,581
Amortized set-up fees	(2,581)	(2,660)
Balances, at end of period	$9,813	$9,952

The entire balance of set-up fees will be recognized within two years and, as such, current amounts will be recognized in the next 1-12 months and long-term amounts will be recognized in the next 13-24 months.

Miscellaneous one-time fees consist of professional services and testing and certification. The deferred revenue liability for these one-time fees are for one year or less and recognized at the time service is provided. We have applied the optional exemption under Accounting Standards Codification ("ASC") 606-10-50-14(a) and will not disclose information about the remaining performance obligations for contracts which have original durations of one year or less.

NOTE D – Deferred Costs

Deferred costs consist of costs to obtain customer contracts, such as commissions paid to sales personnel and to third-party partners for customer referrals, and costs to fulfill customer contracts, such as customer implementation costs.

Sales commissions relating to recurring revenues are considered incremental and recoverable costs of obtaining a contract with our customer. These commissions are calculated based on estimated annual recurring revenue to be generated over the customer's initial contract year. These costs are deferred and amortized over the expected period of benefit which we have determined to be two years. Amortization expense is included in sales and marketing expenses in the accompanying condensed consolidated statements of operations.

The table below presents the activity of deferred costs and amortization of deferred costs (in thousands):

	Three Months Ended March 31,	
	2019	2018
Balances, at beginning of period	$45,475	$39,933
Incurred deferred costs	12,332	12,506
Amortized deferred costs	(11,916)	(10,882)
Balances, at end of period	$45,891	$41,557

NOTE E – Financial Instruments

We invest primarily in money market funds, certificates of deposit, highly liquid debt instruments of the U.S. government and U.S. corporate debt securities. All investments with remaining maturities less than one year from the balance sheet date are classified as short-term investments. Investments with remaining maturities of more than one year from the balance sheet date are classified as long-term investments. As of March 31, 2019 and December 31, 2018, all of our investments held were classified as short-term.

Our short-term marketable securities are classified as available-for-sale. We intend to hold marketable securities until maturity; however, we may sell these securities at any time for use in current operations or for other purposes.

Our marketable securities are carried at fair value and unrealized gains and losses on these investments, net of taxes, are included in accumulated other comprehensive loss in the consolidated balance sheets. Realized gains or losses are included in other income (expense), net in the consolidated statements of comprehensive income. When a determination has been made that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is realized and is included in other income (expense), net in the consolidated statements of comprehensive income.

Cash equivalents and short-term investments consisted of the following (in thousands):

	March 31, 2019		
	Amortized Cost	Unrealized Gains (Losses)	Fair Value
Cash equivalents:			
Money market funds	$113,516	$ —	$113,516
Certificate of deposit	6,804	—	6,804
Marketable securities:			
Corporate bonds	12,502	7	12,509
Commercial paper	7,440	41	7,481
U.S. treasury securities	14,787	102	14,889
Total	$155,049	$ 150	$155,199

	December 31, 2018		
	Amortized Cost	Unrealized Gains (Losses)	Fair Value
Cash equivalents:			
Money market funds	$109,265	$ —	$109,265
Certificate of deposit	7,000	—	7,000
Marketable securities:			
Corporate bonds	15,194	40	15,234
Commercial paper	9,889	76	9,965
U.S. treasury securities	12,300	38	12,338
Total	$153,648	$ 154	$153,802

We do not believe any of the unrealized losses represent an other-than-temporary impairment based on our valuation of available evidence as of March 31, 2019. We expect to receive the full principal and interest on all of these cash equivalents, certificate of deposit, and marketable securities.

Fair Value Measurements

We measure certain financial assets at fair value on a recurring basis based on a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs that may be used to measure fair value are:

- Level 1 – quoted prices in active markets for identical assets or liabilities
- Level 2 – observable inputs other than Level 1 prices, such as: (a) quoted prices for similar assets or liabilities, (b) quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or (c) model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities. We obtain the fair values of our level 2 available-for-sale securities from a professional pricing service.
- Level 3 – unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

For the earn-out liability related to the EDIAdmin acquisition, the Company utilized the Monte Carlo simulation method to estimate the fair value of this contingent liability as of the reporting date. Thousands of iterations of the simulation were performed using forecasted revenues to develop a distribution of future values of recurring revenue which, in turn, provide indicated earn-out payments. The total estimated fair value equals the sum of the average present values of the indicated earn-out payments. Changes in assumptions described above could have an impact on the payout of contingent consideration with a maximum payout being $1.7 million. The earn-out liability has been measured as Level 3 given the unobservable inputs that are significant to the measurement of the liability.

The following table presents information about our financial assets that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (in thousands):

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$113,516	$—	$—	$113,516
Certificate of deposit	6,804	—	—	6,804
Marketable securities:				
Corporate bonds	—	12,509	—	12,509
Commercial paper	—	7,481	—	7,481
U.S. treasury securities	—	14,889	—	14,889
Total	$120,320	$34,879	$—	$155,199
Liabilities:				
Earn-out liability	$—	$—	$1,424	$1,424
Total	$—	$—	$1,424	$1,424

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$109,265	$—	$—	$109,265
Certificate of deposit	7,000	—	—	7,000
Marketable securities:				
Corporate bonds	—	15,234	—	15,234
Commercial paper	—	9,965	—	9,965
U.S. treasury securities	—	12,338	—	12,338
Total	$116,265	$37,537	$—	$153,802
Liabilities:				
Earn-out liability	$—	$—	$1,368	$1,368
Total	$—	$—	$1,368	$1,368

NOTE F – Goodwill and Intangible Assets, net

The changes in the net carrying amount of goodwill for the three months ended March 31, 2019 are as follows (in thousands):

	2019
Balances, January 1	$69,658
Goodwill acquired during the period	—
Foreign currency translation adjustments	417
Balances, March 31	$70,075

Intangible assets subject to amortization primarily include subscriber relationships, non-competition agreements and acquired technology and are amortized over their respective useful lives (ranging from 1 to 10 years). Intangible assets, net included the following (in thousands):

	March 31, 2019			
	Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net
Subscriber relationships	$42,240	$ (24,034)	$ 117	$18,323
Non-competition agreements	2,495	(2,251)	6	250
Technology and other	5,002	(2,010)	7	2,999

	$49,737	$ (28,295)	$ 130	$21,572

	December 31, 2018			
	Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net
Subscriber relationships	$43,212	$ (23,284)	$ (623)	$19,305
Non-competition agreements	2,560	(2,247		