
**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, 2012**

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)

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 July 26, 2012 was 12,402,001 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, 2011 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 undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. 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.

PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

SPS COMMERCE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited; in thousands, except share amounts)

| | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 35,501 | \$ 31,985 |
| Accounts receivable, less allowance for doubtful accounts of \$288 and \$222, respectively | 9,029 | 7,958 |
| Deferred costs, current | 6,509 | 5,748 |
| Deferred income taxes, current | 782 | 783 |
| Prepaid expenses and other current assets | 1,604 | 1,765 |
| Total current assets | 53,425 | 48,239 |
| PROPERTY AND EQUIPMENT, net | 4,028 | 3,382 |
| GOODWILL | 5,853 | 5,853 |
| INTANGIBLE ASSETS, net | 5,247 | 5,767 |
| OTHER ASSETS | | |
| Deferred costs, net of current portion | 2,885 | 2,510 |
| Deferred income taxes, net of current portion | 11,424 | 11,787 |
| Other non-current assets | 84 | 80 |
| | <u>\$ 82,946</u> | <u>\$ 77,618</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 1,944 | \$ 1,411 |
| Accrued compensation and benefits | 4,806 | 5,118 |
| Accrued expenses and other current liabilities | 1,560 | 1,097 |
| Deferred revenue, current | 4,366 | 3,840 |
| Total current liabilities | 12,676 | 11,466 |
| OTHER LIABILITIES | | |
| Deferred revenue, less current portion | 7,873 | 6,599 |
| Total liabilities | <u>20,549</u> | <u>18,065</u> |
| 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; 12,386,417 and 12,138,858 shares issued and outstanding, respectively | 12 | 12 |
| Additional paid-in capital | 110,768 | 108,606 |
| Accumulated deficit | (48,383) | (49,065) |
| Total stockholders' equity | <u>62,397</u> | <u>59,553</u> |
| | <u>\$ 82,946</u> | <u>\$ 77,618</u> |

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

SPS COMMERCE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in thousands, except per share amounts)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|---------------|
| | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | \$17,821 | \$13,937 | \$34,355 | \$26,586 |
| Cost of revenues | 4,843 | 3,750 | 9,291 | 7,071 |
| Gross profit | 12,978 | 10,187 | 25,064 | 19,515 |
| Operating expenses | | | | |
| Sales and marketing | 6,972 | 5,852 | 13,419 | 10,978 |
| Research and development | 1,830 | 1,414 | 3,562 | 2,654 |
| General and administrative | 3,165 | 2,839 | 6,353 | 5,294 |
| Amortization of intangible assets | 260 | 123 | 520 | 123 |
| Total operating expenses | 12,227 | 10,228 | 23,854 | 19,049 |
| Income (loss) from operations | 751 | (41) | 1,210 | 466 |
| Other income (expense) | | | | |
| Interest income | 13 | 26 | 28 | 58 |
| Other expense | (38) | (16) | (103) | (34) |
| Total other income (expense), net | (25) | 10 | (75) | 24 |
| Income (loss) before income taxes | 726 | (31) | 1,135 | 490 |
| Income tax expense | (300) | (78) | (453) | (107) |
| Net income (loss) | <u>\$ 426</u> | <u>\$ (109)</u> | <u>\$ 682</u> | <u>\$ 383</u> |
| Net income (loss) per share | | | | |
| Basic | \$ 0.03 | \$ (0.01) | \$ 0.06 | \$ 0.03 |
| Diluted | \$ 0.03 | \$ (0.01) | \$ 0.05 | \$ 0.03 |
| Weighted average common shares used to compute net income (loss) per share | | | | |
| Basic | 12,284 | 11,919 | 12,224 | 11,892 |
| Diluted | 13,026 | 11,919 | 13,106 | 12,659 |

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

SPS COMMERCE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in thousands)

| | Six Months Ended June 30, | |
|---|------------------------------|------------------|
| | 2012 | 2011 |
| Cash flows from operating activities | | |
| Net income | \$ 682 | \$ 383 |
| Reconciliation of net income to net cash provided by operating activities | | |
| Deferred income taxes | 364 | — |
| Depreciation and amortization of property and equipment | 1,244 | 895 |
| Amortization of intangible assets | 520 | 123 |
| Provision for doubtful accounts | 164 | 120 |
| Stock-based compensation | 1,327 | 799 |
| Changes in assets and liabilities, net of effect of acquisition | | |
| Accounts receivable | (1,235) | (1,799) |
| Deferred costs | (1,136) | (708) |
| Prepaid expenses and other current assets | 157 | (593) |
| Accounts payable | 533 | 823 |
| Accrued compensation and benefits | (312) | 259 |
| Accrued expenses and other current liabilities | 463 | 216 |
| Deferred revenue | 1,800 | 608 |
| Net cash provided by operating activities | <u>4,571</u> | <u>1,126</u> |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (1,890) | (989) |
| Acquisition of Direct EDI | — | (10,865) |
| Net cash used in investing activities | <u>(1,890)</u> | <u>(11,854)</u> |
| Cash flows from financing activities | | |
| Payments of capital lease obligations | — | (122) |
| Net proceeds from exercise of options to purchase common stock | 811 | 273 |
| Excess tax benefit from exercise of options to purchase common stock | 24 | — |
| Stock offering costs | — | (108) |
| Net cash provided by financing activities | <u>835</u> | <u>43</u> |
| Net increase (decrease) in cash and cash equivalents | 3,516 | (10,685) |
| Cash and cash equivalents at beginning of period | 31,985 | 40,473 |
| Cash and cash equivalents at end of period | <u>\$35,501</u> | <u>\$ 29,788</u> |

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

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 and the Retail Universe community, providing integration, collaboration, connectivity, visibility and data analytics to thousands of customers worldwide. We provide our solutions through SPSCommerce.net, a hosted 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 footnotes 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, 2011 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, 2011 included in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 9, 2012.

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 six months ended June 30, 2012, 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, 2011, as filed with the Securities and Exchange Commission on March 9, 2012, 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.

[Table of Contents](#)**NOTE B – Financial Statement Components***Intangible Assets, net*

Intangible assets included the following (in thousands):

| | June 30, 2012 | | | December 31, 2011 | | |
|----------------------------|-----------------|--------------------------|----------------|-------------------|--------------------------|----------------|
| | Carrying Amount | Accumulated Amortization | Net | Carrying Amount | Accumulated Amortization | Net |
| Subscriber relationships | \$7,180 | \$ (2,769) | \$4,411 | \$7,180 | \$ (2,394) | \$4,786 |
| Non-competition agreements | 1,450 | (614) | 836 | 1,450 | (469) | 981 |
| | <u>\$8,630</u> | <u>\$ (3,383)</u> | <u>\$5,247</u> | <u>\$8,630</u> | <u>\$ (2,863)</u> | <u>\$5,767</u> |

Amortization expense for intangible assets was \$260,000 and \$520,000 for the three and six months ended June 30, 2012, and \$123,000 for each of the three and six months ended June 30, 2011.

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 June 30, 2012 and we were in compliance with all covenants under the revolving credit agreement as of that date.

NOTE D – Commitments and Contingencies*Operating Leases*

On February 14, 2012, we executed a new lease agreement for our current headquarters location which commences on November 1, 2012 and expires on April 30, 2020. The lease includes additional square footage upon commencement, an automatic expansion of space on or about September 1, 2013, a right of first offer to lease certain additional space, and two options to extend the term of the lease for three years at a market rate determined in accordance with the lease. We will also have a rent holiday from November 2012 to October 2013 which will be incorporated into our deferred rent calculation upon commencement of the lease. In connection with this new lease, we delivered to the landlord cash or an irrevocable letter of credit for approximately \$172,000, subject to increase based on square footage expansion, as security for performance of our obligations under the lease.

At June 30, 2012, our future minimum payments under operating leases were as follows (in thousands):

| | |
|-------------------|-----------------|
| Remainder of 2012 | \$ 473 |
| 2013 | 306 |
| 2014 | 2,283 |
| 2015 | 2,391 |
| 2016 | 2,500 |
| Thereafter | 9,246 |
| | <u>\$17,199</u> |

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, to employees, non-employee directors and other consultants who provide services to us. Stock options generally vest over four years and have a contractual term of seven to ten years from the date of grant. At June 30, 2012, there were approximately 1.1 million shares available for grant under approved equity compensation plans.

We recorded stock-based compensation expense of \$715,000 and \$1.3 million for the three and six months ended June 30, 2012, respectively. We recorded stock-based compensation expense of \$487,000 and \$799,000 for the three and six months ended June 30, 2011, respectively. This expense was allocated as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------------|------------------------------|---------------|
| | 2012 | 2011 | 2012 | 2011 |
| Cost of revenues | \$ 116 | \$ 72 | \$ 214 | \$ 118 |
| Operating expenses | | | | |
| Sales and marketing | 217 | 137 | 395 | 226 |
| Research and development | 29 | 16 | 51 | 23 |
| General and administrative | 353 | 262 | 667 | 432 |
| Total stock-based compensation expense | <u>\$ 715</u> | <u>\$ 487</u> | <u>\$ 1,327</u> | <u>\$ 799</u> |

As of June 30, 2012, there was approximately \$6.8 million of unrecognized stock-based compensation expense under our equity compensation plans, which is expected to be recognized on a straight line basis over a weighted average period of 2.3 years.

Stock Options

Our stock option activity was as follows:

| | Options (#) | Weighted Average Exercise Price (\$/share) |
|----------------------------------|------------------|--|
| Outstanding at December 31, 2011 | 1,669,409 | \$ 8.14 |
| Granted | 210,001 | 25.59 |
| Exercised | (247,559) | 3.11 |
| Forfeited | (16,301) | 19.33 |
| Outstanding at June 30, 2012 | <u>1,615,550</u> | 11.07 |

Of the total outstanding options at June 30, 2012, 922,469 were exercisable with a weighted average exercise price of \$5.85 per share. The total outstanding options had a weighted average remaining contractual life of 6.7 years.

The weighted average fair value per share of options granted during the first six months of 2012 was \$10.13 and this was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | |
|--|-------|
| Weighted-average volatility | 46.2% |
| Expected dividend yield | 0% |
| Expected life (in years) | 4.75 |
| Weighted-average risk-free interest rate | 0.81% |

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Restricted Stock Units

During the six months ended June 30, 2012, we granted 65,510 restricted stock units with a weighted average grant date fair value of \$25.43 per share. These restricted stock units vest over a four year period and, upon vesting, the holder is entitled to receive shares of our common stock.

Restricted Stock Awards

During the six months ended June 30, 2012, we granted 6,330 restricted stock awards with a weighted average grant date fair value of \$27.55 per share. These restricted stock units vest over a one year period and, upon vesting, the holder is entitled to receive shares of our common stock.

NOTE F – Income Taxes

We recorded a provision for income taxes of \$300,000 and \$453,000 for the three and six months ended June 30, 2012, respectively. We recorded a provision for income taxes of \$78,000 and \$107,000 for the three and six months ended June 30, 2011, respectively. We record our interim provision for income taxes based on our estimated annual effective tax rate for the year. Our provisions for income taxes included current federal alternative minimum tax expense and current foreign and state income tax expense. In addition, our provision for income taxes for the three and six months ended June 30, 2012 included deferred tax expense.

For periods prior to the fourth quarter of 2011, a full valuation allowance was recorded against all of our deferred tax assets as it was more-likely-than-not that we would not realize these deferred tax assets, largely due to our history of taxable losses since inception. Based on our assessment during the fourth quarter of 2011, we determined that it was more-likely-than-not that we would be able to realize approximately \$12.8 million of our deferred tax assets, which enabled us to release a substantial portion of the valuation allowance previously recorded. This determination was based on weighing both the positive and negative evidence available including, but not limited to, our earnings history, our projected future taxable income, our business strategy and the nature of each of our deferred tax assets.

We are subject to income taxes in the U.S. federal and various state and international jurisdictions. As of June 30, 2012, we are generally subject to tax examinations for all prior years due to our net operating loss carryforwards.

As of June 30, 2012, we do not have any unrecognized tax benefits. It is our practice to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. We do not expect any material changes in our unrecognized tax positions over the next 12 months.

[Table of Contents](#)**NOTE G – Net Income (Loss) per Share**

Basic net income (loss) per share has been computed using the weighted average number of shares of common stock outstanding during each period. Diluted net income (loss) per share also includes the impact of our outstanding potential common shares, including options and restricted stock units. Potential common shares that are anti-dilutive are excluded from the calculation of diluted net income (loss) per share.

The following table presents the components of the computation of basic and diluted net income (loss) per share for the periods indicated (in thousands, except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------------|------------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator | | | | |
| Net income (loss) | <u>\$ 426</u> | <u>\$ (109)</u> | <u>\$ 682</u> | <u>\$ 383</u> |
| Denominator | | | | |
| Weighted average common shares outstanding, basic | 12,284 | 11,919 | 12,224 | 11,892 |
| Options to purchase common stock | 728 | — | 858 | 767 |
| Restricted stock units and awards | 14 | — | 24 | — |
| Weighted average common shares outstanding, diluted | <u>13,026</u> | <u>11,919</u> | <u>13,106</u> | <u>12,659</u> |
| Net income (loss) per share | | | | |
| Basic | <u>\$ 0.03</u> | <u>\$ (0.01)</u> | <u>\$ 0.06</u> | <u>\$ 0.03</u> |
| Diluted | <u>\$ 0.03</u> | <u>\$ (0.01)</u> | <u>\$ 0.05</u> | <u>\$ 0.03</u> |

For the three and six months ended June 30, 2012, the effect of approximately 22,000 outstanding potential common shares was excluded from the calculation of diluted net income per share. For the three and six months ended June 30, 2011, the effect of approximately 420,000 outstanding potential common shares was excluded from the calculation of diluted net income (loss) per share because they were anti-dilutive.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a leading provider of on-demand supply chain management solutions and the Retail Universe community, providing integration, collaboration, connectivity, visibility and data analytics to thousands of trading partners worldwide. We provide our solutions through SPSCommerce.net, a hosted software suite that improves the way suppliers, retailers, distributors and other trading partners manage and fulfill orders. We deliver our solutions to our customers over the Internet using a Software-as-a-Service model.

We plan 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 developing new solutions and applications. We also intend to selectively pursue acquisitions that will add customers, allow us to expand into new regions or industries or allow us to offer new functionalities.

Key Financial Terms and Metrics

We have several key financial terms and metrics, including annualized average recurring revenues per recurring revenue customer. During the six months ended June 30, 2012, there were no changes in the definitions of our key financial terms and metrics, which are discussed in more detail under the heading “*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, 2011 as filed with the Securities and Exchange Commission on March 9, 2012.

To supplement our financial statements, we also provide investors with Adjusted EBITDA and non-GAAP income per share, both of which are non-GAAP financial measures. We believe that these non-GAAP measures provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare the company’s 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. These measures are also presented to our board of directors.

These non-GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with generally accepted accounting principles in the United States of America (“GAAP”). These non-GAAP financial measures exclude significant expenses and income that are required by GAAP to be recorded in our 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*.”

Critical Accounting Policies and Estimates

This discussion of our financial condition and results of operations is based upon our financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. 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. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, the following accounting policies involve a greater degree of judgment, complexity and effect on materiality. A critical accounting policy is one that is both material to the presentation of our financial statements and requires us to make difficult, subjective or complex judgments for 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, the allowance for doubtful accounts, income taxes, stock-based compensation and the valuation of goodwill and intangible assets are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

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During the six months ended June 30, 2012, there were no significant changes in our critical accounting policies or estimates.

See Note A to our financial statements included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on March 9, 2012, for additional information regarding our critical accounting policies, as well as a description of our other significant accounting policies.

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Results of Operations

The following table presents our results of operations for the periods indicated (dollars in thousands):

| | Three Months Ended June 30, | | | | Change | |
|-----------------------------------|-----------------------------|--------------|-----------------|--------------|---------|--------|
| | 2012 | | 2011 | | \$ | % |
| | | % of revenue | | % of revenue | | |
| Revenues | \$17,821 | 100.0% | \$13,937 | 100.0% | \$3,884 | 27.9% |
| Cost of revenues | 4,843 | 27.2 | 3,750 | 26.9 | 1,093 | 29.1 |
| Gross profit | <u>12,978</u> | 72.8 | <u>10,187</u> | 73.1 | 2,791 | 27.4 |
| Operating expenses | | | | | | |
| Sales and marketing | 6,972 | 39.1 | 5,852 | 42.0 | 1,120 | 19.1 |
| Research and development | 1,830 | 10.3 | 1,414 | 10.1 | 416 | 29.4 |
| General and administrative | 3,165 | 17.8 | 2,839 | 20.4 | 326 | 11.5 |
| Amortization of intangible assets | 260 | 1.5 | 123 | 0.9 | 137 | 111.4 |
| Total operating expenses | <u>12,227</u> | 68.6 | <u>10,228</u> | 73.4 | 1,999 | 19.5 |
| Income (loss) from operations | 751 | 4.2 | (41) | (0.3) | 792 | * |
| Other income (expense) | | | | | | |
| Interest income | 13 | 0.1 | 26 | 0.2 | (13) | (50.0) |
| Other expense | (38) | (0.2) | (16) | (0.1) | (22) | 137.5 |
| Total other income (expense), net | <u>(25)</u> | (0.1) | <u>10</u> | 0.1 | (35) | * |
| Income (loss) before income taxes | 726 | 4.1 | (31) | (0.2) | 757 | * |
| Income tax expense | (300) | (1.7) | (78) | (0.6) | (222) | 284.6 |
| Net income (loss) | <u>\$ 426</u> | 2.4 | <u>\$ (109)</u> | (0.8) | 535 | * |
| | | | | | | |
| | Six Months Ended June 30, | | | | Change | |
| | 2012 | | 2011 | | \$ | % |
| | | % of revenue | | % of revenue | | |
| Revenues | \$34,355 | 100.0% | \$26,586 | 100.0% | \$7,769 | 29.2% |
| Cost of revenues | 9,291 | 27.0 | 7,071 | 26.6 | 2,220 | 31.4 |
| Gross profit | <u>25,064</u> | 73.0 | <u>19,515</u> | 73.4 | 5,549 | 28.4 |
| Operating expenses: | | | | | | |
| Sales and marketing | 13,419 | 39.1 | 10,978 | 41.3 | 2,441 | 22.2 |
| Research and development | 3,562 | 10.4 | 2,654 | 10.0 | 908 | 34.2 |
| General and administrative | 6,353 | 18.5 | 5,294 | 19.9 | 1,059 | 20.0 |
| Amortization of intangible assets | 520 | 1.5 | 123 | 0.5 | 397 | 322.8 |
| Total operating expenses | <u>23,854</u> | 69.4 | <u>19,049</u> | 71.7 | 4,805 | 25.2 |
| Income from operations | 1,210 | 3.5 | 466 | 1.8 | 744 | 159.7 |
| Other income (expense): | | | | | | |
| Interest income | 28 | 0.1 | 58 | 0.2 | (30) | (51.7) |
| Other expense | (103) | (0.3) | (34) | (0.1) | (69) | 202.9 |
| Total other income (expense), net | <u>(75)</u> | (0.2) | <u>24</u> | 0.1 | (99) | * |
| Income before income taxes | 1,135 | 3.3 | 490 | 1.8 | 645 | 131.6 |
| Income tax expense | (453) | (1.3) | (107) | (0.4) | (346) | 323.4 |
| Net income | <u>\$ 682</u> | 2.0 | <u>\$ 383</u> | 1.4 | 299 | 78.1 |

Due to rounding, totals may not equal the sum of the line items in the table above.

* Percentage is not meaningful.

Three and Six Months Ended June 30, 2012 compared to Three and Six Months Ended June 30, 2011

Revenues. Revenues for the three months ended June 30, 2012 increased \$3.9 million, or 28%, to \$17.8 million from \$13.9 million for the same period in 2011. Our fiscal quarter ended June 30, 2012 represented our 46th consecutive quarter of increased revenues. Revenues for the six months ended June 30, 2012 increased \$7.8 million, or 29%, to \$34.4 million from \$26.6 million for the same period in 2011.

The increase in revenues resulted from two primary factors: the increase in recurring revenue customers and the increase in annualized average recurring revenues per recurring revenue customer.

- The number of recurring revenue customers increased 11% to 17,035 at June 30, 2012 from 15,324 at June 30, 2011.
- Annualized average recurring revenues per recurring revenue customer increased 10% to \$3,668 for the three months ended June 30, 2012 from \$3,321 for the same period in 2011. This increase was primarily attributable to increased fees resulting from increased usage of our solutions by our recurring revenue customers, including growth in larger customers.

Recurring revenues from recurring revenue customers accounted for 86% of our total revenues for the three and six months ended June 30, 2012, respectively, compared to 84% for each of the same periods in 2011. We anticipate that the number of recurring revenue customers and the recurring revenues per recurring revenue customer will continue to increase as we increase the number of solutions we offer and increase the penetration of those solutions across our customer base.

Cost of Revenues. Cost of revenues for the three months ended June 30, 2012 increased \$1.1 million, or 29%, to \$4.8 million from \$3.7 million for the same period in 2011. Cost of revenues for the six months ended June 30, 2012 increased \$2.2 million, or 31%, to \$9.3 million from \$7.1 million for the same period in 2011. The increase in cost of revenues was attributable to increased costs for personnel and depreciation for both the three and six month periods in 2012. In addition, increased costs for network services and stock-based compensation contributed to the increase in cost of revenues for the six month period in 2012. As a percentage of revenues, cost of revenues was 27% for the three and six months ended June 30, 2012, which was comparable to the same periods in 2011. Going forward, we anticipate that cost of revenues will continue to increase in absolute dollars as we build our business.

Sales and Marketing Expenses. Sales and marketing expenses for the three months ended June 30, 2012 increased \$1.1 million, or 19%, to \$7.0 million from \$5.9 million for the same period in 2011. Sales and marketing expenses for the six months ended June 30, 2012 increased \$2.4 million, or 22%, to \$13.4 million from \$11.0 million for the same period in 2011. The increase in sales and marketing expenses for both the three and six month periods in 2012 was primarily due to increased personnel costs and higher commissions earned by sales personnel from new business, as well as increased stock-based compensation and marketing costs. As a percentage of revenues, sales and marketing expenses were 39% for the three and six months ended June 30, 2012, compared to 42% and 41% for the same periods in 2011, respectively. As we build our business, we will continue to add resources to our sales and marketing efforts over time, and we expect that these expenses will continue to increase in absolute dollars.

Research and Development Expenses. Research and development expenses for the three months ended June 30, 2012 increased \$416,000, or 29%, to \$1.8 million from \$1.4 million for the same period in 2011. Research and development expenses for the six months ended June 30, 2012 increased \$908,000, or 34%, to \$3.6 million from \$2.7 million for the same period in 2011. The increase in research and development expenses for both the three and six month periods in 2012 was due primarily to increased personnel costs, stock-based compensation and depreciation expense. As a percentage of revenues, research and development expenses were 10% for all periods presented. As we enhance and expand our solutions and applications, we expect that research and development expenses will continue to increase in absolute dollars.

General and Administrative Expenses. General and administrative expenses for the three months ended June 30, 2012 increased \$326,000, or 11%, to \$3.2 million from \$2.8 million for the same period in 2011. General

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and administrative expenses for the six months ended June 30, 2012 increased \$1.1 million, or 20%, to \$6.4 million from \$5.3 million for the same period in 2011. The increase in general and administrative expenses for both the three and six month periods in 2012 was primarily due to increased personnel costs, as well as increased stock-based compensation and credit card processing expenses. As a percentage of revenues, general and administrative expenses were 18% for each of the three and six months ended June 30, 2012 compared to 20% for each of the same periods in 2011. Going forward, we expect that general and administrative expenses will continue to increase in absolute dollars as we build our business.

Amortization of Intangible Assets. Amortization expense was \$260,000 and \$520,000 for the three and six months ended June 30, 2012, compared to \$123,000 for each of the comparable periods in 2011. All amortization was related to intangible assets recorded with the acquisition of Direct EDI in May 2011.

Other Income (Expense). Interest income for the three and six months ended June 30, 2012 was \$13,000 and \$28,000, respectively, compared to \$26,000 and \$58,000 for the same periods in 2011. Other expense for the three and six months ended June 30, 2012 was \$38,000 and \$103,000, respectively, and \$16,000 and \$34,000 for the same periods in 2011.

Income Tax Expense. Income tax expense was \$300,000 and \$453,000 for the three and six months ended June 30, 2012, respectively. Income tax expense was \$78,000 and \$107,000 for the three and six months ended June 30, 2011, respectively. We record our interim provision for income taxes based on our estimated annual effective tax rate for the year. Our provisions for income taxes included current federal alternative minimum tax expense and current foreign and state income tax expense. In addition, our provision for income taxes for the three and six months ended June 30, 2012 included deferred tax expense. The increase in income tax expense for the three and six month periods in 2012, from the comparable periods in 2011, was primarily related to deferred tax expense incurred in 2012 subsequent to the reversal of substantially all of the valuation allowance on our deferred tax assets in the fourth quarter of 2011.

Adjusted EBITDA. Adjusted EBITDA, which is a non-GAAP measure of financial performance, consists of net income (loss) plus depreciation and amortization, interest expense, interest income, income tax expense and non-cash, stock-based compensation expense. We use Adjusted EBITDA as a measure of operating performance because it assists us in comparing performance on a consistent basis, as it removes from our operating results the impact of our capital structure. We believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company's 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 our capital structure and the method by which assets were acquired.

The following table provides a reconciliation of net income (loss) to Adjusted EBITDA (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------------|------------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income (loss) | \$ 426 | \$ (109) | \$ 682 | \$ 383 |
| Depreciation and amortization of property and equipment | 652 | 473 | 1,244 | 895 |
| Amortization of intangible assets | 260 | 123 | 520 | 123 |
| Interest expense | — | — | — | — |
| Interest income | (13) | (26) | (28) | (58) |
| Income tax expense | 300 | 78 | 453 | 107 |
| EBITDA | 1,625 | 539 | 2,871 | 1,450 |
| Stock-based compensation expense | 715 | 487 | 1,327 | 799 |
| Adjusted EBITDA | <u>\$2,340</u> | <u>\$1,026</u> | <u>\$4,198</u> | <u>\$2,249</u> |

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Non-GAAP Income per Share. Non-GAAP income per share, which is also a non-GAAP measure of financial performance, consists of net income (loss) plus non-cash, stock-based compensation expense and amortization expense related to intangible assets divided by the weighted average number of shares of common stock outstanding during each period. We believe non-GAAP income per share is useful to an investor because it is widely used to measure a company's operating performance.

The following table provides a reconciliation of net income (loss) to non-GAAP income per share (in thousands, except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------------|------------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income (loss) | \$ 426 | \$ (109) | \$ 682 | \$ 383 |
| Stock-based compensation expense | 715 | 487 | 1,327 | 799 |
| Amortization of intangible assets | 260 | 123 | 520 | 123 |
| Non-GAAP income | <u>\$ 1,401</u> | <u>\$ 501</u> | <u>\$ 2,529</u> | <u>\$ 1,305</u> |
| Shares used to compute non-GAAP income per share | | | | |
| Basic | 12,284 | 11,919 | 12,224 | 11,892 |
| Diluted | 13,026 | 12,620 | 13,106 | 12,659 |
| Non-GAAP income per share | | | | |
| Basic | \$ 0.11 | \$ 0.04 | \$ 0.21 | \$ 0.11 |
| Diluted | \$ 0.11 | \$ 0.04 | \$ 0.19 | \$ 0.10 |

Liquidity and Capital Resources

At June 30, 2012, our principal sources of liquidity were cash and cash equivalents of \$35.5 million and accounts receivable, net of allowance for doubtful accounts, of \$9.0 million. Our working capital at June 30, 2012 was \$40.7 million compared to \$36.8 million at December 31, 2011. The increase in working capital from December 31, 2011 to June 30, 2012 resulted primarily from the following:

- \$3.5 million increase in cash and cash equivalents, due primarily to cash provided by operations and cash received from the exercise of stock options, slightly offset by cash used for capital expenditures;
- \$1.1 million increase in net accounts receivable, due to new business for the six months ended June 30, 2012;
- \$761,000 increase in deferred costs, current, for expenses related to increased implementation resources and commission payments for new business;
- \$161,000 decrease in prepaid expenses and other current assets, primarily related to prepaid service contracts;
- \$533,000 increase in accounts payable, primarily due to timing of payments;
- \$312,000 decrease in accrued compensation and benefits, due primarily to payments made in early 2012 for bonuses accrued as of December 31, 2011;
- \$463,000 increase in accrued expenses and other current liabilities, primarily due to an increase in accruals for professional services; and,
- \$526,000 increase in deferred revenue, current, due to new business for the six months ended June 30, 2012.

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Net Cash Flows from Operating Activities

Net cash provided by operating activities was \$4.6 million for the six months ended June 30, 2012 compared to \$1.1 million for the same period in 2011. The \$299,000 increase in net income and the changes in non-cash expenses, including increased amortization and stock-based compensation, and the changes in working capital accounts discussed above, resulted in the overall increase in net cash provided by operations.

Net Cash Flows from Investing Activities

Net cash used in investing activities was \$1.9 million for the six months ended June 30, 2012, all for capital expenditures. Our capital expenditures are for supporting our business growth and existing customer base, as well as for our internal use such as equipment for our employees. Net cash used in investing activities was \$11.9 million for the six months ended June 30, 2011, and represented \$10.9 million for the acquisition of Direct EDI and \$1.0 million for capital expenditures.

Net Cash Flows from Financing Activities

Net cash provided by financing activities was \$835,000 for the six months ended June 30, 2012, representing the proceeds and excess tax benefit from the exercise of stock options. Net cash provided by financing activities was \$43,000 for the six months ended June 30, 2011, representing proceeds from the exercise of stock options substantially offset by repayments of capital lease obligations and payment of offering costs related to the issuance of common stock.

Credit Facility

On September 30, 2011, we entered into a revolving credit agreement with JPMorgan Chase Bank, N.A. The revolving credit agreement 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. Proceeds from the credit facility are anticipated to be used for acquisitions and our capital needs.

There were no borrowings outstanding at June 30, 2012 and we were in compliance with all covenants under the revolving credit agreement as of that date.

Adequacy of Capital Resources

Our future capital requirements may vary significantly from those now planned and will depend on many factors, including the costs to develop and implement new solutions and applications, the sales and marketing resources needed to further penetrate our market and gain acceptance of new solutions and applications we develop, the expansion of our operations in the United States and internationally, the response of competitors to our solutions and applications and our use of capital for acquisitions, if any. Historically, we have experienced increases in our expenditures consistent with the growth in our operations and personnel, and we anticipate that our expenditures will increase as we continue to grow our business.

We believe our cash and cash equivalents 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.

Inflation and changing prices did not have a material effect on our business during the six months ended June 30, 2012. We do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity Risk

For fixed rate debt, interest rate changes affect the fair value of financial instruments but do not impact earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant. The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss. The recorded carrying amounts of cash and cash equivalents approximate fair value due to their short maturities. We did not have any outstanding debt as of June 30, 2012. We therefore do not have any material risk to interest rate fluctuations unless we borrow under our credit facility.

Foreign Currency Exchange Risk

Our results of operations and cash flows are not materially affected by fluctuations in foreign currency exchange rates.

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 Securities and Exchange Commission'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, 2012.

Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2012, we implemented a new Enterprise Resource Planning ("ERP") system to support the overall growth in our business. The implementation was designed, in part, to enhance the overall system of internal control over financial reporting through further automation of various business processes. This implementation has resulted in changes to certain internal controls over financial reporting. We believe we have taken the necessary steps to monitor and maintain appropriate internal controls impacting financial reporting.

There were no other changes in our internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. – OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any material legal proceedings. From time to time, however, we may be engaged in legal actions 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.

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, 2011 as filed with the Securities and Exchange Commission on March 9, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

The exhibits filed as part of this Quarterly Report on Form 10-Q are listed in the Exhibit Index immediately following the signatures to this report.

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: August 6, 2012

SPS COMMERCE, INC.

/s/ KIMBERLY K. NELSON

Kimberly K. Nelson

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

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|--|
| 31.1 | Certification of Principal Executive Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith). |
| 31.2 | Certification of Principal Financial Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended (filed herewith). |
| 32.1 | 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). |
| 101 | Interactive Data Files Pursuant to Rule 405 of Regulation S-T (filed herewith). |

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Archie C. 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 C. BLACK

Archie C. Black
President and Chief Executive Officer
(principal executive officer)
August 6, 2012

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Kimberly K. 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 K. NELSON

Kimberly K. Nelson
Executive Vice President and Chief Financial Officer
(principal financial and accounting officer)
August 6, 2012

**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, 2012, 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 C. BLACK

Archie C. Black
President and Chief Executive Officer

/s/ KIMBERLY K. NELSON

Kimberly K. Nelson
Executive Vice President and Chief Financial Officer
August 6, 2012