As filed with the Securities and Exchange Commission on January 11, 2010

Registration No. 333-163476

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SPS COMMERCE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**7372**	**41-2015127**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

333 South Seventh Street, Suite 1000
Minneapolis, MN 55402
(612) 435-9400
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Archie C. Black
President and Chief Executive Officer
SPS Commerce, Inc.
333 South Seventh Street, Suite 1000
Minneapolis, MN 55402
(612) 435-9400
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Andrew G. Humphrey	**Mark J. Macenka**
Jonathan R. Zimmerman	**Kenneth J. Gordon**
Faegre & Benson LLP	Goodwin Procter LLP
2200 Wells Fargo Center	Exchange Place
90 South Seventh Street	53 State Street
Minneapolis, MN 55402-3901	Boston, MA 02109
(612) 766-7000	(617) 570-1000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. o

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ☒

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
Common stock, par value $0.001 per share	$46,000,000	$2,566.80(2)

(1) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(o) under the Securities Act.

(2) Previously paid.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 11, 2010

Shares
Common Stock
$ per share

SPS Commerce, Inc. is selling shares of our common stock and the selling stockholders identified in this prospectus are selling an additional shares. We will not receive any of the proceeds from the sale of the shares sold by selling stockholders. We have granted the underwriters a 30-day option to purchase up to an additional shares from us to cover over-allotments, if any.

This is an initial public offering of our common stock. We currently expect the initial public offering price to be between $ and $ per share. We have applied for approval for listing of our common stock on the Nasdaq Capital Market under the symbol “SPSC.”

INVESTING IN OUR COMMON STOCK INVOLVES RISKS.
SEE “RISK FACTORS” BEGINNING ON PAGE 9.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$
Proceeds, before expenses, to the selling stockholders	$	$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Thomas Weisel Partners LLC

William Blair & Company **Needham & Company, LLC**

JMP Securities

The date of this prospectus is , 2010.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with information different from that contained in this prospectus. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus speaks only as of the date of this prospectus unless the information specifically indicates that another date applies, regardless of the time of delivery of this prospectus or of any sale of our common stock.

SPS Commerce®, SPSCommerce.net, the SPS Commerce logo and other trademarks or service marks of SPS Commerce appearing in this prospectus are the property of SPS Commerce. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of the respective owners.

In this prospectus, company, we, our, and us refer to SPS Commerce, Inc., except where the context otherwise requires.

We obtained industry and market data used throughout this prospectus through our research, surveys and studies conducted by third parties and industry and general publications. We have not independently verified market and industry data from third-party sources.

The Gartner Report described herein represents data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc., and is not a representation of fact. The Gartner Report speaks as of its original publication date (and not as of the date of this prospectus) and the opinions expressed in the Gartner Reports are subject to change without notice.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the notes thereto accompanying this prospectus, before making an investment in our common stock.

Our Business

Overview

We are a leading provider of on-demand supply chain management solutions, 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 uses pre-built integrations to enable our supplier customers to shorten supply cycle times, optimize inventory levels, reduce costs and satisfy retailer requirements. As of December 31, 2009, we had over 11,000 customers with contracts to pay us monthly fees, which we refer to as recurring revenue customers. We have also generated revenues by providing supply chain management solutions to an additional 24,000 organizations that, together with our recurring revenue customers, we refer to as our customers. Once connected to our platform, our customers often require integrations to new organizations that represent an expansion of our platform and new sources of revenues for us.

We deliver our solutions to our customers over the Internet using a Software-as-a-Service model. Our delivery model enables us to offer greater functionality, integration and reliability with less cost and risk than traditional solutions. Our platform features pre-built integrations with 2,700 order management models across 1,300 retailers, grocers and distributors, as well as integrations to over 100 accounting, warehouse management, enterprise resource planning, and packing and shipping applications. Our delivery model leverages our existing integrations across current and new customers. As a result, each integration that we add to SPSCommerce.net makes our platform more appealing to potential customers by increasing the number of pre-built integrations we offer. Furthermore, integrating trading partners to SPSCommerce.net can generate new sales leads from the organizations with which we integrate our customers because those organizations typically have other trading partners who can benefit from our solutions. We systematically pursue these sales leads to convert them into new customers.

For 2006, 2007, 2008 and the nine months ended September 30, 2009, we generated revenues of $19.9 million, $25.2 million, $30.7 million and $27.8 million. Our fiscal quarter ended September 30, 2009 represented our 35th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 83%, 83%, 84% and 80% of our total revenues for 2006, 2007, 2008 and the nine months ended September 30, 2009. No customer represented over 1% of our revenues for 2006, 2007, 2008 or the nine months ended September 30, 2009.

Our Industry

The supply chain management industry serves thousands of retailers around the world supplied with goods from tens of thousands of suppliers. Additional participants in this market include distributors, third-party logistics providers, manufacturers, fulfillment and warehousing providers and sourcing companies. Supply chain management involves communicating data related to the exchange of goods among these trading partners.

Our target market of supply chain integration solutions is categorized by Gartner within the broader Integration Services market, which Gartner estimates was $1.5 billion in 2008 (Magic Quadrant for Integration Service Providers, report by Benoit Lheurueux, November 2009). As familiarity and acceptance of on-demand solutions continues to accelerate, we believe customers, both large and small, will continue to turn to on-demand delivery methods similar to ours for their supply chain integration needs, as opposed to traditional on-premise software deployment. International Data Corporation estimates that the global on-demand

software market reached $5.7 billion in 2007 and expects it to increase to $17.0 billion in 2012, a compounded annual growth rate of 24%.

Retailers impose non-standardized, specific work-flow rules and processes on their trading partners for electronically communicating supply chain information through “rule books”. The responsibility for creating information “maps,” which are integration connections between the retailer and the supplier that comply with the retailer’s rule books, resides primarily with the supplier. The cost of noncompliance can be refusal of delivered goods, fines and ultimately a termination of the supplier’s relationship with the retailer.

Traditional supply chain management solutions range from non-automated paper or fax solutions to electronic solutions implemented using on-premise licensed software. These software providers primarily link retailers and suppliers through the Electronic Data Interchange protocol that enables the structured electronic transmission of data between organizations. Because of set-up and maintenance costs, technical complexity and a growing volume of requirements from retailers, the traditional software model is not well suited for many suppliers.

A number of key trends are impacting the supply chain management industry and increasing demand for supply chain management solutions. These include:

- *Increasing Retailer Service and Performance Demands.* Within the supply chain ecosystem, retailers hold a significant strategic position relative to their trading partners. Given this power dynamic, retailers continuously demand enhanced levels of performance from suppliers.
- *Globalization of the Supply Chain Ecosystem.* Large physical distances between the sources of materials, manufacturers and retailers increase the complexity in the supply chain ecosystem and increase the time needed by suppliers to deliver goods relative to the time typically demanded by retailers.
- *Increasing Complexity of the Supply Chain Ecosystem.* The specialization of non-core functions leads more suppliers to outsource functions, which increases the number of participants in, and the complexity of, the supply chain ecosystem.
- *Increasing Use of Outsourcing by Small- and Medium-Sized Suppliers.* Comfort around using the services of outsourced service providers, limited internal expertise and constrained budgets drive the need for suppliers to rely on third-party service providers to manage the complexity of their supply chain at an affordable cost.

In addition to integrating retailers and suppliers, trading partners want a solution to effectively consolidate, distill and channel information to decision-makers who can use the information to drive efficiency, revenue growth and profitability.

Trading partners are demanding better supply chain management solutions than those provided by traditional on-premise software vendors. Software-as-a-Service solutions allow an organization to connect across the supply chain ecosystem, addressing increased retailer demands, globalization and increased complexity affecting the supply chain. The greater integration with trading partners and into organizations’ other business systems increases the reliance of customers on the solutions their Software-as-a-Service vendors provide.

SPSCommerce.net: Our Platform

We operate one of the largest trading partner integration centers through SPSCommerce.net, a hosted software suite that improves the way suppliers, retailers, distributors and other trading partners manage and fulfill orders. More than 35,000 customers across more than 40 countries have used our platform to enhance their trading relationships. A single integration to SPSCommerce.net allows an organization to connect seamlessly to the entire SPSCommerce.net network of trading partners. By maintaining current integrations with retailers such as Wal-Mart, Target, Macy’s and Safeway, SPSCommerce.net obviates the need for suppliers to continually stay up-to-date with the rule book changes required by these large retailers. As the communication hub for trading partners, we provide seamless, cost-effective integration and connectivity

as well as increased visibility and data analytics capabilities for retailers and suppliers across their supply chains.

Suppliers, distributors, third-party logistics providers, outsourced manufacturers, fulfillment and warehousing providers and sourcing companies that use our platform realize benefits through more reliable and faster integration with retailers as well as reduced costs and improved efficiency in the order fulfillment process. These participants also realize increased sales through enhanced supply chain visibility into retailers' inventory and point-of-sale information. Buying organizations, such as retailers, grocers and distributors, use our solutions to establish more comprehensive and advanced integrations with a broader set of suppliers. Our platform provides these buying organizations benefits through reduced expenses and enhanced quality of inventory as well as more effective reconciliation of shipments, orders and payments, and reduced manual effort and data entry.

Our platform delivers suppliers and retailers the following solutions:

- *Trading Partner Integration.* Our Trading Partner Integration solution replaces or augments an organization's existing trading partner electronic communication infrastructure, enabling suppliers to comply with retailers' rule books and allowing for the electronic exchange of information among numerous trading partners through various protocols.
- *Trading Partner Enablement.* Our Trading Partner Enablement solution helps organizations, typically large retailers, implement new integrations with trading partners, typically suppliers, to drive automation and electronic communication across their supply chains.
- *Trading Partner Intelligence.* In 2009, we introduced our Trading Partner Intelligence solution, which consists of six data analytics applications and allows our supplier customers to improve their visibility across, and analysis of, their supply chains. Retailers improve their visibility into supplier performance and their understanding of product sell-through.
- *Other Trading Partner Solutions.* We provide a number of peripheral solutions such as barcode labeling and our scan and pack application, which helps trading partners process information to streamline the picking and packaging process.

Our Go-to-Market Approach

We enable trading partner relationships among our retailer, supplier and fulfillment customers that naturally lead to new customer acquisition opportunities. The value of our platform increases with the number of trading partners connected to the platform. The addition of each new customer to our platform allows that new customer to communicate with our existing customers and allows our existing customers to route orders to the new customer. This "network effect" of adding an additional customer to our platform creates a significant opportunity for existing customers to realize incremental sales by working with our new trading partners and vice versa.

Our Growth Strategy

Our objective is to be the leading global provider of supply chain management solutions. Key elements of our strategy include:

- *Further Penetrate Our Current Market.* We believe the global supply chain management market is under-penetrated. We intend to continue leveraging our relationships with customers and their trading partners to obtain new sales leads.
- *Increase Revenues from Our Customer Base.* We believe our overall customer satisfaction is strong and will lead our customers to further utilize our current solutions as their businesses grow. We also expect to introduce new solutions to sell to our customers.

- *Expand Our Distribution Channels.* We intend to grow our business by expanding our network of direct sales representatives to gain new customers. We also believe there are valuable opportunities to promote and sell our solutions through collaboration with other providers.
- *Expand Our International Presence.* We plan to increase our international sales efforts to obtain new supplier customers worldwide. We also intend to leverage our current international presence to increase the number of integrations we have with retailers in foreign markets to make our platform more valuable to suppliers based overseas.
- *Enhance and Expand Our Platform.* We intend to further improve and develop the functionality and features of our platform, including developing new solutions and applications.
- *Selectively Pursue Strategic Acquisitions.* To complement and accelerate our internal growth, we may pursue acquisitions of other supply chain management companies to add customers. We also may pursue acquisitions that allow us to expand into regions or industries where we do not have a significant presence or to offer new functionalities we do not currently provide.

Corporate Information

We were originally incorporated as St. Paul Software, Inc., a Minnesota corporation, on January 28, 1987. On May 30, 2001, we reincorporated in Delaware under our current name, SPS Commerce, Inc. Our principal executive offices are located at 333 South Seventh Street, Suite 1000, Minneapolis, Minnesota 55402, and our telephone number is (612) 435-9400. Our website address is www.spscommerce.com. Information contained on our website is not a part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

THE OFFERING

Common stock offered by us	shares
Common stock offered by selling stockholders	shares
Common stock to be outstanding after this offering	shares
Over-allotment option	shares
Use of proceeds	We estimate that the net proceeds to us from this offering, after deducting estimated underwriting discounts and offering expenses, will be approximately $ million, assuming the shares are offered at $ per share, which is the mid-point of the estimated offering price range set forth on the cover page of this prospectus. We will not receive any of the proceeds from the sale of shares by the selling stockholders. See “Principal and Selling Stockholders.” We intend to use $ million of our net proceeds from this offering to repay indebtedness under our equipment term loans. We intend to use any remaining proceeds for working capital and general corporate purposes, including potential acquisitions. See “Use of Proceeds.”
Proposed Nasdaq Capital Market symbol	SPSC

The number of shares of our common stock outstanding after this offering is based on shares outstanding as of . As of , we had shares outstanding, excluding (a) shares of common stock issuable upon the exercise of outstanding options to purchase our common stock at a weighted average exercise price of $ per share, (b) shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $ per share and (c) shares of common stock reserved for issuance under our 2010 Equity Incentive Plan, which we plan to adopt in connection with this offering.

Except as otherwise indicated, information in this prospectus assumes no exercise of the underwriters’ overallotment option to purchase up to additional shares of our common stock from us. Except as otherwise indicated, all share and per share information referenced throughout this prospectus have been adjusted to reflect the conversion of all of our preferred stock into common stock immediately prior to consummation of this offering and a for reverse stock split of our common stock that will occur immediately prior to consummation of this offering.

SUMMARY FINANCIAL DATA
(In thousands, except per share and recurring revenue customer data)

The following tables summarize the financial data for our business. You should read this summary financial data in conjunction with "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes, all included elsewhere in this prospectus.

The summary financial data under the heading "Balance Sheet Data" as of December 31, 2007 and 2008, under the heading "Statement of Operations Data" for each of the years ended December 31, 2006, 2007 and 2008 and under the heading "Operating Data" relating to Adjusted EBITDA for each of the three years ended December 31, 2006, 2007 and 2008 have been derived from our audited annual financial statements, which are included elsewhere in this prospectus. The summary financial data under the heading "Balance Sheet Data" as of September 30, 2009, under the heading "Statement of Operations Data" for the nine months ended September 30, 2008 and 2009 and under the heading "Operating Data" relating to Adjusted EBITDA for the nine months ended September 30, 2008 and 2009 have been derived from our unaudited financial statements, which are included elsewhere in this prospectus. In the opinion of management, our unaudited financial statements include all adjustments, consisting only of normal recurring items, except as noted in the notes to the financial statements, necessary for a fair statement of interim periods. The financial data presented for the interim periods have been prepared in a manner consistent with our accounting policies described elsewhere in this prospectus and should be read in conjunction therewith. The unaudited summary financial data under the heading "Operating Data" relating to recurring revenue customers have been derived from our internal records of our operations. Operating results for interim periods are not necessarily indicative of the results that may be expected for a full-year period.

The pro forma balance sheet data as of September 30, 2009 is unaudited and gives effect to the conversion of all of our preferred stock into our common stock immediately prior to the consummation of this offering. The pro forma as adjusted balance sheet data as of September 30, 2009 is unaudited and gives effect to (1) the pro forma adjustment above; (2) our receipt of estimated net proceeds of $ million from this offering, based on an assumed initial public offering price of $ per share, which is the mid-point of our filing range, after deducting estimated underwriting discounts and offering expenses payable by us and (3) the application of $ million of our net proceeds from this offering to repay indebtedness under our equipment term loans, as if each had occurred as of September 30, 2009. The pro forma as adjusted summary financial data are not necessarily indicative of what our financial position or results of operations would have been if this offering had been completed as of the date indicated, nor are these data necessarily indicative of our financial position or results of operations for any future date or period.

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Statement of Operations Data:					
Revenues	$ 19,859	$ 25,198	$ 30,697	$ 22,617	$ 27,765
Cost of revenues (1)	5,219	6,379	9,208	6,584	8,742
Gross profit	14,640	18,819	21,489	16,033	19,023
Operating expenses					
Sales and marketing (1)	8,098	11,636	12,543	9,538	10,005
Research and development (1)	3,190	3,546	3,640	2,779	3,226
General and administrative (1)	4,199	5,458	6,716	4,992	4,672
Total operating expenses	15,487	20,640	22,899	17,309	17,903
Income (loss) from operations	(847)	(1,821)	(1,410)	(1,276)	1,120
Other income (expense)					
Interest expense	(558)	(439)	(419)	(322)	(225)
Other income	108	120	28	1	114
Total other expense	(450)	(319)	(391)	(321)	(111)
Income tax expense	(4)	(16)	(94)	(12)	(60)
Net income (loss)	$ (1,301)	$ (2,156)	$ (1,895)	$ (1,609)	$ 949
Net income (loss) per share					
Basic	$ (2.93)	$ (3.12)	$ (1.72)	$ (1.53)	$ 0.79
Fully diluted	$ (2.93)	$ (3.12)	$ (1.72)	$ (1.53)	$ 0.03
Weighted average shares outstanding					
Basic	444	692	1,101	1,054	1,238
Fully diluted	444	692	1,101	1,054	36,850
Pro forma net income (loss) per share (unaudited) (2)					
Basic					
Fully diluted					
Pro forma weighted average shares outstanding (unaudited) (2)					
Basic					
Fully diluted					

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
			(Unaudited)		
Operating Data:					
Adjusted EBITDA (3)	$ 748	$ 103	$ 763	$ 318	$ 2,501
Recurring revenue customers (4)	8,024	9,589	10,156	10,113	11,017

	As of December 31,		As of September 30, 2009		
	2007	2008	Actual	Pro Forma	Pro Forma As Adjusted
				(Unaudited)	
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 6,117	$ 3,715	$ 5,796	$ 5,796	
Working capital	4,535	3,614	4,429	4,429	
Total debt (5)	4,992	4,471	2,939	2,939	
Total redeemable convertible preferred stock	65,964	65,964	65,964	—	
Total stockholders' equity (deficit)	(60,111)	(61,844)	(60,718)	5,246	

(1) Includes stock-based compensation expense as follows:

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Cost of revenues	$ —	$ 2	$ 19	$ 12	$ 43
Sales and marketing	—	33	60	44	74
Research and development	—	2	4	3	3
General and administrative	6	9	74	51	57
Total	$ 6	$ 46	$ 157	$ 110	$ 177

(2) Reflects the conversion of all of our preferred stock into common stock and a for reverse stock split of our common stock that will occur immediately prior to the consummation of this offering.

(3) EBITDA consists of net income (loss) plus depreciation and amortization, interest expense and income tax expense. Adjusted EBITDA consists of EBITDA plus our non-cash, share-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:

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
			(Unaudited)		
Net income (loss)	$ (1,301)	$ (2,156)	$ (1,895)	$ (1,609)	$ 949
Depreciation and amortization	1,481	1,758	1,988	1,483	1,090
Interest expense	558	439	419	322	225
Income tax expense	4	16	94	12	60
EBITDA	742	57	606	208	2,324
Non-cash, share-based compensation expense	6	46	157	110	177
Adjusted EBITDA	$ 748	$ 103	$ 763	$ 318	$ 2,501

(4) This reflects the number of recurring revenue customers at the end of the period. Recurring revenue customers are customers with contracts to pay us monthly fees. A minority portion of our recurring revenue customers consists of separate units within a larger organization. We treat each of these units, which may include divisions, departments, affiliates and franchises, as distinct customers. Our contracts with our recurring revenue customers typically allow the customer to cancel the contract for any reason with 30 days prior notice.

(5) Total debt consists of our current and long-term capital lease obligations, current and long-term equipment and term loans, line of credit and interest payable.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this prospectus, including our financial statements and related notes.

Risks Related to Our Business and Industry

The market for on-demand supply chain management solutions is at an early stage of development. If this market does not develop or develops more slowly than we expect, our revenues may decline or fail to grow and we may incur operating losses.

We derive, and expect to continue to derive, substantially all of our revenues from providing on-demand supply chain management solutions to suppliers. The market for on-demand supply chain management solutions is in an early stage of development, and it is uncertain whether these solutions will achieve and sustain high levels of demand and market acceptance. Our success will depend on the willingness of suppliers to accept our on-demand supply chain management solutions as an alternative to traditional licensed hardware and software solutions.

Some suppliers may be reluctant or unwilling to use our on-demand supply chain management solutions for a number of reasons, including existing investments in supply chain management technology. Supply chain management functions traditionally have been performed using purchased or licensed hardware and software implemented by each supplier. Because this traditional approach often requires significant initial investments to purchase the necessary technology and to establish systems that comply with retailers' unique requirements, suppliers may be unwilling to abandon their current solutions for our on-demand supply chain management solutions.

Other factors that may limit market acceptance of our on-demand supply chain management solutions include:

- our ability to maintain high levels of customer satisfaction;
- our ability to maintain continuity of service for all users of our platform;
- the price, performance and availability of competing solutions; and
- our ability to assuage suppliers' confidentiality concerns about information stored outside of their controlled computing environments.

If suppliers do not perceive the benefits of our on-demand supply chain management solutions, or if suppliers are unwilling to accept our platform as an alternative to the traditional approach, the market for our solutions might not continue to develop or might develop more slowly than we expect, either of which would significantly adversely affect our revenues and growth prospects.

We do not have long-term contracts with our recurring revenue customers, and our success therefore depends on our ability to maintain a high level of customer satisfaction and a strong reputation in the supply chain management industry.

Our contracts with our recurring revenue customers typically allow the customer to cancel the contract for any reason with 30 days prior notice. Our continued success therefore depends significantly on our ability to meet or exceed our recurring revenue customers' expectations because most recurring revenue customers do not make long-term commitments to use our solutions. In addition, if our reputation in the supply chain management industry is harmed or diminished for any reason, our recurring revenue customers have the ability to terminate their relationship with us on short notice and seek alternative supply chain management solutions. If a significant number of recurring revenue customers seek to terminate their relationship with us, our business, results of operations and financial condition can be adversely affected in a short period of time.

Continued economic weakness and uncertainty could adversely affect our revenue, lengthen our sales cycles and make it difficult for us to forecast operating results accurately.

Our revenues depend significantly on general economic conditions and the health of retailers. Economic weakness and constrained retail spending adversely affected revenue growth rates in late 2008 and similar circumstances may result in slower growth, or reductions, in revenues and gross profits in the future. We have experienced, and may experience in the future, reduced spending in our business due to the current financial turmoil affecting the U.S. and global economy, and other macroeconomic factors affecting spending behavior. Uncertainty about future economic conditions makes it difficult for us to forecast operating results and to make decisions about future investments. In addition, economic conditions or uncertainty may cause customers and potential customers to reduce or delay technology purchases, including purchases of our solutions. Our sales cycle may lengthen if purchasing decisions are delayed as a result of uncertain information technology or development budgets or contract negotiations become more protracted or difficult as customers institute additional internal approvals for information technology purchases. Delays or reductions in information technology spending could have a material adverse effect on demand for our solutions, and consequently our results of operations, prospects and stock price.

If we are unable to attract new customers, or sell additional solutions, or if our customers do not increase their use of our solutions, our revenue growth and profitability will be adversely affected.

To increase our revenues and achieve and maintain profitability, we must regularly add new customers, sell additional solutions and our customers must increase their use of the solutions for which they currently subscribe. We intend to grow our business by hiring additional inside sales personnel, developing strategic relationships with resellers, including resellers that incorporate our applications in their offerings, and increasing our marketing activities. In addition, we derived more than 90% of our revenues from sales of our Trading Partner Integration solution in 2007, 2008 and the nine months ended September 30, 2009 and have not yet received significant revenues from solutions and applications that we introduced in 2009. If we are unable to hire or retain quality sales personnel, convert companies that have been referred to us by our existing network into paying customers, ensure the effectiveness of our marketing programs, or if our existing or new customers do not perceive our solutions to be of sufficiently high value and quality, we might not be able to increase sales and our operating results will be adversely affected. In addition, if we fail to sell our new solutions to existing or new customers, we will not generate anticipated revenues from these solutions, our operating results will suffer and we might be unable to grow our revenues or achieve or maintain profitability.

Our quarterly results of operations may fluctuate in the future, which could result in volatility in our stock price.

Our quarterly revenues and results of operations have varied in the past and may fluctuate as a result of a variety of factors, including the success of our new offerings such as our Trading Partner Intelligence solution. If our quarterly revenues or results of operations fluctuate, the price of our common stock could decline substantially. Fluctuations in our results of operations may be due to a number of factors, including, but not limited to, those listed below and identified throughout this “Risk Factors” section in this prospectus:

- our ability to retain and increase sales to customers and attract new customers, including our ability to maintain and increase our number of recurring revenue customers;
- the timing and success of introductions of new solutions or upgrades by us or our competitors;
- the strength of the economy, in particular as it affects the retail sector;
- changes in our pricing policies or those of our competitors;
- competition, including entry into the industry by new competitors and new offerings by existing competitors;

- the amount and timing of expenditures related to expanding our operations, research and development, or introducing new solutions; and
- changes in the payment terms for our solutions.

Due to the foregoing factors, and the other risks discussed in this prospectus, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance.

We have incurred operating losses in the past and may incur operating losses in the future.

We began operating our supply chain management solution business in 1997. Throughout most of our history, we have experienced net losses and negative cash flows from operations. As of September 30, 2009, we had an accumulated deficit of $65.9 million. We expect our operating expenses to increase in the future as we expand our operations. Furthermore, as a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. If our revenues do not grow to offset these increased expenses, we may not be profitable. We cannot assure you that we will be able to achieve or maintain profitability. You should not consider recent revenue growth as indicative of our future performance. In fact, in future periods, we may not have any revenue growth, or our revenues could decline.

Our inability to adapt to rapid technological change could impair our ability to remain competitive.

The industry in which we compete is characterized by rapid technological change, frequent introductions of new products and evolving industry standards. Our ability to attract new customers and increase revenues from customers will depend in significant part on our ability to anticipate industry standards and to continue to enhance existing solutions or introduce or acquire new solutions on a timely basis to keep pace with technological developments. The success of any enhancement or new solution depends on several factors, including the timely completion, introduction and market acceptance of the enhancement or solution. Any new solution we develop or acquire might not be introduced in a timely or cost-effective manner and might not achieve the broad market acceptance necessary to generate significant revenues. For example, we introduced our Trading Partner Intelligence solution during 2009, but we have not yet received significant revenues from this solution. If any of our competitors implements new technologies before we are able to implement them, those competitors may be able to provide more effective solutions than ours at lower prices. Any delay or failure in the introduction of new or enhanced solutions could adversely affect our business, results of operations and financial condition.

We may experience service failures or interruptions due to defects in the hardware, software, infrastructure, third party components or processes that comprise our existing or new solutions, any of which could adversely affect our business.

Technology solutions as complex as ours may contain undetected defects in the hardware, software, infrastructure, third party components or processes that are part of the solutions we provide. If these defects lead to service failures after introduction of a solution or an upgrade to the solution, we could experience delays or lost revenues during the period required to correct the cause of the defects. We cannot be certain that defects will not be found in new solutions or upgraded solutions, resulting in loss of, or delay in, market acceptance, which could have an adverse effect on our business, results of operations and financial condition.

Because customers use our on-demand supply chain management solutions for critical business processes, any defect in our solutions, any disruption to our solutions or any error in execution could cause recurring revenue customers to cancel their contracts with us, prevent potential customers from joining our network and harm our reputation. Although most of our contracts with our customers limit our liability to our customers for these defects, disruptions or errors, we nonetheless could be subject to litigation for actual or alleged losses to our customers' businesses, which may require us to spend significant time and money in litigation or arbitration or to pay significant settlements or damages. We do not currently maintain any warranty reserves. Defending a lawsuit, regardless of its merit, could be costly and divert management's attention and could cause our business to suffer.

The insurers under our existing liability insurance policy could deny coverage of a future claim that results from an error or defect in our technology or a resulting disruption in our solutions, or our existing liability insurance might not be adequate to cover all of the damages and other costs of such a claim. Moreover, we cannot assure you that our current liability insurance coverage will continue to be available to us on acceptable terms or at all. The successful assertion against us of one or more large claims that exceeds our insurance coverage, or the occurrence of changes in our liability insurance policy, including an increase in premiums or imposition of large deductible or co-insurance requirements, could have an adverse effect on our business, financial condition and operating results. Even if we succeed in litigation with respect to a claim, we are likely to incur substantial costs and our management's attention will be diverted from our operations.

Interruptions or delays from third-party data centers could impair the delivery of our solutions and our business could suffer.

We use two third-party data centers, located in Minneapolis and Saint Paul, Minnesota, to conduct our operations. All of our solutions reside on hardware that we own or lease and operate in these locations. Our operations depend on the protection of the equipment and information we store in these third-party centers against damage or service interruptions that may be caused by fire, flood, severe storm, power loss, telecommunications failures, unauthorized intrusion, computer viruses and disabling devices, natural disasters, war, criminal act, military action, terrorist attack and other similar events beyond our control. A prolonged service disruption affecting our solutions for any of the foregoing reasons could damage our reputation with current and potential customers, expose us to liability, cause us to lose recurring revenue customers or otherwise adversely affect our business. We may also incur significant costs for using alternative equipment or taking other actions in preparation for, or in reaction to, events that damage the data centers we use.

Our on-demand supply chain management solutions are accessed by a large number of customers at the same time. As we continue to expand the number of our customers and solutions available to our customers, we may not be able to scale our technology to accommodate the increased capacity requirements, which may result in interruptions or delays in service. In addition, the failure of our third-party data centers to meet our capacity requirements could result in interruptions or delays in our solutions or impede our ability to scale our operations. In the event that our data center arrangements are terminated, or there is a lapse of service or damage to such facilities, we could experience interruptions in our solutions as well as delays and additional expense in arranging new facilities and services.

A failure to protect the integrity and security of our customers' information could expose us to litigation, materially damage our reputation and harm our business, and the costs of preventing such a failure could adversely affect our results of operations.

Our business involves the collection and use of confidential information of our customers and their trading partners. We cannot assure you that our efforts to protect this confidential information will be successful. If any compromise of this information security were to occur, we could be subject to legal claims and government action, experience an adverse effect on our reputation and need to incur significant additional costs to protect against similar information security breaches in the future, each of which could adversely affect our financial condition, results of operations and growth prospects. In addition, because of the critical nature of data security, any perceived breach of our security measures could cause existing or potential customers not to use our solutions and could harm our reputation.

Evolving regulation of the Internet may increase our expenditures related to compliance efforts, which may adversely affect our financial condition.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. We are particularly sensitive to these risks because the Internet is a critical component of our on-demand business model. For example, we believe that increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers' ability to use and share data, potentially reducing demand for solutions accessed via the Internet and restricting our ability to store, process and share data with our clients via the Internet.

In addition, taxation of services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services, which could harm our business.

If we fail to protect our intellectual property and proprietary rights adequately, our business could be adversely affected.

We believe that proprietary technology is essential to establishing and maintaining our leadership position. We seek to protect our intellectual property through trade secrets, copyrights, confidentiality, non-compete and nondisclosure agreements, trademarks, domain names and other measures, some of which afford only limited protection. We do not have any patents, patent applications or registered copyrights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our technology or to obtain and use information that we regard as proprietary. We cannot assure you that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar or superior technology or design around our intellectual property. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the United States. Intellectual property protections may also be unavailable, limited or difficult to enforce in some countries, which could make it easier for competitors to capture market share. Our failure to protect adequately our intellectual property and proprietary rights could adversely affect our business, financial condition and results of operations.

An assertion by a third party that we are infringing its intellectual property could subject us to costly and time-consuming litigation or expensive licenses and our business might be harmed.

The Internet supply chain management and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. As we seek to extend our solutions, we could be constrained by the intellectual property rights of others.

We might not prevail in any intellectual property infringement litigation given the complex technical issues and inherent uncertainties in such litigation. Defending such claims, regardless of their merit, could be time-consuming and distracting to management, result in costly litigation or settlement, cause development delays, or require us to enter into royalty or licensing agreements. If our solutions violate any third-party proprietary rights, we could be required to withdraw those solutions from the market, re-develop those solutions or seek to obtain licenses from third parties, which might not be available on reasonable terms or at all. Any efforts to re-develop our solutions, obtain licenses from third parties on favorable terms or license a substitute technology might not be successful and, in any case, might substantially increase our costs and harm our business, financial condition and operating results. Withdrawal of any of our solutions from the market might harm our business, financial condition and operating results.

In addition, we incorporate open source software into our platform. Given the nature of open source software, third parties might assert copyright and other intellectual property infringement claims against us based on our use of certain open source software programs. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that those licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our solutions. In that event, we could be required to seek licenses from third parties in order to continue offering our solutions, to re-develop our solutions or to discontinue sales of our solutions, or to release our proprietary software code under the terms of an open source license, any of which could adversely affect our business.

We rely on third party hardware and software that could take a significant time to replace or upgrade.

We rely on hardware and software licensed from third parties to offer our on-demand supply chain management solutions. This hardware and software, as well as maintenance rights for this hardware and software, may not continue to be available to us on commercially reasonable terms, or at all. If we lose the

right to use or upgrade any of these licenses, our customers could experience delays or be unable to access our solutions until we can obtain and integrate equivalent technology. There might not always be commercially reasonable hardware or software alternatives to the third-party hardware and software that we currently license. Any such alternatives could be more difficult or costly to replace than the third-party hardware and software we currently license, and integration of the alternatives into our platform could require significant work and substantial time and resources. Any delays or failures associated with our platform could injure our reputation with customers and potential customers and result in an adverse effect on our business, results of operations and financial condition.

Our strategy includes pursuing acquisitions and our potential inability to successfully integrate newly-acquired companies or businesses may adversely affect our financial results.

We believe part of our growth will be driven by acquisitions of other companies or their businesses. If we complete acquisitions, we face many risks commonly encountered with growth through acquisitions. These risks include:

- incurring significantly higher than anticipated capital expenditures and operating expenses;
- failing to assimilate the operations and personnel of the acquired company or business;
- disrupting our ongoing business;
- dissipating our management resources;
- failing to maintain uniform standards, controls and policies; and
- impairing relationships with employees and customers as a result of changes in management.

Fully integrating an acquired company or business into our operations may take a significant amount of time. We cannot assure you that we will be successful in overcoming these risks or any other problems encountered with acquisitions. To the extent we do not successfully avoid or overcome the risks or problems related to any acquisitions, our results of operations and financial condition could be adversely affected. Future acquisitions also could impact our financial position and capital needs, and could cause substantial fluctuations in our quarterly and yearly results of operations. Acquisitions could include significant goodwill and intangible assets, which may result in future impairment charges that would reduce our stated earnings.

Our ability to use U.S. net operating loss carryforwards might be limited.

As of December 31, 2008, we had net operating loss carryforwards of $55.5 million for U.S. federal tax purposes. These loss carryforwards expire between 2010 and 2029. To the extent these net operating loss carryforwards are available, we intend to use them to reduce the corporate income tax liability associated with our operations. Section 382 of the U.S. Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that might be used to offset taxable income when a corporation has undergone significant changes in stock ownership. As a result, prior or future changes in ownership could put limitations on the availability of our net operating loss carryforwards. In addition, our ability to utilize the current net operating loss carryforwards might be further limited by the issuance of common stock in this offering. To the extent our use of net operating loss carryforwards is significantly limited, our income could be subject to corporate income tax earlier than it would if we were able to use net operating loss carryforwards, which could result in lower profits.

The markets in which we participate are highly competitive, and our failure to compete successfully would make it difficult for us to add and retain customers and would reduce or impede the growth of our business.

The markets for supply chain management solutions are increasingly competitive and global. We expect competition to increase in the future both from existing competitors and new companies that may enter our

markets. Increased competition could result in pricing pressure, reduced sales, lower margins or the failure of our solutions to achieve or maintain broad market acceptance. We face competition from:

- Software-as-a-Service providers that deliver business-to-business information systems using a multi-tenant approach;
- traditional on-premise software providers; and
- managed service providers that combine traditional on-premise software with professional information technology services.

To remain competitive, we will need to invest continuously in software development, marketing, customer service and support and product delivery infrastructure. However, we cannot assure you that new or established competitors will not offer solutions that are superior to or lower in price than ours. We may not have sufficient resources to continue the investments in all areas of software development and marketing needed to maintain our competitive position. In addition, some of our competitors are better capitalized than us, which may provide them with an advantage in developing, marketing or servicing new solutions. Increased competition could reduce our market share, revenues and operating margins, increase our costs of operations and otherwise adversely affect our business.

Mergers or other strategic transactions involving our competitors could weaken our competitive position, which could harm our operating results.

Our industry is highly fragmented, and we believe it is likely that some of our existing competitors will consolidate or will be acquired. In addition, some of our competitors may enter into new alliances with each other or may establish or strengthen cooperative relationships with systems integrators, third-party consulting firms or other parties. Any such consolidation, acquisition, alliance or cooperative relationship could lead to pricing pressure and our loss of market share and could result in a competitor with greater financial, technical, marketing, service and other resources, all of which could have a material adverse effect on our business, operating results and financial condition.

If we fail to retain our Chief Executive Officer and other key personnel, our business would be harmed and we might not be able to implement our business plan successfully.

Given the complex nature of the technology on which our business is based and the speed with which such technology advances, our future success is dependent, in large part, upon our ability to attract and retain highly qualified managerial, technical and sales personnel. In particular, Archie C. Black, our Chief Executive Officer and President, Kimberly K. Nelson, our Executive Vice President and Chief Financial Officer, James J. Frome, our Executive Vice President and Chief Strategy Officer, Michael J. Gray, our Executive Vice President of Operations, and David J. Novak, Jr., our Executive Vice President of Business Development, are critical to the management of our business and operations. Competition for talented personnel is intense, and we cannot be certain that we can retain our managerial, technical and sales personnel or that we can attract, assimilate or retain such personnel in the future. Our inability to attract and retain such personnel could have an adverse effect on our business, results of operations and financial condition.

Our continued growth could strain our personnel resources and infrastructure, and if we are unable to implement appropriate controls and procedures to manage our growth, we will not be able to implement our business plan successfully.

We have experienced a period of rapid growth in our headcount and operations. To the extent that we are able to sustain such growth, it will place a significant strain on our management, administrative, operational and financial infrastructure. Our success will depend in part upon the ability of our senior management to manage this growth effectively. To do so, we must continue to hire, train and manage new employees as needed. If our new hires perform poorly, or if we are unsuccessful in hiring, training, managing and integrating these new employees, or if we are not successful in retaining our existing employees, our business would be harmed. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and

procedures. The additional headcount we are adding will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term. If we fail to successfully manage our growth, we will be unable to execute our business plan.

Our failure to maintain adequate internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 or to prevent or detect material misstatements in our annual or interim financial statements in the future could result in inaccurate financial reporting, or could otherwise harm our business.

We are required to comply with the internal control evaluation and certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002 by no later than the end of our 2010 fiscal year. We are in the process of determining whether our existing internal controls over financial reporting systems are compliant with Section 404. This process may divert internal resources and will take a significant amount of time and effort to complete. To the extent that we are not currently in compliance with Section 404, we may be required to implement new internal control procedures and re-evaluate our financial reporting. We may experience higher than anticipated operating expenses as well as increased independent auditor fees during the implementation of these changes and thereafter. Further, we may need to hire additional qualified personnel in order for us to comply with Section 404. If we are unable to implement these changes effectively or efficiently, it could harm our operations, financial reporting or financial results and could result in our being unable to obtain an unqualified report on internal controls from our independent auditors, which could have a negative impact on our stock price.

In connection with preparing the registration statement of which this prospectus is a part, we identified an error in our prior years' financial statements. This error related to accounting for the preferred stock warrants at fair value in 2006, 2007 and 2008. This error resulted in the restatement of our previously issued 2006, 2007 and 2008 financial statements. This error was determined to be a deficiency. Although we have taken measures to remediate the deficiency, we cannot assure you that we have identified all or that we will not in the future have additional, material weaknesses, significant deficiencies or control deficiencies. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in implementation, could cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements.

Our failure to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies could reduce our ability to compete successfully and adversely affect our results of operations.

We may need to raise additional funds, and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our security holders may experience significant dilution of their ownership interests and the value of shares of our common stock could decline. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness, force us to maintain specified liquidity or other ratios or restrict our ability to pay dividends or make acquisitions. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop and enhance our solutions;
- continue to expand our technology development, sales and marketing organizations;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

Our inability to do any of the foregoing could reduce our ability to compete successfully and adversely affect our results of operations.

Because our long-term success depends, in part, on our ability to expand the sales of our solutions to customers located outside of the United States, our business will be susceptible to risks associated with international operations.

We have limited experience operating in foreign jurisdictions. Customers in countries outside of North America accounted for 2% of our revenues for 2008 and for the nine months ended September 30, 2009. Our inexperience in operating our business outside of North America increases the risk that our current and any future international expansion efforts will not be successful. Conducting international operations subjects us to new risks that, generally, we have not faced in the United States, including:

- fluctuations in currency exchange rates;
- unexpected changes in foreign regulatory requirements;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems and restrictions on the repatriation of earnings;
- localization of our solutions, including translation into foreign languages and associated expenses;
- the burdens of complying with a wide variety of foreign laws and different legal standards, including laws and regulations related to privacy;
- increased financial accounting and reporting burdens and complexities;
- political, social and economic instability abroad, terrorist attacks and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

The occurrence of any one of these risks could negatively affect our international business and, consequently, our results of operations generally. Additionally, operating in international markets also requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required in establishing, acquiring or integrating operations in other countries will produce desired levels of revenues or profitability.

Risks Relating to this Offering and Ownership of Our Common Stock

Because there has not been a public market for our common stock and our stock price may be volatile, you may not be able to resell your shares at or above the initial public offering price.

Prior to this offering, you could not buy or sell our common stock publicly. We cannot predict the extent to which investors' interests will lead to an active trading market for our common stock or whether the market price of our common stock will be volatile following this offering. If an active trading market does not develop, you may have difficulty selling any of our common stock that you buy. The initial public offering price for our common stock was determined by negotiations between representatives of the underwriters and us and may not be indicative of prices that will prevail in the open market following this offering. Consequently, you may not be able to sell our common stock at prices equal to or greater than the price you paid in this offering. In addition to the factors discussed elsewhere in this section, many factors, most of which are outside of our control, could cause the market price of our common stock to decrease significantly from the price you pay in this offering, including:

- variations in our quarterly operating results;
- decreases in market valuations of similar companies;
- the failure of securities analysts to cover our common stock after this offering or changes in financial estimates by analysts who cover us, our competitors or our industry;

- failure by us or our competitors to meet analysts' projections or guidance that we or our competitors may give to the market; and
- fluctuations in stock market prices and volumes.

In addition, securities class action litigation often has often been initiated when a company's stock price has fallen below the company's initial public offering price soon after the offering closes or following a period of volatility in the market price of a company's securities. If class action litigation is initiated against us, we would incur substantial costs and our management's attention would be diverted from our operations. All of these factors could cause the market price of our stock to decline, and you may lose some or all of your investment.

Future sales of our common stock by our existing stockholders could cause our stock price to decline.

If our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could decrease significantly. The perception in the public market that our stockholders might sell shares of our common stock could also depress the market price of our common stock. Upon the closing of this offering, we intend to file registration statements with the SEC covering any shares of our common stock acquired upon option exercises prior to the closing of this offering and all of the shares subject to options outstanding, but not exercised, as of the closing of this offering. shares of our common stock that will be outstanding immediately after completion of this offering will become eligible for sale in the public markets from time to time, subject to restrictions under the Securities Act of 1933 following the expiration of lock-up agreements entered into for the benefit of the underwriters by the holders of the common stock, including our directors and executive officers. Furthermore, immediately after completion of this offering, the holders of shares of our common stock will have the right to demand that we file registration statements with respect to the shares of our common stock held by them, and will have the right to include those shares in any registration statement that we file with the SEC, subject to exceptions, which would enable those shares to be sold in the public market, subject to the restrictions under the lock-up agreements referred to above.

The underwriters may, in their sole discretion and at any time or from time to time, without notice, release all or any portion of the shares of common stock subject to the lock-up agreements for sale in the public and private markets prior to the expiration of the lock-up. The market price for shares of our common stock may drop significantly when the restrictions on resale by our existing stockholders lapse or if those restrictions on resale are waived. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities.

We have broad discretion in the use of the proceeds of this offering and may apply the proceeds in ways with which you do not agree.

We intend to use $732,000 of our net proceeds from this offering to repay indebtedness under our equipment term loans. We intend to use any remaining proceeds for working capital and general corporate purposes. We have not determined the allocation of the net proceeds in excess of the indebtedness we intend to repay with the net proceeds we will receive in this offering. Our management will have broad discretion over the use and investment of these net proceeds, and, accordingly, you will have to rely upon the judgment of our management with respect to our use of these net proceeds, with only limited information concerning management's specific intentions. You will not have the opportunity, as part of your investment decision, to assess whether we use these net proceeds appropriately. We may place the net proceeds in investments that do not produce income or that lose value, which may cause our stock price to decline.

Our charter documents, Delaware law and our credit agreement may inhibit a takeover that stockholders consider favorable.

Upon the closing of this offering, provisions of our amended and restated certificate of incorporation and amended and restated bylaws and applicable provisions of Delaware law may delay or discourage transactions involving an actual or potential change in our control or change in our management,

including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. These provisions:

- permit our board of directors to issue up to shares of preferred stock, with any rights, preferences and privileges as our board may designate, including the right to approve an acquisition or other change in our control;
- provide that the authorized number of directors may be changed by resolution of the board of directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder's notice; and
- do not provide for cumulative voting rights.

In addition, Section 203 of the Delaware General Corporation Law generally limits our ability to engage in any business combination with certain persons who own 15% or more of our outstanding voting stock or any of our associates or affiliates who at any time in the past three years have owned 15% or more of our outstanding voting stock. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirers at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock.

Our credit agreement also prohibits us from entering into a transaction whereby a person becomes the beneficial owner of more than 30% of the total voting power of our capital stock or a majority of the members of our board changes. These restrictions may prevent us from entering into transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests.

We do not intend to declare dividends on our stock after this offering.

We currently intend to retain all future earnings for the operation and expansion of our business and, therefore, do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. Our credit agreement also restricts our ability to pay cash dividends. Any payment of cash dividends on our common stock will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, financial condition, future prospects, contractual restrictions and other factors deemed relevant by our board of directors. Therefore, you should not expect to receive dividend income from shares of our common stock.

Our directors, executive officers and principal stockholders will continue to have substantial control over us after this offering and could delay or prevent a change in corporate control.

After this offering, our directors, executive officers and holders of more than 5% of our common stock, together with their affiliates, will beneficially own, in the aggregate, approximately % of our outstanding common stock, assuming no exercise of the underwriters' option to purchase additional shares of our common stock in this offering. As a result, these stockholders, acting together, would have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, would have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might harm the market price of our common stock by:

- delaying, deferring or preventing a change in corporate control;
- impeding a merger, consolidation, takeover or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. In some cases, you can identify forward-looking statements by the following words: “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would,” or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made and involve known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements in this prospectus. These factors include:

- less than expected growth in the supply chain management industry, especially for Software-as-a-Service solutions within this industry;
- lack of acceptance of new solutions we offer;
- an inability to continue increasing our number of customers or the revenues we derive from our recurring revenue customers;
- continued economic weakness and constrained retail sales;
- an inability to effectively develop new solutions that compete effectively with the solutions our current and future competitors offer;
- risk of increased regulation of the Internet;
- an inability to identify attractive acquisition opportunities, successfully negotiate acquisition terms or effectively integrate acquired companies or businesses;
- unexpected changes in our anticipated capital expenditures resulting from unforeseen required maintenance or repairs, upgrades or capital asset additions;
- an inability to effectively manage our growth;
- lack of capital available on acceptable terms to finance our continued growth;
- risks of conducting international commerce, including foreign currency exchange rate fluctuations, changes in government policies or regulations, longer payment cycles, trade restrictions, economic or political instability in foreign countries where we may increase our business and reduced protection of our intellectual property;
- an inability to add sales and marketing, research and development or other key personnel who are able to successfully sell or develop our solutions; and
- other risk factors included under “Risk Factors” in this prospectus.

You should read the matters described in “Risk Factors” and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus. We cannot assure you that the forward-looking statements in this prospectus will prove to be accurate and therefore prospective investors are encouraged not to place undue reliance on forward-looking statements. You should read this prospectus completely. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future.

USE OF PROCEEDS

We estimate that the net proceeds from our sale of shares of common stock in this offering will be approximately $ million, or approximately $ million if the underwriters exercise their over-allotment option in full. This estimate is based upon an assumed initial public offering price of $ per share, the mid-point of our filing range, less estimated underwriting discounts and commissions and offering expenses payable by us.

We intend to use these net proceeds to:

- repay $115,000 of indebtedness under equipment term loans that bear interest at rates between 11.6% and 12.0% and mature in the year ending December 31, 2010;
- repay $416,000 of indebtedness under equipment term loans that bear interest at rates between 11.9% and 12.5% and mature in the year ending December 31, 2011; and
- repay $201,000 of indebtedness under equipment term loans that bear interest at a rate of 11.8% and mature on January 1, 2012.

We intend to use any remaining net proceeds for working capital and general corporate purposes, including potential acquisitions. We are not currently in negotiations for any acquisitions for which we intend to use the net proceeds of this offering. By establishing a public market for our common stock, this offering is also intended to facilitate our future access to public markets.

Pending the uses described above, we intend to invest the net proceeds of this offering in short- to medium-term, investment-grade, interest-bearing securities.

DIVIDEND POLICY

We have not historically paid dividends on our common stock. Following the completion of this offering, we intend to retain our future earnings, if any, to finance the expansion and growth of our business. We do not expect to pay cash dividends on our common stock in the foreseeable future. Our credit agreement also currently limits our ability to pay cash dividends. Payment of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, outstanding indebtedness and plans for expansion and restrictions imposed by lenders, if any.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2009:

- on an actual basis;
- on a pro forma basis to reflect the conversion of all outstanding preferred stock into common stock immediately prior to the completion of this offering, as if the conversion occurred as of September 30, 2009; and
- on a pro forma as adjusted basis to reflect the conversion described above, as well as our sale of shares in this offering at an assumed initial public offering price of $ per share, which is the mid-point of our filing range, after deducting estimated underwriting discounts and commissions and offering expenses payable by us, and the application of the net proceeds from our sale of common stock in this offering to repay $ million of indebtedness under our equipment term loans, as if each had occurred as of September 30, 2009.

You should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes appearing elsewhere in this prospectus.

	As of September 30, 2009		
	Actual	Pro Forma	Pro Forma As Adjusted
	(In thousands, except share data)		
Cash and cash equivalents	$ 5,796	$	$
Current liabilities	11,142		
Long-term liabilities	4,706		
Redeemable convertible preferred stock:			
Series A redeemable convertible preferred stock, $0.001 par value, 4,427,782 shares authorized, 4,322,708 shares issued and outstanding, actual, and no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	37,676		
Series B redeemable convertible preferred stock, $0.001 par value, 23,499,362 shares authorized, 21,570,243 shares issued and outstanding, actual, and no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	20,844		
Series C redeemable convertible preferred stock, $0.001 par value, 6,000,000 shares authorized, 4,687,500 shares issued and outstanding, actual, and no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	7,444		
Total redeemable convertible preferred stock	65,964		
Stockholders' deficit:			
Common stock $0.001 par value, 50,345,706 shares authorized, 1,270,696 shares issued and outstanding, actual, authorized, shares issued and outstanding pro forma, and authorized, shares issued and outstanding pro forma as adjusted	1		
Undesignated preferred stock, $0.001 par value, no shares authorized, issued or outstanding, actual, shares authorized, no shares issued or outstanding pro forma and pro forma as adjusted	—		
Additional paid-in capital	5,146		
Accumulated deficit	(65,865)		
Total stockholders' equity (deficit)	(60,718)		
Total capitalization	$ 21,094	$	$

The table and calculations above are based on the number of shares of common stock outstanding as of September 30, 2009 and exclude:

- an aggregate of shares issuable upon the exercise of then outstanding options at a weighted average exercise price of $ per share;
- an aggregate of shares issuable upon the exercise of then outstanding warrants at a weighted average exercise price of $ per share;
- an aggregate of shares available for future issuance under our 2010 Equity Incentive Plan, which we plan to adopt in connection with this offering; and
- the shares of common stock subject to the underwriters' over-allotment option.

DILUTION

If you invest in our common stock, your ownership interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the adjusted net tangible book value per share of our common stock immediately after completion of this offering. Pro forma net tangible book value per share represents total tangible assets less total liabilities, divided by the number of shares of common stock outstanding, after giving effect to the conversion of all of our outstanding preferred stock into an aggregate of shares of our common stock. As of December 31, 2009, the pro forma net tangible book value of our common stock as of was approximately $ million, or approximately $ per share.

After giving effect to our sale of shares at an assumed initial public offering price of $ per share, which is the mid-point of our filing range, deducting estimated underwriting discounts and commissions and offering expenses payable by us, and applying the net proceeds from this sale, the pro forma as adjusted net tangible book value of our common stock, as of December 31, 2009, would have been approximately $ million, or $ per share. This amount represents an immediate increase in net tangible book value to our existing stockholders of $ per share and an immediate dilution to new investors of $ per share. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$
Pro forma net tangible book value per share as of December 31, 2009	$	
Pro forma as adjusted increase per share attributable to new investors	$	
Pro forma as adjusted net tangible book value per share after this offering		$
Dilution per share to new investors		$

If the underwriters exercise their over-allotment option in full, there will be an increase in pro forma as adjusted net tangible book value to existing stockholders of $ per share and an immediate dilution in pro forma as adjusted net tangible book value to new investors of $ per share based on the assumed initial public offering price per share. A $1.00 increase or decrease in the assumed initial public offering price per share would increase or decrease, respectively, the pro forma as adjusted net tangible book value per share of common stock after this offering by $ per share and increase or decrease, respectively, the pro forma as adjusted dilution per share of common stock to new investors in this offering by $ per share, in each case calculated as described above and assuming that the number of shares offered by us and the selling stockholders, as set forth on the cover page of this prospectus, remains the same.

The following table summarizes, as of December 31, 2009, on a pro forma as adjusted basis, the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by our existing stockholders and by new investors, based upon an assumed initial public offering price of $ per share and before deducting estimated underwriting discounts and commissions and offering expenses payable by us.

	Shares Purchased		Total Consideration		Average Price per Share
	Number	Percent	Amount	Percent	
Existing stockholders		%	$	%	$
New investors		%	$	%	$
Total		100%	$	100%	$

The discussion and tables above are based on shares of common stock outstanding as of December 31, 2009 and exclude:

- an aggregate of shares issuable upon the exercise of then outstanding options at a weighted average exercise price of $ per share;
- an aggregate of shares issuable upon the exercise of then outstanding warrants at a weighted average exercise price of $ per share;

- an aggregate of shares then available for future issuance under our 2010 Equity Incentive Plan, which we plan to adopt in connection with this offering; and
- the shares of common stock subject to the underwriters' over-allotment option.

Sales by the selling stockholders in this offering will cause the number of shares held by existing stockholders to be reduced to shares or % of the total number of shares of our common stock outstanding after this offering. If the underwriters' overallotment option is exercised in full, the number of shares held by the existing stockholders after this offering would be reduced to % of the total number of shares of our common stock outstanding after this offering, and the number of shares held by new investors would increase to % of the total number of shares of our common stock outstanding after this offering.

Because the exercise prices of certain of our outstanding options and warrants are below the assumed initial public offering price of $ per share, investors purchasing common stock in this offering will suffer additional dilution when and if these options and warrants are exercised.

SELECTED FINANCIAL DATA

You should read the following selected financial data together with our financial statements and the related notes appearing at the end of this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which follows immediately after this section.

The selected financial data under the heading "Balance Sheet Data" as of December 31, 2007 and 2008, under the heading "Statement of Operations Data" for each of the years ended December 31, 2006, 2007 and 2008 and under the heading "Operating Data" relating to Adjusted EBITDA for each of the years ended December 31, 2006, 2007 and 2008 have been derived from our audited annual financial statements, which are included elsewhere in this prospectus. The selected financial data under the heading "Balance Sheet Data" as of December 31, 2004, 2005 and 2006, under the heading "Statement of Operations Data" for each of the years ended December 31, 2004 and 2005 and under the heading "Operating Data" relating to Adjusted EBITDA for each of the years ended December 31, 2004, 2005 and 2006 have been derived from our audited annual financial statements, which have not been included in this prospectus. The selected financial data under the heading "Statement of Operations Data" for the nine months ended September 30, 2008 and 2009, under the heading "Balance Sheet Data" as of September 30, 2009 and under the heading "Operating Data" related to Adjusted EBITDA for the nine months ended September 30, 2008 and 2009 have been derived from our unaudited financial statements, which are included elsewhere in this prospectus. In the opinion of management, our unaudited financial statements include all adjustments, consisting only of normal recurring items, except as noted in the notes to the financial statements, necessary for a fair statement of interim periods. The financial information presented for the interim periods has been prepared in a manner consistent with our accounting policies described elsewhere in this prospectus and should be read in conjunction therewith. The unaudited summary financial data under the heading "Operating Data" relating to recurring revenue customers have been derived from our internal records of our operations. Operating results for interim periods are not necessarily indicative of the results that may be expected for a full-year period.

The pro forma balance sheet data as of September 30, 2009 is unaudited and gives effect to the conversion of all of our preferred stock into our common stock immediately prior to the consummation of this offering. The pro forma as adjusted balance sheet data as of September 30, 2009 is unaudited and gives effect to (1) the pro forma adjustment above; (2) our receipt of estimated net proceeds of $ million from this offering, based on an assumed initial public offering price of $ per share, which is the mid-point of our filing range, after deducting estimated underwriting discounts and offering expenses payable by us and (3) the application of $ million of our net proceeds from this offering to repay indebtedness under our equipment term loans, as if each had occurred as of September 30, 2009. The pro forma as adjusted summary financial data are not necessarily indicative of what our financial position or results of operations would have been if this offering had been completed as of the date indicated, nor are these data necessarily indicative of our financial position or results of operations for any future date or period.

	Year Ended December 31,					Nine Months Ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
	(In thousands, except per share data)					(Unaudited)	
Statement of Operations Data:							
Revenues	$ 12,002	$ 13,827	$ 19,859	$ 25,198	$ 30,697	$ 22,617	$ 27,765
Cost of revenues (1)	3,556	3,823	5,219	6,379	9,208	6,584	8,742
Gross profit	8,446	10,004	14,640	18,819	21,489	16,033	19,023
Operating expenses							
Sales and marketing (1)	3,169	5,034	8,098	11,636	12,543	9,538	10,005
Research and development (1)	2,148	2,129	3,190	3,546	3,640	2,779	3,226
General and administrative (1)	3,120	3,180	4,199	5,458	6,716	4,992	4,672
Early termination of lease	347	—	—	—	—	—	—
Total operating expenses	8,784	10,343	15,487	20,640	22,899	17,309	17,903
Income (loss) from operations	(338)	(339)	(847)	(1,821)	(1,410)	(1,276)	1,120
Other income (expense)							
Interest expense	(285)	(299)	(558)	(439)	(419)	(322)	(225)
Other income (expense)	28	(15)	108	120	28	1	114
Total other expense	(257)	(314)	(450)	(319)	(391)	(321)	(111)
Income tax expense	(1)	(23)	(4)	(16)	(94)	(12)	(60)
Net income (loss)	$ (596)	$ (676)	$ (1,301)	$ (2,156)	$ (1,895)	$ (1,609)	$ 949

	Year Ended December 31,					Nine Months Ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
	(In thousands, except per share data)					(Unaudited)	
Net income (loss) per share							
Basic	$ (1.63)	$ (1.78)	$ (2.93)	$ (3.12)	$ (1.72)	$ (1.53)	$ 0.79
Fully diluted	$ (1.63)	$ (1.78)	$ (2.93)	$ (3.12)	$ (1.72)	$ (1.53)	$ 0.03
Weighted average shares outstanding							
Basic	366	379	444	692	1,101	1,054	1,238
Fully diluted	366	379	444	692	1,101	1,054	36,850
Pro forma net income (loss) per share (unaudited) (2)							
Basic							
Fully diluted							
Pro forma weighted average shares outstanding (unaudited) (2)							
Basic							
Fully diluted							

	As of December 31,					As of September 30, 2009		
	2004	2005	2006	2007	2008	Actual	Pro Forma	Pro Forma As Adjusted
	(In thousands)						(Unaudited)	
Balance Sheet Data:								
Cash, cash equivalents and short-term investments	$ 1,643	$ 1,609	$ 1,942	$ 6,117	$ 3,715	$ 5,796	$ 5,796	
Working capital	230	(234)	(647)	4,535	3,614	4,429	4,429	
Total assets	5,349	6,767	12,228	20,687	19,197	21,094	21,094	
Long-term liabilities	1,898	2,719	5,167	5,550	5,569	4,706	4,706	
Total debt (3)	1,903	2,675	5,018	4,992	4,471	2,939	2,939	
Total redeemable convertible preferred stock	56,072	56,072	58,520	65,964	65,964	65,964	—	
Total stockholders' equity (deficit)	$ (56,082)	$ (56,758)	$ (58,046)	$ (60,111)	$ (61,844)	$ (60,718)	$ 5,246	

	Year Ended December 31,					Nine Months Ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
	(Unaudited; Adjusted EBITDA in thousands)						
Operating Data:							
Adjusted EBITDA (4)	$ 414	$ 385	$ 748	$ 103	$ 763	$ 318	$ 2,501
Recurring revenue customers (5)	5,451	6,110	8,024	9,589	10,156	10,113	11,017

(1) Includes stock-based compensation expense as follows:

	Year Ended December 31,					Nine Months Ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
	(In thousands)					(Unaudited)	
Cost of revenues	$ —	$ —	$ —	$ 2	$ 19	$ 12	$ 43
Sales and marketing	—	—	—	33	60	44	74
Research and development	—	—	—	2	4	3	3
General and administrative	—	—	6	9	74	51	57
Total	$ —	$ —	$ 6	$46	$157	$ 110	$ 177

(2) Reflects the conversion of all of our preferred stock into common stock and a for reverse stock split of our common stock that will occur immediately prior to the consummation of this offering.

(3) Total debt consists of our current and long-term capital lease obligations, current and long-term equipment and term loans, line of credit, interest payable and, as of December 31, 2004, 2005, and 2006, mezzanine debt.

(4) EBITDA consists of net income (loss) plus depreciation and amortization, interest expense and income tax expense. Adjusted EBITDA consists of EBITDA plus our non-cash, share-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:

	Year Ended December 31,					Nine Months Ended September 30,	
	2004	2005	2006	2007	2008	2008	2009
	(Unaudited; in thousands)						
Net income (loss)	$(596)	$(676)	$(1,301)	$(2,156)	$(1,895)	$(1,609)	$ 949
Depreciation and amortization	724	739	1,481	1,758	1,988	1,483	1,090
Interest expense	285	299	558	439	419	322	225
Income tax expense	1	23	4	16	94	12	60
EBITDA	414	385	742	57	606	208	2,324
Non-cash, share-based compensation expense	—	—	6	46	157	110	177
Adjusted EBITDA	$ 414	$ 385	$ 748	$ 103	$ 763	$ 318	$2,501

(5) This reflects the number of recurring revenue customers at the end of the period. Recurring revenue customers are customers with contracts to pay us monthly fees. A minority portion of our recurring revenue customers consists of separate units within a larger organization. We treat each of these units, which may include divisions, departments, affiliates and franchises, as distinct customers. Our contracts with our recurring revenue customers typically allow the customer to cancel the contract for any reason with 30 days prior notice.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the section titled "Selected Financial Data" and our financial statements and related notes appearing elsewhere in this prospectus. Our actual results could differ materially from those anticipated in the forward-looking statements included in this discussion as a result of certain factors, including, but not limited to, those discussed in "Risk Factors" and "Special Note Regarding Forward-Looking Statements" included elsewhere in this prospectus.

Overview

We are a leading provider of on-demand supply chain management solutions, 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.

SPSCommerce.net fundamentally changes how organizations use electronic communication to manage a supply chain by replacing the collection of traditional, custom-built, point-to-point integrations with a "hub-and-spoke" model whereby a single integration to SPSCommerce.net allows an organization to connect seamlessly to the entire SPSCommerce.net network of trading partners. SPSCommerce.net combines integrations with 2,700 order management models across 1,300 retailers, grocers and distributors through a multi-tenant architecture and provides ancillary support applications that deliver a comprehensive set of supply chain solutions.

The value SPSCommerce.net offers increases with the number of trading partners connected to our platform. This "network effect" creates a significant opportunity for our customers to realize incremental sales by working with new trading partners connected to our platform and vice versa. As a result of this increased volume of activity amongst our customers, we earn additional revenues. We also sell our solutions through sales leads from retailers with whom we integrate our customers, referrals from trading partners in our network and channel partners, as well as our direct sales force.

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.

For 2006, 2007, 2008 and the nine months ended September 30, 2009, we generated revenues of $19.9 million, $25.2 million, $30.7 million and $27.8 million. Our fiscal quarter ended September 30, 2009 represented our 35th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 83%, 83%, 84% and 80% of our total revenues for 2006, 2007, 2008 and the nine months ended September 30, 2009. No customer represented over 1% of our revenues for 2006, 2007, 2008 or the nine months ended September 30, 2009. For 2008 and the nine months ended September 30, 2009, 2% of our revenues were generated outside of North America.

Key Financial Terms and Metrics

Sources of Revenues

Trading Partner Integration. Our revenues primarily consist of monthly revenues from our customers for our Trading Partner Integration solution. Our revenues for this solution consists of a monthly subscription fee and a transaction-based fee. We also receive set-up fees for initial integration solutions we provide our customers. Most of our customers have contracts with us that may be terminated by the customer by

providing 30 days' prior notice. Over 90% of our revenues for 2008 and the nine months ended September 30, 2009 were derived from Trading Partner Integration.

Trading Partner Enablement. Our Trading Partner Enablement solution helps organizations, typically large retailers, to implement new integrations with trading partners. This solution ranges from Electronic Data Interchange testing and certification to more complex business workflow automation and results in a one-time payment to us.

Trading Partner Intelligence. In 2009, we introduced our Trading Partner Intelligence solution, which consists of six data analytics applications. These applications allow our supplier customers to improve their visibility across, and analysis of, their supply chains. Through interactive data analysis, our retailer customers improve their visibility into supplier performance and their understanding of product sell-through. Our revenues for this solution primarily consist of a monthly subscription fee.

Other Trading Partner Solutions. The remainder of our revenues are derived from solutions that allow our customers to perform tasks such as barcode labeling or picking-and-packaging information tracking as well as purchases of miscellaneous supplies. These revenues are primarily transaction-based.

Cost of Revenues and Operating Expenses

Overhead Allocation. We allocate overhead expenses such as rent, certain employee benefit costs, office supplies and depreciation of general office assets to cost of revenues and operating expenses categories based on headcount.

Cost of Revenues. Cost of revenues primarily consists of personnel costs such as wages and benefits related to implementation teams, customer support personnel and application support personnel. Cost of revenues also includes our cost of network services, which is primarily data center costs for the locations where we keep the equipment that serves our customers, and connectivity costs that facilitate electronic data transmission between our customers and their trading partners. We expect our cost of revenues to increase in absolute dollars.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of personnel costs for our sales, marketing and product management teams, commissions earned by our sales personnel and marketing costs. In order to grow our business, we will continue to add resources to our sales and marketing efforts over time. We expect that sales and marketing expenses will increase in absolute dollars.

Research and Development Expenses. Research and development expenses consist primarily of personnel costs for development and maintenance of existing solutions. This group also is responsible for enhancing existing solutions and applications as well as internal tools and developing new information maps that integrate our customers to their trading partners in compliance with those trading partners' requirements. We expect research and development expenses will increase in absolute dollars as we continue to enhance and expand our solutions and applications.

General and Administrative Expenses. General and administrative expenses consist primarily of personnel costs for finance, human resources and internal information technology support, as well as legal, accounting and other fees, such as credit card processing fees. General and administrative expenses also include amortization of intangible assets relating to our acquisition of substantially all of the assets of Owens Direct LLC in February 2006. We amortized these intangible assets over a period of three years ending in February 2009. We expect to incur additional general and administrative expenses associated with being a public company, including higher legal, audit and insurance fees.

Other Income (Expense). Other income (expense) primarily consists of interest income, interest expense and the fair market value adjustment of preferred stock warrants using the Black-Scholes method. Interest income represents interest received on our cash and cash equivalents. Interest expense is associated with our debt, which includes equipment loan payments and payments on our term loans.

Other Metrics

Recurring Revenue Customers. As of December 31, 2009, we had over 11,000 customers with contracts to pay us monthly fees, which we refer to as recurring revenue customers. We report recurring revenue customers at the end of a period. A minority portion of our recurring revenue customers consists of separate units within a larger organization. We treat each of these units, which may include divisions, departments, affiliates and franchises, as distinct customers.

Average Recurring Revenues Per Recurring Revenue Customer. We calculate average recurring revenues per recurring revenue customer for a period by dividing the recurring revenues from recurring customers for the period by the average of the beginning and ending number of recurring revenue customers for the period. For the period nine months ended September 30, 2009 and nine months ended September 30, 2008, we annualize this number by multiplying that quotient by the product of 12 divided by the number of months in the period. We anticipate that average recurring revenues per recurring revenue customer will continue to increase as we increase the number of solutions we offer, such as the Trading Partner Intelligence solution we introduced in 2009, and increase the penetration of those solutions across our customer base.

Monthly Subscription and Transaction-Based Fees. For 2008 and the nine months ended September 30, 2009, revenues from fixed monthly subscription and transaction-based fees accounted for 84% and 80% of our revenues, which we refer to as recurring revenues. All of these recurring revenues in 2008 and more than 95% of the recurring revenues for the nine months ended September 30, 2009 related to our Trading Partner Integration solution. Our revenues are not concentrated with any customer, as no customer represented over 1% of our revenues for 2006, 2007, 2008 or the nine months ended September 30, 2009.

Adjusted EBITDA. EBITDA consists of net income (loss) plus depreciation and amortization, interest expense, and income tax expense. Adjusted EBITDA consists of EBITDA plus our non-cash, share-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 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:

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
	(Unaudited; in thousands)				
Net income (loss)	$(1,301)	$(2,156)	$(1,895)	$(1,609)	$ 949
Depreciation and amortization	1,481	1,758	1,988	1,483	1,090
Interest expense	558	439	419	322	225
Income tax expense	4	16	94	12	60
EBITDA	742	57	606	208	2,324
Non-cash, share-based compensation expense	6	46	157	110	177
Adjusted EBITDA	$ 748	$ 103	$ 763	$ 318	$2,501

Critical Accounting Policies and Estimates

The 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, or GAAP. 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. On an ongoing basis, we evaluate our estimates and assumptions. 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. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in the notes to our financial statements, 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, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

Revenue Recognition

We generate revenues by providing a number of solutions to our customers. These solutions include Trading Partner Integration, Trading Partner Enablement and Trading Partner Intelligence. All of our solutions are hosted applications that allow customers to meet their supply chain management requirements. Revenues from our Trading Partner Integration and Trading Partner Intelligence solutions are generated through set-up fees and a recurring monthly hosting fee. Revenues from our Trading Partner Enablement solutions are generally one-time service fees.

Fees related to recurring monthly hosting services and one-time services are recognized when the services are provided. The recurring monthly fee is comprised of both a fixed and transaction based fee. Revenues are recorded in accordance with Staff Accounting Bulletin (SAB) 104, *Revenue Recognition in Financial Statements*, when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the fee is fixed and determinable and (4) collectability is probable. If collection is not considered probable, revenues are recognized when the fees are collected.

Set-up fees paid by customers in connection with our solutions, as well as associated direct and incremental costs, such as labor and commissions, are deferred and recognized ratably over the expected life of the customer relationship, which is generally two years. We continue to evaluate and adjust the length of these amortization periods as more experience is gained with customer renewals, contract cancellations and technology changes requested by our customers. It is possible that, in the future, the estimates of expected customer lives may change and, if so, the periods over which such subscription set-up fees and costs are amortized will be adjusted. Any such change in estimated expected customer lives will affect our future results of operations.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from our customers' inability to pay us. The provision is based on our historical experience and for specific customers that, in our opinion, are likely to default on our receivables from them. In order to identify these customers, we perform ongoing reviews of all customers that have breached their payment terms, as well as those that have filed for bankruptcy or for whom information has become available indicating a significant risk of non-recoverability. In addition, we have experienced significant growth in the number of our customers, and we have less payment history to rely upon with these customers. We rely on historical trends of bad debt as a percentage of total revenues and apply these percentages to the accounts receivable associated with new customers and evaluate these customers over time. To the extent that our future collections differ from our assumptions based on historical experience, the amount of our bad debt and allowance recorded may be different.

Income Taxes

We account for income taxes in accordance with ASC 740, *Income Taxes*, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion of all of the deferred tax asset will not be realized. The realization of the deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Stock-Based Compensation

We follow ASC 718, *Compensation – Stock Compensation*, in accounting for our stock-based awards to employees. ASC 718 establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the vesting period of the grant. Determining the appropriate fair value model and calculating the fair value of stock-based payment awards require the use of highly subjective assumptions, including the expected life of the stock-based payment awards and stock price volatility. We use the Black-Scholes method to value our option grants and determine the related compensation expense. The assumptions used in calculating the fair value of stock-based payment awards represent management's best estimates, but the estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

The fair value of each option is estimated on the date of grant using the Black-Scholes method with the following assumptions used for grants:

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
Risk-free interest rate (1)	4.4%	4.4%	4.0%	4.0%	2.7% - 4.0%
Expected term (2)	9	8	7	7	4-7
Estimated volatility (3)	60%	52%	53%	53%	49%-53%
Expected dividend yield	0%	0%	0%	0%	0%

(1) Rates for options granted during these periods varied within the ranges stated.

(2) Expected term for options granted during these periods varied within the ranges stated.

(3) Estimated volatility for options granted during these periods varied within the ranges stated.

We do not have information available that is indicative of future exercise and post-vesting behavior to estimate the expected term. As a result, we adopted the simplified method of estimating the expected term of a stock option, as permitted by Staff Accounting Bulletin No. 107, *Share-Based Payment*. Under this method, the expected term is presumed to be the mid-point between the vesting date and the contractual end of the term.

As a non-public entity, historic volatility is not available for our shares. As a result, we estimated volatility based on a peer group of companies, which collectively provide a reasonable basis for estimating volatility. We intend to continue to consistently use the same group of publicly traded peer companies to determine volatility in the future until sufficient information regarding volatility of our share price becomes available or the selected companies are no longer suitable for this purpose.

The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with a remaining term approximately equal to the expected life of our stock options. The estimated pre-vesting forfeiture rate is based on our historical experience. We do not expect to declare dividends in the foreseeable future.

We recorded non-cash, stock-based compensation expense under ASC 718 of $157,000 during 2008 and $177,000 during the nine months ended September 30, 2009. Based on stock options outstanding as of September 30, 2009, we had unrecognized, stock-based compensation of $475,000. We expect to continue to

grant stock options in the future, and to the extent that we do, our actual stock-based compensation expense recognized in future periods will likely increase.

As of December 31, 2009, we had outstanding vested options to purchase shares of our common stock and unvested options to purchase shares of our common stock with an intrinsic value of approximately $ and $, respectively, based on the assumed initial public offering price of $ per share, which is the mid-point of our filing range.

Significant Factors Used in Determining Fair Value of Our Common Stock

The fair value of the shares of common stock that underlie the stock options we have granted has historically been determined by our audit committee or board of directors based upon information available to it at the time of grant. Because, prior to this offering, there has been no public market for our common stock, our audit committee or board of directors has determined the fair value of our common stock by utilizing, among other things, recent or contemporaneous valuation information available as of December 31, 2007 and for each quarter end thereafter. The valuation information included reviews of our business and general economic, market and other conditions that could be reasonably evaluated at that time, including our financial results, business agreements, intellectual property and capital structure. The valuation information also included a thorough review of the conditions of the industry in which we operate and the markets that we serve. Our audit committee or board of directors conducted an analysis of the fair market value of our company considering two widely accepted valuation approaches: (1) market approach and (2) income approach. These valuation approaches are based on a number of assumptions, including our future revenues and industry, general economic, market and other conditions that could reasonably be evaluated at the time of the valuation.

Under the market approach, the guideline market multiple methodology was applied, which involved the multiplication of revenues by risk-adjusted multiples. Multiples were determined through an analysis of certain publicly traded companies, which were selected on the basis of operational and economic similarity with our principal business operations. Revenue multiples were calculated for the comparable companies based upon daily trading prices. A comparative risk analysis between our and the public companies formed the basis for the selection of appropriate risk-adjusted multiples for our company. The risk analysis incorporated factors that relate to, among other things, the nature of the industry in which we and other comparable companies are engaged. Under the income approach, we applied the discounted cash flow methodology, which involved estimating the present value of the projected cash flows to be generated from the business and theoretically available to the capital providers of our company. A discount rate was applied to the projected future cash flows to reflect all risks of ownership and the associated risks of realizing the stream of projected cash flows. Since the cash flows were projected over a limited number of years, a terminal value was computed as of the end of the last period of projected cash flows. The terminal value was an estimate of the value of the enterprise on a going concern basis as of that future point in time. Discounting each of the projected future cash flows and the terminal value back to the present and summing the results yielded an indication of value for the enterprise. Our board of directors and audit committee took these two approaches into consideration when establishing the fair value of our common stock.

Set forth below is a summary of our stock option grants from October 1, 2008 through September 30, 2009 and our contemporaneous valuations and Black-Scholes values for those grants. The information below does not reflect the effect of the for reverse split of our common stock that will occur immediately prior to consummation of this offering.

Period of Grant	Number of Options Granted	Per Share Exercise Price(s)	Fair Value(s) Estimate per Share	Valuation Date(s)	Black-Scholes Value(s) per Share
Fourth Quarter — 2008	8,500	$ 1.25	$ 1.25	October 31, 2008	$ 0.73
First Quarter — 2009	309,000	$ 0.92	$ 0.92	February 10, 2009	$ 0.49
Second Quarter — 2009	374,000(1)	$0.65-0.68	$0.65-0.68	April 1, 2009 and April 22, 2009	$0.35-0.38
Third Quarter — 2009	893,364(2)	$ 0.81	$ 0.81	July 23, 2009	$ .04-.45

(1) On April 1, 2009, we unilaterally amended the terms of the 309,000 stock options granted to three employees in the first quarter of 2009 to reduce the exercise price for all of the shares subject to each option to $0.65 per share, which was the fair market value of our common stock on the date of the amendments. The amendments did not affect the vesting provisions or the number of shares subject to any of the option awards. For financial statement reporting, we treat the previously granted options as being forfeited and the amendments as new option grants; however, none of the holders of these options made any investment decisions in connection with the amendments.

(2) Includes a total of 890,364 stock options granted to 17 employees and one director that resulted from our unilateral amendment to reduce the exercise price for all of the shares subject to options previously granted to the employees and director. The amendments did not affect the vesting provisions or the number of shares subject to any of the option awards. For financial statement reporting, we treat the previously granted options as being forfeited and the amendments as new option grants; however, none of the holders of the previously granted options made any investment decisions in connection with the amendments.

Our audit committee and board of directors made their determinations as to the fair value in connection with the grant of stock options exercising their best reasonable judgment at the time of grant. In the absence of a public market for our common stock, numerous objective and subjective factors (the "Key Valuation Considerations") were analyzed to determine the fair value at each grant date, including the following:

Business Conditions and Results:

- Our actual financial condition and results of operations during the relevant period;
- The status of strategic initiatives to increase the market for our services;
- The competitive environment that existed at the time of the valuation;
- All important developments for our company, including the growth of our customer base and the progress of our business model, such as the introduction of new services; and
- The status of our efforts to build our management team to retain and recruit the talent and size organization required to support our anticipated growth.

Market Conditions:

- The market conditions affecting the technology industry; and
- The general economic outlook in the United States and on a global basis, including the extreme market downturn and turmoil that was triggered in part by the September 2008 Lehman Brothers bankruptcy filing as well as the ensuing decrease in employment, purchasing power and consumer confidence that significantly affected the U.S. and global economy and future outlook for both.

Liquidity and Valuation:

- The fact that the option grants involved illiquid securities in a private company; and
- The likelihood of achieving a liquidity event for the shares of common stock underlying the options such as an initial public offering or sale of our common stock, given prevailing market conditions and our relative financial condition at the time of grant.

As noted below, the significant factors contributing to the differences between the valuation of our common stock as determined by our audit committee or board of directors and the assumed initial public offering price of $ per share, which is the mid-point of our filing range, include the following:

- the assumed initial public offering price will not include the discounts for lack of liquidity of our common stock that existed prior to our initial public offering;

- since our preferred stock will be converted to common stock immediately prior to the initial public offering, the assumed initial public offering price will not include the negative impact of the liquidation preferences of the preferred stock;
- the assumed initial public offering price will be based on our current financial performance and outlook, which has changed since the valuation dates described in this prospectus; and
- the development of our business in the ordinary course, which has continued since the valuation dates described in this prospectus.

Specifics related to grants from October 1, 2008 to September 30, 2009 are as follows:

Fourth Quarter — 2008

During the fourth quarter of 2008, we granted 8,500 stock options with a per share exercise price of $1.25. In the absence of a public trading market for our common stock, our audit committee, with input from management, considered the Key Valuation Considerations and factors described below and determined the fair market value of our common stock in good faith to be $1.25 per share.

- *Results of Operations:* Our cash and cash equivalents and short-term investment balances of $3.9 million as of September 30, 2008 were not sufficient to sustain long-term growth and provide cash to invest in operations. Our revenues grew from $6.7 million for the three months ended September 30, 2007 to $8.1 million for the three months ended September 30, 2008. At the same time, our losses for each of the first three quarters of 2008 were ($918,000), ($555,000) and ($135,000).
- *Preferred Stock Preferences:* During this period our audit committee also considered the rights, preferences and privileges of our preferred stock relative to the common stock. As of September 30, 2008, our preferred stock possessed an aggregate liquidation preference of $38.6 million. The participation rights of our preferred stock also provide that the preferred stock participates with the common stock pro rata in our remaining assets. Our audit committee did not believe at that time we were a candidate for a liquidity event, such as an initial public offering or sale of our company at a premium whereby our preferred stock would convert to common thereby eliminating the liquidation preferences of the preferred stock.

As indicated above, we performed a contemporaneous valuation of the fair value of our common stock as of October 31, 2008. In our valuation analysis, we utilized the market approach and the income approach. The discounted cash flow used in the income approach applied (i) the appropriate risk-adjusted discount rate, which in this case was 20.5%, to estimated debt-free cash flows, based on forecasted revenues and (ii) multiples to revenues to determine a terminal value, which in this case was 2.0 times revenues. The projections used in connection with the income approach were based on our expected operating performance over the forecast period. There is inherent uncertainty in these estimates; if different discount rates or assumptions had been used, the valuation would have been different.

The values of our company calculated under each methodology were given equal weight based upon our audit committee's estimate as of the valuation date of the meaningfulness of each methodology to our company's valuation. Based on these inputs, our marketable minority equity value was determined to be $77.3 million. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $77.3 million to each of the series and classes of equity capital to derive a common stock value. The resulting valuation determined a per share value of $1.25 after considering a lack of marketability discount of 30%.

First Quarter — 2009

During the first quarter of 2009, we granted 309,000 stock options with an exercise price of $0.92. In the absence of a public trading market for our common stock, our board of directors, with input from management, considered the Key Valuation Considerations and factors described below and determined the fair market value of our common stock in good faith to be $0.92 per share.

- *Results of Operations:* Our cash and cash equivalents and short-term investment balances of $3.7 million as of December 31, 2008 were not sufficient to sustain long term growth and provide cash to invest in operations. Our revenues grew from $6.9 million for the three months ended December 31, 2007 to $8.1 million for the three months ended December 31, 2008. At the same time, our losses for each of the last three quarters of 2008 were ($555,000), ($135,000) and ($287,000).
- *Preferred Stock Preferences:* During this period our audit committee also considered the rights, preferences and privileges of the preferred stock relative to the common stock. As of December 31, 2008, our preferred stock possessed an aggregate liquidation preference of $38.6 million. The participation rights of our preferred stock also provide that the preferred stock participates with the common stock pro rata in our remaining assets. Our audit committee did not believe at that time we were a candidate for a liquidity event, such as an initial public offering or sale of the company at a premium whereby our preferred stock would convert to common thereby eliminating the liquidation preferences of the preferred stock.

As indicated above, we performed a contemporaneous valuation of the fair value of our common stock as of February 10, 2009. In our valuation analysis, we utilized the market approach and the income approach. The discounted cash flow used in the income approach applied (i) the appropriate risk-adjusted discount rate, which in this case was 19.5%, to estimated debt-free cash flows, based on forecasted revenues and (ii) multiples to revenues to determine a terminal value, which in this case was 1.5 times revenues. The projections used in connection with the income approach were based on our expected operating performance over the forecast period. There is inherent uncertainty in these estimates; if different discount rates or assumptions had been used, the valuation would have been different.

The values of our company calculated under each methodology were given equal weight based upon our audit committee's estimate as of the valuation date, of the meaningfulness of each methodology to our company's valuation. Based on these inputs, our marketable minority equity value was determined to be $63.0 million. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $63.0 million to each of the series and classes of equity capital to derive a common stock value. The resulting valuation determined a per share value of $0.92 after considering a lack of marketability discount of 30%.

Second Quarter — 2009

During the second quarter of 2009, we granted 65,000 stock options with a per share exercise price of $0.68 on April 22, 2009 and on April 1, 2009 amended the exercise price of 309,000 stock options previously granted to three employees to lower the exercise price to $0.65 per share. We treat the amended options as newly granted options for financial statement reporting purposes. In the absence of a public trading market for our common stock, our audit committee, with input from management, considered the Key Valuation Considerations and factors described below and determined the fair market value of our common stock in good faith to be $0.65 per share on April 1, 2009 and $0.68 per share on April 22, 2009.

- *Results of Operations:* Our cash and cash equivalents and short-term investment balances of $4.3 million as of March 31, 2009, which were not sufficient to sustain long-term growth and provide cash to invest in operations. Our revenues grew from $7.0 million for the three months ended March 31, 2008 to $8.5 million for the three months ended March 31, 2009. At the same time, our losses for each of the three most recently completed quarters were ($135,000), ($287,000) and ($56,000).
- *Preferred Stock Preferences:* During this period our audit committee also considered the rights, preferences and privileges of our preferred stock relative to the common stock. As of March 31, 2009, our preferred stock possessed an aggregate liquidation preference of $38.6 million. The participation rights of our preferred stock also provide that the preferred stock participates with the common stock pro rata in our remaining assets. Our audit committee did not believe at that time we were a candidate for a liquidity event, such as an initial public offering or sale of our company at a

premium whereby our preferred stock would convert to common thereby eliminating the liquidation preferences of the preferred stock.

As indicated above, we performed a contemporaneous valuation of the fair value of our common stock as of April 1, 2009 for the amended options and as of April 22, 2009 for the options granted on that date. In our valuation analysis, we utilized the market approach and the income approach. The discounted cash flow used in the income approach applied (i) the appropriate risk-adjusted discount rate, which in this case was 19.5%, to estimated debt-free cash flows, based on forecasted revenues and (ii) multiples to revenues to determine a terminal value, which in this case was 1.5 times revenues. The projections used in connection with the income approach were based on our expected operating performance over the forecast period. There is inherent uncertainty in these estimates; if different discount rates or assumptions had been used, the valuation would have been different.

The values of our company calculated under each methodology were given equal weight based upon our audit committee's estimate as of the valuation date, of the meaningfulness of each methodology to our company's valuation. Based on these inputs, our marketable minority equity value was determined to be $64.0 million as of April 1, 2009. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $64.0 million to each of the series and classes of equity capital to derive a common stock value as of that date. The resulting valuation determined a per share value of $0.65 on April 1, 2009 after considering a lack of marketability discount of 30%. Our marketable minority equity value was determined to be $64.6 million as of April 22, 2009. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $64.6 million to each of the series and classes of equity capital to derive a common stock value as of that date. The resulting valuation determined a per share value of $0.68 after considering a lack of marketability discount of 30%.

The decrease in the per share value of our common stock during the first and second quarters of 2009 compared to October 31, 2008 primarily was the result of a decrease in the value of the publicly traded companies used in our market analysis as well as revised company projections that reduced our expected revenues and cash flows in light of the general economic downturn that continued during that time.

Third Quarter — 2009

During the third quarter of 2009, we granted 3,000 stock options and amended 890,364 stock options such that all options granted or amended during the period had a per share exercise price of $0.81. We treat the amended options as newly granted options for financial statement reporting purposes. In the absence of a public trading market for our common stock, our audit committee, with input from management, considered the Key Valuation Considerations and factors described below and determined the fair market value of our common stock in good faith to be $0.81 per share.

- *Results of Operations:* Our cash and cash equivalents and short-term investments balances of $5.4 million as of June 30, 2009 were not sufficient to sustain long-term growth and provide cash to invest in operations. Our revenues grew from $7.6 million for the three months ended June 30, 2008 to $9.6 million for the three months ended June 30, 2009. At the same time, our losses for each of the three most recently completed quarters were ($287,000), ($56,000) and ($135,000).
- *Preferred Stock Preferences:* During this period our audit committee also considered the rights, preferences and privileges of our preferred stock relative to the common stock. As of June 30, 2009, our preferred stock possessed an aggregate liquidation preference of $38.6 million. The participation rights of our preferred stock also provide that the preferred stock participates with the common stock pro rata in our remaining assets. At that time, our audit committee believed we could become a candidate for a liquidity event, such as an initial public offering or sale of our company at a premium whereby our preferred stock would convert to common thereby eliminating the liquidation preferences of the preferred stock. However, the audit committee was unsure if there was any interest by potential underwriters for an initial public offering or by potential acquirers of the Company, as neither the audit committee nor the board of directors had held any substantive discussions with potential underwriters

or acquirers during the preceding 12 months. If there was interest by a potential underwriter or acquirer, the audit committee also was unsure of when an offering or acquisition would occur and believed any offering or acquisition could occur well in the future.

As indicated above, we performed a contemporaneous valuation of the fair value of our common stock as of July 23, 2009. In our valuation analysis, we utilized the market approach and the income approach. The discounted cash flow used in the income approach applied (i) the appropriate risk-adjusted discount rate, which in this case was 19.5%, to estimated debt-free cash flows, based on forecasted revenues and (ii) multiples to revenues to determine a terminal value, which in this case was 1.5 times revenues. The projections used in connection with the income approach were based on our expected operating performance over the forecast period. There is inherent uncertainty in these estimates; if different discount rates or assumptions had been used, the valuation would have been different.

The values of our company calculated under each methodology were given equal weight based upon our audit committee's estimate as of the valuation date, of the meaningfulness of each methodology to our company's valuation. Based on these inputs, our marketable minority equity value was determined to be $71.8 million. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $71.8 million to each of the series and classes of equity capital to derive a common stock value. The resulting valuation determined a per share value of $0.81 after considering a lack of marketability discount of 30%.

Research and Development

We account for the costs incurred to develop our software solution in accordance with ASC 350-40, *Intangibles – Goodwill and Other*. Capitalizable costs consists of (a) certain external direct costs of materials and services incurred in developing or obtaining internal-use computer software and (b) payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the project. These costs generally consist of internal labor during configuration, coding and testing activities. Research and development costs incurred during the preliminary project stage or costs incurred for data conversion activities, training, maintenance and general and administrative or overhead costs are expensed as incurred. Costs that cannot be separated between maintenance of, and relatively minor upgrades and enhancements to, internal-use software are also expensed as incurred. Capitalization begins when the preliminary project stage is complete, management with the relevant authority authorizes and commits to the funding of the software project, it is probable the project will be completed, the software will be used to perform the functions intended and certain functional and quality standards have been met.

Our research and development expenses primarily consist of personnel costs for development and maintenance of our existing solutions. Historically, we therefore have expensed all research and development expenditures as incurred.

Valuation of Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. We test goodwill for impairment annually at December 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is conducted by comparing the fair value of the net assets with their carrying value. Fair value is determined using the future cash flows expected to be generated. If the carrying value exceeds the fair value, goodwill may be impaired. If this occurs, the fair value is then allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of goodwill. This implied fair value is then compared to the carrying amount of goodwill and, if it is less, we would recognize an impairment loss. There has been no impairment of these assets to date.

The valuation of goodwill requires the use of discounted cash flow valuation models. Those models require estimates of future revenue, profits, capital expenditures and working capital. These estimates will be determined by evaluating historical trends, current budgets, operating plans and industry data. Determining

the fair value of goodwill includes significant judgment by management and different judgments could yield different results.

We have reviewed our operations and determined that to date we have had one reporting unit. We based our conclusion primarily on the fact that we do not prepare separate financial information for distinct units, we do not have segment or unit managers that are responsible for specific solutions we provide and our management and board of directors use only one set of financial information to make decisions about resources to be allocated among our company.

Results of Operations

The following table sets forth, for the periods indicated, our results of operations:

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
			(In thousands)	(Unaudited)	
Revenues	$ 19,859	$25,198	$30,697	$22,617	$27,765
Cost of revenues	5,219	6,379	9,208	6,584	8,742
Gross profit	14,640	18,819	21,489	16,033	19,023
Operating expenses					
Sales and marketing	8,098	11,636	12,543	9,538	10,005
Research and development	3,190	3,546	3,640	2,779	3,226
General and administrative	4,199	5,458	6,716	4,992	4,672
Total operating expenses	15,487	20,640	22,899	17,309	17,903
Income (loss) from operations	(847)	(1,821)	(1,410)	(1,276)	1,120
Other income (expense)					
Interest expense	(558)	(439)	(419)	(322)	(225)
Other income	108	120	28	1	114
Total other expense	(450)	(319)	(391)	(321)	(111)
Income tax expense	(4)	(16)	(94)	(12)	(60)
Net income (loss)	$ (1,301)	$ (2,156)	$ (1,895)	$ (1,609)	$ 949

The following table sets forth, for the periods indicated, our results of operations expressed as a percentage of revenues:

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Revenues	100%	100%	100%	100%	100%
Cost of revenues	26	25	30	29	31
Gross profit	74	75	70	71	69
Operating expenses					
Sales and marketing	41	46	41	42	36
Research and development	16	14	12	12	12
General and administrative	21	22	22	22	17
Total operating expenses	78	82	75	76	65
Income (loss) from operations	(4)	(7)	(5)	(6)	4
Other income (expense)					
Interest expense	(3)	(2)	(1)	(1)	(1)
Other income	–	–	–	–	–
Total other expense	(3)	(2)	(1)	(1)	(1)
Income tax expense	–	–	–	–	–
Net income (loss)	(7)%	(9)%	(6)%	(7)%	3%

Nine months ended September 30, 2009 compared to nine months ended September 30, 2008

Revenues. Revenues for the nine months ended September 30, 2009 increased $5.1 million, or 23%, to $27.8 million from $22.6 million for the nine months ended September 30, 2008. The increase in revenues resulted primarily from a 9% increase in recurring revenue customers to 11,017 from 10,113 as well as a 9% increase in annualized average recurring revenues per recurring revenue customer to $2,797 from $2,564. The increase in annualized average recurring revenues per recurring revenue customer was primarily attributable to increased fees resulting from increased usage of our solutions by our recurring revenue customers. In addition, $900,000 of the increase in revenues was due to higher testing and certification revenues due to a greater number of enablement campaigns for the nine months ended September 30, 2009. In 2009, we expect to have our highest level of revenues from Trading Partner Enablement due to significant increased demand for enablement from our retailers in 2009. As a result, in 2010, we anticipate a smaller number of enablement campaigns and a corresponding decrease in testing and certification revenues, in absolute dollars and as a percentage of revenues.

Cost of Revenues. Cost of revenues for the nine months ended September 30, 2009 increased $2.1 million, or 33%, to $8.7 million from $6.6 million for the nine months ended September 30, 2008. Of the increase in costs, approximately $2.0 million resulted from an increase in personnel costs, which was primarily attributable to the additional employees we hired for our implementation groups and customer support team. The remaining $100,000 increase was primarily due to higher costs of network services. As a percentage of revenues, cost of revenues was 31% for the nine months ended September 30, 2009 compared to 29% for the nine months ended September 30, 2008. Cost of revenues increased as a percentage of revenues because we hired personnel in anticipation of adding customers that we expect to drive revenue growth in future periods.

Sales and Marketing Expenses. Sales and marketing expenses for the nine months ended September 30, 2009 increased $467,000, or 5%, to $10.0 million from $9.5 million for the nine months ended September 30, 2008. The increase in the dollar amount is due to higher commissions earned by sales personnel from new business. As a percentage of revenues, sales and marketing expenses were 36% for the nine months ended

September 30, 2009 compared to 42% for the nine months ended September 30, 2008. Increased revenues for the 2009 period compared to prior year's period allowed us to leverage our fixed sales and marketing expenses and caused the decrease in sales and marketing expenses as a percentage of revenues.

Research and Development Expenses. Research and development expenses for the nine months ended September 30, 2009 increased $447,000, or 16%, to $3.2 million from $2.8 million for the nine months ended September 30, 2008. The increase in the dollar amount was primarily related to increased personnel costs of $321,000 due to increased salaries and wages for 2009 as well as costs for employees added during 2009. We also had additional consulting fees of $65,000 during the 2009 period compared to the prior year's period, as consultants supplemented development work on new solutions. As a percentage of revenues, research and development expenses remained constant for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008.

General and Administrative Expenses. General and administrative expenses for the nine months ended September 30, 2009 decreased $320,000, or 6%, to $4.7 million from $5.0 million for the nine months ended September 30, 2008. As a percentage of revenues, general and administrative expenses were 17% for the nine months ended September 30, 2009 compared to 22% for the nine months ended September 30, 2008. In February 2009, the subscriber relationships from our 2006 Owens Direct acquisition became fully amortized, causing a decrease in amortization costs included in general and administrative expenses for the remainder of the 2009 period and driving the decrease in general and administrative expenses in absolute dollars and as a percentage of revenues.

Other Income (Expense). Interest expense for the nine months ended September 30, 2009 decreased $97,000, or 30%, to $225,000 from $322,000 for the nine months ended September 30, 2008. The decrease in interest expense is principally due to reduced equipment borrowings. Other income for the nine months ended September 30, 2009 increased $113,000 to $114,000 from $1,000 for the nine months ended September 30, 2008. The other income change was driven by updating the value of preferred stock warrants we issued to fair market value using the Black-Scholes method.

Year ended December 31, 2008 compared to year ended December 31, 2007

Revenues. Revenues for 2008 increased $5.5 million, or 22%, to $30.7 million from $25.2 million for 2007. The increase in revenues resulted primarily from a 6% increase in recurring revenue customers to 10,156 from 9,589 as well as a 10% increase in average recurring revenues per recurring revenue customer to $2,599 from $2,361. The increase in average recurring revenues per recurring revenue customer was primarily attributable to increased fees resulting from increased usage of our solutions by our recurring revenue customers.

Cost of Revenues. Cost of revenues for 2008 increased $2.8 million, or 44%, to $9.2 million from $6.4 million for 2007. Of the increase in costs, $2.3 million is related to personnel costs associated with implementation and customer and applications support based on business growth. The principal driver of these increased personnel costs, which we amortize over 24 months, is the additional employees we hired during 2007 to provide implementation services to support our focus on integrating our solutions into our recurring revenue customers' business systems. This resulted in a larger impact in 2008 than 2007. The remaining $500,000 increase in cost of revenues from 2007 to 2008 is attributable to direct cost, which includes cost of resale and increased depreciation. As a percentage of revenues, cost of revenues was 30% for 2008 compared to 25% for 2007. Cost of revenues increased as a percentage of revenues because the increased personnel costs for 2008 did not correspond with an increase in revenues for the period.

Sales and Marketing Expenses. Sales and marketing expenses for 2008 increased $907,000, or 8%, to $12.5 million from $11.6 million for 2007. The increase in sales and marketing expenses is due to the increase in personnel costs driven by an increase to the number of employees in sales and marketing in 2008 compared to 2007. As a percentage of revenues, sales and marketing expenses were 41% for 2008 compared to 46% for 2007. Sales and marketing expenses decreased as a percentage of revenues because we effectively leveraged these costs across the revenues generated by the recurring revenue customers added during 2008.

Research and Development Expenses. Research and development expenses for 2008 increased $94,000, or 3%, to $3.6 million from $3.5 million for 2007. As a percentage of revenues, research and development expenses were 12% for 2008 compared to 14% for 2007. Research and development expenses decreased as a percentage of revenues because we effectively leveraged these expenses across the revenues generated by recurring revenue customers during 2008.

General and Administrative Expenses. General and administrative expenses for 2008 increased $1.2 million, or 23%, to $6.7 million from $5.5 million for 2007. The increase in the dollar amount of general and administrative expenses is primarily due to increased personnel costs for internal information technology support. Also contributing to the increase were a $102,000 increase in credit card fees from increased usage of our solutions as well as an increase of $245,000 resulting from a charge for bad debt, which we believe was attributable to the general economic downturn that continued throughout 2008. Auditing and legal fees increased by $169,000 in 2008 compared to 2007 due to additional activities such as quarterly common stock valuation analyses and having quarterly reviews completed by our auditors. As a percentage of revenues, general and administrative expenses remained constant for 2008 compared to 2007.

Other Income (Expense). Interest expense for 2008 decreased $20,000, or 5%, to $419,000 from $439,000 for 2007. The decrease in interest expense is due to reduced equipment borrowings. Other income for 2008 decreased $92,000, or 77%, to $28,000 from $120,000 for 2007. In 2007, other income included $54,000 for a sales tax refund, and higher interest income on certificates of deposits.

Year ended December 31, 2007 compared to year ended December 31, 2006

Revenues. Revenues for 2007 increased $5.3 million, or 27%, to $25.2 million from $19.9 million for 2006. The increase in revenues resulted primarily from a 20% increase in recurring revenue customers to 9,589 from 8,024 as well as a 1% increase in average recurring revenues per recurring revenue customer to $2,361 from $2,334. The increase in average recurring revenues per recurring revenue customer was primarily attributable to increased fees resulting from increased usage of our solutions by our recurring revenue customers.

Cost of Revenues. Cost of revenues for 2007 increased $1.2 million, or 22%, to $6.4 million from $5.2 million for 2006. The increase in the dollar amount of cost of revenues primarily is related to personnel costs associated with hiring additional implementation teams to support new business and improve our customers' experience with our platform. In 2007, we increased our implementation resources to focus on integrating our solutions into our recurring revenue customers' business systems to drive new business growth. We also increased our customer support team by adding people dedicated to support business growth; this resulted in a $237,000 increase in cost of revenues. As a percentage of revenues, cost of revenues remained relatively constant for 2007 compared to 2006.

Sales and Marketing Expenses. Sales and marketing expenses for 2007 increased $3.5 million, or 44%, to $11.6 million from $8.1 million for 2006. $2.7 million of the increase is due to increased personnel costs from additional hires. The additional hires primarily consisted of sales personnel we added who were specifically dedicated to call on larger accounts within the mid-market and people added in product management and marketing support. In 2007, we also hired our Executive Vice President of Business Development to establish and lead our global business development strategy, and we increased our general marketing expenses by $629,000 to support new business growth. As a percentage of revenues, sales and marketing expenses were 46% for 2007 compared to 41% for 2006. Sales and marketing expenses increased as a percentage of revenues because the sales personnel we added during 2007 did not immediately generate corresponding revenue growth, but instead positioned us to increase revenues in future periods.

Research and Development Expenses. Research and development expenses for 2007 increased $356,000, or 11%, to $3.5 million from $3.2 million for 2006. The primary driver of the increase in research and development expenses was personnel costs related to new hires for development. As a percentage of revenues, research and development expenses were 14% for 2007 compared to 16% for 2006. Research and development expenses decreased as a percentage of revenues because we effectively leveraged these expenses across the revenues generated by recurring revenue customers during 2007.

General and Administrative Expenses. General and administrative expenses for 2007 increased $1.3 million, or 30%, to $5.5 million from $4.2 million for 2006. Our general and administrative expenses for 2007 increased by $932,000 due to increased personnel costs. We added employees to support internal growth in training, customer satisfaction surveys and analytics, business operations analytics and human resources and accounting support. As a percentage of revenues, general and administrative expenses remained relatively constant for 2007 compared to 2006.

Other Income (Expense). Interest expense for 2007 decreased $119,000, or 21%, to $439,000 from $558,000 for 2006. The decrease in interest expense is due to reduced equipment borrowings. Other income for 2007 increased to $120,000 from $108,000 for 2007. In 2007, other income included a net sales tax refund of $54,000. Other income also included interest income of $139,000. Other income was also reduced by $68,000 due to an adjustment to the fair value of preferred stock warrants.

Quarterly Results of Operations

The following tables set forth our unaudited operating results and Adjusted EBITDA for each of the 11 quarters preceding and including the period ended September 30, 2009 and the percentage of revenues for each line item shown. The information is derived from our unaudited financial statements. In the opinion of management, our unaudited financial statements include all adjustments, consisting only of normal recurring items, except as noted in the notes to the financial statements, necessary for a fair statement of interim periods. The financial information presented for the interim periods has been prepared in a manner consistent with our accounting policies described elsewhere in this prospectus and should be read in conjunction therewith. Operating results for interim periods are not necessarily indicative of the results that may be expected for a full-year period.

	Three Months Ended										
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009
	(Unaudited; in thousands)										
Statement of Operations Data:											
Revenues	$ 5,407	$ 6,169	$ 6,710	$ 6,912	$ 6,957	$ 7,586	$ 8,073	$ 8,081	$ 8,531	$ 9,599	$ 9,635
Cost of revenues (1)	1,203	1,517	1,729	1,930	1,976	2,184	2,424	2,623	2,837	2,896	3,009
Gross profit	4,204	4,652	4,981	4,982	4,981	5,402	5,649	5,458	5,694	6,703	6,626
Operating expenses											
Sales and marketing (1)	2,359	2,889	3,130	3,258	3,172	3,255	3,111	3,006	3,075	3,391	3,539
Research and development (1)	847	883	918	898	949	954	876	862	1,044	1,058	1,123
General and administrative (1)	1,198	1,426	1,434	1,400	1,639	1,669	1,685	1,724	1,652	1,519	1,500
Total operating expenses	4,404	5,198	5,482	5,556	5,760	5,878	5,672	5,592	5,771	5,968	6,162
Income (loss) from operations	(200)	(546)	(501)	(574)	(779)	(476)	(23)	(134)	(77)	735	464
Other income (expense)											
Interest expense	(145)	(98)	(88)	(108)	(112)	(106)	(104)	(97)	(89)	(75)	(61)
Other income (expense)	10	31	15	64	(20)	30	(5)	26	121	(2)	(7)
Total other expense	(135)	(67)	(73)	(44)	(132)	(76)	(109)	(71)	32	(77)	(68)
Income tax expense (benefit)	14	4	1	(3)	7	3	3	82	11	—	49
Net income (loss)	$ (349)	$ (617)	$ (575)	$ (615)	$ (918)	$ (555)	$ (135)	$ (287)	$ (56)	$ 658	$ 347
Operating Data:											
Adjusted EBITDA (2)	$ 62	$ 68	$ (13)	$ (13)	$ (258)	$ 76	$ 503	$ 441	$ 534	$ 1,104	$ 862

(1) Includes stock-based compensation expense, as follows:

	Three Months Ended										
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009
	(Unaudited; in thousands)										
Cost of revenues	$ 0	$ 0	$ —	$ 2	$ 4	$ 4	$ 4	$ 7	$ 11	$ 12	$ 20
Sales and marketing	2	1	15	15	14	15	15	16	15	17	42
Research and development	0	0	1	1	1	1	1	1	1	1	1
General and administrative	1	1	1	6	17	17	17	23	20	21	16
Total	$ 3	$ 2	$ 17	$ 24	$ 36	$ 37	$ 37	$ 47	$ 47	$ 51	$ 79

(2) EBITDA consists of net income (loss) plus depreciation and amortization, interest expense and income tax expense. Adjusted EBITDA consists of EBITDA plus our non-cash, share-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:

	Three Months Ended										
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009
	(Unaudited; in thousands)										
Net income (loss)	$ (349)	$ (617)	$ (575)	$ (615)	$ (918)	$ (555)	$ (135)	$ (287)	$ (56)	$ 658	$ 347
Depreciation and amortization	249	581	456	472	505	485	494	502	442	321	326
Interest expense	145	98	88	109	112	106	104	97	89	75	61
Income tax expense (benefit)	14	4	1	(3)	7	3	3	82	11	–	49
EBITDA	59	66	(30)	(37)	(294)	39	466	394	486	1,054	783
Non-cash, share-based compensation expense	3	2	17	24	36	37	37	47	48	50	79
Adjusted EBITDA	$ 62	$ 68	$ (13)	$ (13)	$ (258)	$ 76	$ 503	$ 441	$ 534	$ 1,104	$ 862

As a percentage of revenues:

	Three Months Ended										
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008 (Unaudited)	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009
Revenues	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of revenues	22	25	26	28	28	29	30	32	33	30	31
Gross profit	78	75	74	72	72	71	70	68	67	70	69
Operating expenses											
Sales and marketing	44	47	47	47	46	43	39	37	36	35	37
Research and development	16	14	14	13	14	13	11	11	12	11	12
General and administrative	22	23	21	20	24	22	21	21	19	16	16
Total operating expenses	81	84	82	80	83	77	70	69	68	62	64
Income (loss) from operations	(4)	(9)	(7)	(8)	(11)	(6)	–	(2)	(1)	8	5
Other income (expense)											
Interest expense	(2)	(2)	(1)	(2)	(2)	(1)	(1)	(1)	(1)	(1)	(1)
Other income (expense)	–	1	–	1	–	–	–	–	1	–	–
Total other expense	(3)	(1)	(1)	1	(2)	(1)	(1)	(1)	–	(1)	(1)
Income tax expense	–	–	–	–	–	–	–	1	–	–	1
Net income (loss)	(6)%	(10)%	(9)%	(9)%	(13)%	(7)%	(2)%	(4)%	(1)%	7%	4%

Revenues increased sequentially for all quarters presented primarily due to increases in our recurring revenue customers and increases in recurring revenue per recurring revenue customer.

Gross profits have generally increased each quarter as we continue to grow our business. Gross profit margins generally have decreased as we have added personnel across all areas of our business to support our growth and expected future business. Going forward we would anticipate gross profit margins will approximate their current level as revenue growth begins to match the personnel costs we have added to build our business.

Operating expenses generally have been increasing because we have added personnel across all areas of our business to support our growth and expected future business.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through the sale of preferred stock, borrowings under credit facilities and, prior to 2004, issuances of notes payable to stockholders. At September 30, 2009, our principal sources of liquidity were cash and cash equivalents totaling $5.8 million and accounts receivable, net of allowance for doubtful accounts, of $4.8 million compared to cash and cash equivalents of $3.7 million and accounts receivable, net of allowance for doubtful accounts, of $4.6 million at December 31, 2008. Our working capital as of September 30, 2009 was $4.4 million compared to working capital of $3.6 million as of December 31, 2008. During 2009, we borrowed against our revolving credit facility and, as of September 30, 2009, we had an outstanding balance of $1.3 million. We bill our recurring revenue customers in arrears for monthly service fees and initial integration set-up fees. As a result, the amount of our accounts receivable at the end of a period is driven significantly by our revenues from recurring revenue customers for the last month of the period, and our cash flows from operations are affected by our collection of amounts due from customers for services that resulted in the recognition of revenues in a prior period.

Net Cash Flows from Operating Activities

Net cash provided by (used in) operating activities was $4.1 million for the nine months ended September 30, 2009, $(1.0 million) for the nine months ended September 30, 2008, $(807,000) for 2008, $(803,000) for 2007 and $247,000 for 2006. For the nine months ended September 30, 2009, net cash provided by operating activities was primarily a result of $949,000 of net income, non-cash depreciation and amortization of $1.1 million, a $1.3 million increase in accrued compensation for bonuses in 2009 compared to 2008 due to our improved performance in 2009, and an $837,000 increase in deferred revenue. Increases in deferred revenue are due to continued growth in new business, offset by the recognition of setup revenue recognized ratably over time.

For the nine months ended September 30, 2008, net cash used in operations was due to a $1.6 million net loss, primarily offset by non-cash depreciation and amortization expense of $1.5 million, an increase in accounts receivable of $628,000 due to business growth and an increase in deferred costs of $1.5 million primarily related to increased personnel costs associated with our increased implementations in the period, offset by increased deferred revenue from growth in new business of $1.2 million.

For 2008, net cash used in operating activities was primarily a result of a $1.9 million net loss, offset by $2.0 million in non-cash depreciation and amortization expense, an increase in accounts receivable of $811,000 due to business growth and an increase in deferred costs of $1.7 million primarily related to increased personnel costs associated with our increased implementations in the period, offset by increased deferred revenue from growth in new business of $1.5 million.

For 2007, net cash used in operating activities was primarily a result of a $2.2 million net loss, offset by $1.7 million in non-cash depreciation and amortization expense, and an increase in deferred costs of $2.9 million primarily related to increased personnel costs associated with our increased implementations in the period, offset by increased deferred revenue from growth in new business of $1.8 million and an increase in accrued compensation of $658,000 due to increased bonus compensation.

For 2006, net cash used in operating activities was primarily a result of a $1.3 million net loss, offset by $1.5 million in non-cash depreciation and amortization expense, an increase in accounts receivable of $1.2 million due to business growth and an increase in deferred costs of $695,000 primarily related to increased personnel costs associated with our increased implementations in the period, offset by increased deferred revenue from growth in new business of $1.5 million.

Net Cash Flows from Investing Activities

For the nine months ended September 30, 2009, cash used in investing activities was $506,000 for the purchase of various capital expenditures. In general, our various capital expenditures are for supporting our existing customer base, growth in new business, and internal use such as equipment for our employees. Cash

used in investing was $443,000 for the nine months ended September 30, 2008, consisting of $663,000 in capital expenditures partially offset by the sale of short-term investments of $220,000. Cash provided by investing for 2008 was $379,000, consisting of the sale of short-term investments of $1.3 million, partially offset by $884,000 in capital expenditures. Cash used in investing was $2.4 million for 2007, consisting of $1.1 million of capital expenditures and $1.3 million for the purchase of short-term investments. Cash used in investing for 2006 was $4.7 million, consisting of $1.0 million in capital expenditures, and $3.7 million in a business acquisition.

Net Cash Flows from Financing Activities

Cash used in financing activities was $1.5 million for the nine months ended September 30, 2009. We used these funds to pay $1.0 million in equipment loans and capital lease obligations and to pay $515,000 toward the term loan from our Owens Direct acquisition. For the nine months ended September 30, 2008, cash used in financing activities was $643,000. We used these funds primarily to pay capital lease obligations as well as to pay a portion of the term loan from our Owens Direct acquisition. For 2008, cash used in financing activities was $711,000. We used these funds primarily to pay capital lease obligations as well as to pay a portion of the term loan from our Owens Direct acquisition. For 2007, cash flows provided by financing was $6.1 million, primarily from the issuance of Series C redeemable convertible preferred stock in April. For 2006, cash provided by financing activities was $4.8 million, primarily from $2.4 million of redeemable convertible preferred stock proceeds and $1.9 million of proceeds from the term loan.

Credit Facility

We maintain a credit facility with BlueCrest Venture Finance Master Fund Limited. Pursuant to this facility, BlueCrest has provided us a series of equipment term loans that are payable in 36 equal monthly installments. In 2007, BlueCrest agreed to make equipment loans to us from time to time until December 31, 2007. Before its commitment expired, BlueCrest made loans in the aggregate principal amount of $1.2 million, of which $13,000 was outstanding as of September 30, 2009. Each loan bears interest at a per annum rate equal to the sum of (i) 7.20% plus (ii) the greater of 4.84% or the yield on three-year U.S. Treasury notes on the date the loan was made. In 2008, BlueCrest agreed to make additional equipment loans to us from time to time until December 31, 2008. Before its commitment expired, BlueCrest made loans in the aggregate principal amount of $756,000, of which $280,000 was outstanding as of September 30, 2009. Each loan bears interest at a per annum rate equal to the sum of (i) 9.25% plus (ii) the greater of 2.55% or the yield on three-year U.S. Treasury notes on the date the loan was made. In 2009, we executed an amendment to the credit facility pursuant to which BlueCrest agreed to make additional equipment loans from time to time until December 31, 2009. These equipment loans may not exceed $1.1 million in the aggregate and can be used only to purchase equipment. BlueCrest had made no loans under this commitment as of September 30, 2009. Any loans made will bear interest at 12.75% per annum.

In 2009, BlueCrest also established a revolving credit facility that allows us to borrow an amount that does not exceed the lesser of the revolving loan commitment and the borrowing base. The amount of the revolving loan commitment is $3.5 million. The borrowing base is determined monthly and calculated based on specified percentages of our domestic and Canadian accounts receivable, less certain reserves established by BlueCrest. As of October 31, 2009, the maximum amount we could borrow under the revolving facility was $1.4 million, all of which we had borrowed. The revolving facility terminates on March 31, 2010 and outstanding amounts bear interest at the rate of 9.00% per annum. We are required to pay to BlueCrest an annual commitment fee equal to 0.75% per annum on the total amount of the revolving loan commitment.

The BlueCrest revolving loans and equipment loans are secured by a first lien on substantially all of our personal property. The BlueCrest credit facility permits BlueCrest to accelerate the loans upon the occurrence of various events of default, including a change in control or a material adverse change in our assets, business, operations or condition.

Adequacy of Capital Resources

Our future capital requirements may vary materially 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 and the response of competitors to our solutions and applications. Historically, we have experienced increases in our expenditures consistent with the growth in our operations and personnel, and we anticipate that our expenditures will continue to increase as we grow our business.

We believe our cash and cash equivalents, the proceeds from this offering, funds available under our equipment term loan and revolving credit facilities 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.

During the last three years, inflation and changing prices have not had a material effect on our business and 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.

Contractual and Commercial Commitment Summary

Our contractual obligations and commercial commitments as of December 31, 2008 are summarized below:

	Payments Due by Period				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(In thousands)		
Long-term debt obligations (1)	$ 2,159	$ 1,427	$ 723	$ 9	$ –
Capital lease obligations	994	441	553	–	–
Operating lease obligations	3,021	771	1,577	673	–
Other long-term liabilities (2)	4,096	–	–	–	–
Total	$ 10,270	$ 2,639	$ 2,853	$ 682	$ –

(1) Consists of equipment loans from BlueCrest Venture Finance Master Fund Limited.

(2) Consists of the long-term portion of deferred revenues and deferred tax liability.

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. Due to the nature of our short-term investments, we have concluded that we do not have material market risk exposure. All of our outstanding debt as of December 31, 2008 and September 30, 2009 had a fixed rate. We therefore do not have any material risk to interest rate fluctuations.

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

Seasonality

The size and breadth of our customer base mitigates the seasonality of any particular retailer. As a result, our results of operations are not materially affected by seasonality.

New Accounting Pronouncements

In February 2008, the Financial Accounting Standards Board, or FASB, issued guidance that delayed the effective date of ASC 820, *Fair Value Measurements and Disclosures*, for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted ASC 820 for non-financial assets and non-financial liabilities on January 1, 2009, and such adoption did not have a material impact on our financial condition or results of operations.

Effective January 1, 2008, we adopted the Fair Value Option of ASC 825, *Financial Instruments*. ASC 825 permits entities to choose to measure many financial instruments and certain other items at fair value. We did not elect the fair value of accounting option for any of our eligible assets or liabilities; therefore, this adoption had no impact on our financial condition or results of operations.

In April 2009, the FASB issued guidance that requires interim reporting period disclosure about the fair value of certain financial instruments, effective for interim reporting periods ending after June 15, 2009. We have adopted these disclosure requirements. Due to their nature, the carrying value of our cash, receivables, payables and debt obligations approximates fair value.

In May 2009, the FASB issued ASC 855, *Subsequent Events*. ASC 855 incorporates guidance into accounting literature that was previously addressed only in auditing standards. The statement refers to subsequent events that provide additional evidence about conditions that existed at the balance-sheet date as "recognized subsequent events." Subsequent events which provide evidence about conditions that arose after the balance sheet date but prior to the issuance of the financial statements are referred to as "non-recognized subsequent events." It also requires companies to disclose the date through which subsequent events have been evaluated and whether this date is the date the financial statements were issued or the date the financial statements were available to be issued. The disclosure requirements of ASC 855 are effective for interim and annual periods ending after June 15, 2009. We have adopted this new standard.

In June 2009, the FASB issued guidance that establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles, or GAAP. Use of the new codification is effective for interim and annual periods ending after September 15, 2009. We have used the new codification in reference to GAAP in this prospectus and such use has not impacted our results.

In October 2009, the FASB issued the following ASUs:

- ASU No. 2009-13, *Revenue Recognition (ASC Topic 605), Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*; and
- ASU No. 2009-14, *Software (ASC Topic 985), Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force.*

ASU No. 2009-13: This guidance modifies the fair value requirements of ASC subtopic 605-25, *Revenue Recognition-Multiple Element Arrangements*, by allowing the use of the "best estimate of selling price" in addition to VSOE and Vendor Objective Evidence (now referred to as third-party evidence, or TPE) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted.

ASU No. 2009-14: This guidance modifies the scope of ASC subtopic 965-605, *Software-Revenue Recognition*, to exclude from its requirements (a) non-software components of tangible products and

(b) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality.

These updates require expanded qualitative and quantitative disclosures and are effective for fiscal years beginning on or after June 15, 2010. However, companies may elect to adopt as early as interim periods ended September 30, 2009. These updates may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. We currently are evaluating the impact of adopting these updates on our financial statements.

BUSINESS

Overview

We are a leading provider of on-demand supply chain management solutions, 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. Implementing and maintaining supply chain management software is resource intensive and not a core competency for most businesses. SPSCommerce.net uses pre-built integrations to eliminate the need for on-premise software and support staff, which enables our supplier customers to shorten supply cycle times, optimize inventory levels, reduce costs and satisfy retailer requirements. As of December 31, 2009, we had over 11,000 customers with contracts to pay us monthly fees, which we refer to as recurring revenue customers. We have also generated revenues by providing supply chain management solutions to an additional 24,000 organizations that, together with our recurring revenue customers, we refer to as our customers. Once connected to our platform, our customers often require integrations to new organizations that represent an expansion of our platform and new sources of revenues for us.

We deliver our solutions to our customers over the Internet using a Software-as-a-Service model. This model enables our customers to easily interact with their trading partners around the world without the local implementation and servicing of software that traditional on-premise solutions require. Our delivery model also enables us to offer greater functionality, integration and reliability with less cost and risk than traditional solutions. Our platform features pre-built integrations with 2,700 order management models across 1,300 retailers, grocers and distributors, as well as integrations to over 100 accounting, warehouse management, enterprise resource planning and packing and shipping applications. Our delivery model leverages our existing integrations across current and new customers. As a result, each integration that we add to SPSCommerce.net makes our platform more appealing to potential customers by increasing the number of pre-built integrations we offer. Furthermore, integrating trading partners to SPSCommerce.net can generate new sales leads from the organizations with which we integrate our customers because those organizations typically have other trading partners who can benefit from our solutions. We systematically pursue these sales leads to convert them into new customers.

For 2006, 2007, 2008 and the nine months ended September 30, 2009, we generated revenues of $19.9 million, $25.2 million, $30.7 million and $27.8 million. Our fiscal quarter ended September 30, 2009 represented our 35th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 83%, 83%, 84% and 80% of our total revenues for 2006, 2007, 2008 and the nine months ended September 30, 2009. No customer represented over 1% of our revenues for 2006, 2007, 2008 or the nine months ended September 30, 2009.

Our Industry

Supply Chain Management Industry Background

The supply chain management industry serves thousands of retailers around the world supplied with goods from tens of thousands of suppliers. Additional participants in this market include distributors, third-party logistics providers, manufacturers, fulfillment and warehousing providers and sourcing companies. Supply chain management involves communicating data related to the exchange of goods among these trading partners. At every stage of the supply chain there are inefficient, labor-intensive processes between trading partners with significant documentation requirements, such as the counting, sorting and verifying of goods before shipment, while in transit and upon delivery. Supply chain management solutions must address trading partners' needs for integration, collaboration, connectivity, visibility and data analytics to improve the speed, accuracy and efficiency with which goods are ordered and supplied.

Our target market of supply chain integration solutions is categorized by Gartner within the broader Integration Services market, which Gartner estimates was $1.5 billion in 2008 (Magic Quadrant for Integration Service Providers, report by Benoit Lheurueux, November 2009). The pervasiveness of the Internet, along with the dramatic declines in the pricing of computing technology and network bandwidth, have enabled companies to adopt on-demand applications at an increasing rate. As familiarity and acceptance of on-demand solutions continues to accelerate, we believe customers, both large and small, will continue to turn to on-demand delivery methods similar to ours for their supply chain integration needs, as opposed to traditional on-premise software deployment. International Data Corporation, or IDC, estimates that the global on-demand software market reached $5.7 billion in 2007 and expects it to increase to $17.0 billion in 2012, a compounded annual growth rate of 24%.

The Rule Books – Integration Between Retailers and Suppliers

Retailers impose specific work-flow rules and standards on their trading partners for electronically communicating supply chain information. These "rule books" include specific business processes for suppliers to exchange data and documentation requirements such as invoices, purchase orders and advance shipping notices. Rule books can be hundreds of pages, and retailers frequently have multiple rule books for international requirements or specific fulfillment models. Suppliers working with multiple retailers need to accommodate different rule books for each retailer. These rule books are not standardized between retailers, but vary based on a retailer's size, industry and technological capabilities. The responsibility for creating information "maps," which are integration connections between the retailer and the supplier that comply with the retailer's rule books, resides primarily with the supplier. The cost of noncompliance can be refusal of delivered goods, fines and ultimately a termination of the supplier's relationship with the retailer. The complexity of retailers' requirements and consequences of noncompliance create growing demand for specialized supply chain management solutions.

Traditional Supply Chain Management Solutions

Traditional supply chain management solutions range from non-automated paper or fax solutions to electronic solutions implemented using on-premise licensed software. On-premise licensed software provides connectivity between only one organization and its trading partners and typically requires significant time and technical expertise to configure, deploy and maintain. These software providers primarily link retailers and suppliers through the Electronic Data Interchange protocol that enables the structured electronic transmission of data between organizations. Because of set-up and maintenance costs, technical complexity and a growing volume of requirements from retailers, the traditional software model is not well suited for many suppliers, especially those small and medium in size.

Key Trends in Supply Chain Management

A number of key trends are impacting the supply chain management industry and increasing demand for supply chain management solutions. These include:

- *Increasing Retailer Service and Performance Demands.* Within the supply chain ecosystem, retailers hold a significant strategic position relative to their trading partners, particularly small- and medium-sized suppliers. Retailers maintain the direct relationship with the consumer and collect the retail price, within which the cost of manufacture and distribution must be covered. Given this power dynamic, retailers continuously demand enhanced levels of performance from suppliers, including more frequent on-time delivery of goods, increased availability of goods to manage inventory and lower prices. We believe the recent economic downturn has exacerbated these trends.
- *Globalization of the Supply Chain Ecosystem.* Globalization creates the need for participants in the supply chain ecosystem to connect across time zones with different languages and regulatory environments. Retailers typically demand a 10-day turnaround upon submitting a purchase order. However, growing physical distances between the sources of materials, manufacturers and retailers, as well as the complexities of connecting with trading partners worldwide, increase the time a supplier typically needs to obtain goods to 60 days from receipt of a purchase order. This increased time pressure to deliver goods requires that the various trading partners in the supply chain communicate more efficiently than current solutions typically offer.
- *Increasing Complexity of the Supply Chain Ecosystem.* Increasing cost pressures force many suppliers, especially those of a small and medium size, to focus on product development and business management. This specialization drives organizations to outsource non-core business functions, including fabrication, distribution and transportation. Outsourcing these functions increases the number of participants in the supply chain ecosystem. The increasing complexity from these additional participants drives demand for a more integrated approach allowing suppliers to communicate and track a larger volume of information among a larger number of trading partners than traditional solutions have supported.
- *Increasing Use of Outsourcing by Small- and Medium-Sized Suppliers*. The outsourcing of non-core business functions, including by small- and medium-sized suppliers, has helped participants in the supply chain ecosystem become more comfortable utilizing outsourced service providers, including for information technology services. Limited internal expertise and constrained budgets also drive the need for suppliers to rely on third-party service providers to manage the complexity of their supply chain at an affordable cost.

Need for Effective Analysis of Data for Intelligent Decision Making

Integrating retailers and suppliers is a first step in addressing the complexities in the supply chain ecosystem. As the number and geographic dispersion of trading partners has grown, so too has the volume of data produced by the supply chain. As a result, trading partners want a solution to effectively consolidate, distill and channel information to managers and decision-makers who can use the information to drive efficiency, revenue growth and profitability. The abundance of data produced by these processes,

including data for fulfillment, sales and inventory levels, is often inaccessible to trading partners for analysis. The data and related analytics are essential for optimizing the inventory and fulfillment process and will continue to drive demand for supply chain management solutions.

Organizations are continuing to increase their demand for gathering and analyzing data. For example, IDC estimates the worldwide business analytics software market will grow from $24.1 billion in 2008 to $34.2 billion in 2013 at a compound annual growth rate of 7%. This broader market is subcategorized by IDC into four segments: spatial information analytics tools, data warehousing platform software, business intelligence tools and analytics applications. The analytics applications segment includes the supply chain analytics application market. We believe our target market of analytical applications falls within both the business intelligence sub-segment, which is expected to grow from $7.8 billion in 2008 to $10.9 billion in 2013, at a compound annual growth rate of 7%, as well as the supply chain analytics application market, which is expected to grow from $1.6 billion to $2.0 billion at a compound annual growth rate of 5%.

Software-as-a-Service Solutions Provide Flexibility and Effective Management Across the Supply Chain

A Software-as-a-Service model is well suited for providing supply chain management solutions. On-demand solutions are able to continue utilizing standard connectivity protocols, such as Electronic Data Interchange, but also are able to support other protocols, such as XML, as retailers require. These on-demand solutions connect suppliers and retailers more efficiently than traditional on-premise software solutions by leveraging the integrations created for a single supplier across all participating suppliers.

Trading partners are demanding better supply chain management solutions than traditional on-premise software, which does not efficiently integrate an organization to all of its trading partners. Software-as-a-Service solutions allow an organization to connect across the supply chain ecosystem, addressing increased retailer demands, globalization and increased complexity affecting the supply chain. Also, Software-as-a-Service solutions can integrate supply chain management applications with organizations' existing enterprise resource planning systems. The increased integration with trading partners and into organizations' business systems increases the reliance of customers on the solutions their Software-as-a-Service vendors provide. We believe suppliers will increasingly turn to Software-as-a-Service solutions for a simple, cost-effective solution to supply chain management problems.

SPSCommerce.net: Our Platform

We operate one of the largest trading partner integration centers through SPSCommerce.net, a hosted software suite that improves the way suppliers, retailers, distributors and other trading partners manage and fulfill orders. More than 35,000 customers across more than 40 countries have used our platform to enhance their trading relationships. SPSCommerce.net fundamentally changes how organizations use electronic communication to manage their supply chains by replacing the collection of traditional, custom-built, point-to-point integrations with a "hub-and-spoke" model whereby a single integration to SPSCommerce.net allows an organization to connect seamlessly to the entire SPSCommerce.net network of trading partners.

SPSCommerce.net combines integrations that comply with 2,700 rule books for 1,300 retailers, grocers and distributors, through a multi-tenant architecture and provides ancillary support services that deliver a comprehensive set of supply chain management solutions to customers. By maintaining current integrations with retailers such as Wal-Mart, Target, Macy's and Safeway, SPSCommerce.net obviates the need for suppliers to continually stay up-to-date with the rule book changes required by these large retailers. Moreover, by leveraging an on-demand delivery model, we eliminate or greatly reduce the burden on suppliers to support and maintain an on-premise software application, thereby reducing ongoing operating costs. As the communication hub for trading partners, we provide seamless, cost-effective integration and connectivity as well as increased visibility and data analytics capabilities for retailers and suppliers across their supply chains, each of which is difficult to gain from traditional, point-to-point integration solutions.

Our platform places us at the center of the supply chain ecosystem and benefits every member of the chain.

Supplier Benefits. SPSCommerce.net provides suppliers, distributors, third-party logistics providers, outsourced manufacturers, fulfillment and warehousing providers and sourcing companies the following benefits:

- More reliable and faster integration with retailers by leveraging our expertise to comply with retailers' rule book requirements;
- Reduced costs through improved efficiency and accuracy in the order fulfillment process through on-demand communications with trading partners around the world, reduced manual data entry and access to support services such as our translation application;
- Reduced deployment risk, simplified ongoing operations and lower maintenance costs, each of which results from the ability of SPSCommerce.net to provide a supplier with connectivity to its trading partners without a significant upfront investment in specialized software or ongoing investments in personnel to maintain the software; and
- Increased sales from enhanced supply chain visibility into retailers' inventory and point-of-sale information, which reduces out-of-stock situations and improves the effectiveness of promotional activities.

Retailer Benefits. We enable buying organizations, such as retailers, grocers and distributors, to establish more comprehensive and advanced integrations with a broader set of suppliers. Our platform also provides these buying organizations the following benefits:

- Reduced expenses through automation of the receipt of goods at distribution centers, more effective reconciliation of shipments, orders and payments, and reduced manual effort and data entry;
- Improved reliability of suppliers who are more likely to comply with rule book requirements by leveraging our expertise integrating trading partners;
- Decreased cost and enhanced quality of inventory by more efficiently tracking sales and inventory information and communicating with suppliers; and
- Growth of revenue by reducing the risk of failing to keep products in stock and the associated reputational impact with consumers.

Our platform delivers suppliers and retailers the following solutions:

- *Trading Partner Integration.* Our Trading Partner Integration solution replaces or augments an organization's existing trading partner electronic communication infrastructure, enabling suppliers to comply with retailers' rule books and allowing for the electronic exchange of information among numerous trading partners through various protocols.
- *Trading Partner Enablement.* Our Trading Partner Enablement solution helps organizations, typically large retailers, implement new integrations with trading partners to drive automation and electronic communication across their supply chains.

- *Trading Partner Intelligence.* In 2009, we introduced our Trading Partner Intelligence solution, which consists of six data analytics applications and allows our supplier customers to improve their visibility across, and analysis of, their supply chains. Retailers improve their visibility into supplier performance and their understanding of product sell-through.
- *Other Trading Partner Solutions.* We provide a number of peripheral solutions such as barcode labeling and our scan and pack application, which helps trading partners process information to streamline the picking and packaging process.

Our Go-to-Market Approach

As one of the largest on-demand supply chain management solutions providers, the trading partner relationships that we enable among our retailer, supplier and fulfillment customers naturally lead to new customer acquisition opportunities.

"Network Effect" of SPSCommerce.net

Once connected to our network, trading partners can exchange electronic supply chain information with each other. Through our platform, we helped over 35,000 customers to communicate electronically with their trading partners. The value of our platform increases with the number of trading partners connected to the platform. The addition of each new customer to our platform allows that new customer to communicate with our existing customers and allows our existing customers to route orders to the new customer. This "network effect" of adding an additional customer to our platform creates a significant opportunity for existing customers to realize incremental sales by working with our new trading partners and vice versa. As a result of this increased volume of activity amongst our network participants, we earn additional revenues from these participants.

Customer Acquisition Sources

Trading Partner Enablement. When a retailer decides to change the workflow or protocol by which it interacts with its suppliers, the retailer may engage us to work with its supplier base to communicate and test the change in procedure. Performing these programs on behalf of retailers often generates supplier sales leads for us, many of which may become recurring revenue customers.

Referrals from Trading Partners. We also receive sales leads from customers of SPSCommerce.net seeking to communicate electronically with their trading partners. For example, a supplier may refer to us its third-party logistics provider or manufacturer which is not in our network. This viral referral effect has helped us to add thousands of customers to our platform every year and has proven to be a significant source of sales lead generation. This viral sales lead generation allows us to acquire new customers at a lower cost than traditional marketing programs. Typically, these new customers become recurring revenue customers.

Channel Partners. In addition to the customer acquisition sources identified above, we market our solutions through channel partners. For example, we have contractual relationships with a leading global logistics provider and NetSuite, through whom we gain additional sales. In the case of the leading global logistics provider, we private label our applications, which are in turn sold as this company's branded services. This company sells our applications through their sales force at no cost to us. In our relationship with NetSuite, we refer customers to one another to gain additional revenue sources.

Our Sales Force

We also sell our solutions through a direct sales force of over 60 people. Our sales force is organized as follows:

- *Retailer Sales.* We employ a team of sales professionals who focus on selling our Trading Partner Enablement solution to retailers, grocers and distributors. These sales professionals seek to establish relationships with executive managers at existing and new retailers, through whom we generate supplier sales leads. In addition to supplier sales leads, a portion of these retailers purchase our solutions as well, resulting in increased revenue generation.

- *Supplier Sales.* We employ a team of supplier sales representatives based in North America. We also maintain an office in China with sales representatives. These sales professionals primarily work over the phone to convert sales leads into customers and then actively sell additional solutions to those customers over time.
- *Business Development Efforts.* Our business development organization focuses on indirect sales channels. This group establishes relationships with resellers, system integrators, software providers and other partners. In the future, we expect to forge additional indirect channel partnerships to continue to grow this part of our business.

Other Marketing Initiatives

We actively engage in sales lead generation and nurturing programs through direct mail, email and telemarketing campaigns. Our marketing programs include public relations, web seminars, trade shows and industry conferences and an annual user conference. We publish white papers relating to supply chain issues and develop customer reference programs, such as customer case studies. We also provide marketing support and referral programs for channel partners.

Our Growth Strategy

Our objective is to be the leading global provider of supply chain management solutions. Key elements of our strategy include:

- *Further Penetrate Our Current Market.* We believe the global supply chain management market is under-penetrated and, as the supply chain ecosystem becomes more complex and geographically dispersed, the demand for supply chain management solutions will increase, especially among small- and medium-sized businesses. We intend to continue leveraging our relationships with customers and their trading partners to obtain new sales leads. We believe our leadership in providing supply chain management solutions favorably positions us to convert these sales leads into customers.
- *Increase Revenues from Our Customer Base.* We believe our overall customer satisfaction is strong and will lead our customers to further utilize our current solutions as their businesses grow, generating additional revenues for us. We also expect to introduce new solutions to sell to our customers. We believe our position as the incumbent supply chain management solution provider to our customers, our integration into our recurring revenue customers' business systems and the modular nature of our platform are conducive to deploying additional solutions with customers.
- *Expand Our Distribution Channels.* We intend to grow our business by expanding our network of direct sales representatives to gain new customers. We also believe there are valuable opportunities to promote and sell our solutions through collaboration with other providers. For example, we currently provide tracking, visibility and data analysis applications to a leading global logistics provider. We believe there are opportunities for us to leverage our relationship with this company to identify sales leads that will continue to lead to new customers. We integrated our applications with NetSuite's business software, which is another relationship we expect will continue to provide us new sales leads.
- *Expand Our International Presence.* We believe our presence in China represents a significant competitive advantage. We plan to increase our international sales efforts to obtain new supplier customers around the world. We also intend to leverage our current international presence to increase the number of integrations we have with retailers in foreign markets to make our platform more valuable to suppliers based overseas.
- *Enhance and Expand Our Platform.* We intend to further improve and develop the functionality and features of our platform, including developing new solutions and applications. For example, in 2009, we launched our Trading Partner Intelligence solution, which delivers data analytics applications to suppliers and retailers to improve performance. We also introduced a scan and pack application in 2009 that helps trading partners process information to streamline the picking and packaging process.

- *Selectively Pursue Strategic Acquisitions.* The fragmented nature of our market provides opportunity for selective acquisitions. To complement and accelerate our internal growth, we may pursue acquisitions of other supply chain management companies to add customers. We also may pursue acquisitions that allow us to expand into regions or industries where we do not have a significant presence or to offer new functionalities we do not currently provide. We plan to evaluate potential acquisitions of other supply chain management companies primarily based on the number of customers the acquisition would provide relative to the purchase price. We plan to evaluate potential acquisitions to expand into new regions or industries or offer additional functionalities primarily based on the anticipated growth the acquisition would provide, the purchase price and our ability to integrate and operate the acquired business. We are not currently in negotiations for any acquisitions.

Technology, Development and Operations

Technology

We were an early provider of Software-as-a-Service solutions to the supply chain management industry, launching the first version of our platform in 1997. We use commercially available hardware and a combination of proprietary and commercially available software, including software from Oracle, Microsoft, Sun and EMC, as well as open source software including Linux and Apache.

The software we license from third parties is typically licensed to us pursuant to a multi-year or perpetual license that includes a multi-year support services agreement with the third party. Our ability to access upgrades to certain software is conditioned upon our continual maintenance of a support services agreement with the third party between the date of the initial license and the date on which we seek or are required to upgrade the software. Although we believe we could replace the software we currently license from third parties with alternative software, doing so could take time, could result in the temporary unavailability of our platform and increase our costs of operations.

Our scalable, on-demand platform treats all customers as logically separate tenants in central applications and databases. As a result, we spread the cost of delivering our solutions across our customer base. Because we do not manage thousands of distinct applications with their own business logic and database schemes, we believe that we can scale our business faster than traditional software vendors, even those that modified their products to be accessible over the Internet.

Development

Our research and development efforts focus on improving and enhancing our existing solutions, as well as developing new solutions and applications. Because of our multi-tenant architecture, we provide our customers with a single version of our platform, which we believe allows us to maintain relatively low research and development expenses compared to traditional on-premise licensed software solutions that support multiple versions.

Operations

We serve our customers from two third-party data centers located in Minneapolis and Saint Paul, Minnesota. These facilities provide security measures, environmental controls and sophisticated fire systems. Additionally, redundant electrical generators and environmental control devices are required to keep servers running. We operate all of the hardware on which our applications run in the data centers.

We continuously monitor the performance of our platform. We have a site operations team that provides system management, maintenance, monitoring and back-up. We have monitoring software that continually checks our platform and key underlying components at regular intervals for availability and performance, ensuring our platform is available and providing adequate response.

To facilitate loss recovery, we operate a multi-tiered system configuration with load-balanced web server pools, replicated database servers and fault-tolerant storage devices. Databases leverage third-party features for real-time replication across sites. This is designed to ensure near real-time data recovery in the event of a malfunction with a primary database or server.

Our Customers

As of December 31, 2009, we had over 11,000 recurring revenue customers and over 35,000 total customers. Our primary source of revenue is from small- to mid-sized suppliers in the consumer packaged goods industry. We also generate revenues from other members of the supply chain ecosystem, including retailers, grocers, distributors, third-party logistics providers and other trading partners. No customer represented over 1% of our revenues in 2006, 2007, 2008 or the nine months ended September 30, 2009.

Competition

Vendors in the supply chain management industry offer solutions through three delivery methods: on-demand, traditional on-premise software and managed services.

The market for on-demand supply chain management solutions is fragmented and rapidly evolving. Software-as-a-Service vendors compete directly with each other based on the following:

- breadth of pre-built connections to retailers, third-party logistics providers and other trading partners;
- history of establishing and maintaining reliable integration connections with trading partners;
- reputation of the Software-as-a-Service vendor in the supply chain management industry;
- price;
- specialization in a customer market segment;
- speed and quality with which the Software-as-a-Service vendor can integrate its customers to their trading partners;
- functionality of the Software-as-a-Service solution, such as the ability to integrate the solution with a customer's business systems;
- breadth of complementary supply chain management solutions the Software-as-a-Service vendor offers; and
- training and customer support services provided during and after a customer's initial integration.

We expect to encounter new and increased competition as this market segment consolidates and matures. Consolidation among Software-as-a-Service vendors could create a direct competitor that is able to compete with us more effectively than the numerous, smaller vendors currently offering Software-as-a-Service supply chain management solutions. Increased competition from Software-as-a-Service vendors could reduce our market share, revenues and operating margins or otherwise adversely affect our business.

Software-as-a-Service vendors also compete with traditional on-premise software companies and managed service providers. Traditional on-premise software companies focused on supply chain integration management include Sterling Commerce, a subsidiary of AT&T, GXS Corporation, Inovis, Extol International and Seeburger. These companies offer a "do-it-yourself" approach in which customers purchase, install and manage specialized software, hardware and value-added networks for their supply chain integration needs. This approach requires customers to invest in staff to operate and maintain the software. Traditional on-premise software companies use a single-tenant approach in which information maps to retailers are built for and used by one supplier, as compared to Software-as-a-Service solutions that allow multiple customers to share information maps with a retailer.

Managed service providers focused on the supply chain management market include Sterling Commerce, GXS and Inovis. These companies combine traditional on-premise software, hardware and value-added networks with professional information technology services to manage these resources. Like traditional on-premise software companies, managed service providers use a single-tenant approach.

Customers of traditional on-premise software companies and managed service providers typically make significant upfront investments in the supply chain management solutions these competitors provide, which can decrease the customers' willingness to abandon their investments in favor of a Software-as-a-Service solution. Software-as-a-Service supply chain management solutions also are at a relatively early stage of development compared to traditional on-premise software and managed service providers. Software-as-a-Service vendors compete with these better established solutions based on total cost of ownership and flexibility. If suppliers do not perceive the benefits of Software-as-a-Service solutions, or if suppliers are unwilling to abandon their investments in other supply chain management solutions, our business and growth may suffer. In addition, many traditional on-premise software companies and managed service providers have larger customer bases and may be better capitalized than we are, which may provide them with an advantage in developing, marketing or servicing solutions that compete with ours.

Intellectual Property and Proprietary Content

We rely on a combination of copyright, trademark and trade secret laws in the United States as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, documentation and other proprietary information. We registered the marks SPSCommerce.net and SPS Commerce in the United States. We do not have any patents or applications for patents. Our trade secrets consist primarily of the software we have developed for our SPSCommerce.net integration center. Our software is also protected under copyright law, but we do not have any registered copyrights.

Legal Proceedings

We are not currently subject to any material legal proceedings. From time to time, we have been named as a defendant in legal actions arising from our normal business activities, none of which has had a material effect on our business, results of operations or financial condition. We believe that we have obtained adequate insurance coverage or rights to indemnification in connection with potential legal proceedings that may arise.

Facilities

Our corporate headquarters, including our principal administrative, marketing, sales, technical support and research and development facilities, are located in Minneapolis, where we lease approximately 47,300 square feet under an agreement that expires on October 31, 2012.

We believe that our current facilities are suitable and adequate to meet our current needs, and that suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

Employees

As of December 31, 2009, we had 292 employees. We also employ independent contractors to support our operations. We believe that our continued success will depend on our ability to continue to attract and retain skilled technical and sales personnel. We have never had a work stoppage, and none of our employees are represented by a labor union. We believe our relationship with our employees is good.

MANAGEMENT

Executive Officers and Directors

The following table sets forth information concerning our directors and executive officers:

Name	Age	Position
Archie C. Black	47	Chief Executive Officer, President and Director
Kimberly K. Nelson	42	Executive Vice President and Chief Financial Officer
James J. Frome	45	Executive Vice President and Chief Strategy Officer
Michael J. Gray	50	Executive Vice President of Operations
David J. Novak, Jr.	41	Executive Vice President of Business Development
Steve A. Cobb	38	Chairman of the Board of Directors
Michael B. Gorman	43	Director
Martin J. Leestma	52	Director
George H. Spencer, III	46	Director
Sven A. Wehrwein	58	Director
Murray R. Wilson	48	Director

Executive Officers

Archie C. Black joined us in 1998 as our Senior Vice President and Chief Financial Officer and served in those capacities until becoming our President and Chief Executive Officer and a director in 2001. Prior to joining us, Mr. Black was a Senior Vice President and Chief Financial Officer at Investment Advisors, Inc. in Minneapolis, Minnesota. Prior to Investment Advisors, he spent three years at Price Waterhouse.

Kimberly K. Nelson has served as our Executive Vice President and Chief Financial Officer since November 2007. Prior to joining us, Ms. Nelson served as the Finance Director, Investor Relations for Amazon.com from June 2005 through November 2007. From April 2003 until June 2005, she served as the Finance Director, Worldwide Application for Amazon.com's Technology group. Ms. Nelson also served as Amazon.com's Finance Director, Financial Planning and Analysis from December 2000 until April 2003.

James J. Frome has served as our Executive Vice President and Chief Strategy Officer since March 2001. Mr. Frome served as our Vice President of Marketing from July 2000 to March 2001. Prior to joining us, he served as a Divisional Vice President of marketing at Sterling Software, Inc. from 1999 to 2000. Prior to joining Sterling Software, he served as a Senior Product Manager and Director of Product Management at Information Advantage, Inc. from 1993 to 1999.

Michael J. Gray has served as our Executive Vice President of Operations since November 2008. Prior to joining us, Mr. Gray served as Chief Technology Officer at IDeaS Revenue Optimization from October 2007 to November 2008. From 2001 to October 2007, Mr. Gray served as Senior Director of Technology at Thomson Corporation (formerly West Publishing). Mr. Gray also served in various leadership and technical position at Thomson Corporation prior to his promotion to Senior Director of Technology.

David J. Novak, Jr. has served as our Executive Vice President of Business Development since 2007. Prior to joining us, he served as Vice President of Sales, North America-Business Intelligence for Oracle Corporation from January 2006 to June 2007. Prior to Oracle's acquisition of Siebel Systems, Inc. in 2006, he served as Regional Vice President of Sales – Western U.S. and Asia Pacific for Siebel Systems' business intelligence division starting in 2001.

Board of Directors

Steve A. Cobb was elected to our board of directors in December 2006. He is currently a Managing Director of CID Capital where he has served since 2001. Prior to joining CID Capital, he was a finance manager with Procter & Gamble.

Michael B. Gorman has served as a member of our board of directors since March 1998. Mr. Gorman is a Managing Director of Split Rock Partners, a venture capital firm which he co-founded in June 2004. From 1995 until June 2004, Mr. Gorman was a General Partner at St. Paul Venture Capital, a venture capital firm, where he focused on early-stage investing in software and Internet services companies. Mr. Gorman's prior work experience includes serving as a management consultant with Bain & Company, where he assisted clients in the development and execution of corporate strategies.

Martin J. Leestma has served on our board of directors since March 2006. He served as the President, Chief Executive Officer, and was a member of the board of directors for Retek Information Systems from 2003 to 2005, during which time Retek was a publicly-traded company. Prior to joining Retek, he was Global Managing Partner of Retail Technology at Accenture from 1996 to 1999 and Managing Partner of North American Consumer Goods & Services from 1999 to 2002. He became Global Industry Managing Partner – Retail & CG&S industries in 2002 and served in this role until his departure in 2003. Since 2005, he has served as an independent business consultant.

George H. Spencer, III has served on our board of directors since February 2000. He is Senior Managing Director at Seyen Capital, which he co-founded in October 2006, and serves as a Senior Consultant to Adams Street Partners, LLC, which he co-founded and where he served as a Partner from 1999 to October 2006.

Sven A. Wehrwein has served on our board of directors since July 2008. He has been an independent financial consultant to emerging companies since 1999. He has more than 30 years of experience as an investment banker, chief financial officer and certified public accountant. He currently serves on the board of directors of Compellent Technologies, Inc., Image Sensing Systems, Inc., Synovis Life Technologies, Inc., Uroplasty, Inc. and Vital Images, Inc., all of which are publicly-traded companies, and he served on the board of directors of Zamba Corporation between 1999 and 2004 when Zamba was a publicly-traded company.

Murray R. Wilson has served on our board of directors since April 2007. He is currently a Managing Director of Mayfield & Robinson, Inc., the investment management company for River Cities Capital Funds, a family of venture capital funds. He joined Mayfield & Robinson in 1995 as a Principal, and was promoted to Managing Director in 2004. Prior to Mayfield & Robinson, Mr. Wilson was an Associate with Blue Chip Venture Company from 1992 to 1995. From 1985 through 1990, he served as Assistant Investment Officer for Neworld Savings Bank.

Messrs. Cobb, Gorman, Wilson, Spencer and Black were elected to our board of directors pursuant to a voting agreement entered into in connection with the sale of our series C convertible preferred stock in 2007. The voting agreement provides that the parties thereto will vote for nominees of the venture capital funds with which Messrs. Cobb, Gorman, Spencer and Wilson are affiliated for so long as the applicable fund and its affiliates own a specified percentage of our capital stock. The voting agreement also provides that our Chief Executive Officer will be elected to serve as a director. This voting agreement will terminate upon the closing of this offering.

Board Composition

Our board of directors currently consists of seven directors. Our board of directors has determined that six of our seven directors are independent directors, as defined under the applicable rules of the Nasdaq stock market. The independent directors are Messrs. Cobb, Gorman, Leestma, Spencer, Wehrwein and Wilson.

There is no family relationship between any director, executive officer or person nominated to become a director or executive officer.

Board Committees

The board of directors has established an audit committee and a compensation committee and, immediately prior to this offering will establish a nominating and governance committee. Each of our committees will have a charter in effect upon the closing of this offering and we expect that each charter will be posted on our website.

The following sets forth the membership of each of our committees upon completion of this offering.

Audit Committee	Nominating and Governance Committee	Compensation Committee
Sven A. Wehrwein, Chairperson	Steve A. Cobb, Chairperson	George H. Spencer, III, Chairperson
Martin J. Leestma	Sven A. Wehrwein	Michael B. Gorman
George H. Spencer, III		Martin J. Leestma

Audit Committee

Among other matters, our audit committee will:

- evaluate the qualifications, performance and independence of our independent auditor and review and approve both audit and nonaudit services to be provided by the independent auditor;
- discuss with management and our independent auditors any major issues as to the adequacy of our internal controls, any actions to be taken in light of significant or material control deficiencies and the adequacy of disclosures about changes in internal control over financial reporting;
- establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters; and
- prepare the audit committee report that SEC rules require to be included in our annual proxy statement and annual report on Form 10-K.

Each of the members of our audit committee upon closing of this offering meets the requirements for financial literacy under the applicable rules and regulations of the SEC and the Nasdaq stock market. Our board of directors has determined that Mr. Wehrwein is an audit committee financial expert, as defined under the applicable rules of the SEC. Each member of our audit committee upon the closing of this offering satisfies the Nasdaq stock market independence standards and the independence standards of Rule 10A-3(b)(1) of the Securities Exchange Act.

Nominating and Governance Committee

Our nominating and governance committee will identify individuals qualified to become members of the board of directors, recommend individuals to the board for nomination as members of the board and board committees, review the compensation paid to our non-employee directors and recommend any adjustments in director compensation and oversee the evaluation of our board of directors.

Compensation Committee

Our compensation committee will review and approve on an annual basis the goals and objectives relevant to our Chief Executive Officer’s compensation and annually review the evaluation of the performance of our executive officers and approve our executive officers’ annual compensation. Our compensation committee also will administer the issuance of stock options and other awards under our 2010 Equity Incentive Plan.

Code of Conduct

We expect to adopt a code of business conduct and ethics upon completion of this offering relating to the conduct of our business by our employees, officers and directors, which will be posted on our website.

Director Compensation

In 2009, we did not provide any compensation to our non-employees directors other than to reduce the exercise price of an option to purchase 75,000 shares of common stock granted to Sven A. Wehrwein in July 2008 from $1.26 per share to $0.81 per share, which was the fair market value of our common stock on the date of the amendment.

We reimburse our directors for out-of-pocket expenses incurred in connection with attending our board and committee meetings.

The table below sets forth the compensation provided to our directors during the year ended December 31, 2009. Mr. Black's compensation is set forth under "– Summary Compensation Table" because he served as our President and Chief Executive Officer during that year. Mr. Black did not receive any separate compensation for his service as a director.

Name	Option Awards (1) ($)	Total ($)
Steve A. Cobb	–	–
Michael B. Gorman	–	–
Martin J. Leestma	–	–
George H. Spencer, III	–	–
Murray R. Wilson	–	–
Sven A. Wehrwein	7,110	7,110

(1) Reflects the incremental fair value related to an amendment to the terms of an option to purchase 75,000 shares of common stock held by Mr. Wehrwein. The amendment decreased the option's exercise price from $1.26 per share to $0.81 per share, which was the fair market value of our common stock on the date of the amendment. The incremental fair value related to the amendment is calculated as of the date of the amendment in accordance with ASC 718 (excluding estimates of forfeitures) and is determined based on the assumptions in Note H to our financial statements in this prospectus. None of our directors held any unvested options at December 31, 2009, except for Mr. Wehrwein, who held 26,563 unvested options and Mr. Leestma who held 4,688 unvested options.

Compensation Discussion and Analysis

The following is a discussion and analysis of compensation arrangements of our named executive officers for 2009. Our named executive officers for 2009 were Archie C. Black, our President and Chief Executive Officer, Kimberly K. Nelson, our Executive Vice President and Chief Financial Officer, James J. Frome, our Executive Vice President and Chief Strategy Officer, Michael J. Gray, our Executive Vice President of Operations, and David J. Novak, Jr., our Executive Vice President of Business Development.

Compensation Objectives and Process

We have designed the compensation arrangements for our named executive officers to provide compensation in overall amounts and in forms that attract and retain talented and experienced individuals and motivate executives to achieve the goals that are important to our growth. During 2009, our compensation primarily consisted of salary and annual cash incentive awards. We also have granted our named executive officers stock options from time to time as part of our overall compensation package to align incentives with the interests of our stockholders. As further described below, in 2009 we amended the terms of certain stock options previously granted to Ms. Nelson and Mr. Frome as a means of providing them additional compensation. We also granted a stock option to Mr. Gray in early 2009 in connection with his hiring in November 2008. We have not adopted any formal or informal policies or guidelines for allocating compensation between the elements of compensation we provide our named executive officers.

Historically, our compensation committee has established all elements of compensation for all of our named executive officers. Prior to this offering, our compensation committee has never engaged a compensation consultant. Our compensation committee engaged Compensia, Inc., a compensation consultant, in connection with this offering to help evaluate our compensation philosophy and provide guidance in administering our compensation program. Following the completion of this offering, we anticipate that our compensation committee will determine executive compensation, at least in part, by reference to the compensation information for the executives of a peer group of comparable companies, although no peer group has yet been determined. Our compensation committee plans to have Compensia provide market data on a peer group of companies of similar size or in the technology sector, or both, and we intend to review this information and other information obtained by our compensation committee in light of the compensation we offer to help ensure that our compensation program is competitive.

Base Salary

Base salaries are used to recognize the experience, skills, knowledge and responsibilities required of all our employees, including our named executive officers. Base salaries for each of our named executive officers are initially established based on arm's-length negotiations between us and the executive. The compensation committee reviews our named executive officers' salaries annually at the beginning of each year. When negotiating or reviewing base salaries, the compensation committee considers market competitiveness based on their market experience, the executive's expected future contribution to our success and the relative salaries and responsibilities of our other executives. For 2009, each named executive officer received a salary increase of 2% compared to 2008.

Bonuses

We provide our named executive officers an opportunity to receive two types of bonuses: a formula-based bonus and a discretionary bonus. The formula-based bonus is intended to motivate our executives to achieve specific financial goals that reflect the growth and success of our business. The discretionary bonus is designed to motivate our executive team to achieve goals that contribute to our growth and success but are not necessarily measurable by our results of operations.

Formula-Based Bonuses. The formula-based bonus is based on a target bonus for each named executive officer established by the compensation committee at the beginning of each year. The compensation committee establishes the target based on an amount it believes is necessary to provide a competitive overall compensation package in light of each named executive officer's base salary and to motivate our executives to achieve an aggressive level of growth. The amount of the formula-based bonus, if any, actually paid to executives after the end of each year is determined by a matrix that takes into account our revenues and earnings before interest, taxes, depreciation, amortization and stock-based compensation, or Adjusted EBITDA. The formula-based bonus is based in part on revenues because, given the scalability of our current core business, the compensation committee believes our financial results are driven most significantly by the revenues we generate. The compensation committee also believes formula-based bonuses should be based in part on Adjusted EBITDA because Adjusted EBITDA is a useful measure of our operating performance.

The matrix provides that each executive will receive a percentage of his or her target bonus, between 0% and 145%, based on our revenues and Adjusted EBITDA for the year. For example, for our executives to earn their target bonuses for 2009, we needed to generate revenues of approximately $34.3 million and Adjusted EBITDA of approximately $3.4 million. If we failed to have either revenues of approximately $33.1 million or Adjusted EBITDA of approximately $2.5 million, our named executive officers would not receive a formula-based bonus for the year. The percentage of the target bonus earned between the minimum and the maximum varies in five-percentage-point increments based on revenues and Adjusted EBITDA for the year relative to increments established for each metric in the matrix. The effect of acquisitions, if any, during the year are excluded for purposes of determining the revenues and Adjusted EBITDA for the year as applied to the matrix. The compensation committee establishes the intervals for the matrix with the intent that achieving 100% of an executive's target bonus will be a difficult but achievable goal in light of the prior year's results of

operations and anticipated growth for the year at the time the matrix is created. For 2009, our revenues and Adjusted EBITDA resulted in the maximum formula-based bonus being paid to our named executive officers.

Discretionary Bonuses. At the beginning of each year, the compensation committee also establishes a target discretionary bonus for each named executive officer that it may pay to the executive at the end of the year in the compensation committee's discretion. The compensation committee establishes the target amount for each executive in an amount the committee believes is appropriate to incentivize our executives to strive to exceed performance expectations and pursue activities that will not necessarily increase the calculations of revenues or Adjusted EBITDA applied to the formula-based bonus matrix.

For 2009, the target discretionary bonus for each named executive officer was as follows:

- Mr. Black — $29,728
- Ms. Nelson — $23,625
- Mr. Frome — $24,800
- Mr. Gray — $15,000
- Mr. Novak — $23,625

The amount actually paid to each named executive officer is based on the compensation committee's subjective evaluation of our executive team's achievement of performance goals in areas such as leadership, pursuit of strategic initiatives and overall performance relative to expectations. The compensation committee evaluates achievement of these goals for our executive team as a group and historically has granted each named executive officer an award based on a percentage of the target discretionary bonus that is the same for all named executive officers. The compensation committee determines the amount of the discretionary bonus actually paid to each member of our executive team independent of the formula-based bonus earned after considering the criteria described above. For 2009, the compensation committee awarded each named executive officer 100% of the executive's target discretionary bonus.

Equity Awards

Historically, we have granted our named executive officers stock options in connection with our hiring of the executive. When determining the size of the award, the compensation committee considers the executive's title and responsibilities, the equity position of our other executives and the anticipated future contribution the executive will make to our success. We believe stock options are an important element of compensation because they provide our executives a potential ownership interest in our company, which helps align executives' interests with those of other stockholders. We believe stock options further align the interest of our executives and stockholders because executives profit from stock options only if our stock price increases relative to the option's exercise price. We believe options also help retain our executives because the awards vest over several years, and vesting depends on the executive's continued employment with us. The typical vesting provisions for stock option grants made to our executives provide that one-quarter of the options vest on the first anniversary of the grant date, with the remaining shares vesting in 36 successive equal monthly installments thereafter upon completion of each additional month of service. In February 2009, we granted Mr. Gray an option to purchase 300,000 shares of our common stock with a per share exercise price of $0.92 in connection with his hiring in November 2008. As described below, we subsequently amended this option to lower the per share exercise price to $0.65.

We do not have a formal policy for making additional option grants after we hire an executive and we have not historically made annual or other periodic option grants to our executives. We anticipate that equity compensation, whether in the form of restricted stock, stock options, restricted stock units, or other stock-based awards, will be a more significant part of our executive compensation as a public company. We also expect to make more regular equity grants to our executives as a public company, although the form and frequency of our equity compensation as a public company has not yet been determined.

Our policy is to grant stock options with an exercise price equal to the fair market value of our common stock on the date of grant. As a private company during 2009, the fair market value of our common stock was determined by our audit committee.

Throughout the first quarter of 2009, the fair value of our common stock declined significantly in connection with the general economic downturn at that time. On April 1, 2009, our compensation committee amended the terms of stock options granted to three employees, including Mr. Gray, on February 10, 2009. The amendment lowered the exercise price for all shares subject to the option awards to $0.65 per share, which was the fair value of our common stock on the date of the amendment, and did not affect the vesting provisions or number of shares subject to any award. Our compensation committee believed that the exercise price of the options should be amended to account for the extraordinary market turmoil that occurred in the short time since the grant date, which caused the options granted on February 10 to be significantly underwater without regard to the performance of the award recipients.

In July 2009, we amended the terms of certain stock options granted to 17 employees and one director, including Mr. Frome and Ms. Nelson, to reduce the exercise price for all of the shares subject to each option to $0.81 per share, which was the fair market value of our common stock on the date of the amendment. The amendments did not affect the vesting provisions or the number of shares subject to any of the option awards. Ms. Nelson's amended option award was originally granted in November 2007 when we hired her and had an exercise price of $0.99 per share. Two of Mr. Frome's option awards were amended; one was granted in October 2001 and one was granted in July 2002, and each had an exercise price of $2.00 per share. During 2008 and first half of 2009, the fair market value of our common stock as determined by our audit committee declined in connection with the general economic downturn as the comparable companies utilized in the valuation determination had a decrease in their stock prices. Our compensation committee, however, believed that Ms. Nelson and Mr. Frome performed well during that time. The compensation committee therefore reduced the exercise prices of Ms. Nelson's and Mr. Frome's stock options to our then fair market value as determined by our audit committee to provide them additional compensation without requiring our company to use any cash to compensate them for their strong contributions in a difficult economic environment. The compensation committee did not amend any of the outstanding option awards held by Messrs. Black, Gray or Novak because all of their outstanding options had exercise prices less than the fair market value of our common stock at the time of the amendments.

Other Compensation

Perquisites are not a material aspect of our executive compensation plan. All of our full-time employees, including our named executive officers, are eligible to participate in our 401(k) plan. Pursuant to our 401(k) plan, employees may elect to reduce their current compensation by up to the statutorily prescribed annual limit and to have the amount of this reduction contributed to our 401(k) plan. Our 401(k) plan provides that we will match eligible employees' 401(k) contributions equal to 25% of the employee's elective deferrals, up to an amount not to exceed 6% of the employee's compensation.

We entered into agreements with our named executive officers that provide for payments to them under certain circumstances involving a termination of their employment with us or upon a change in control of our company. These agreements are described in more detail below under "– Potential Payments Upon Termination or Change in Control."

Summary Compensation Table

The following table provides information regarding the compensation earned during 2009 by our named executive officers:

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)(1)	Total ($)
Archie C. Black *Chief Executive Officer and President*	2009	276,000	29,728	–	100,579	2,827	409,134
Kimberly K. Nelson *Executive Vice President and Chief Financial Officer*	2009	215,000	23,625	22,550(2)	79,931	3,110	344,216
James J. Frome *Executive Vice President and Chief Strategy Officer*	2009	215,000	24,800	28,431(2)	83,908	3,123	355,262
Michael J. Gray *Executive Vice President of Operations*	2009	184,000	15,000	113,790(3)	50,750	–	363,540
David J. Novak, Jr. *Executive Vice President of Business Development*	2009	215,000	23,625	–	79,931	1,745	320,301

(1) Represents matching 401(k) contributions.

(2) Reflects the incremental fair value related to an amendment to the terms of an option granted to the named executive officer prior to 2009. See "– Compensation Discussion and Analysis – Equity Awards." The incremental fair value is calculated as of the date of the amendment in accordance with ASC 718 (excluding estimates of forfeitures) and is determined based on the assumptions in Note H to the financial statements in this prospectus.

(3) Represents the grant date fair value of an award granted to Mr. Gray on February 10, 2009 computed in accordance with ASC 718 (excluding estimates of forfeitures) and the incremental fair value related to an amendment to that award on April 1, 2009, in each case based on the assumptions in Note H to the financial statements in this prospectus.

Grants of Plan-Based Awards

The following table sets forth certain information regarding grants of plan-based awards to our named executive officers in 2009.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plans			All Other Option Awards: Number Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards
		Threshold ($)	Target ($)	Maximum ($)			
Archie C. Black	January 30, 2009	38,151	99,093	130,307	–	–	–
Kimberly K. Nelson	January 30, 2009	30,319	78,750	103,556	–	–	–
	July 23, 2009	–	–	–	500,000(1)	0.81	22,500
James J. Frome	January 30, 2009	31,827	82,668	108,709	–	–	–
	July 23, 2009	–	–	–	140,364(1)	0.81	28,431
Michael J. Gray	January 30, 2009	19,250	50,000	65,750	–	–	–
	February 10, 2009	–	–	–	300,000(2)	0.92	103,620
	April 1, 2009	–	–	–	300,000(2)	0.65	10,170
David J. Novak, Jr.	January 30, 2009	30,319	78,750	103,556	–	–	–

(1) Represents amendments to the per share exercise price of stock options granted to the named executive officer prior to 2009. See "– Compensation Discussion and Analysis."

(2) The April 1, 2009 grant to Mr. Gray represents an amendment to the per share exercise price of stock options granted to him on February 10, 2009. See "– Compensation Discussion and Analysis."

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth certain information regarding equity awards granted to our named executive officers outstanding as of December 31, 2009:

Name	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price ($)(1)	Option Expiration Date
Archie C. Black	137,500	–	0.10	October 5, 2011(2)
	15,102	–	0.10	June 30, 2012(3)
	364,760	–	0.10	November 12, 2013(4)
	162,500	–	0.10	June 30, 2014(5)
	169,000	–	0.10	December 31, 2014(6)
	404,938	36,832	0.10	March 31, 2016(7)
Kimberly K. Nelson	250,000	250,000	$0.81	November 27, 2017(8)
James J. Frome	3,000	–	0.55	July 5, 2010(9)
	125,000	–	$0.81	October 5, 2011(10)
	15,364	–	$0.81	June 30, 2012(3)
	530,000	–	0.10	August 17, 2013(11)
	125,000	–	0.10	June 30, 2014(12)
	22,890	2,110	0.10	March 31, 2016(13)
Michael J. Gray	–	300,000	0.65	March 31, 2019(14)
David J. Novak, Jr.	302,802	197,198	0.78	June 30, 2017(15)

(1) Does not reflect the effect of the for reverse split of our common stock that will occur immediately prior to consummation of this offering.

(2) This option vested as to one-fourth of the shares on May 26, 2002, with the remaining shares vesting in 36 equal monthly installments thereafter beginning June 26, 2002 and continuing to and including May 26, 2005.

(3) This option vested in full on July 25, 2002.

(4) This option vested as to 113,988 shares on August 18, 2003, with the remaining shares vesting in equal monthly installments of 7,599 shares thereafter beginning September 1, 2003.

(5) This option vested as to 88,030 shares on July 1, 2004, with the remaining shares vesting in equal monthly installments of 3,385 shares thereafter beginning August 1, 2004.

(6) This option vested as to 93,730 shares on December 24, 2005, with the remaining shares vesting in equal monthly installments of 8,521 shares thereafter beginning January 1, 2006 for each additional month of service.

(7) This option vested as to 110,442 shares on April 1, 2007, with the remaining shares vesting in equal monthly installments of 9,203 shares thereafter beginning May 1, 2007 for each additional month of service.

(8) This option vested as to one-fourth of the shares on December 1, 2008, with the remaining shares vesting in 36 equal monthly installments on the first day of each month thereafter beginning January 1, 2009 for each additional month of service.

(9) This option vested as to one-fourth of the shares on each of July 5, 2000, July 5, 2001, July 5, 2002 and July 5, 2003.

(10) This option vested as to one-fourth of the shares on May 26, 2002, with the remaining shares vesting in 36 equal monthly installments thereafter beginning June 26, 2002.

(11) This option vested as to 165,625 shares on August 18, 2003, with the remaining shares vesting in equal installments of 11,042 shares on the first day of each month thereafter beginning September 1, 2003.

(12) This option vested as to 67,712 shares on July 1, 2004, with the remaining shares vesting in equal monthly installments of 2,604 shares thereafter beginning August 1, 2004.

(13) This option vested as to 6,250 shares on April 1, 2007, with the remaining shares vesting in equal monthly installments of 520 shares on the first day of each month thereafter beginning May 1, 2007 for each additional month of service.

(14) This option vests as to one-fourth of the shares on January 1, 2010, with the remaining shares vesting in 36 equal monthly installments on the first day of each month thereafter beginning February 1, 2010 for each additional month of service.

(15) This option vested as to 125,000 shares on July 1, 2008, with the remaining shares vesting in 36 equal monthly installments on the first day of each month thereafter beginning August 1, 2008 for each additional month of service.

Option Exercises and Stock Vested in 2009

The following table sets forth certain information regarding stock option exercises by our named executive officers during 2009. We have never granted any restricted stock, restricted stock units or similar instruments to our named executive officers.

	Option Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**
Archie C. Black	25,000	22,250(1)

(1) The value realized on exercise represents (1) the difference between (a) the value of our common stock (as most recently determined by our audit committee prior to exercise) and (b) the per share exercise price (2) multiplied by the number of shares acquired on exercise.

Pension Benefits

We do not offer pension benefits to our named executive officers.

Non-Qualified Deferred Compensation

We do not offer non-qualified deferred compensation to our named executive officers.

Employment Agreements

We entered into employment agreements with each of our named executive officers. The employment agreements address various termination of employment scenarios. No severance payments are made to executives who are terminated for cause. The terms of these agreements are summarized below under "– Potential Payments Upon Termination or Change-in-Control."

We entered into management incentive agreements with each of Archie C. Black and James J. Frome that provide for a bonus to be paid to them upon a sale of our company. A "sale" includes (1) the disposition of all or substantially all of our assets; (2) the sale of at least 70% of our voting stock to a person who was not a stockholder of our company on July 1, 2002 and (3) a merger or consolidation of our company resulting in 70% or more of the voting power of the surviving company following the transaction being held by persons who were not a stockholder of our company on July 1, 2002. The payment to Mr. Black would be equal to 0.114% of the amount of the purchase price, as defined, exceeding $25 million but less than $65 million, subject to a maximum of $45,600. The payment to Mr. Frome would be equal to 0.115% of the amount of the purchase price, as defined, exceeding $25 million but less than $65 million, subject to a maximum of $46,000. These agreements terminate on June 30, 2012.

Potential Payments Upon Termination or Change-in-Control

We have entered into agreements that will require us to provide compensation to our named executive officers in the event of a termination of employment or a change in control of our company. Our employment agreement with Archie C. Black, our Chief Executive Officer, provides that, if we terminate his employment without cause, or if he terminates his employment with us for good reason, we will (1) pay his salary for 12 months in accordance with our regular payroll practices and any unused vacation accrued as of the date of termination and (2) provide health care benefits to him and his family for 12 months after the date of termination on the same terms as they are provided as of termination. "Cause" for termination exists upon (a) conviction of a felony; (b) dishonesty or gross misconduct in the performance of the agreement; or (c) failure by Mr. Black to cure his material breach of the agreement within 30 days of receiving written notice of breach from us. Mr. Black may terminate his employment for "good reason" (a) by providing us with notice of his intent to terminate his employment within 10 days of his annual performance review; (b) our failure to cure our material breach of the agreement within 30 days of receiving written notice of breach from him; or (c) upon a change in control, which includes removal of Mr. Black as our Chief Executive Officer by our board of directors or the occurrence of a transaction that results in the holders of our stock immediately prior to the transaction ceasing to hold the voting power necessary to elect a majority of our board following the transaction. Also, if we terminate Mr. Black's employment if he suffers a permanent disability, we will maintain for his benefit for 12 months after termination all health benefit plans in which he was entitled to participate immediately prior to termination.

We have entered into agreements with each of our named executive officers other than Mr. Black that provide that, if we terminate the named executive officer's employment without cause, and provided the termination does not occur upon or within 12 months of a change in control of our company, we will pay the named executive officer six months of his or her then-current base salary over a six-month period in accordance with

our normal payroll practices. If we terminate the named executive officer's employment without cause upon or within 12 months after a change in control, or if the named executive officer terminates his or her employment for good reason upon or within 12 months after a change in control, we will pay the named executive officer 12 months of his or her then-current base salary over a 12-month period in accordance with our normal payroll practices. Payment of these amounts is subject to certain conditions and limitations, including that the named executive officer execute a release of claims against us. A "change in control" and the reasons for which a named executive officer may terminate without "cause" are defined in accordance with our 2001 Stock Option Plan and described below. A named executive officer may terminate his or her employment for "good reason" if there is a material reduction in the officer's salary at the time of the change in control or a material reduction in responsibilities following the change in control.

Generally, option agreements executed pursuant to our 2001 Stock Option Plan provide that, in the event of a change in control of our company, outstanding stock options granted to senior management, including our named executive officers, immediately become exercisable as to 50% of the unvested shares subject to option. Our option agreements with our named executive officers also provide that if the named executive officer's employment with us is terminated, or the named executive officer's employment responsibilities or base salary are materially reduced, other than for cause, prior to the first anniversary of the change in control, all remaining unvested shares subject to the option immediately become fully exercisable. A "change in control" includes (1) any person's acquisition of beneficial ownership of 50% or more of our outstanding common stock; (2) a failure to have a majority of our board of directors be people for whose election our board solicited proxies; (3) approval by our stockholders of a reorganization, merger or consolidation, unless our stockholders immediately prior to the transaction own more than 50% of the voting power of the corporation resulting from the transaction; or (4) approval by our stockholders of the disposition of all or substantially all of our assets. "Cause" for termination exists upon (a) failure by the named executive officer to cure his or her material breach of the terms of a non competition/non solicitation agreement between us and the officer within 30 days of receipt of written notice of breach from us; (b) gross negligence or willful misconduct by the officer; (c) conviction of the officer of a crime involving moral turpitude or any felony; (d) willful violation of instructions from our board of directors or Chief Executive Officer; or (e) fraud, embezzlement, theft or proven dishonesty against us.

We entered into the management incentive agreements with each of Archie C. Black and James J. Frome described above under "– Employment Agreements" that provide for a bonus to be paid to them upon a sale of our company. The payment to Mr. Black would be equal to 0.114% of the amount of the purchase price, as defined, exceeding $25 million but less than $65 million, subject to a maximum of $45,600. The payment to Mr. Frome would be equal to 0.115% of the amount of the purchase price, as defined, exceeding $25 million but less than $65 million, subject to a maximum of $46,000.

The following tables list the potential payments and benefits upon termination of employment or change in control of our company for our named executive officers. The tables assume the triggering event for the payments or provision of benefits occurred on December 31, 2009. Amounts in the tables for the vesting of unvested stock options are calculated based on the number of accelerated stock options multiplied by the difference between $0.99, the fair market value of our common stock as most recently determined by our audit committee prior to the end of our most recently completed fiscal year, and the exercise price.

Archie C. Black

Triggering Event	Salary, Bonus & Unused Vacation	Health Benefits(1)	Vesting of Unvested Stock Options
Termination Without Cause or for Good Reason	$302,538	$6,212	–
Permanent Disability	–	$6,212	–
Change in Control Without Related Termination	$ 45,600	–	$16,390
Change in Control With Related Termination	$ 45,600	–	$32,780

(1) The amounts for health benefits were calculated by multiplying our standard monthly rates for family health and dental benefits by 12.

Kimberly K. Nelson

Triggering Event	Salary	Vesting of Unvested Stock Options
Termination Without Cause or for Good Reason Unrelated to Change in Control	$107,500	–
Termination Without Cause or for Good Reason Related to Change in Control	$215,000	–
Change in Control Without Related Termination	–	22,500
Change in Control With Related Termination	–	45,000

James J. Frome

Triggering Event	Salary & Bonus	Vesting of Unvested Stock Options
Termination Without Cause or for Good Reason	$107,500	–
Termination Without Cause or for Good Reason Related to Change in Control	$215,000	–
Change in Control Without Related Termination	$ 46,000	$ 939
Change in Control With Related Termination	$ 46,000	$1,878

Michael J. Gray

Triggering Event	Salary	Vesting of Unvested Stock Options
Termination Without Cause or for Good Reason	$ 92,000	–
Termination Without Cause or for Good Reason Related to Change in Control	$184,000	–
Change in Control Without Related Termination	–	51,000
Change in Control With Related Termination	–	102,000

David J. Novak

Triggering Event	Salary	Vesting of Unvested Stock Options
Termination Without Cause or for Good Reason	$107,500	–
Termination Without Cause or for Good Reason Related to Change in Control	$215,000	–
Change in Control Without Related Termination	–	$20,706
Change in Control With Related Termination	–	$41,412

Equity and Stock Option Plans

2010 Equity Incentive Plan

Prior to the closing of this offering, we expect to adopt our 2010 Equity Incentive Plan, which we refer to as our 2010 Plan. The purposes of the 2010 Plan are to attract and retain the best available personnel, to provide them with additional incentives and to align their interests with those of our stockholders. The material terms of the 2010 Plan are summarized below.

Share Reserve. Upon adoption of the 2010 Plan, shares of our common stock will be reserved for issuance under the plan. The number of share reserved under our 2010 Plan will increase on January 1 of each year beginning in 2011 and ending on January 1, 2020 in an amount equal to the least of: % of the total number of shares outstanding as of December 31 of the immediately preceding calendar year or a number of shares determined by our board of directors. Shares subject to awards under the plan that expire unexercised, are forfeited, are settled in cash or are surrendered pursuant to an exchange program will again become available for grant under the plan. If any award under the 2010 Plan is exercised by the tendering or

withholding of shares in payment of the exercise price or any applicable tax withholding arising from an award under the 2010 Plan is satisfied by the tendering or withholding of shares, the shares tendered or withheld also will again become available for grant under the plan.

Administration of Plan. The compensation committee of our board of directors will administer the 2010 Plan. Subject to the terms of the plan, the compensation committee will have the authority to, among other things, interpret the plan and determine who will be granted awards under the plan, the types of awards granted and the terms and conditions of the awards, including the number of shares covered by awards, the exercise price of awards and the vesting schedule or other restrictions applicable to awards. The committee also will have the power to make any determinations and take any action necessary or desirable for the administration of the plan. Determinations of the committee under the plan may be made by a majority of the committee members present at a meeting at which at least a majority of the committee members are present.

To the extent permitted by law and stock exchange rules, the 2010 Plan permits the committee to delegate to one or more of our executive officers or non-employee directors any or all of the committee's authority under the plan with respect to awards made to individuals who are neither non-employee directors nor executive officers of our company. Our full board of directors will administer the plan with respect to awards to non-employee directors.

Eligibility. Our employees, non-employee directors and certain consultants and advisors who provide services to us are eligible to receive awards under the 2010 Plan. Incentive stock options may be granted only to our employees.

Awards. The 2010 Plan allows us to grant stock options, stock appreciation rights, or SARs, restricted stock, stock units and other stock-based awards. Each award will be evidenced by an agreement with the award recipient setting forth the terms and conditions of the award, including vesting conditions. Awards under the plan will have a maximum term of ten years from the date of grant. The plan administrator may provide that the vesting or payment of any award will be subject to the attainment of certain performance measures established by the administrator, and the administrator will determine whether such measures have been achieved. The administrator at any time may amend the terms of any award previously granted, except that, in general, no amendment may be made that materially impairs the rights of any participant with respect to an outstanding award without the participant's consent. In addition, we may amend the plan and any award agreements under the plan in order to ensure compliance with the requirements of Section 409A of the Internal Revenue Code.

- *Stock Options.* Stock options permit the holder to purchase a specified number of shares of our common stock at a set price. Options granted under the plan may be either incentive or nonqualified stock options. The exercise price of options granted under the plan generally may not be less than the fair market value of our common stock on the date of grant. Incentive stock options granted to employees who hold more than 10% of the total combined voting power of our stock will have an exercise price not less than 110% of the fair market value of our common stock on the date of grant and will have a maximum term of five years. The plan administrator will determine the terms and conditions of options granted under the plan, including exercise price and vesting and exercisability terms. The maximum number of shares subject to stock options that may be granted during a calendar year to a participant may not exceed .
- *SARs.* SARs provide for payment to the holder of all or a portion of the excess of the fair market value of a specified number of shares of our common stock on the date of exercise over a specified exercise price. Payment may be made in cash or shares of our common stock or a combination of both, as determined by the plan administrator. The administrator will establish the terms and conditions of exercise, including the exercise price, of SARs granted under the plan. The maximum number of shares subject to SARs that may be granted during a calendar year to a participant may not exceed .
- *Restricted Stock.* Restricted stock awards are awards of shares of our common stock that are subject to restrictions determined by the plan administrator, which may include vesting conditions, forfeiture

conditions and other restrictions. The administrator will determine whether any consideration other than services to our company must be paid for a restricted stock award. The maximum number of shares of restricted stock that may be granted during a calendar year to a participant may not exceed .

- *Stock Units.* Stock units provide the holder with the right to receive, in cash or shares of our common stock or a combination of both, the fair market value of a share of our common stock and will be subject to such vesting and forfeiture conditions and other restrictions as the plan administrator determines. Stock unit awards may, at the discretion of the plan administrator, provide the holder with the right to receive dividend equivalent payments with respect to the shares subject to the award. The administrator will determine whether any consideration other than services to our company must be paid for a stock unit award. The maximum number of stock units that may be granted during a calendar year to a participant may not exceed .
- *Other.* The plan administrator, in its discretion, may grant other stock-based awards under the plan. The administrator will set the terms and conditions of such awards.

Substitute Awards. The plan administrator may grant awards under the 2010 Plan in substitution for awards granted by another entity acquired by our company or with which our company combines. The terms and conditions of these substitute awards will be comparable to the terms of the awards replaced, and may therefore differ from the terms and conditions otherwise set forth in the plan.

Exchange Program. The plan administrator may institute an exchange program under which outstanding stock options or SARs are surrendered or canceled in exchange for stock options or SARs of the same type (with higher or lower exercise prices or different terms), awards of a different type or cash. The plan administrator also may institute a program under which the exercise price of an outstanding stock option or SAR is reduced.

Transferability. Unless otherwise determined by the plan administrator, awards granted under the plan generally are not transferable except by will or the laws of descent and distribution or to an appropriately designated beneficiary. The plan administrator may permit the transfer of awards other than incentive stock options pursuant to a qualified domestic relations order or by way of gift to a family member.

Termination of Service. Unless otherwise provided in an award agreement (and except with respect to terminations following certain corporate transactions described below under “Change in Control; Corporate Transaction”), upon termination of an award recipient’s service with our company, all unvested and unexercisable portions of the recipient’s outstanding awards will immediately be forfeited. If an award recipient’s service with our company terminates other than for cause (as defined in the plan), death or disability, the vested and exercisable portions of the recipient’s outstanding options and SARs generally will remain exercisable for three months after termination. If a recipient’s service terminates due to death or disability (or if a recipient dies during the three-month period after termination of service other than for cause), the vested and exercisable portions of the recipient’s outstanding options and SARs generally will remain exercisable for one year after termination. Upon termination for cause, all unexercised stock options and SARs will also be forfeited.

Change in Control; Corporate Transaction. Unless otherwise provided in an award agreement, in the event of a sale of all or substantially all of our assets or a merger, consolidation, or share exchange involving our company, the surviving or successor entity may continue, assume or replace some or all of the outstanding awards under the 2010 Plan. Our awards agreements with our executive officers will typically provide that if awards granted to the executive officer under the 2010 Plan are continued, assumed or replaced in connection with such an event and if within one year after the event the executive officer experiences an involuntary termination of service other than for cause, the executive officer’s outstanding awards will vest in full, will immediately become fully exercisable and will remain exercisable for one year following termination. If awards granted to any participant are not continued, assumed or replaced, the administrator may provide for the surrender of any outstanding award in exchange for payment to the holder of the amount of the consideration that would have been received in the event for the number of

shares subject to the award less the aggregate exercise price (if any) of the award. In the event of a change in control (as defined in the 2010 Plan) that does not involve a merger, consolidation, share exchange, or sale of all or substantially all of our company's assets, the plan administrator, in its discretion, may provide that any outstanding award will become fully vested and exercisable upon the change in control or upon the involuntary termination of the participant within one year after the change in control or that any outstanding award will be surrendered in exchange for payment to the holder of the amount of the consideration that would have been received in the change in control for the number of shares subject to the award less the aggregate exercise price (if any) of the award.

Adjustment of Awards. In the event of an equity restructuring that affects the per share value of our common stock, including a stock dividend, stock split, spinoff, rights offering or recapitalization through an extraordinary dividend, the plan administrator will make appropriate adjustment to: (1) the number and kind of securities reserved for issuance under the plan, (2) the number and kind of securities subject to outstanding awards under the plan, (3) the exercise price of outstanding options and SARs, and (4) any maximum limitations prescribed by the plan as to grants of certain types of awards. The administrator may also make similar adjustments in the event of any other change in our company's capitalization, including a merger, consolidation, reorganization or liquidation.

Amendment and Termination. The 2010 Plan will remain in effect until terminated by our board of directors; however we may not grant incentive stock options under the plan more than ten years after its effective date, which we expect will be shortly before the closing of this offering. Our board of directors may terminate, suspend or amend the plan at any time, but, in general, no termination, suspension or amendment may materially impair the rights of any participant with respect to outstanding awards without the participant's consent. Awards that are outstanding on the plan's termination date will remain in effect in accordance with the terms of the plan and the applicable award agreements. Stockholder approval of any amendment of the plan will be obtained if required by applicable law or the rules of the Nasdaq stock market.

Registration. We intend to file with the SEC a registration statement on Form S-8 covering the shares of our common stock issuable under the 2010 Plan.

2001 Stock Option Plan

Our board of directors adopted our 2001 Stock Option Plan, which we refer to as our 2001 Plan, in August 2001, and our stockholders approved the plan in July 2002. The 2001 Plan has been amended several times, primarily to change the number of shares of our common stock available for issuance under the plan, with the most recent amendment occurring in July 2008. The 2001 Plan provides for the grant of incentive and nonqualified stock options to our employees, non-employee directors, and other consultants who provide services to us. A total of shares of our common stock are reserved for issuance under the 2001 Plan. As of , options to purchase a total of shares of our common stock with a weighted average exercise price of $ were outstanding under our 2001 Plan. We do not intend to grant any additional awards under the 2001 Plan following the completion of this offering. All awards outstanding under the 2001 Plan will remain in effect and will continue to be governed by their existing terms after completion of this offering.

Administration. The compensation committee of our board of directors administers the 2001 Plan and the awards granted under it, except that our full board of directors administers the plan with respect to awards to non-employee directors. The committee has the authority to, among other things, interpret the plan, adopt and amend rules relating to the administration of the plan and prescribe and amend the terms of outstanding awards, including accelerating the vesting schedule of awards.

Stock Options. The exercise price of nonqualified stock options granted under the 2001 Plan may not be less than 85% of the fair market value of our common stock on the date of grant. The exercise price of incentive stock options granted under the plan to employees who at the time of grant own more than 10% of the total combined voting power of all classes of our stock may not be less than 110% of the fair market value

of our common stock on the date of grant, and the exercise price of incentive stock options granted to any other employees may not be less than 100% of the fair market value of our common stock on the date of grant.

The stock options that are outstanding under the 2001 Plan generally provide for vesting over four years. Options granted to senior management and non-employee directors generally vest as to 25% of the shares subject to option on the first anniversary of the vesting commencement date and in 36 equal monthly installments thereafter. Options granted to employees other than senior management generally vest in 48 equal monthly installments. In addition, the administrator has the authority to declare at any time that any or all outstanding options shall immediately become exercisable in full.

Option Term. In general, stock options granted under the 2001 Plan have a maximum term of ten years from the date of grant. Options awarded under the plan may be exercised while the optionee is employed by or providing services to us, and, if an optionee's service relationship with us terminates (other than due to death or disability or for cause (as defined in the plan)), the optionee may exercise the vested portion of such option for 30 days after such termination of service. If an optionee's service relationship with us terminates due to death or disability, such option may be exercised for one year following such termination.

Change in Control. In the event of a change in control (as defined in the plan) of our company, (1) outstanding incentive stock options granted to senior management generally immediately become exercisable as to 50% of the unvested shares subject to option and (2) outstanding nonqualified stock options immediately become exercisable in full. Option agreements for senior management also generally provide that if the optionee's employment with us is terminated, or the optionee's employment responsibilities or base salary are materially reduced, other than for cause (as defined in the plan) prior to the first anniversary of the change in control, all remaining unvested shares subject to such option immediately become fully exercisable. Further, upon a change in control the administrator of the 2001 Plan may cancel some or all outstanding stock options and pay the holders of such options cash equal to the excess of the per share fair market value of our common stock immediately prior to the change in control over the exercise price per share of such options.

Corporate Event. In the event of a merger or consolidation of our company with or into another entity, a sale of all or substantially all of our assets or a dissolution or liquidation of our company, the plan administrator may (1) substitute for stock options outstanding under the plan shares of stock or options to purchase stock of the surviving company or its parent or (2) declare that all outstanding options will be cancelled at the time of such event and cause payment to be made to each option holder equal to, for each share subject to the option, the excess of the proceeds per share received in such event over the exercise price of the option. In the event of such a declaration by the plan administrator, all outstanding options will immediately become exercisable in full. In addition, the plan administrator has authority to adjust the number and kind of securities issuable upon exercise of options under the plan, and the exercise price thereof, in the event of a reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split or combination, rights offering or extraordinary dividend or other change in our corporate structure.

Registration. We intend to file with the SEC a registration statement on Form S-8 covering the shares of our common stock issuable under the 2001 Plan.

1999 Equity Incentive Plan

We adopted our 1999 Equity Incentive Plan, which we refer to as our 1999 Plan, in May 1999 and our stockholders approved the 1999 Plan in June 1999. The 1999 Plan permits the grant of incentive and nonqualified stock options and restricted stock to our employees, officers, directors and other consultants who provide services to us. As of , there were outstanding under the 1999 Plan options to purchase a total of shares of our common stock with a weighted average exercise price of $. There are no shares of unvested restricted stock outstanding under the 1999 Plan.

Plan Expiration. The term of the 1999 Plan was ten years and has expired. Consequently, we are no longer authorized to issue any awards under the 1999 Plan. All awards outstanding under the 1999 Plan will remain

in effect and will continue to be governed by their existing terms and the terms of the plan after completion of this offering.

Administration. Our board of directors, or a committee appointed by our board of directors, has the authority to administer the 1999 Plan and the awards granted under it. The compensation committee of our board of directors currently administers the plan. The plan administrator has the authority to, among other things, interpret the plan, prescribe and amend rules relating to the plan and amend the terms of outstanding awards, including accelerating the vesting of awards.

Stock Options. In general, options granted under the 1999 Plan have a maximum term of ten years from the date of grant. The exercise price of options granted under the 1999 Plan generally is equal to the fair market value of our common stock on the date of grant, unless otherwise determined by the plan administrator. The exercise price of incentive stock options granted under the 1999 Plan may not be less than the fair market value of our common stock on the date of grant, and the exercise price of incentive stock options granted to employees who at the time of grant own more than 10% of the total combined voting power of all classes of our stock may not be less than 110% of the fair market value of our common stock on the date of grant.

Change in Control; Corporate Transactions. In the event of a change in control (as defined in the 1999 Plan), the plan administrator may determine that all outstanding awards will immediately become fully vested and exercisable and will terminate thirty days after the change in control. In the event of a change in our capital structure by reason of a stock dividend, stock split, reclassification, recapitalization, merger, consolidation, share exchange, reorganization, liquidation, extraordinary cash dividend or similar event, the plan administrator has authority to adjust the number and class of securities issuable upon exercise of options under the plan and the terms and conditions of such options, including the exercise price, and to provide for payment to option holders of an amount equal to the difference between the then-current fair market value of our common stock and the exercise prices of such options.

Registration. We intend to file with the SEC a registration statement on Form S-8 covering the shares of our common stock issuable under the 1999 Plan.

401(k) Plan

We maintain a deferred savings retirement plan for our employees. The deferred savings retirement plan is intended to qualify as a tax-qualified plan under Section 401 of the Internal Revenue Code. The deferred savings retirement plan provides that each participant may contribute his or her pre-tax compensation (up to a statutory limit, which is $16,500 in 2009). For employees 50 years of age or older, an additional catch-up contribution of $5,500 is allowable. In 2009, the statutory limit for those who qualify for catch-up contributions is $22,000. Under the plan, each employee is fully vested in his or her deferred salary contributions. On the first day of the plan quarter following an employee's one-year anniversary of employment, we contribute 25% of the first 6% of salary contributions made by an employee.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is or has at any time during the last completed fiscal year been an officer or employee of ours. None of our executive officers has served as a member of the board of directors, or as a member of the compensation or similar committee, of any entity that has one or more executive officers who served on our board of directors or compensation committee during the last completed fiscal year.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since January 1, 2006, we have entered into the following transactions with our directors, executive officers, holders of more than five percent of our voting securities, and affiliates of our directors, executive officers and five percent stockholders in addition to the matters described under “Management”:

Sale of Preferred Stock

In February 2006, we sold the following affiliated funds of our directors shares of our Series B convertible preferred stock at the price of $0.97875 per share.

- BVCF IV, L.P., an affiliated fund of George H. Spencer, III, purchased 494,570 shares
- River Cities SBIC III L.P., an affiliated fund of Murray R. Wilson, purchased 1,435,928 shares
- St. Paul Venture Capital VI, LLC, an affiliated fund of Michael B. Gorman, purchased 463,767 shares

In April 2007, we sold the following affiliated funds of our directors shares of our Series C convertible preferred stock at the price of $1.60 per share.

- BVCF IV, L.P., an affiliated fund of George H. Spencer, III, purchased 250,000 shares
- CID Mezzanine Capital, L.P., an affiliated fund of Steve A. Cobb, purchased 901,745 shares
- River Cities SBIC III L.P. and River Cities Capital Fund II L.P., affiliated funds of Murray R. Wilson, purchased an aggregate of 2,348,438 shares
- St. Paul Venture Capital VI, LLC, an affiliated fund of Michael B. Gorman, purchased 468,750 shares

Voting and Co-Sale Agreement

The election of the members of our board of directors is governed by a voting and co-sale agreement that we entered into with certain holders of our capital stock and related provisions of our certificate of incorporation. The voting agreement requires these stockholders to vote in favor of nominees of CID Capital, Inc., St. Paul Venture Capital V, LLC, BVCF IV, L.P., River Cities SBIC III L.P., a majority of the Series B convertible preferred stock, which nominee may not be affiliated with any officer or director of our company, and a majority of the Series C convertible preferred stock, which nominee may not be affiliated with any officer or director of our company. In addition, our chief executive officer is to be elected to the board. CID Capital, Inc. has nominated Steve Cobb; St. Paul Venture Capital V, LLC has nominated Michael Gorman; BVCF IV, L.P. has nominated George Spencer; River Cities SBIC III L.P. has nominated Murray Wilson, a majority of the Series B convertible preferred stock has nominated Martin J. Leestma and a majority of the Series C convertible preferred stock has nominated Sven A. Wehrwein.

In addition, under the voting and co-sale agreement our preferred stockholders are granted a right of first refusal to purchase shares of our capital stock held by the stockholders party to this agreement, rights of co-sale in the event of a sale of our capital stock held by the stockholders party to this agreement and drag-along rights that require the stockholders party to this agreement to participate in a sale of the company if the sale is approved by a certain percentage of the stockholders party to the agreement.

Upon the closing of this offering, the voting and co-sale agreement will terminate in its entirety and none of our stockholders will have any special rights regarding the election or designation of members of our board of directors or the other rights granted under this agreement.

Registration Rights Agreement

We are party to a registration rights agreement which generally provides that holders of our redeemable convertible preferred stock have the right to demand that we file a registration statement or request that their shares be covered by a registration statement that we are otherwise filing. After giving effect to the for reverse stock split that will occur immediately prior to the consummation of this offering and the automatic conversion of our preferred stock, the holders of shares of our common stock will have

these registration rights, which will survive the closing of this offering. Certain of our directors and executive officers and all holders of 5% of our capital stock are parties to this agreement. Entities affiliated with Steve A. Cobb, Michael B. Gorman, George H. Spencer, III and Murray R. Wilson hold shares representing 23%, 18%, 18% and 23% of the shares subject to the agreement. For a more detailed description of these registration rights, see "Description of Capital Stock – Registration Rights."

2009 Stock Option Amendments

On July 23, 2009, we unilaterally amended the terms of certain stock options granted to 17 employees and one director, including Kimberly K. Nelson, James J. Frome and Sven A. Wehrwein, to reduce the exercise price for all of the shares subject to each option to $0.81 per share, which was the fair market value of our common stock on the date of the amendments. On April 1, 2009, we unilaterally amended the terms of certain stock options granted to three employees, including Michael J. Gray, to reduce the exercise price for all of the shares subject to each option from $0.92 to $0.65 per share, which was the fair market value of our common stock on the date of the amendments. None of these amendments affected the vesting provisions or the number of shares subject to any of the option awards and none of the holders of these options made any investment decisions in connection with the amendments.

Director Indemnification Agreements

We entered into indemnification agreements with each of our directors that provide, in general, that we will indemnify them to the fullest extent permitted by law in connection with their service to us or on our behalf.

Policy for Approval of Related Party Transactions

Prior to the completion of this offering, our board of directors will adopt a written statement of policy regarding transactions with related persons, which we refer to as our related person policy. Our related person policy will require that any executive officer requesting to enter into a transaction with a "related person" generally must promptly disclose to our audit committee the related person transaction and all material facts with respect thereto. In reviewing a transaction, our audit committee will consider all relevant facts and circumstances, including (1) the commercial reasonableness of the terms, (2) the benefit and perceived benefits, or lack thereof, to us, (3) opportunity costs of alternate transactions and (4) the materiality and character of the related person's interest, and the actual or apparent conflict of interest of the related person. Our audit committee will not approve or ratify a related person transaction unless it determines that, upon consideration of all relevant information, the transaction is beneficial to our company and stockholders and the terms of the transaction are fair to our company. No related person transaction will be consummated without the approval or ratification of our audit committee. It will be our policy that directors interested in a related person transaction will recuse themselves from any vote relating to a related person transaction in which they have an interest. Under our related person policy, a "related person" includes any of our directors, director nominees, executive officers, any beneficial owner of more than 5% of our common stock and any immediate family member of any of the foregoing. Related party transactions exempt from our policy include transactions available to all of our employees and stockholders on the same terms and transactions between us and the related person that, when aggregated with the amount of all other transactions between us and the related person or its affiliates, involve less than $120,000 in a fiscal year. We did not have a formal review and approval policy for related party transactions at the time of any transaction described in this "Certain Relationships and Related Party Transactions" section.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of our outstanding common stock as of , 2010 by (i) each of our named executive officers; (ii) each of our directors; (iii) all of our executive officers and directors as a group; and (iv) each of those known by us to be beneficial owners of more than 5% of our common stock. This table lists applicable percentage ownership based on shares of common stock outstanding as of that date, but giving effect to the conversion of our outstanding preferred stock into shares of common stock in connection with this offering as if the conversion occurred on that date.

Beneficial ownership is determined in accordance with the rules of the SEC. To our knowledge and subject to applicable community property laws, each of the holders of stock listed below has sole voting and investment power as to the stock owned unless otherwise noted. The table below includes the number of shares underlying options which are exercisable within 60 days from the date of this offering. Except as otherwise noted below, the address for each person or entity listed in the table is c/o SPS Commerce, Inc., 333 South Seventh Street, Suite 1000, Minneapolis, Minnesota 55402.

	Beneficial Ownership Prior to Offering			Beneficial Ownership After this Offering		
Name	Number	Percent	Number of Shares Offered	Number	Percent (assuming no exercise of over-allotment)	Percent (assuming full exercise of over-allotment)
Executive Officers and Directors:						
Archie C. Black	(1)	%			%	%
Steve A. Cobb	(2)	%			%	%
James J. Frome	(3)	%			%	%
Michael J. Gray	(4)	%			%	%
Michael B. Gorman	(5)	%			%	%
Martin J. Leestma	(6)	%			%	%
Kimberly K. Nelson	(7)	%			%	%
David J. Novak, Jr.	(8)	%			%	%
George H. Spencer, III	(9)	%			%	%
Sven A. Wehrwein	(10)	%			%	%
Murray R. Wilson	(11)	%			%	%
Executive officers and directors as a group (11 persons)		%			%	%
5% Stockholders:						
BVCF IV, LP	(9)	%			%	%
Funds affiliated with CID Capital	(2)	%			%	%
Funds affiliated with River Cities Capital Funds	(11)	%			%	%
Funds affiliated with Split Rock Partners	(5)	%			%	%

* Indicates ownership of less than 1%.

(1) Includes shares owned by the Archie C. and Jane McDonald Black Charitable Trust (the "Charitable Trust") for which Mr. Black serves as a co-trustee and shares subject to options that are exercisable within 60 days of the date of the table. Mr. Black may be deemed to have shared voting and investment power over the shares held by the Charitable Trust, but disclaims beneficial ownership of such shares.

(2) Includes shares owned by CID Equity Fund V Liquidating Trust (the "CID Trust") and shares owned by CID Mezzanine Capital, LP ("CID Mezzanine Capital"). Mr. Cobb is a representative to an advisory board that controls the voting and disposition of the shares held by the CID Trust and CID Mezzanine Capital. Mr. Cobb may be deemed to have shared voting and investment power over the shares held by the CID Trust and CID Mezzanine Capital. Mr. Cobb disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein. The address of the CID Trust and CID Mezzanine Capital is 201 W. 103rd Street, Suite 200, Indianapolis, IN 46290.

(3) Includes shares subject to options that are exercisable within 60 days of the date of the table.

(4) Includes shares subject to options that are exercisable within 60 days of the date of the table.

(5) Includes shares held by SPVC IV, LLC, shares held by SPVC V, LLC, shares held by SPVC VI, LLC and shares held by SPVC Affiliates Fund I, LLC. Split Rock Partners, LLC, together with Vesbridge Partners, LLC, is the manager of SPVC IV, LLC, SPVC V, LLC, SPVC VI, LLC and SPVC Affiliates Fund I, LLC, however voting and investment power are delegated solely to Split Rock Partners, LLC. Michael Gorman, James Simons, David Stassen and Allan Will, as managing directors of Split Rock Partners, LLC, share voting and investment power with respect to the shares. Voting and investment power over shares held by each of the named funds above may be deemed to be shared with each of the managing directors and Split Rock Partners, LLC due to the affiliate relationships described above. Each of the managing directors and Split Rock Partners, LLC disclaims any beneficial ownership of the shares, except to the extent of any pecuniary interest therein. The address for each of these SPVC funds is 10400 Viking Drive, Suite 550, Minneapolis, MN 55344.

(6) Includes shares subject to options that are exercisable within 60 days of the date of the table.

(7) Includes shares subject to options that are exercisable within 60 days of the date of the table.

(8) Includes shares subject to options that are exercisable within 60 days of the date of the table.

(9) Includes shares held by BVCF IV, LP. Mr. Spencer is a partner in BVCF IV, LP and may be deemed to have shared voting and investment power over the shares held by BVCF IV, LP. Mr. Spencer disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein. The address for BVCF IV, LP is One N. Wacker Drive, Chicago, IL 60606.

(10) Includes shares subject to options that are exercisable within 60 days of the date of the table.

(11) Includes shares owned by River Cities Capital Fund II Limited Partnership and shares owned by River Cities SBIC III, L.P. Mr. Wilson is a managing director of the general partner of River Cities Capital Fund II Limited Partnership and River Cities SBIC III, L.P. Mr. Wilson may be deemed to have shared voting and investment power over the shares held by River Cities Capital Fund II Limited Partnership and River Cities SBIC III, L.P. Mr. Wilson disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein. The address for each of these River Cities funds is 221 East Fourth Street, Suite 2400, Cincinnati, OH 45202.

DESCRIPTION OF CAPITAL STOCK

The following is a description of the material provisions of our capital stock, as well as other material terms of our amended and restated certificate of incorporation and amended and restated bylaws as they will be in effect as of the consummation of the offering. We refer you to the form of our amended and restated certificate of incorporation and to the form of our amended and restated bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part.

Authorized Capital

Prior to the completion of this offering, our authorized capital stock consists of (without giving effect to the for reverse stock split of our common stock to be effected immediately prior to completion of this offering): (1) 50,345,706 shares of common stock and (2) 33,927,144 shares of preferred stock, including 4,427,782 shares of Series A convertible preferred stock, 23,499,362 shares of Series B convertible preferred stock and 6,000,000 shares of Series C convertible preferred stock. As of December 31, 2009, there were 183 holders of record of our common stock, 27 holders of record of our Series A convertible preferred stock, 15 holders of record of our Series B convertible preferred stock and 10 holders of record of our Series C convertible preferred stock.

Upon completion of this offering, we will amend and restate our certificate of incorporation to provide that our authorized capital stock will consist of (1) shares of common stock and (2) shares of preferred stock. Upon completion of this offering, all currently outstanding shares of our preferred stock will be converted into shares of a single class of common stock. Immediately following the completion of this offering, we expect to have shares of common stock and no shares of preferred stock outstanding (or shares of common stock and no shares of preferred stock outstanding if the underwriters exercise in full their option to purchase additional shares to cover overallotments, if any).

Common Stock

Voting. Except as otherwise required by Delaware law, at every annual or special meeting of stockholders, every holder of common stock is entitled to one vote per share. There is no cumulative voting in the election of directors.

Dividends Rights. Subject to preferences that may be applicable to any outstanding series of preferred stock, the holders of our common stock will receive ratably any dividends declared by our board of directors out of funds legally available for the payment of dividends. It is our present intention not to pay dividends on our common stock for the foreseeable future. Our board of directors may, at its discretion, modify or repeal our dividend policy. Future dividends, if any, with respect to shares of our common stock will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, provisions of applicable law and other factors that our board of directors deems relevant. Our credit agreement currently limits our ability to pay cash dividends. See "Dividend Policy."

Liquidation and Preemptive Rights. In the event of our liquidation, dissolution or winding-up, the holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The holders of our common stock have no preemptive or other subscription rights.

Preferred Stock

Our charter provides that we may issue up to shares of preferred stock in one or more series as may be determined by our board of directors. Our board has broad discretionary authority with respect to the rights of any new series of preferred stock and may establish the following with respect to the shares to be included in each series, without any vote or action of the stockholders:

- the number of shares;
- the designations, preferences and relative rights, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences; and
- any qualifications, limitations or restrictions.

We believe that the ability of our board to issue one or more series of preferred stock will provide us with flexibility in structuring possible future financings and acquisitions, and in meeting other corporate needs that may arise. The authorized shares of preferred stock, as well as authorized and unissued shares of common stock, will be available for issuance without action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded.

Our board may authorize, without stockholder approval, the issuance of preferred stock with voting and conversion rights that could adversely affect the voting power and other rights of holders of common stock. Although our board has no current intention of doing so, it could issue a series of preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt of our company. Our board could also issue preferred stock having terms that could discourage an acquisition attempt through which an acquiror may be able to change the composition of our board, including a tender offer or other transaction that some, or a majority, of our stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then-current market price. Any issuance of preferred stock therefore could have the effect of decreasing the market price of our common stock.

Our board will make any determination to issue such shares based on its judgment as to our best interests of our company and stockholders. We have no current plan to issue any preferred stock after this offering.

Registration Rights

After the completion of this offering, the holders of approximately shares of our common stock will be entitled to certain registration rights.

Demand Registration Rights

After the completion of this offering, we will be obligated to effect up to four registrations as requested by the holders of our common stock having registration rights, including two that may be on Form S-1. A request for registration must cover at least 20% in the aggregate of the then outstanding shares, on a fully diluted basis, entitled to registration rights. We may delay the filing of a registration statement in connection with a demand registration for a period of up to 120 calendar days upon the advice of the investment banker(s) and manager(s) that will administer the offering.

Piggyback Registration Rights

After the completion of this offering, in the event that we propose to register any of our securities under the Securities Act (except for the registration of securities to be offered pursuant to an employee benefit plan on Form S-8 or pursuant to a registration made on Form S-4 or any successor forms then in effect), we will include in these registrations all securities with respect to which we have received written requests for inclusion under our registration rights agreement, but subject to certain limitations.

We will not make any public sale or distribution of any of our securities during the seven days prior to and the 90 days after the effective date of any underwritten demand registration or any underwritten piggyback registration unless the managing underwriters agree otherwise. We will not register any of our securities until at least three months has elapsed from the effective date of the previous registration (except for the registration of securities to be issued in connection with employee benefit plans, to permit exercise or conversions of previously issued options, warrants, or other convertible securities or in connection with a demand registration). We will pay substantially all of the registration expenses of the holders of the shares registered pursuant to the demand and piggyback registrations described above.

Anti-Takeover Provisions

Delaware Law

We are subject to Section 203 of the Delaware General Corporation Law. Section 203 generally prohibits a public Delaware corporation from engaging in a “business combination” with an “interested stockholder” for

a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to the date of the transaction, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 defines a business combination to include:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
- subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; and
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

Certificate of Incorporation and Bylaws

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws, each of which will become effective upon the closing of this offering, may delay or discourage transactions involving an actual or potential change in control of our company or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. Therefore, these provisions could adversely affect the price of our common stock. Among other things, our amended and restated certificate of incorporation and amended and restated bylaws:

- permit our board of directors to issue up to shares of preferred stock, with any rights, preferences and privileges as they may designate, including the right to approve an acquisition or other change in our control;
- provide that the authorized number of directors may be changed by resolution of the board of directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder’s notice; and

- do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose).

Limitation on Liability of Directors and Indemnification

Our amended and restated certificate of incorporation, in the form that will become effective upon the closing of this offering, limits the liability of our directors to the fullest extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except for liability for any:

- breach of their duty of loyalty to us or our stockholders;
- act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payment of dividends or redemption of shares as provided in Section 174 of the Delaware General Corporation Law; or
- transaction from which the directors derived an improper personal benefit.

These limitations of liability do not apply to liabilities arising under federal securities laws and do not affect the availability of equitable remedies such as injunctive relief or rescission.

Our amended and restated bylaws, in the form that will become effective upon the closing of this offering, provide that we will indemnify and advance expenses to our directors and officers to the fullest extent permitted by law or, if applicable, pursuant to indemnification agreements. They further provide that we may choose to indemnify other employees or agents of the corporation from time to time. Section 145(g) of the Delaware General Corporation Law and our amended and restated bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in connection with their services to us, regardless of whether our bylaws permit indemnification. We obtained a directors' and officers' liability insurance policy.

We entered into indemnification agreements with each of our directors that provide, in general, that we will indemnify them to the fullest extent permitted by law in connection with their service to us or on our behalf.

At present, there is no pending litigation or proceeding involving any of our directors or officers as to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is .

Nasdaq Stock Market

We have applied to have our common stock listed on the Nasdaq Capital Market under the symbol "SPSC."

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there was no public market for our common stock, and a liquid trading market for the common stock may not develop or be sustained after this offering. We cannot predict the effect, if any, that market sales of shares of our common stock or the availability of shares of our common stock for sale will have on the market price of our common stock. Sales of substantial amounts of our common stock in the public market, including shares issued upon exercise of outstanding options or in the public market after this offering, or the anticipation of these sales, could adversely affect the market prices of our common stock and could impair our future ability to raise capital through the sale of our equity securities.

Upon completion of this offering, based on our outstanding shares as of , 2010, and assuming no exercise of outstanding options or warrants, we will have outstanding an aggregate of shares of our common stock (shares if the underwriters' over-allotment option is exercised in full). Of these shares, all of the shares sold in this offering (plus any shares sold as a result of the underwriters' exercise of the over-allotment option) will be freely tradable without restriction or further registration under the Securities Act, unless those shares are purchased by our affiliates as that term is defined in Rule 144 under the Securities Act.

The remaining shares of common stock to be outstanding after this offering will be "restricted securities" under Rule 144. Of these restricted securities, shares will be subject to transfer restrictions for 180 days from the date of this prospectus pursuant to market stand-off agreements. Restricted securities may be sold in the public market only if they have been registered or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act.

Lock-up Agreements

All of our officers and directors, and holders of shares of our common stock and holders of shares of our common stock issuable upon exercise of outstanding options, in each case after giving effect to a for reverse stock split of our common stock that will occur immediately prior to the closing of this offering, have entered into lock-up agreements pursuant to which they have agreed, subject to limited exceptions, not to offer, sell or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or securities convertible into or exchangeable or exercisable for shares of common stock for a period of 180 days from the date of this prospectus without our prior written consent or, in some cases, the prior written consent of Thomas Weisel Partners LLC. Thomas Weisel Partners LLC has advised us that it has no current intent or arrangement to release any of the shares subject to the lock-up agreements prior to the expiration of the lock-up period. There are no contractually specified conditions for the waiver of lock-up restrictions and any waiver is at the sole discretion of Thomas Weisel Partners LLC, which may be granted by Thomas Weisel Partners LLC for any reason. The 180-day lock-up period will be automatically extended if (i) during the last 17 days of the 180-day restricted period we issue an earnings release or announce material news or a material event or (ii) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 15-day period following the last day of the 180-day period, in which case the restrictions described in this paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event. After the lock-up period, these shares may be sold, subject to applicable securities laws. See "Underwriting."

Rule 144

In general, and beginning 90 days after the date of this prospectus, under Rule 144 as in effect on the date of this prospectus, a person who is not one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned shares of our common stock for at least six months, would be entitled to sell an unlimited number of shares of our common stock provided current public information about us is available and, after owning such shares for at least one year, would be entitled to sell an unlimited number of shares of our common stock without restriction. Beginning 90 days after the date of this prospectus, our

affiliates who have beneficially owned shares of our common stock for at least six months are entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding; or
- the average weekly trading volume of our common stock on the Nasdaq Capital Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 by our affiliates are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Upon expiration of the lock-up period described above, additional shares of our common stock will be eligible for sale under Rule 144, including shares eligible for resale immediately upon the closing of this offering as described above. We cannot estimate the number of shares of our common stock that our existing stockholders will elect to sell under Rule 144.

Options and Warrants

Upon completion of this offering, stock options to purchase a total of shares of our common stock will be outstanding with a weighted average per share exercise price of $ and expiration dates between and . We have reserved an additional shares of common stock for issuance pursuant to our 2010 Equity Incentive Plan, which we will adopt in connection with this offering. Upon completion of this offering, warrants to purchase a total of shares of our common stock will be outstanding with a weighted average per share exercise price of $ and expiration dates between and . In general, under Rule 701 of the Securities Act as currently in effect, any of our employees, consultants or advisors who purchase shares of our common stock from us pursuant to options granted prior to the completion of this offering under our existing stock option plan or other written agreement is eligible to resell those shares 90 days after the effective date of this offering in reliance on Rule 144, but without compliance with some of the restrictions, including the holding period, contained in Rule 144. Additionally, following the consummation of this offering, we intend to file one or more registration statements on Form S-8 under the Securities Act to register the sale of shares issued or issuable upon the exercise of all these stock options. The registration statements will become effective upon filing. Subject to the exercise of issued and outstanding options and contractual restrictions, shares of our directors and executive officers to which Rule 701 is applicable or which are to be registered under the registration statement on Form S-8 will be available for sale into the public market after the expiration of the 180-day lock-up agreements with the underwriters, subject to the vesting requirements.

Registration Rights

After the completion of this offering, holders of shares of common stock will be entitled to specific rights to register those shares for sale in the public market. See “Description of Capital Stock – Registration Rights.” Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates, immediately upon the effectiveness of the registration statement relating to such shares.

MATERIAL U.S. FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS OF OUR COMMON STOCK

The following discussion summarizes certain material U.S. federal income and estate tax considerations relating to the acquisition, ownership and disposition of our common stock purchased pursuant to this offering by a non-U.S. holder (as defined below). This discussion is based on the provisions of the U.S. Internal Revenue Code of 1986, as amended, final, temporary and proposed U.S. Treasury regulations promulgated thereunder and current administrative rulings and judicial decisions, all as in effect as of the date hereof. All of these authorities may be subject to differing interpretations or repealed, revoked or modified, possibly with retroactive effect, which could materially alter the tax consequences to non-U.S. holders described in this prospectus.

There can be no assurance that the IRS will not take a contrary position to the tax consequences described herein or that such position will not be sustained by a court. No ruling from the IRS or opinion of counsel has been obtained with respect to the U.S. federal income or estate tax consequences to a non-U.S. holder of the purchase, ownership or disposition of our common stock.

This discussion is for general information only and is not tax advice. All prospective non-U.S. holders of our common stock should consult their own tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership and disposition of our common stock.

As used in this discussion, the term "non-U.S. holder" means a beneficial owner of our common stock that is not any of the following for U.S. federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation or other entity taxable as a corporation for U.S. federal income tax purposes that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source;
- a trust (a) if a U.S. court is able to exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all of the trust's substantial decisions or (b) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or
- an entity that is disregarded as separate from its owner if all of its interests are owned by a single person described above.

An individual may be treated, for U.S. federal income tax purposes, as a resident of the United States in any calendar year by being present in the United States on at least 31 days in that calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. The 183-day test is determined by counting all of the days the individual is treated as being present in the current year, one-third of such days in the immediately preceding year and one-sixth of such days in the second preceding year. Residents are subject to U.S. federal income tax as if they were U.S. citizens.

This discussion assumes that a prospective non-U.S. holder will hold shares of our common stock as a capital asset (generally, property held for investment). This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to a particular non-U.S. holder in light of that non-U.S. holder's individual circumstances. In addition, this discussion does not address any aspect of U.S. state or local or non-U.S. taxes, or the special tax rules applicable to particular non-U.S. holders, such as:

- insurance companies and financial institutions;
- tax-exempt organizations;
- controlled foreign corporations and passive foreign investment companies;

- partnerships or other pass-through entities;
- regulated investment companies or real estate investment trusts;
- pension plans;
- persons who received our common stock as compensation;
- brokers and dealers in securities;
- owners that hold our common stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment; and
- former citizens or residents of the United States subject to tax as expatriates.

If a partnership or other entity treated as a partnership for U.S. federal income tax purposes is a beneficial owner of our common stock, the treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. We urge any beneficial owner of our common stock that is a partnership and partners in that partnership to consult their tax advisors regarding the U.S. federal income tax consequences of acquiring, owning and disposing of our common stock.

Distributions on Our Common Stock

Any distribution on our common stock paid to non-U.S. holders will generally constitute a dividend for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of our current and accumulated earnings and profits will generally constitute a return of capital to the extent of the non-U.S. holder's adjusted tax basis in our common stock, and will be applied against and reduce the non-U.S. holder's adjusted tax basis. Any remaining excess will be treated as capital gain, subject to the tax treatment described below in "– Gain on Sale, Exchange or Other Disposition of Our Common Stock."

Dividends paid to a non-U.S. holder that are not treated as effectively connected with the non-U.S. holder's conduct of a trade or business in the United States generally will be subject to withholding of U.S. federal income tax at a rate of 30% on the gross amount paid, unless the non-U.S. holder is entitled to an exemption from or reduced rate of withholding under an applicable income tax treaty. In order to claim the benefit of a tax treaty or to claim an exemption from withholding, a non-U.S. holder must provide a properly executed IRS Form W-8BEN (or successor form) prior to the payment of dividends. A non-U.S. holder eligible for a reduced rate of withholding pursuant to an income tax treaty may be eligible to obtain a refund of any excess amounts withheld by timely filing an appropriate claim for a refund with the IRS.

Dividends paid to a non-U.S. holder that are treated as effectively connected with a trade or business conducted by the non-U.S. holder within the United States (and, if an applicable income tax treaty so provides, are also attributable to a permanent establishment or a fixed base maintained within the United States by the non-U.S. holder) are generally exempt from the 30% withholding tax if the non-U.S. holder satisfies applicable certification and disclosure requirements. To obtain the exemption, a non-U.S. holder must provide us with a properly executed IRS Form W-8ECI (or successor form) prior to the payment of the dividend. Dividends received by a non-U.S. holder that are treated as effectively connected with a U.S. trade or business generally are subject to U.S. federal income tax at rates applicable to U.S. persons. A non-U.S. holder that is a corporation may, under certain circumstances, be subject to an additional "branch profits tax" imposed at a rate of 30%, or such lower rate as specified by an applicable income tax treaty between the United States and such holder's country of residence.

A non-U.S. holder who provides us with an IRS Form W-8BEN or Form W-8ECI must update the form or submit a new form, as applicable, if there is a change in circumstances that makes any information on such form incorrect.

Gain On Sale, Exchange or Other Disposition of Our Common Stock

In general, a non-U.S. holder will not be subject to any U.S. federal income tax or withholding on any gain realized from the non-U.S. holder's sale, exchange or other disposition of shares of our common stock unless:

- the gain is effectively connected with a U.S. trade or business (and, if an applicable income tax treaty so provides, is also attributable to a permanent establishment or a fixed base maintained within the United States by the non-U.S. holder), in which case the gain will be taxed on a net income basis generally in the same manner as if the non-U.S. holder were a U.S. person, and, if the non-U.S. holder is a corporation, the additional branch profits tax described above in "Distributions on Our Common Stock" may also apply;
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met, in which case the non-U.S. holder will be subject to a 30% tax on the net gain derived from the disposition, which may be offset by U.S.-source capital losses of the non-U.S. holder, if any; or
- we are, or have been at any time during the five-year period preceding such disposition (or the non-U.S. holder's holding period, if shorter), a "United States real property holding corporation."

Generally, we will be a "United States real property holding corporation" if the fair market value of our U.S. real property interests equals or exceeds 50% of the sum of the fair market values of our worldwide real property interests and other assets used or held for use in a trade or business, all as determined under applicable U.S. Treasury regulations. We believe that we have not been and are not currently, and do not anticipate becoming in the future, a "United States real property holding corporation" for U.S. federal income tax purposes.

Backup Withholding and Information Reporting

We must report annually to the IRS and to each non-U.S. holder the amount of distributions paid to such holder and the amount of tax withheld, if any. Copies of the information returns filed with the IRS to report the distributions and withholding may also be made available to the tax authorities in a country in which the non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

The United States imposes a backup withholding tax on the gross amount of dividends and certain other types of payments (currently at a rate of 28%). Dividends paid to a non-U.S. holder will not be subject to backup withholding if proper certification of foreign status (usually on IRS Form W-8BEN) is provided, and we do not have actual knowledge or reason to know that the non-U.S. holder is a U.S. person. In addition, no backup withholding or information reporting will be required regarding the proceeds of a disposition of our common stock made by a non-U.S. holder within the United States or conducted through certain U.S. financial intermediaries if we receive the certification of foreign status described in the preceding sentence and we do not have actual knowledge or reason to know that such non-U.S. holder is a U.S. person or the non-U.S. holder otherwise establishes an exemption. Non-U.S. holders should consult their own tax advisors regarding the application of the information reporting and backup withholding rules to them.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules from a payment to a non-U.S. holder can be refunded or credited against the non-U.S. holder's U.S. federal income tax liability, if any, provided that certain required information is furnished to the IRS in a timely manner.

U.S. Federal Estate Tax

An individual non-U.S. holder who is treated as the owner, or who has made certain lifetime transfers, of an interest in our common stock will be required to include the value of the common stock in his or her gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

UNDERWRITING

Subject to the terms and conditions set forth in an underwriting agreement, each of the underwriters named below has severally agreed to purchase from us and the selling stockholders the aggregate number of shares of common stock set forth opposite their respective names below:

Underwriters	Number of Shares
Thomas Weisel Partners LLC	
William Blair & Company, L.L.C.	
Needham & Company, LLC	
JMP Securities LLC	
Total	

Thomas Weisel Partners LLC is the book-running manager and William Blair & Company, L.L.C. and Needham & Company, LLC are co-lead managers.

Of the shares to be purchased by the underwriters, shares will be purchased from us and will be purchased from the selling stockholders.

The underwriting agreement provides that the obligations of the several underwriters are subject to various conditions, including approval of legal matters by counsel. The nature of the underwriters' obligations commits them to purchase and pay for all of the shares of common stock listed above if any are purchased.

The underwriting agreement provides that we and the selling stockholders will indemnify the underwriters against liabilities specified in the underwriting agreement under the Securities Act, or will contribute to payments that the underwriters may be required to make relating to these liabilities.

Thomas Weisel Partners LLC expects to deliver the shares of common stock to purchasers on or about , 2010.

Over-Allotment Option

We have granted a 30-day over-allotment option to the underwriters to purchase up to a total of additional shares of our common stock from us at the initial public offering price, less the underwriting discount payable by us, as set forth on the cover page of this prospectus. If the underwriters exercise this option in whole or in part, then each of the underwriters will be separately committed, subject to the conditions described in the underwriting agreement, to purchase the additional shares of our common stock in proportion to their respective commitments set forth in the table above.

Determination of Offering Price

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be determined through negotiations between us and the underwriters. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price will include:

- the valuation multiples of publicly-traded companies that the representatives of the underwriters believe are comparable to us;
- our financial information;
- our history and prospects and the outlook for our industry;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

We cannot assure you that an active or orderly trading market will develop for our common stock or that our common stock will trade in the public markets subsequent to this offering at or above the initial offering price.

Commissions and Discounts

The underwriters propose to offer the shares of common stock directly to the public at the public offering price set forth on the cover page of this prospectus, and at this price less a concession not in excess of $ per share of common stock to other dealers specified in a master agreement among underwriters who are members of the Financial Industry Regulatory Authority, Inc. The underwriters may allow, and the other dealers specified may reallow, concessions not in excess of $ per share of common stock to these other dealers. After this offering, the offering price, concessions and other selling terms may be changed by the underwriters. Our common stock is offered subject to receipt and acceptance by the underwriters and to other conditions, including the right to reject orders in whole or in part.

The following table summarizes the compensation to be paid to the underwriters by us and the proceeds, before expenses, payable to us and the selling stockholders:

		Total	
	Per Share	Without Over-Allotment	Without Over-Allotment
Public offering price	$	$	$
Underwriting discount			
Proceeds, before expenses, to us			
Proceeds, before expenses, to selling stockholders			

Indemnification of Underwriters

We and the selling stockholders will indemnify the underwriters against some civil liabilities, including liabilities under the Securities Act and liabilities arising from breaches of our representations and warranties contained in the underwriting agreement. If we or the selling stockholders are unable to provide this indemnification, we and the selling stockholders will contribute to payments the underwriters may be required to make in respect of those liabilities.

No Sales of Similar Securities

The underwriters will require all of our directors and officers, the selling stockholders and certain other of our stockholders to agree not to offer, sell, agree to sell, directly or indirectly, or otherwise dispose of any shares of common stock or any securities convertible into or exchangeable for shares of common stock except for the shares of common stock offered in this offering without the prior written consent of Thomas Weisel Partners LLC for a period of 180 days after the date of this prospectus.

We have agreed that for a period of 180 days after the date of this prospectus, we will not, without the prior written consent of Thomas Weisel Partners LLC, offer, sell or otherwise dispose of any shares of common stock, except for the shares of common stock offered in this offering, the shares of common stock issuable upon exercise of outstanding options on the date of this prospectus and the shares of our common stock that are issued under our 2010 Equity Incentive Plan, which we will adopt in connection with this offering.

The 180-day restricted period described in the preceding two paragraphs will be automatically extended if: (1) during the last 17 days of the l80-day restricted period we issue an earnings release or announce material news or a material event or (2) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 15-day period following the last day of the 180-day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event.

Nasdaq Stock Market

We have applied to have our common stock listed on the Nasdaq Capital Market under the symbol “SPSC.”

Short Sales, Stabilizing Transactions and Penalty Bids

In order to facilitate this offering, persons participating in this offering may engage in transactions that stabilize, maintain or otherwise affect the price of our common stock during and after this offering. Specifically, the underwriters may engage in the following activities in accordance with the rules of the SEC.

Short Sales. Short sales involve the sales by the underwriters of a greater number of shares than they are required to purchase in the offering. Covered short sales are short sales made in an amount not greater than the underwriters’ overallotment option to purchase additional shares from us in this offering. The underwriters may close out any covered short position by either exercising their over-allotment option to purchase shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Naked short sales are any short sales in excess of such over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering.

Stabilizing Transactions. The underwriters may make bids for or purchases of the shares for the purpose of pegging, fixing or maintaining the price of the shares, so long as stabilizing bids do not exceed a specified maximum.

Penalty Bids. If the underwriters purchase shares in the open market in a stabilizing transaction or syndicate covering transaction, they may reclaim a selling concession from the underwriters and selling group members who sold those shares as part of this offering. Stabilization and syndicate covering transactions may cause the price of the shares to be higher than it would be in the absence of these transactions. The imposition of a penalty bid might also have an effect on the price of the shares if it discourages presales of the shares.

The transactions above may occur on the Nasdaq Capital Market or otherwise. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of the shares. If these transactions are commenced, they may be discontinued without notice at any time.

LEGAL MATTERS

The validity of the shares of common stock offered hereby and certain other legal matters will be passed upon for us by Faegre & Benson LLP, Minneapolis, Minnesota. The underwriters have been represented in connection with this offering by Goodwin Procter LLP, Boston, Massachusetts.

EXPERTS

The financial statements of SPS Commerce, Inc. as of December 31, 2007 and 2008 and for each of the three years in the period ended December 31, 2008 included in this prospectus and registration statement have been so included in reliance on the report of Grant Thornton LLP, an independent registered public accounting firm, as set forth in its report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus does not contain all of the information included in the registration statement, portions of which are omitted as permitted by the rules and regulations of the SEC. For further information pertaining to us and the common stock to be sold in this offering, you should refer to the registration statement and its exhibits. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document filed as an exhibit to the registration statement or such other document, each such statement being qualified in all respects by such reference. On the closing of this offering, we will be subject to the informational requirements of the Securities Exchange Act and will be required to file annual, quarterly and current reports, proxy statements and other information with the SEC. We anticipate making these documents publicly available, free of charge, on our website (www.spscommerce.com) as soon as reasonably practicable after filing such documents with the SEC.

You can read the registration statement and our future filings with the SEC over the Internet at the SEC's website at www.sec.gov. You may request copies of the filing, at no cost, by telephone at (612) 435-9400 or by mail at SPS Commerce, Inc., 333 South Seventh Street, Suite 1000, Minneapolis, Minnesota 55402. You may also read and copy any document we file with the SEC at its public reference facility at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
SPS Commerce, Inc.

We have audited the accompanying balance sheets of SPS Commerce, Inc. (the "Company") as of December 31, 2007 and 2008, and the related statements of operations, redeemable convertible preferred stock and stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2008. Our audits of the basic financial statements included the financial statement schedule listed in the index. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SPS Commerce, Inc. as of December 31, 2007 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

/s/ Grant Thornton LLP

Minneapolis, Minnesota
December 3, 2009

SPS Commerce, Inc.
BALANCE SHEETS
(In thousands, except share amounts)

	December 31, 2007	December 31, 2008	September 30, 2009	Pro Forma Redeemable Convertible Preferred Stock and Stockholders' Deficit September 30, 2009
			(Unaudited)	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 4,854	$ 3,715	$ 5,796	
Short-term investments	1,263	–	–	
Accounts receivable, less allowance for doubtful accounts of $198, $308 and $244	4,149	4,564	4,819	
Deferred costs, current	2,563	4,058	4,160	
Prepaid expenses and other current assets	990	785	796	
Total current assets	13,819	13,122	15,571	
PROPERTY AND EQUIPMENT – NET				
Computer equipment and purchased software	6,651	7,560	8,051	
Office equipment and furniture	1,560	1,660	1,675	
Leasehold improvements	595	609	609	
	8,806	9,829	10,335	
Less accumulated depreciation and amortization	(5,845)	(7,020)	(7,946)	
	2,961	2,809	2,389	
GOODWILL	1,166	1,166	1,166	
INTANGIBLE ASSETS, net	1,234	446	290	
OTHER ASSETS				
Deferred costs, net of current portion	1,422	1,587	1,613	
Other non-current assets	85	67	65	
Total other assets	1,507	1,654	1,678	
	$ 20,687	$ 19,197	$ 21,094	
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT				
CURRENT LIABILITIES				
Current portion of capital lease obligations	$ 489	$ 441	$ 452	
Equipment and term loans, net of discount, $31, $18 and $2	1,230	1,409	727	
Line of credit, net of discount	998	1,300	1,300	
Accounts payable	1,123	804	938	
Accrued compensation and benefits	2,395	1,884	3,202	
Accrued expenses and other current liabilities	654	567	739	
Deferred rent	465	493	409	
Current portion of deferred revenue	1,890	2,574	3,370	
Interest payable	40	36	5	
Total current liabilities	9,284	9,508	11,142	
Deferred revenue, less current portion	3,172	4,014	4,055	
Equipment and term loans, less current portion and discount $18, $0 and $0	1,367	732	333	
Capital lease obligations, less current portion	868	553	122	
Redeemable convertible preferred stock warrant liability	143	188	93	
Deferred tax liability	–	82	103	
Total liabilities	14,834	15,077	15,848	
REDEEMABLE CONVERTIBLE PREFERRED STOCK				
Series A redeemable convertible preferred stock, $0.001 par value, 4,427,782 shares authorized, 4,322,708 shares issued and outstanding; aggregate liquidation preference of $10,000	37,676	37,676	37,676	—
Series B redeemable convertible preferred stock, $0.001 par value, 23,499,362 shares authorized, 21,570,244 shares issued and outstanding, aggregate liquidation preference of $21,112	20,844	20,844	20,844	—
Series C redeemable convertible preferred stock, $0.001 par value, 6,000,000 shares authorized, 4,687,500 shares issued and outstanding, aggregate liquidation preference of $7,500	7,444	7,444	7,444	—
Total redeemable convertible preferred stock	65,964	65,964	65,964	—
STOCKHOLDERS' DEFICIT				
Common stock, $0.001 par value; 50,345,706 shares authorized; 924,514, 1,240,588 and 1,270,696 shares issued and outstanding	1	1	1	32
Additional paid-in capital	4,807	4,969	5,146	71,079
Accumulated deficit	(64,919)	(66,814)	(65,865)	(65,865)
Total stockholders' equity (deficit)	(60,111)	(61,844)	(60,718)	5,246
	$ 20,687	$ 19,197	$ 21,094	

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

SPS Commerce, Inc.
STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Revenues	$19,859	$25,198	$30,697	$ 22,617	$ 27,765
Cost of revenues	5,219	6,379	9,208	6,584	8,742
Gross profit	14,640	18,819	21,489	16,033	19,023
Operating expenses					
Sales and marketing	8,098	11,636	12,543	9,538	10,005
Research and development	3,190	3,546	3,640	2,779	3,226
General and administrative	4,199	5,458	6,716	4,992	4,672
Total operating expenses	15,487	20,640	22,899	17,309	17,903
Income (loss) from operations	(847)	(1,821)	(1,410)	(1,276)	1,120
Other income (expense)					
Interest expense	(558)	(439)	(419)	(322)	(225)
Other income	108	120	28	1	114
Total other expense	(450)	(319)	(391)	(321)	(111)
Income tax expense	(4)	(16)	(94)	(12)	(60)
Net income (loss)	$ (1,301)	$ (2,156)	$ (1,895)	$ (1,609)	$ 949
Net income (loss) per share					
Basic	$ (2.93)	$ (3.12)	$ (1.72)	$ (1.53)	$ 0.79
Fully diluted	$ (2.93)	$ (3.12)	$ (1.72)	$ (1.53)	$ 0.03
Weighted average common shares used to compute net income (loss) per share					
Basic	444	692	1,101	1,053	1,237
Fully diluted	444	692	1,101	1,053	36,850
Pro forma net income (loss) per share					
Basic			$ (0.06)		$ 0.03
Fully diluted			$ (0.06)		$ 0.03
Pro forma weighted average common shares used to complete net income (loss) per share					
Basic			31,681		31,818
Fully diluted			31,681		36,850

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

SPS Commerce, Inc.
STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT
(In thousands, except share amounts)

	Redeemable Convertible Preferred Stock							Stockholders' Deficit				
	Series A		Series B		Series C			Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Total	Shares	Amount			
Balances at January 1, 2006	4,322,708	$ 37,676	19,015,966	$ 18,396	–	$ –	$ 56,072	385,897	$ –	$ 4,704	$ (61,462)	$ (56,758)
Issuance of redeemable convertible preferred stock, net of offering costs of $52	–	–	2,554,278	2,448	–	–	2,448	–	–	–	–	–
Stock-based compensation	–	–	–	–	–	–	–	–	–	6	–	6
Exercise of stock options	–	–	–	–	–	–	–	71,975	–	7	–	7
Net loss	–	–	–	–	–	–	–	–	–	–	(1,301)	(1,301)
Balances at December 31, 2006	4,322,708	37,676	21,570,244	20,844	–	–	58,520	457,872	–	4,717	(62,763)	(58,046)
Issuance of redeemable convertible preferred stock, net of offering costs of $56	–	–	–	–	4,687,500	7,444	7,444	–	–	–	–	–
Stock-based compensation	–	–	–	–	–	–	–	–	–	46	–	46
Exercise of stock options	–	–	–	–	–	–	–	466,642	1	44	–	45
Net loss	–	–	–	–	–	–	–	–	–	–	(2,156)	(2,156)
Balances at December 31, 2007	4,322,708	37,676	21,570,244	20,844	4,687,500	7,444	65,964	924,514	1	4,807	(64,919)	(60,111)
Stock-based compensation	–	–	–	–	–	–	–	–	–	157	–	157
Exercise of warrants	–	–	–	–	–	–	–	8,360	–	–	–	–
Exercise of stock options	–	–	–	–	–	–	–	307,684	–	5	–	5
Net loss	–	–	–	–	–	–	–	–	–	–	(1,895)	(1,895)
Balances at December 31, 2008	4,322,708	37,676	21,570,244	20,844	4,687,500	7,444	65,964	1,240,558	1	4,969	(66,814)	(61,844)
Stock-based compensation (unaudited)	–	–	–	–	–	–	–	–	–	177	–	177
Exercise of stock options (unaudited)	–	–	–	–	–	–	–	33,580	–	3	–	3
Repurchase of common stock (unaudited)	–	–	–	–	–	–	–	(3,442)	–	(3)	–	(3)
Net income (unaudited)	–	–	–	–	–	–	–	–		–	949	949
Balances at September 30, 2009 (unaudited)	4,322,708	$ 37,676	21,570,244	$ 20,844	4,687,500	$ 7,444	$ 65,964	1,270,696	$ 1	$ 5,146	$ (65,865)	$ (60,718)

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

SPS Commerce, Inc.
STATEMENTS OF CASH FLOWS
(In thousands)

	For the Year Ended December 31,			For the Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Cash flows from operating activities					
Net income (loss)	$ (1,301)	$ (2,156)	$ (1,895)	$ (1,609)	$ 949
Reconciliation of net income (loss) to net cash provided by (used in) operating activities					
Depreciation and amortization	1,457	1,729	1,963	1,463	1,082
Provision for doubtful accounts	195	151	396	237	319
Amortization of debt issue costs	24	29	25	20	8
Stock-based compensation	6	46	157	110	177
Change in carrying value of preferred stock warrants	(85)	68	45	49	(95)
Non-cash interest expense	52	57	33	26	16
Changes in assets and liabilities, excluding effects of business acquisition					
Accounts receivable	(1,176)	(800)	(811)	(628)	(574)
Prepaid expenses and other current assets	(52)	54	232	(2)	(12)
Other assets	(101)	(6)	(8)	(5)	(6)
Deferred costs	(695)	(2,885)	(1,659)	(1,517)	(128)
Accounts payable	(59)	520	(319)	49	133
Interest payable	–	(101)	(4)	(16)	(31)
Deferred revenue	1,459	1,849	1,526	1,202	837
Deferred tax liability	–	–	82	–	21
Accrued compensation and benefits	367	658	(510)	(284)	1,318
Deferred rent	45	(65)	27	53	(84)
Accrued expenses and other current liabilities	111	49	(87)	(157)	172
Net cash provided by (used in) operating activities	247	(803)	(807)	(1,009)	4,102
Cash flows from investing activities					
Purchases of property and equipment	(1,029)	(1,123)	(884)	(663)	(506)
Business acquisition	(3,679)	–	–	–	
Maturities of short-term investments	–	–	1,263	220	–
Purchase of short-term investments	–	(1,263)	–	–	–
Net cash flows provided by (used in) investing activities	(4,708)	(2,386)	379	(443)	(506)
Cash flows from financing activities					
Borrowings on line of credit	8,000	3,125	10,425	6,650	12,025
Payments on line of credit	(7,900)	(2,875)	(10,125)	(6,400)	(12,025)
Proceeds from equipment loans	1,181	756	855	580	—
Payments on equipment loans	(574)	(432)	(721)	(511)	(580)
Proceeds from term loan	2,000	—	—	—	—
Payments on term loan	(129)	(553)	(621)	(459)	(515)
Proceeds from exercise of stock options	7	45	5	5	–
Payments of capital lease obligations	(238)	(117)	(529)	(508)	(420)
Proceeds from preferred stock	2,447	6,152	–	–	–
Net cash flows provided by (used in) financing activities	4,794	6,101	(711)	(643)	(1,515)
Net increase (decrease) in cash and cash equivalents	333	2,912	(1,139)	(2,095)	2,081
Cash and cash equivalents at beginning of period	1,609	1,942	4,854	4,854	3,715
Cash and cash equivalents at end of period	$ 1,942	$ 4,854	$ 3,715	$ 2,759	$ 5,796
Supplemental disclosures of cash flow information					
Cash paid for interest	$ 477	$ 512	$ 374	$ 122	$ 78
Supplemental schedule of non-cash investing and financing activities					
Capital lease obligations incurred	$ 72	$ 1,407	$ 166	$ 166	$ –
Issuance of preferred stock upon conversion of debt	$ –	$ 1,292	$ –	$ –	$ –

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

SPS Commerce, Inc.
NOTES TO FINANCIAL STATEMENTS
(In thousands, except share and per share amounts)

NOTE A – BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

Business Description

SPS Commerce, Inc. (the "Company") is a leading provider of on-demand supply chain management solutions, providing integration, collaboration, connectivity, visibility and data analytics to thousands of customers worldwide. The Company provides its solutions through SPSCommerce.net, a hosted software suite that improves the way suppliers, retailers, distributors and other customers manage and fulfill orders. The Company derives the majority of its revenues from thousands of monthly recurring subscriptions from businesses that utilize the Company's solutions.

Unaudited Pro Forma Presentation

The unaudited pro forma stockholder's deficit as of September 30, 2009 and the unaudited pro forma net income (loss) per share and weighted average common shares outstanding used to compute net income (loss) per share for the year ended December 31, 2008 and nine months ended September 30, 2009 reflects the conversion of all outstanding shares of redeemable convertible preferred stock as of that date into common stock which will occur immediately upon the consummation of an initial public offering.

Unaudited Interim Financial Information

The accompanying balance sheet as of September 30, 2009, statements of operations and cash flows for the nine months ended September 30, 2008 and 2009, statement of redeemable convertible preferred stock and stockholders' deficit for the nine months ended September 30, 2009 and related interim information contained in the notes to the financial statements are unaudited. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements include all adjustments necessary for the fair statement of the Company's financial position as of September 30, 2009 and its results of operations and its cash flows for the nine months ended September 30, 2008 and 2009. The results for the nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

Use of Estimates

Preparing financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Risk and Uncertainties

The Company relies on hardware and software licensed from third parties to offer its on-demand management solutions. Management believes alternate sources are available; however, disruption or termination of these relationships could adversely affect the Company's operating results in the near term.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with original maturities when purchased of less than 90 days.

SPS Commerce, Inc.
NOTES TO FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share amounts)

Short-Term Investments

Investments consist of certificates of deposit that have original maturities when purchased greater than 90 days and less than twelve months and are classified as held-to-maturity.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments in financial institutions in excess of federally insured limits and trade accounts receivable. Temporary cash investments are held with financial institutions that the Company believes are subject to minimal risk.

Accounts Receivable

Accounts receivable are initially recorded upon the sale of products to customers. Credit is granted in the normal course of business without collateral. Accounts receivable are stated net of allowances for doubtful accounts, which represent estimated losses resulting from the inability of customers to make the required payments. Accounts that are outstanding longer than the contractual terms are considered past due. When determining the allowances for doubtful accounts, the Company takes several factors into consideration including the overall composition of the accounts receivable aging, the Company's prior history of accounts receivable write-offs, the type of customers and the Company's day-to-day knowledge of specific customers. The Company writes off accounts receivable when they become uncollectible. Changes in the allowances for doubtful accounts are recorded as bad debt expense and are included in general and administrative expense in the Company's statements of operations.

Property and Equipment

Property and equipment, including assets acquired under capital lease obligations, are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the shorter of the estimated useful lives of the individual assets or the lease term.

The estimated useful lives are:	
Computer equipment and purchased software	2 – 5 years
Office equipment and furniture	5 – 7 years
Leasehold improvements	2 – 7 years

Significant additions or improvements extending asset lives beyond one year are capitalized, while repairs and maintenance are charged to expense as incurred. The assets and related accumulated depreciation and amortization accounts are adjusted for asset retirements and disposals with the resulting gain or loss included in net income (loss).

Research and Development

Costs incurred to develop software applications used in the Company's on-demand supply chain management solution are accounted for in accordance with ASC 350-40, *Intangibles – Goodwill and Other*. Capitalizable costs consist of (a) certain external direct costs of materials and services incurred in developing or obtaining internal-use computer software and (b) payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the project. These costs generally consist of internal labor during configuration, coding and testing activities. Research and development costs incurred during the preliminary project stage or costs incurred for data conversion activities, training, maintenance and general and administrative or overhead costs are expensed as incurred. Costs that cannot be separated between maintenance of, and relatively minor upgrades and enhancements to, internal-use software are also expensed as incurred. Capitalization begins when the preliminary project stage is

complete, management with the relevant authority authorizes and commits to the funding of the software project, it is probable the project will be completed, the software will be used to perform the functions intended and certain functional and quality standards have been met. Historically, no projects have had material costs beyond the preliminary project stage.

The Company's research and development efforts during 2006, 2007 and 2008 and the nine months ended September 30, 2009 (unaudited), related to its on-demand supply chain management solution were primarily maintenance and data conversion activities. As such, the Company did not capitalize any research and development costs during 2006, 2007, 2008 or the nine months ended September 30, 2009 (unaudited).

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset at the date it is tested for recoverability, whether in use or under development. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. There has been no impairment of these assets to date.

Income Taxes

The Company provides for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that utilization is not presently more likely than not.

Effective January 1, 2007, the Company adopted the provisions of ASC 740-10, *Income Taxes*. Previously, the Company had accounted for tax contingencies in accordance with ASC 450-10, *Contingencies*. As required by ASC 740-10 the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied ASC 740-10 to all tax positions for which the statute of limitations remained open. The implementation of ASC 740-10 did not have a material impact on the Company's financial statements

Revenue Recognition

The Company generates revenues by providing a number of solutions to its customers. These solutions include Trading Partner Integration, Trading Partner Enablement and Trading Partner Intelligence. All of the Company's solutions are hosted applications that allow customers to meet their supply chain management requirements. Revenues from its Trading Partner Integration and Trading Partner Intelligence solutions are generated through set-up fees and a recurring monthly hosting fee. Revenues from its Trading Partner Enablement solutions are generally one-time service fees.

Fees related to recurring monthly hosting services and one-time services are recognized when the services are provided. The recurring monthly fee is comprised of both a fixed and transaction based fee. Revenue is recorded in accordance with Staff Accounting Bulletin (SAB) 104, *Revenue Recognition in Financial Statements*, when all of the following criteria are met: (1) persuasive evidence of an arrangement exists;

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(2) delivery has occurred; (3) the fee is fixed and determinable and (4) collectability is probable. If collection is not considered probable, revenues are recognized when the fees are collected.

Set-up fees paid by customers in connection with the Company's solutions, as well as associated direct and incremental costs, such as labor and commissions, are deferred and recognized ratably over the expected life of the customer relationship, which is generally two years. The Company continues to evaluate and adjust the length of these amortization periods as more experience is gained with customer renewals, contract cancellations and technology changes requested by its customers. It is possible that, in the future, the estimates of expected customer lives may change and, if so, the periods over which such subscription set-up fees and costs are amortized will be adjusted. Any such change in estimated expected customer lives will affect the Company's future operations.

In accordance with ASC 605-45, *Revenue Recognition*, taxes are presented on a net-basis.

Basic and Diluted Net Income (Loss) Per Share

Net income (loss) per share has been computed using the weighted average number of shares of common stock outstanding during each period. Diluted amounts per share include the impact of the Company's outstanding potential common shares, such as options and warrants and redeemable convertible preferred stock. Potential common shares that are anti-dilutive are excluded from the calculation of diluted net income (loss) per common share.

The following table sets forth the components of the computation of basic and diluted net income (loss) per common share for the periods indicated:

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Numerator:					
Net income (loss)	$(1,301)	$(2,156)	$(1,895)	$(1,609)	$ 949
Denominator (basic):					
Weighted average common shares outstanding	444	692	1,101	1,053	1,237
Net income (loss) per share-basic	$ (2.93)	$ (3.12)	$ (1.72)	$ (1.53)	$ 0.79
Denominator (fully diluted):					
Weighted average common shares outstanding	444	692	1,101	1,053	36,850
Net income (loss) per share-fully diluted	$ (2.93)	$ (3.12)	$ (1.72)	$ (1.53)	$ 0.03

The following outstanding options, redeemable convertible preferred stock and warrants were excluded from the computation of diluted net loss per share for the periods indicated because including them would have had an anti-dilutive effect:

	Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
				(Unaudited)	
Options to purchase common stock	4,095	4,646	4,448	4,443	71
Redeemable convertible preferred stock	25,893	30,580	30,580	30,580	–
Common and preferred stock warrants	474	356	256	256	–

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Stock-Based Compensation

ASC 718, *Compensation – Stock Compensation*, requires the cost of all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on the grant date fair value of those awards. In accordance with ASC 718, this cost is recognized over the period for which an employee is required to provide service in exchange for the award. ASC 718 requires that the benefits associated with tax deductions in excess of recognized compensation expense be reported as a financing cash flow rather than as an operating cash flow. The compensation cost recognized by the Company for stock options was $6, $46 and $157 for 2006, 2007 and 2008, and $110 and $177 for the nine months ended September 30, 2008 and 2009 (unaudited). As of December 31, 2008 and September 30, 2009, there was $466 and $475 (unaudited), respectively, of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plans. As of December 31, 2008 and September 30, 2009, that cost is expected to be recognized on a straight line basis over a weighted average period of approximately 2.0 and 2.4 (unaudited) years.

The Company estimates the fair value of the options granted using the Black-Scholes method. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from the Company's estimates, such amounts will be recorded as an adjustment in the period estimates are revised. In valuing share-based awards, significant judgment is required in determining the expected volatility of common stock and the expected term individuals will hold their share-based awards prior to exercising. Expected volatility of the stock is based on the Company's peer group in the industry in which the Company does business because the Company does not have sufficient historical volatility data for its own stock. The expected term of options granted was determined based on the simplified method in accordance with Staff Accounting Bulletin No. 107, *Share-Based Payment*.

Advertising Costs

Advertising costs are charged to expense as incurred. Advertising costs were approximately $191, $655 and $85 for 2006, 2007 and 2008, and $74 and $34 (unaudited) for the nine months ended September 30, 2008 and 2009. Advertising costs are included in operating expenses in the statement of operations.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The Company tests goodwill for impairment annually at December 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is conducted by comparing the fair value of the Company with its carrying value. Fair value is determined using the future cash flows expected to be generated by the reporting unit. If the carrying value exceeds the fair value, goodwill may be impaired. If this occurs, the fair value is then allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting with goodwill. This implied fair value is then compared with the carrying amount of goodwill and, if it is less, the Company would then recognize an impairment loss. There has been no impairment of the Company's assets to date.

Intangible Assets

Intangible assets include subscriber relationships and covenants not-to-compete. The subscriber relationship asset is being amortized on a straight-line basis over three years, which approximates its respective useful life. The covenants not-to-compete are amortized on a straight-line basis over two years upon termination of employment of the respective employees.

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The carrying amounts and accumulated amortization for intangible assets is as follows:

	December 31,						September 30, 2009		
	2007			2008					
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization (Unaudited)	Net
Intangible assets:									
Subscriber relationships	$ 1,930	$ 1,179	$ 751	$ 1,930	$ 1,822	$ 108	$ 1,930	$ 1,930	$ –
Covenants not-to-compete	580	97	483	580	242	338	580	290	290
Total	$ 2,510	$ 1,276	$ 1,234	$ 2,510	$ 2,064	$ 446	$ 2,510	$ 2,064	$ 290

Aggregate amortization expense incurred was $536, $740 and $788 for 2006, 2007 and 2008, and $591 and $156 (unaudited) for the nine months ended September 30, 2008 and 2009.

Segment Information

The Company operates in and reports on one segment, supply chain management solutions, based upon the provisions of ASC 280-10, *Segment Reporting.*

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, short term investments, accounts receivable, accounts payable and other accrued expenses, approximate their fair values due to their short maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of debt and capital lease obligations approximates fair value.

Fair Value Measurements

Effective January 1, 2008, the Company adopted ASC 820, *Fair Value Measurements and Disclosures*, for financial assets and liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The adoption of ASC 820 did not have a material impact on the Company's financial condition or results of operations.

ASC 820 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also describes three levels of inputs that may be used to measure fair value:

- Level 1 – quoted prices in active markets for identical assets and liabilities.
- Level 2 – observable inputs other than quoted prices in active markets for identical assets and liabilities.
- Level 3 – unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

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NOTES TO FINANCIAL STATEMENTS — (Continued)
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The table below presents our assets measured at fair value on a recurring basis as of December 31, 2008:

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 3,715	$3,715	$ —	$ —
Preferred stock warrants	188	—	—	188
Total assets measured at fair value	$ 3,903	$3,715	$ —	$ 188

The following is a reconciliation of the preferred stock warrants, which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

Balance as of January 1, 2008	$143
Total (gains) losses recognized	45
Balance at December 31, 2008	188
Total (gains) losses recognized	(95)
Balance at September 30, 2009 (unaudited)	93

Recent Accounting Pronouncements

In February 2008, the FASB issued guidance that delayed the effective date of ASC 820 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted ASC 820 for non-financial assets and non-financial liabilities on January 1, 2009, and such adoption did not have a material impact on the Company's financial condition or results of operations.

Effective January 1, 2008, the Company adopted the fair value option of ASC 825, *Financial Instruments*. ASC 825 permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value of accounting option for any of its eligible assets or liabilities; therefore, this adoption had no impact on the Company's financial condition or results of operations.

In April 2009, the FASB issued guidance that requires interim reporting period disclosure about the fair value of certain financial instruments, effective for interim reporting periods ending after June 15, 2009. The Company has adopted these disclosure requirements. Due to their nature, the carrying value of cash, receivables, payables and debt obligations approximates fair value.

In May 2009, the FASB issued ASC 855, *Subsequent Events*. ASC 855 incorporates guidance into accounting literature that was previously addressed only in auditing standards. The statement refers to subsequent events that provide additional evidence about conditions that existed at the balance-sheet date as "recognized subsequent events". Subsequent events that provide evidence about conditions that arose after the balance sheet date but prior to the issuance of the financial statements are referred to as "non-recognized subsequent events". ASC 855 also requires companies to disclose the date through which subsequent events have been evaluated and whether this date is the date the financial statements were issued or the date the financial statements were available to be issued. The disclosure requirements of ASC 855 are effective for interim and annual periods ending after June 15, 2009. The Company has adopted this new standard.

In June 2009, the FASB issued guidance that establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Use of the new Codification is effective for interim and annual periods ending

after September 15, 2009. The Company has used the new Codification in reference to GAAP in this report and such use has not impacted the results of the Company.

In October 2009, the FASB issued the following ASUs:

- ASU No. 2009-13, Revenue Recognition (ASC Topic 605), *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*; and
- ASU No. 2009-14, Software (ASC Topic 985), *Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force.*

ASU No. 2009-13: This guidance modifies the fair value requirements of ASC subtopic 605-25, *Revenue Recognition-Multiple Element Arrangements*, by allowing the use of the "best estimate of selling price" in addition to VSOE and Vendor Objective Evidence (now referred to as third-party evidence, or TPE) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted.

ASU No. 2009-14: This guidance modifies the scope of ASC subtopic 965-605, *Software-Revenue Recognition*, to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality.

These updates require expanded qualitative and quantitative disclosures and are effective for fiscal years beginning on or after June 15, 2010. However, companies may elect to adopt the updated requirements as early as interim periods ended September 30, 2009. These updates may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. The Company is currently evaluating the impact of adopting these updates on its financial statements.

NOTE B – ACQUISITION OF OWENS DIRECT

On February 3, 2006, the Company and Owens Direct LLC ("Owens Direct") entered into an asset purchase agreement, pursuant to which, on February 23, 2006, the Company purchased substantially all of Owens Direct's assets with the exception of cash, cash equivalents and certain contracts. As a part of the agreement, the Company did not assume any of Owens Direct's liabilities. The Company paid $3,500 in exchange for Owens Direct's assets. The Company incurred additional acquisition costs of $179 for legal and closing costs. Operations associated with Owens Direct are included in the financial statements starting on February 23, 2006.

To fund the purchase, the Company issued an additional 2,554,276 shares of Series B redeemable convertible preferred stock, par value $0.001 per share, at $0.98 per share before expenses on February 17, 2006. The shares of Series B redeemable convertible preferred stock issued have all the same characteristics of previously issued Series B redeemable convertible preferred stock (Note G).

Also, in connection with financing related to the Owens Direct acquisition, the Company entered into a loan and security agreement with a lender on February 3, 2006. Under this agreement, the Company entered into a $2,000 term loan, an equipment loan not to exceed an aggregate of $1,250, and a revolving line of credit with an amount not to exceed the lesser of $1,250 or 85% of the eligible domestic accounts receivable plus 70% of the eligible foreign accounts receivable less any reserves (Note E).

In conjunction with the February 3, 2006 loan and security agreement, the Company issued a fully vested ten-year warrant to purchase 235,000 shares of Series B redeemable convertible preferred stock at a price of

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$0.98 per share to the lender. The original fair value of the warrant of $160 was recorded as a discount and is being amortized to interest expense over the weighted-average life of the term loan, equipment loan and the revolving line (Note E).

The Company has accounted for the acquisition as a purchase whereby the assets of Owens Direct were recorded as of the acquisition date, at their respective fair values, and with those of the Company. The purchase price was allocated as follows:

Property and equipment	$ 30
Noncompete agreements	580
Subscriber relationships	1,930
Goodwill	1,139
	$3,679

NOTE C – DEBT ISSUE COSTS

The Company capitalizes all debt issue costs and amortizes these costs as interest expense over the term of the related debt. Debt issue costs are included in other assets on the balance sheet. Debt issue costs consist of the following:

	December 31,		September 30,
	2007	2008	2009 (Unaudited)
Debt issue costs	$109	$ 114	$ 119
Accumulated amortization	(83)	(106)	(113)
	$ 26	$ 8	$ 6

Amortization expense was $24, $29 and $22 for 2006, 2007 and 2008, and $20 and $8 (unaudited) for the nine months ended September 30, 2008 and 2009.

NOTE D – INCOME TAXES

The provision for income taxes at December 31, 2006, 2007 and 2008 consist of the following:

	2006	2007	2008
Current	$ 4	$ 16	$ 12
Deferred	–	–	82
Total income tax expense	$ 4	$ 16	$ 94

For the nine months ended September 30, 2008 and 2009, the Company recorded a provision for income taxes of $12 and $60. The tax provision includes estimated federal alternative minimum taxes, state franchise taxes and deferred tax expense related to book and income tax basis differences in goodwill created in the Owens Direct asset acquisition.

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A reconciliation of income tax expense (benefit) to the statutory federal rate is as follows:

	2006	2007	2008
Expected federal income tax at statutory rate	$(441)	$(728)	$(612)
State income taxes, net of federal tax effect	(41)	(68)	(52)
Permanent book/tax differences	5	79	106
Other	2	4	38
Change in valuation allowance	479	729	614
Total income tax expense	$ 4	$ 16	$ 94

As of December 31, 2008, the Company had net operating loss carryforwards of $55.5 million for U.S. federal tax purposes. These loss carryforwards expire between 2010 and 2029. To the extent these net operating loss carryforwards are available, the Company will use them to reduce its corporate income tax liability associated with its operations. Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that might be used to offset taxable income when a corporation has undergone significant changes in stock ownership. As a result, prior or future changes in ownership could put limitations on the availability of the Company's net operating loss carryforwards.

Significant components of the Company's deferred tax assets and liabilities at December 31, 2007 and 2008 are as follows:

	2007	2008
Current:		
Accounts receivable allowances	$ 91	$ 125
Accrued expenses	214	252
Total current deferred tax assets	305	377
Valuation allowance	(305)	(377)
Net current deferred tax assets	$ –	$ –
Noncurrent:		
Net operating loss carryforward	$ 19,632	$ 19,867
Deferred revenue	573	530
Depreciation and amortization	521	789
Total noncurrent deferred tax assets	20,726	21,186
Valuation allowance	(20,726)	(21,268)
Net noncurrent deferred tax liability	$ –	$ 82

As of December 31, 2008, the net deferred tax asset has been reduced fully by a valuation allowance, as realization is not considered to be likely based on an assessment of the likelihood of sufficient future taxable income. The deferred tax liability recorded at December 31, 2008 relates to goodwill created in the Owens Direct asset acquisition which is deductible for tax purposes.

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In the event the Company realizes its deferred tax assets in the future, approximately $26,000 of the NOL carry-forwards were generated through stock option deductions and will be recorded in additional paid-in capital rather than offset income tax expense.

The Company adopted the provisions of ASC 740-10, *Income Taxes*, on January 1, 2007. ASC 740-10 creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740-10 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. At the adoption date, the Company did not have a material liability under ASC 740-10 for unrecognized tax benefits. Since adoption, the Company has had no change in the liability for unrecognized tax benefits. It is the Company's practice to recognize penalties and/or interest to income tax matters in income tax expenses. As of September 30, 2009, the Company did not have an accrual for interest or penalties related to unrecognized tax benefits.

NOTE E – LINE OF CREDIT AND LONG-TERM DEBT

On March 30, 2009, the Company agreed to terms with a lender to provide for equipment loans in the aggregate amount not to exceed $1,100. All loans are payable in 36 monthly installments of principal and interest at 12.75%. The Company entered into an equipment loan with the same lender on March 24, 2008 to provide equipment loans in the aggregate amount not to exceed $1,250. All loans are payable in 36 monthly installments of principal and interest at 9.25% plus the greater of 2.55% or the yield for the three-year U.S. Treasury note on the date of the advance.

The Company entered in to an equipment loan agreement with the same lender on March 20, 2007 in the aggregate amount not to exceed $1,250. All loans from the agreement dated March 20, 2007 are payable in 36 monthly installments of principal and interest at 7.20% plus the greater of 4.84% or the yield for the three-year U.S. treasury note on the date of the advance.

In conjunction with the acquisition of Owens Direct, the Company entered into a loan and security agreement with the same lender on February 3, 2006. Under the agreement, the Company entered into a $2,000 term loan, an equipment loan not to exceed an aggregate of $1,250, and a revolving line of credit with an amount not to exceed the lesser of $1,250 or 85% of the eligible domestic accounts receivable plus 70% of the eligible foreign accounts receivable less any reserves. Each loan is collateralized by the assets of the Company. At December 31, 2008, $2,027 was available under the revolving line, of which the Company had borrowed $1,300. In addition, each loan contains certain non-financial covenants with which the Company was in compliance at December 31, 2008. The fair value of the preferred stock warrant issued in connection with this transaction was $160 and was recorded as a debt discount and is being amortized as interest expense over the weighted average life of the term loan, equipment loan and the revolving line of credit.

On April 8, 2009, the Company also agreed to terms for a line of credit arrangement renewal with the same lender. The line of credit provides available borrowings up to $3,500 based on eligible borrowings and expires March 31, 2010. The Company had $1,100 and $1,300 of borrowings with effective interest rates of 5.50% and 9.50% as of December 31, 2007 and 2008, respectively. At September 30, 2009, the line of credit bears an effective rate of 9.0% and the Company had $1,300 of borrowings and $1,345 available under the agreement (unaudited).

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The long-term debt consists of the following:

	December 31, 2007	December 31, 2008	September 30, 2009 (Unaudited)
Term note of $2,000 payable in six monthly interest only payments followed by 39 monthly payments of principal and interest at 6.95% plus the greater of 4.54% or the yield for the four-year U.S. Treasury note on the date of the loan (effective rate of 11.60% at December 31, 2008 and 2007) through December 1, 2009	$ 1,318	$ 697	$ 182
Equipment line – all loans made under the equipment line are payable in 36 monthly installments of principal and interest. Various equipment loans – interest ranging from 11.49% to 12.53% and due at dates through January 1, 2012	1,328	1,462	880
Total debt	$ 2,646	$ 2,159	$ 1,062
Less: discount	(49)	(18)	(2)
Total debt, less discount	2,597	2,141	1,060
Less: current maturities	(1,230)	(1,409)	(727)
Total long-term debt	$ 1,367	$ 732	$ 333

Future maturities of long-term debt are as follows for the year ended December 31, 2008:

2009	$1,427
2010	499
2011	224
2012	9
	$2,159

NOTE F – COMMITMENTS AND CONTINGENCIES

Capital Leases

The Company leases certain computer equipment under capital leases that bear interest ranging from 8.9% to 10.75%. A summary of the Company's property under these leases are as follows:

	December 31, 2007	December 31, 2008	September 30, 2009 (Unaudited)
Computer equipment and purchased software	$1,529	$1,664	$ 1,094
Less: accumulated amortization	(681)	(795)	(260)
	$ 848	$ 869	$ 834

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Future minimum payments under capital leases are as follows for 2008:

2009	$ 529
2010	472
2011	125
Total minimum lease payments	1,126
Less: amount representing interest	(132)
Present value of minimum lease payments	994
Less: current portion	(441)
	$ 553

Operating Leases

The Company is obligated under non-cancellable operating leases primarily for office space. In addition to base rent under the leases, the Company pays utilities and its pro rata share of real estate taxes. Rent expense charged to operations was $482, $580 and $663 for 2006, 2007 and 2008, and $497 and $509 (unaudited) for the nine months ended September 30, 2008 and 2009.

Future minimum lease payments are as follows for 2008:

2009	$ 771
2010	783
2011	794
2012	673
	$3,021

Management Incentive Agreements

During 2002, the board of directors of the Company approved management incentive agreements that provide for a bonus to be paid to certain executive officers upon the sale of the Company. The aggregate bonus is equal to 0.322% of the amount of the purchase price, as defined, exceeding $25,000 and less than $65,000. The aggregate bonus under these agreements is limited to $150. The management incentive agreements terminate on June 30, 2012, regardless of employment status. At December 31, 2008 and September 30, 2009, no expense or liability had been recorded relating to these agreements.

Other Contingencies

The Company is involved in various claims and legal actions in the normal course of business. Management believes that the outcome of such legal actions will not have a significant adverse effect on the Company's financial position, results of operations or cash flows.

NOTE G – STOCKHOLDERS' DEFICIT

Redeemable Convertible Preferred Stock

The Company has issued various classes of redeemable convertible preferred stock. The holders of Series A, B and C redeemable convertible preferred stock have the option to put their shares back to the Company at the liquidation preference value, as defined in the certificate of incorporation, in the event of any

liquidation, dissolution or winding up of the Company. Certain events defined in the certificate of incorporation are deemed to be a liquidation.

None of the Series A, B and C redeemable convertible preferred stock have a mandatory redemption feature. In the event of a liquidation, as defined, the holders of Series C redeemable convertible preferred stock shall be entitled to receive, prior to and in preference to any distribution of any assets or surplus funds of the Company to the holders of Series B and A redeemable convertible preferred stock or common stock, an amount in cash equal to $1.60 per share plus accrued unpaid dividends. After the liquidation payment to Series C redeemable convertible preferred stockholders, the holders of Series B redeemable convertible preferred stock shall be entitled to receive, prior to and in preference to any distribution of any assets or surplus funds of the Company to the holders of Series A redeemable convertible preferred stock or common stock, an amount in cash equal to $0.98 per share plus accrued unpaid dividends. After the liquidation payment of Series B redeemable convertible preferred stockholders, the holders of Series A redeemable convertible preferred stock shall be entitle to receive, prior to and in preference to any distribution of any assets or surplus funds of the Company to the holders of common stock, an amount in cash equal to $2.31 per share plus accrued unpaid dividends. After the liquidation payment to Series C, B and A redeemable convertible preferred stockholders, holders of common stock and Series A, B and C redeemable convertible preferred stock shall share pro rata in the remaining assets of the Company.

Each share of Series A, B and C redeemable convertible preferred stock, at the option of the holder, is convertible at a conversion price of $2.31, $0.98 and $1.60 per share, respectively. Each share of Series A, B and C redeemable convertible preferred stock shall automatically and immediately be converted into shares of common stock upon the closing of a public offering pursuant to an effective registration statement if the offering price per share is not less than $3.59 and the gross proceeds to the Company are at least $20,000. Each share of redeemable convertible preferred stock is subject to weighted-average anti-dilution price protection. The holders of the redeemable convertible preferred stock are entitled to dividends only when declared. No dividends have been declared since the issuance of the redeemable convertible preferred stock. Generally, holders of Series A, B and C redeemable convertible preferred stock shall vote on all matters submitted to a vote of stockholders, except those required by law to be submitted to a class vote.

NOTE H – SHARE-BASED COMPENSATION

At September 30, 2009, there were 390,633 options available for grant under approved stock option plans. At December 31, 2006, 2007 and September 30, 2008, there were 581 stock options outstanding issued outside the stock option plans. The stock options generally vest over three to four years and generally have a contractual term of ten years from the date of grant. The 2001 Stock Option Plan provides for the grant of incentive and nonqualified stock options to employees, non-employee directors and other consultants who provide services to the Company. The 2001 Stock Option Plan provides that grants of incentive stock options cannot be less than 110% of the fair market value of the Company’s common stock on the date of grant and the exercise price of incentive stock options granted to any other employees may not be less than 100% of the fair market value of the Company’s common stock on the date of grant.

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Stock Options

A summary of the Company's stock option activity is presented below:

	Options Outstanding	Weighted-Average Exercise Price
Outstanding at January 1, 2006	3,390,957	$ 0.54
Granted	785,770	0.10
Exercised	(71,975)	0.10
Forfeited	(10,951)	1.94
Outstanding at December 31, 2006	4,093,801	0.46
Granted	1,165,115	0.87
Exercised	(466,642)	0.10
Forfeited	(146,130)	0.13
Outstanding at December 31, 2007	4,646,144	0.61
Granted	173,000	1.23
Exercised	(307,684)	0.10
Forfeited	(63,381)	0.98
Outstanding at December 31, 2008	4,448,079	0.66
Granted (unaudited)	1,267,364	0.76
Exercised (unaudited)	(33,580)	0.10
Forfeited (unaudited)	(918,184)	2.19
Outstanding at September 30, 2009 (unaudited)	4,763,679	$ 0.40

The following table summarizes our stock option grants from October 1, 2008 through September 30, 2009 and our contemporaneous valuations and Black-Scholes values for those grants.

Period of Grant	Number of Options Granted	Per Share Exercise Price(s)	Fair Value(s) Estimate per Share	Aggregate Intrinsic Value of Options Granted	Valuation Date(s)
Fourth Quarter – 2008	8,500	$ 1.25	$ 1.25	$ —(1)	October 31, 2008
First Quarter – 2009 (unaudited)	309,000	$ 0.92	$ 0.92	$ 22	February 10, 2009
Second Quarter – 2009 (unaudited)	374,000	$0.65-0.68	$0.65-0.68	$ 125	April 1, 2009 and April 22, 2009
Third Quarter – 2009 (unaudited)	893,364	$ 0.81	$ 0.81	$ 161	July 23, 2009

(1) All stock options granted in the fourth quarter of 2008 were amended in July 2009 to lower the per share exercise price to $0.81.

SPS Commerce, Inc.
NOTES TO FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share amounts)

The following table summarizes information about stock options outstanding at December 31, 2008:

Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$0.10	2,890,642	5.0	$ 0.10	2,673,308	$ 0.10
$0.11 – $1.99	1,332,115	8.8	0.92	364,002	0.85
$2.00 – 3.00	212,050	2.7	2.02	212,050	2.02
$40.00 – $66.00	8,945	0.1	61.04	8,945	61.04
$102.40 – $115.60	4,202	0.4	105.01	4,202	105.01
$180.00 – $220.00	125	0.0	180.00	126	180.00
Total	4,448,079	6.0	$ 0.66	3,262,632	$ 0.62

The intrinsic value of options exercised during 2006, 2007 and 2008 was $0, $280 and $346, and for the nine months ended September 30, 2009 was $27 (unaudited).

The weighted-average fair value of the options granted during 2007, 2008 and 2009 were $0.47, $0.64 and $0.34 (unaudited). The fair value of each option granted was estimated on the date of grant using the Black-Scholes method with the following assumptions:

	2006	2007	2008	2009 (Unaudited)
Weighted-average volatility	60.0%	52.0%	53.0%	49.0% - 53.0%
Expected dividends	0.0%	0.0%	0.0%	0.0%
Expected life (in years)	9.0	8.0	7.0	4.0 - 7.0
Weighted-average risk-free interest rate	4.4%	4.4%	4.0%	2.7% - 4.0%

The expected term of the options is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility is based on historic volatilities from traded shares of a selected publicly traded peer group. It is not routine for the Company to issue dividends and it does not expect to do so in the future.

On July 23, 2009, the Company unilaterally amended the terms of certain stock options granted to 17 employees and one director to reduce the exercise price for all of the shares subject to each option to $0.81 per share, which was the fair market value of the common stock on the date of amendments. The amendments did not change the vesting provisions or the number of shares subject to any of the option awards. This was accounted for as a stock option modification and required the remeasurement of these stock options. This remeasurement resulted in total additional incremental stock-based compensation cost of $60, which will be recognized ratably over the remaining vesting period of the original awards. Of the $177 of stock-based compensation recognized in the period ended September 30, 2009, approximately $29 (unaudited) related to the stock-based compensation costs associated with the modified options.

Common Stock Warrants

The Company had 10,750 and 750 warrants outstanding to purchase common stock, with exercise prices ranging from $0.20 to $105.00 per share, at December 31, 2007 and 2008. These warrants expired on May 13, 2009 or were previously exercised.

SPS Commerce, Inc.
NOTES TO FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share amounts)

Preferred Stock Warrants

At December 31, 2007, 2008 and September 30, 2009, the Company had warrants outstanding to purchase 255,435 shares of Series B redeemable convertible preferred stock, with exercise prices of $0.98 per share. These warrants expire on dates ranging from May 2011 to February 2016.

The Company is required to classify the outstanding warrants to purchase redeemable convertible preferred stock as a liability on its balance sheet and record adjustments to their fair value in the statements of operations. The Company recorded income (expense) of ($85), $69 and $45 for 2006, 2007 and 2008, and $49 and ($96) (unaudited) for the nine months ended September 30, 2008 and 2009. This expense was recorded in other income (expense). The warrants are subject to revaluation at each balance sheet date and any change in fair value is recognized as a component of other income (expense), net, until conversion of the preferred stock warrants to common stock warrants upon completion of the Company's initial public offering.

NOTE I – EMPLOYEE BENEFIT PLAN

The Company sponsors a 401(k) retirement savings plan whereby employees are allowed to contribute up to 50% of their salaries and the Company will match 25% up to the first 6%. The Company's contributions vest immediately. Company contributions to the plan were $83, $124 and $172 for 2006, 2007 and 2008, and $124 and $161 (unaudited) for the nine months ended September 30, 2008 and 2009.

NOTE J –GUARANTEES

The Company provides limited guarantees to certain customers through service level agreements. These agreements are defined in the master agreements with the customer and performance is measured on a monthly basis for the life of the contracts. Service level agreements require the Company to perform at specified levels, which would include, but are not limited to, document processing times, data center availability, customer support and issue resolution.

NOTE K – SUBSEQUENT EVENTS

The Company has evaluated its financial statements as of December 31, 2008 for subsequent events through December 3, 2009, the date the financial statements were available to be issued. The Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

SCHEDULE II – Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Charged to Revenue, Cost or Expenses	Deductions	Balance at End of Period
		(In thousands)		
Reserves deducted from assets to which it applies:				
Year ended December 31, 2006 Accounts Receivable Allowance	$ 149	$ 195	$ (103)	$ 241
Year ended December 31, 2007 Accounts Receivable Allowance	$ 241	$ 150	$ (193)	$ 198
Year ended December 31, 2008 Accounts Receivable Allowance	$ 198	$ 396	$ (286)	$ 308

Shares

Common Stock

PROSPECTUS
, 2010

Thomas Weisel Partners LLC

William Blair & Company **Needham & Company, LLC**

JMP Securities

Neither we nor any of the selling stockholders or underwriters have authorized anyone to provide information different from that contained in this prospectus. When you make a decision about whether to invest in our common stock, you should not rely upon any information other than the information in this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy these shares of common stock in any circumstances under which the offer or solicitation is unlawful.

Until , 2010, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotment or subscriptions.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses, other than the underwriting discounts and commissions, payable by us in connection with the sale of common stock being registered. All amounts shown are estimates, except the SEC registration fee, the Financial Industry Regulatory Authority, Inc. filing fee and the Nasdaq Capital Market listing fee.

	Amount
SEC registration fee	$ 2,567
FINRA fee	5,100
Nasdaq Capital Market listing fee	50,000
Legal fees and expenses	*
Accounting fees and expenses	*
Printing expenses	*
Transfer agent and registrar fees and expenses	*
Miscellaneous	*
Total	$ *

* To be filed by amendment

Item 14. Indemnification of Directors and Officers.

We are a corporation organized under the laws of the State of Delaware. Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to an action by reason of the fact that he or she was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful, except that, in the case of an action by or in right of the corporation, no indemnification may generally be made in respect of any claim as to which such person is adjudged to be liable to the corporation. Our amended and restated bylaws, in the form that will become effective upon the closing of this offering, provide that we will indemnify and advance expenses to our directors and officers (and may choose to indemnify and advance expenses to other employees and other agents) to the fullest extent permitted by law; provided, however, that if we enter into an indemnification agreement with such directors or officers, such agreement controls.

Section 102(b)(7) of the Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duties as a director, except for liability for any:

- breach of a director's duty of loyalty to the corporation or its stockholders;
- act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payment of dividends or redemption of shares; or
- transaction from which the director derives an improper personal benefit.

Our amended and restated certificate of incorporation, in the form that will become effective upon the closing of this offering, provides that our directors are not personally liable for breaches of fiduciary duties to the fullest extent permitted by the Delaware General Corporation Law.

These limitations of liability do not apply to liabilities arising under federal securities laws and do not affect the availability of equitable remedies such as injunctive relief or rescission.

Section 145(g) of the Delaware General Corporation Law permits a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation. Our amended and restated bylaws, in the form that will become effective upon the closing of this offering, permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in connection with their services to us, regardless of whether our bylaws permit indemnification. We intend to obtain a directors' and officers' liability insurance policy prior to the closing of this offering.

As permitted by the Delaware General Corporation Law, we entered into indemnity agreements with each of our directors that require us to indemnify such persons against various actions including, but not limited to, third-party actions where such director, by reason of his or her corporate status, is a party or is threatened to be made a party to an action, or by reason of anything done or not done by such director in any such capacity. We indemnify directors against all costs, judgments, penalties, fines, liabilities, amounts paid in settlement by or on behalf such directors, and for any expenses actually and reasonably incurred by such directors in connection with such action, if such directors acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal proceeding, had no reasonable cause to believe their conduct was unlawful. We also advance to our directors expenses (including attorney's fees) incurred by such directors in advance of the final disposition of any action after the receipt by the corporation of a statement or statements from directors requesting such payment or payments from time to time, provided that such statement or statements are accompanied by an undertaking, by or on behalf of such directors, to repay such amount if it shall ultimately be determined that they are not entitled to be indemnified against such expenses by the corporation.

The indemnification agreements set forth certain procedures that will apply in the event of a claim for indemnification or advancement of expenses, including, among others, provisions about providing notice to the corporation of any action in connection with which a director seeks indemnification or advancement of expenses from the corporation, and provisions concerning the determination of entitlement to indemnification or advancement of expenses.

Prior to the closing of this offering we plan to enter into an underwriting agreement, which will provide that the underwriters are obligated, under some circumstances, to indemnify our directors, officers and controlling persons against specified liabilities.

Item 15. Recent Sales of Unregistered Securities.

In the three years preceding the filing of this registration statement, we issued the securities indicated below that were not registered under the Securities Act. All share and price information in the table below does not reflect the impact of the conversion of all of our preferred stock into common stock immediately prior to consummation of this offering and a for reverse stock split of our common stock that will occur immediately prior to consummation of this offering.

Individual or Group Name	Type of Securities	Date of Sale	Preferred	Common	Total Consideration
Pacific Capital Ventures LLC	Series C convertible preferred stock	April 10, 2007	124,536	—	$ 199,257.60
River Cities Capital Fund II L.P.	Series C convertible preferred stock	April 10, 2007	250,000	—	$ 400,000.00
River Cities SBIC III L.P.	Series C convertible preferred stock	April 10, 2007	625,000	—	$1,000,000.00
SPVC VI, LLC	Series C convertible preferred stock	April 10, 2007	468,750	—	$ 750,000.00
CID Mezzanine Capital, L.P.	Series C convertible preferred stock	April 10, 2007	901,742	—	$1,442,787.20
River Cities SBIC III L.P.	Series C convertible preferred stock	April 18, 2007	1,473,438	—	$2,357,500.80
Axiom Venture Partners II, L.P.	Series C convertible preferred stock	April 18, 2007	312,500	—	$ 500,000.00
BlueCrest Strategic Limited	Series C convertible preferred stock	April 18, 2007	263,127	—	$ 421,003.20
BVCF IV, L.P.	Series C convertible preferred stock	April 18, 2007	250,000	—	$ 400,000.00
Ronald P. Karlsberg, TTEE FBO R.P. Karlsberg Cardiovascular Medical Group of Southern California 401K, profit sharing plan, DTD 1/1/1989	Series C convertible preferred stock	April 18, 2007	15,000	—	$ 24,000.00
Casimir Skrzypczak	Series C convertible preferred stock	April 18, 2007	3,407	—	$ 5,451.20
Robert J. Guerriere	common stock	April 20, 2007	—	27,092	$ 2,709.20
Thomas C. Velin	common stock	June 29, 2007	—	232,848	$ 23,284.80
Archie C. Black	common stock	July 11, 2007	—	200,000	$ 20,000.00
Thomas C. Velin	common stock	August 9, 2007	—	6,322	$ 632.20
Gregory R. Storlie	common stock	August 18, 2007	—	380	$ 38.00
John P. Sekeres	common stock	January 16, 2008	—	3,038	$ 778.80
PNC Investment Corp.	common stock	May 21, 2008	—	8,360	*
Patrick J. Maurer	common stock	May 30, 2008	—	263,260	*
Chad Johnson	common stock	August 8, 2008	—	1,386	$ 138.60
Archie C. Black	common stock	September 4, 2008	—	40,000	$ 4,000.00
Sandra L. Evanson	common stock	September 11, 2009	—	30,188	*

* Indicates shares acquired upon cashless exercise of an option or warrant. In the case of PNC Investment Corp., the exercise price of $2,000 was paid by cancellation of 1,640 shares subject to the applicable warrant. In the case of Patrick J. Maurer, the exercise price of $28,676 was paid by cancellation of 25,506 shares subject to the applicable option. In the case of Sandra L. Evanson, the exercise price of $3,358 was paid by cancellation of 3,392 shares subject to the applicable option.

The above-described sales of Series C convertible preferred stock were made in reliance upon the exemption from registration requirements of the Securities Act available under Section 4(2) of the Securities Act and Rule 506 of Regulation D. These sales did not involve any underwriters, underwriting discounts or commissions or any public offering. The recipients of the securities in these transactions represented that they were sophisticated persons and that they intended to acquire the securities for investment only and not with a view to, or for sale in connection with, any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in such sales. We believe that the purchasers either received adequate information about us or had adequate access, through their relationships with us, to such information.

The sale of common stock to PNC Investment Corp. was made in reliance upon the exemption from registration requirements of the Securities Act available under Section 4(2) of the Securities Act. This sale did not involve any underwriters, underwriting discounts or commissions or any public offering.

All other sales of common stock described above were made pursuant to the exercise of stock options granted under our 2001 Stock Option Plan to our officers, directors, employees and consultants in reliance upon an available exemption from the registration requirements of the Securities Act, including those

contained in Rule 701 promulgated under Section 3(b) of the Securities Act. Among other things, we relied on the fact that, under Rule 701, companies that are not subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act are exempt from registration under the Securities Act with respect to certain offers and sales of securities pursuant to "compensatory benefit plans" as defined under that rule. We believe that our 2001 Stock Option Plan qualifies as a compensatory benefit plan.

The following table sets forth information on the stock options issued by us in the three years preceding the filing of this registration statement. All information in the table below relating to the number of options or exercise price does not reflect a for reverse stock split of our common stock that will occur immediately prior to consummation of this offering.

Date of Issuance	Number of Options Granted	Grant Date Exercise Price	Grant Date Fair Value	Current Exercise Price
January 24, 2007	53,475	$ 0.53	$ 0.53	$ 0.53
April 26, 2007	3,000	$ 0.64	$ 0.64	$ 0.64
July 26, 2007	522,640	$ 0.78	$ 0.78	$ 0.78
October 24, 2007	15,000	$ 0.96	$ 0.96	$ 0.81
October 24, 2007	6,000	$ 0.96	$ 0.96	$ 0.96
November 27, 2007	500,000	$ 0.99	$ 0.99	$ 0.81
November 28, 2007	65,000	$ 0.99	$ 0.99	$ 0.81
January 21, 2008	35,000	$ 1.14	$ 1.14	$ 0.81
January 21, 2008	3,000	$ 1.14	$ 1.14	$ 1.14
April 23, 2008	3,000	$ 1.22	$ 1.22	$ 0.81
July 24, 2008	123,500	$ 1.26	$ 1.26	$ 0.81
October 31, 2008	8,500	$ 1.25	$ 1.25	$ 0.81
February 10, 2009	309,000	$ 0.92	$ 0.92	$ 0.65
April 1, 2009	309,000(1)	$ 0.65	$ 0.65	$ 0.65
April 22, 2009	65,000	$ 0.68	$ 0.68	$ 0.68
July 23, 2009	893,364(2)	$ 0.81	$ 0.81	$ 0.81
October 22, 2009	3,000	$ 0.99	$ 0.99	$ 0.99

(1) Represents stock options granted to three employees that result from our unilateral amendment to reduce the exercise price for all of the shares subject to options granted to the employees on February 10, 2009. The amendments reduce the exercise price of the previously granted options to $0.65 per share, which was the fair market value of our common stock on the date of the amendments. The amendments did not affect the vesting provisions or the number of shares subject to any of the option awards. For financial statement reporting, we treat the previously granted options as being forfeited and the amendments as new option grants; however, none of the holders of the previously granted options made any investment decisions in connection with the amendments.

(2) Includes a total of 890,364 stock options granted to 17 employees and one director that result from our unilateral amendment to reduce the exercise price for all of the shares subject to options previously granted to the employees and director. The amendments reduce the exercise price of the previously granted options to $0.81 per share, which was the fair market value of our common stock on the date of the amendments. The amendments did not affect the vesting provisions or the number of shares subject to any of the option awards. For financial statement reporting, we treat the previously granted options as being forfeited and the amendments as new option grants; however, none of the holders of the previously granted options made any investment decisions in connection with the amendments.

No consideration was paid to us by any recipient of any of the foregoing options for the grant of such options. All of the stock options described above were granted under our 2001 Stock Option Plan to our

officers, directors, employees and consultants in reliance upon an available exemption from the registration requirements of the Securities Act, including those contained in Rule 701 promulgated under Section 3(b) of the Securities Act. Among other things, we relied on the fact that, under Rule 701, companies that are not subject to the reporting requirements of Section 13 or Section 15(d) of the Exchange Act are exempt from registration under the Securities Act with respect to certain offers and sales of securities pursuant to "compensatory benefit plans" as defined under that rule. We believe that our 2001 Stock Option Plan qualifies as a compensatory benefit plan.

Item 16. Exhibits and Financial Statement Schedules.

See the Exhibit Index following the signature page.

Item 17. Undertakings.

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this amendment no. 1 to registration statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Minneapolis, State of Minnesota on this 11th day of January, 2010.

SPS COMMERCE, INC.

By: */s/ Kimberly K. Nelson*
Kimberly K. Nelson
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment no. 1 to registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
* Archie C. Black	President and Chief Executive Officer (principal executive officer)	January 11, 2010
/s/ Kimberly K. Nelson Kimberly K. Nelson	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	January 11, 2010
* Steve A. Cobb	Director	January 11, 2010
* Michael B. Gorman	Director	January 11, 2010
* Martin J. Leestma	Director	January 11, 2010
* George H. Spencer, III	Director	January 11, 2010
* Murray R. Wilson	Director	January 11, 2010
* Sven A. Wehrwein	Director	January 11, 2010

* */s/ Kimberly K. Nelson*
By: Kimberly K. Nelson
Agent and attorney-in-fact

EXHIBIT INDEX

Exhibit No.	Description
1.1*	Form of Underwriting Agreement
3.1*	Amended and Restated Certificate of Incorporation of the registrant to be effective immediately prior to the closing of the offering
3.2*	Amended and Restated Bylaws of the registrant to be effective immediately prior to the closing of the offering
4.1*	Specimen Certificate representing shares of common stock of SPS Commerce, Inc.
4.2	Registration rights agreement dated April 10, 2007
5.1*	Opinion of Faegre & Benson LLP
10.1	1999 Equity Incentive Plan**
10.2	Form of Option Agreement under 1999 Equity Incentive Plan**
10.3	2001 Stock Option Plan**
10.4	Form of Incentive Stock Option Agreement under 2001 Stock Option Plan**
10.5	Form of Non-Statutory Stock Option Agreement (Director) under 2001 Stock Option Plan**
10.6*	2010 Equity Incentive Plan**
10.7*	Form of Incentive Stock Option Agreement under 2010 Equity Incentive Plan**
10.8*	Form of Non-Statutory Stock Option Agreement (Director) under 2010 Equity Incentive Plan**
10.9	Loan and Security Agreement dated February 3, 2006 by and between Ritchie Capital Finance, L.L.C. and the Company
10.10	Amendment to Loan and Security Agreement dated March 20, 2007 by and between BlueCrest Venture Finance Master Fund Limited, as assignee of Ritchie Capital Finance, LLC and Ritchie Debt Acquisition Fund, Ltd., and the Company
10.11	Second Amendment to Loan and Security Agreement dated March 24, 2008 by and between BlueCrest Venture Finance Master Fund Limited, as assignee of Ritchie Capital Finance, LLC and Ritchie Debt Acquisition Fund, Ltd., and the Company
10.12	Third Amendment to Loan and Security Agreement dated March 30, 2009 by and between BlueCrest Venture Finance Master Fund Limited, as assignee of Ritchie Capital Finance, LLC and Ritchie Debt Acquisition Fund, Ltd., and the Company
10.13	Fourth Amendment to Loan and Security Agreement dated April 8, 2009 by and between BlueCrest Venture Finance Master Fund Limited, as assignee of Ritchie Capital Finance, LLC and Ritchie Debt Acquisition Fund, Ltd., and the Company
10.14	2002 Management Incentive Agreement between the Company and Archie C. Black**
10.15	2002 Management Incentive Agreement between the Company and James J. Frome**
10.16*	Non-Employee Director Compensation Policy**
10.17	Form of Indemnification Agreement for Steve A. Cobb, Michael B. Gorman, George H. Spencer, III and Murry R. Wilson
10.18	Form of Indemnification Agreement for Martin J. Leestma and Sven A. Wehrein
10.19	Form of Indemnification Agreement for Archie C. Black**
10.20*	Employment Agreement between the Company and Archie C. Black**
10.21*	Employment Agreement between the Company and Kimberly K. Nelson**
10.22*	Employment Agreement between the Company and James J. Frome**
10.23*	Employment Agreement between the Company and Michael J. Gray**
10.24*	Employment Agreement between the Company and David J. Novak, Jr.**

Exhibit No.	Description
23.1	Consent of Grant Thornton LLP
23.2*	Consent of Faegre & Benson LLP (included in Exhibit 5.1)
24.1†	Power of Attorney

* To be filed by amendment.

** Indicates management contract or compensatory plan or arrangement.

† Previously filed.

Exhibit 4.2

SPS COMMERCE, INC.

REGISTRATION RIGHTS AGREEMENT
(AMENDED AND RESTATED APRIL 10, 2007)

TABLE OF CONTENTS

SPS COMMERCE, INC.

REGISTRATION RIGHTS AGREEMENT
(Amended and Restated April 10, 2007)

This Amended and Restated Registration Rights Agreement ("*Agreement*") is entered into as of April 10, 2007 (the "*Effective Date*"), by and among SPS Commerce, Inc., a Delaware corporation (the "*Company*"), the investors listed on Exhibit A (each an "*Investor*") and the stockholders on Exhibit A (each a "*Stockholder*").

Preliminary Statements

A. On the Effective Date the Company filed a Fifth Amended and Restated Certificate of Incorporation authorizing shares of Series A Convertible Preferred Stock, $.001 par value ("*Series A Preferred Stock*"), Series B Convertible Preferred Stock, $.001 par value ("*Series B Preferred Stock*"), and Series C Convertible Preferred Stock, $.001 par value ("*Series C Preferred Stock*," and collectively with the Series A Preferred Stock and Series B Preferred Stock, the "*Preferred Stock*").

B. Pursuant to the terms and conditions of that certain Series C Convertible Preferred Stock Purchase Agreement, by and among the Company and certain of the Investors, dated as of the date hereof (the "*Stock Purchase Agreement*"), such Investors purchased Series C Preferred Stock.

C. Certain of the Investors and the Company are parties to that certain Fourth Amended and Restated Registration Rights Agreement, dated as of May 16, 2003, as amended (the "*2003 Registration Rights Agreement*"), that provides for certain registration rights as set forth therein.

D. It is a condition to the closing of the transactions contemplated by the Stock Purchase Agreement that the parties enter into this Agreement, and that this Agreement will amend, supersede and restate in its entirety the 2003 Registration Rights Agreement.

E. The 2003 Registration Rights Agreement may be amended only by a written agreement executed by the Company and the holders of at least 66.67% of the issued and outstanding Series A Preferred Stock and the holders of at least 66.67% of the issued and outstanding Series B Preferred Stock.

F. The Company, the holders of at least 66.67% of the issued and outstanding Series A Preferred Stock, and the holders of 66.67% of the issued and outstanding Series B Preferred Stock desire to amend and restate the 2003 Registration Rights Agreement to provide such contractual rights to the Series C Preferred Stock as set forth herein.

Terms and Conditions

In consideration of the mutual covenants and agreements contained in this Agreement and the Stock Purchase Agreement, and intending to be legally bound, the parties hereto agree as follows:

Section 1. Definitions. As used in this Agreement, and in addition to other terms defined herein, the following terms have the meanings indicated below or in the referenced sections of this Agreement:

"*2003 Purchase Agreement*" means the Series B Convertible Preferred Stock Purchase Agreement, by and among the Company and the purchasers listed therein, dated as of May 16, 2003, as from time to time amended in accordance with the provisions thereof.

"*2006 Purchase Agreement*" means the Series B Convertible Preferred Stock Purchase Agreement, by and among the Company and the purchasers listed therein, dated as of February 21, 2006, as from time to time amended in accordance with the provisions thereof.

"*Business Day*" means any day other than a Saturday, Sunday or public holiday or the equivalent for banks under the laws of the States of Minnesota or Indiana.

"*Common Stock*" means the Company's common stock, $.001 par value per share, as the same may be constituted from time to time.

"*Demand Registration*" has the meaning set forth in Section 3(a).

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, or any similar federal statute, and the rules and regulations of the SEC thereunder, all as the same may be in effect at the time.

"*Exchange Agreement*" means the Preferred Stock Exchange Agreement, by and among the Company and the investors listed therein, dated as of May 16, 2003, as from time to time amended in accordance with the provisions thereof.

"*Initial Public Offering*" means the first primary offering of Common Stock to the public by the Company registered pursuant to the Securities Act.

"*Majority of the Registrable Securities*" means 51% or more of the Registrable Securities being registered, unless the text of this Agreement indicates that it is 51% or more of the Registrable Securities then issued and outstanding.

"*Person*" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a government entity or any department, agency, or political subdivision thereof.

"*Piggyback Registration*" has the meaning set forth in Section 4(a).

"*Preferred Stock*" means the Company's Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock.

"*Pro rata basis*" means with respect to each Investor (or Stockholder if applicable) the ratio determined by dividing (i) the number of Registrable Securities (on an as-if-converted to Common Stock basis) then held by such Investor (or Stockholder if applicable) by (ii) the aggregate number of outstanding Registrable Securities (on an as-if-converted to Common Stock basis).

"*Registrable Securities*" means (a) the Common Stock issued or issuable upon conversion of the Preferred Stock acquired by the Investors pursuant to the Exchange Agreement, the 2003 Purchase Agreement, the 2006 Purchase Agreement and the Stock Purchase Agreement; (b) any Common Stock issued as (or issuable upon the conversion or exercise of any warrant, right, or other security that is issued as) a dividend or other distribution with respect to, or in exchange for, or in replacement of, the Preferred Stock; (c) any other shares of Common Stock that the Investors have the right to acquire or do acquire upon conversion of shares of Preferred Stock or other equity or debt securities of the Company issued or acquired pursuant to any current or future agreement between or among any of the Investors and the Company or any current stockholder of the Company; (d) any shares of Common Stock otherwise acquired by the Investors; and (e) the shares of Common Stock held by the Stockholders as of the date of this Agreement (including shares of Common Stock issuable upon the conversion or exercise of any warrant, right, or option currently held by any Stockholder), but as to the shares subject to this phrase (e), only in connection with the Piggyback Registration rights provided for in Section 4, and any other rights or obligations of the Stockholders provided herein to effectuate Stockholders' rights under Section 4.

"*Registration Expenses*" has the meaning set forth in Section 7.

"*SEC*" means the United States Securities and Exchange Commission (or any other federal agency at that time administering the Securities Act).

"*Securities Act*" means the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations of the SEC thereunder, all as the same may be in effect at the time.

"*Underwritten registration*" or "*underwritten offering*" means a registration in which securities of the Company are sold pursuant to a firm commitment underwriting.

Section 2. Securities Subject to this Agreement.

(a) Registrable Securities. The securities entitled to the benefits of this Agreement are Registrable Securities. A Registrable Security ceases to be entitled to the benefits of this Agreement when it is registered under the Securities Act and disposed of in accordance with the registration statement covering it.

(b) Holders of Registrable Securities. A Person is deemed to be a holder of Registrable Securities whenever that Person owns, directly or beneficially, or has the right to acquire Registrable Securities, disregarding any legal restrictions upon the exercise of that right.

Section 3. Demand Registration.

(a) Requests for Registration. At any time after the completion of an Initial Public Offering, the holders of the Registrable Securities may demand that the Company register all or part of their Registrable Securities under the Securities Act (a "*Demand Registration*") on Forms S-1 or S-3 (or similar forms then in effect) promulgated by the SEC under the Securities Act. Within ten days after receipt of a demand, the Company will notify in writing all holders of Registrable Securities of the demand. Any holder who wants to include his, her or its Registrable Securities in the Demand Registration must notify the Company within ten Business Days of receiving the notice of the Demand Registration. Except as provided in this Section 3, the Company will include in all Demand Registrations all Registrable Securities for which the Company receives timely written demands for inclusion. All demands made pursuant to this Section 3(a) must specify the number of Registrable Securities to be registered (that may not be less than 20% in the aggregate of the then outstanding Registrable Securities on a fully diluted basis, including Registrable Securities issued upon conversion of the then-outstanding Preferred Stock) and the intended method of disposing of the Registrable Securities.

(b) Number of Demand Registrations. The Company is obligated to effect up to four Demand Registrations pursuant to this Section 3, including two that may be Demand Registrations on Form S-1 (or any successor form).

(c) Form of Registration. The Demand Registration will be on Form S-3 whenever the Company is permitted to use the form, unless the holders of a Majority of the Registrable Securities or the underwriter reasonably request registration on an expanded form; provided, however, that no more than two Demand Registrations will be on Form S-1. The Company will use its reasonable best efforts to qualify for registration on Form S-3.

(d) Registration Expenses. The Company will pay all Registration Expenses for the Demand Registrations. A registration initiated as a Demand Registration for which the Company pays the Registration Expenses will not count (i) toward the limit on Demand Registrations set forth in Section 3(b) or (ii) for the purposes of the first sentence of this Section 3(d) until it becomes effective and at least 50% of all of the Registrable Securities included in that registration have actually been sold.

(e) Selection of Underwriters. The holders of a majority of the Registrable Securities requested to be included in a Demand Registration may select the investment banker(s) and manager(s) that will administer the offering, as long as the investment banker(s) and the manager(s) are reasonably satisfactory to the Company. The Company will enter into a customary underwriting agreement with those investment banker(s) and manager(s).

(f) Priority on Demand Registrations. If the managing underwriters give the Company and the holders of the Registrable Securities being registered a written opinion that the number

of Registrable Securities requested to be included exceeds the number of securities that can be sold, the Company will include in the registration only the number of Registrable Securities that the underwriters believe can be sold. The number of securities registered will be allocated on a pro rata basis among the holders of Registrable Securities on the basis of the total number of Registrable Securities requested to be included in the registration.

(g) Delay in Filing. The Company may delay the filing of the registration statement in connection with a Demand Registration for a period of not more than 120 calendar days upon the advice of the investment banker(s) and manager(s) that will administer the offering that a delay is necessary or appropriate under the circumstances to prevent a material adverse effect on the Company. The Company may not use this right to delay more than once during the term of this Agreement.

(h) Limited Piggyback Right on Demand Registrations.

(i) Whenever the holders of Registrable Securities demand a Demand Registration, the Company may notify in writing the other holders of securities of the same type as the Registrable Securities that are to be registered not later than the earlier to occur of (A) the fifth Business Day following the Company's receipt of notice of exercise of the Demand Registration right or (B) 45 calendar days prior to the anticipated filing date.

(ii) The Company may include in the Demand Registration securities of the same type and class to be sold for its own account or held by other holders, but only to the extent that the managing underwriters give the Company their written opinion that the total number or dollar amount of securities requested to be included can be sold. If the number or dollar amount of securities requested to be sold exceeds the amount that in the opinion of the managing underwriters can be sold, the Company will include in the registration: (A) first, up to all Registrable Securities (allocated on a pro rata basis among the holders of Registrable Securities on the basis of the total number of Registrable Securities requested to be included in the registration), (B) second, up to the full number or dollar amount of securities requested to be included for the account of the Company, and (C) third, up to the full number or dollar amount of securities requested to be included in the registration in excess of the number or dollar amount of Registrable Securities to be registered (allocated on a pro rata basis among the holders of the securities in such proportions as the Company and those holders may agree).

(iii) The holders of securities (including the Company) other than Registrable Securities to be registered pursuant to this Section 3(h) will enter into the same agreement with the managing underwriters as do the holders of the Registrable Securities.

(iv) If the Company registers any of its securities on its own behalf in a Demand Registration (in accordance with the provisions of this Section 3(h)), that Demand Registration will not count (i) toward the limit on Demand Registrations set forth in Section 3(b) or (ii) for the purpose of determining the number of Demand Registrations for which the Company is required under Section 3(h) to pay all Registration Expenses, and the Company will pay all of the Registration Expenses of that registration.

(v) If any of the holders of any other securities of the Company register those securities in a Demand Registration in accordance with this Section 3(h), those holders will pay the fees and expenses of their counsel and their share on a pro rata basis of the Registration Expenses not paid by the Company for any reason.

Section 4. Piggyback Registrations.

(a) Right to Piggyback. Whenever the Company proposes to register any of its securities under the Securities Act (except for the registration of securities to be offered pursuant to an employee benefit plan on Form S-8 or pursuant to a registration made on Form S-4, or any successor forms then in effect) at any time other than pursuant to a Demand Registration and the registration form to

be used may be used for the registration of the Registrable Securities (a "*Piggyback Registration*"), it will so notify in writing all holders of Registrable Securities not later than the earlier to occur of (i) the fifth Business Day following the Company's receipt of notice of exercise of other demand registration rights, or (ii) 30 calendar days prior to the anticipated filing date. Subject to the provisions of Sections 4(c) and (d), the Company will include in the Piggyback Registration all Registrable Securities with respect to which the Company has received written requests for inclusion within 15 Business Days after the applicable holder's receipt of the Company's notice. The holders of Registrable Securities may withdraw all or any part of the Registrable Securities from a Piggyback Registration at any time before five Business Days prior to the effective date of the Piggyback Registration. If a Piggyback Registration is an underwritten offering effected under Section 4(c), all Persons whose securities are included in the Piggyback Registration must sell their securities on the same terms and conditions as apply to the securities being issued and sold by the Company. If a Piggyback Registration is an underwritten offering effected under Section 4(d), all Persons whose securities are included in the Piggyback Registration must sell their securities on the same terms and conditions as apply to the securities being sold by the Person(s) initiating the Piggyback Registration. A registration of Registrable Securities pursuant to this Section 4 will not be counted as a Demand Registration under Section 3.

(b) Piggyback Expenses. The Company will pay all Registration Expenses in connection with each Piggyback Registration.

(c) Priority on Primary Registrations. If a Piggyback Registration is an underwritten primary registration on behalf of the Company and the managing underwriters give the Company their written opinion that the total number or dollar amount of securities requested to be included in the registration exceeds the number or dollar amount of securities that can be sold, the Company will include the securities in the registration in the following order of priority: (i) first, all securities the Company proposes to sell; (ii) second, up to the full number or dollar amount of Registrable Securities requested to be included in the registration (allocated on a pro rata basis among the holders of Registrable Securities on the basis of the dollar amount or number of Registrable Securities requested to be included); and (iii) third, any other securities (provided they are of the same class as the securities sold by the Company) requested to be included, allocated among the holders of securities in such proportions as the Company and those holders may agree.

(d) Priority on Secondary Registrations. If a Piggyback Registration is an underwritten secondary registration on behalf of holders of the Company's securities, and the managing underwriters give the Company their written opinion that the dollar amount or number of securities requested to be included in the registration exceeds the dollar amount or number of securities that can be sold, the Company will include in the registration: (i) to the extent of 50% of the number or dollar amount of securities other than Registrable Securities that in the underwriter's opinion can be sold, the securities requested to be included in the registration, allocated among the holders of those securities in such proportions as the Company and those holders may agree, and (ii) to the extent of the balance, the Registrable Securities requested to be included, allocated on a pro rata basis among the holders of Registrable Securities on the basis of the dollar amount or number of securities requested to be included. If after including all of the Registrable Securities the underwriters determine that there are additional securities that can be sold, then securities other than the foregoing may be added to the registration.

(e) Selection of Underwriters. If any Piggyback Registration is an underwritten offering, the Company will select the investment banker(s) and manager(s) that will administer the offering, as long as the investment banker(s) and manager(s) are reasonably satisfactory to the holders of a Majority of the Registrable Securities. The Company and the holders of Registrable Securities participating in the offering will enter into a customary underwriting agreement with the investment banker(s) and manager(s).

(f) Other Registrations. The Company agrees that after filing a registration statement with respect to Registrable Securities pursuant to Section 3 or this Section 4 that has not been withdrawn or abandoned, the Company will not register any of its equity securities or securities convertible or exchangeable into or exercisable for its equity securities under the Securities Act, whether on its own behalf or at the request of any holder of those securities, until at least three months has elapsed from the effective date of the previous registration. This three-month hiatus does not apply to registrations of securities to be issued in connection with employee benefit plans, to permit exercise or conversions of previously issued options, warrants, or other convertible securities, or in connection with a Demand Registration.

Section 5. Restrictions on Public Sale by the Company and Others. The Company agrees not to make any public sale or distribution of its equity securities, or any securities convertible into or exchangeable or exercisable for its equity securities, including a sale under Regulation D of the Securities Act or under any other exemption of the Securities Act (except as part of the underwritten registration or pursuant to registrations on Form S-8 or any successor form), during the seven days prior to and the 90 days after the effective date of any underwritten Demand Registration or any underwritten Piggyback Registration unless the managing underwriters agree otherwise. The Company also agrees to use its reasonable best efforts to cause each holder of at least 5% (on a fully diluted basis) of its equity securities or any securities convertible into or exchangeable or exercisable for at least 5% (on a fully diluted basis) of its equity securities (other than Registrable Securities), purchased from the Company at any time on or after the date of this Agreement (other than in a registered public offering) to agree not to make any public sale or distribution of those securities, including a sale pursuant to Rule 144 of the Securities Act (except as part of the underwritten registration, if permitted), during the seven days prior to and the 90 days after the effective date of the registration unless the managing underwriters agree otherwise.

Section 6. Registration Procedures.

(a) Best Efforts. Whenever the holders of Registrable Securities request the registration of any Registrable Securities pursuant to this Agreement, the Company will use its reasonable best efforts to register and to permit the sale of the Registrable Securities in accordance with the intended method of disposition. To carry out this obligation, the Company will as expeditiously as possible:

(i) prepare and file with the SEC, but in any event no later than 90 calendar days after receipt of a request to file a registration statement (subject to Section 3(g)), a registration statement on the appropriate form and use its best efforts to cause the registration statement to become effective. At least two Business Days before filing a registration statement or prospectus or any amendments or supplements thereto that covers Registrable Securities, the Company will furnish to the counsel of the holders of a Majority of the Registrable Securities being registered copies of all documents proposed to be filed for that counsel's review and approval, which approval will not be unreasonably withheld or delayed;

(ii) notify immediately each seller of Registrable Securities of any stop order threatened or issued by the SEC and take all actions reasonably required to prevent the entry of a stop order or if entered to have it rescinded or otherwise removed;

(iii) prepare and file with the SEC such amendments and supplements to the registration statement and the corresponding prospectus necessary to keep the registration statement effective for 180 days or such shorter period as may be required to sell all Registrable Securities covered by the registration statement; and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by the registration statement during each period in accordance with the sellers' intended methods of disposition as set forth in the registration statement;

(iv) furnish to each seller of Registrable Securities a sufficient number of copies of the registration statement, each amendment and supplement thereto (in each case including all exhibits), the corresponding prospectus (including each preliminary prospectus), and such other documents as seller may reasonably request to facilitate the disposition of the seller's Registrable Securities;

(v) use its best efforts to register or qualify the Registrable Securities under securities or blue sky laws of jurisdictions in the United States of America as any seller requests and will do any and all other acts and things that may be necessary or advisable to enable the seller to consummate the disposition of the seller's Registrable Securities;

(vi) use its best efforts to cause the Registrable Securities covered by the registration statement to be registered with or approved by those governmental agencies or authorities necessary to enable each seller to consummate the disposition of its Registrable Securities;

(vii) notify each seller of Registrable Securities, at any time when a prospectus is required to be delivered under the Securities Act, of any event as a result of which the prospectus or any document incorporated therein by reference contains an untrue statement of a material fact or omits to state any material fact necessary to make the statements therein not misleading, and will prepare a supplement or amendment to the prospectus or any such document incorporated therein by reference so that thereafter the prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading;

(viii) cause all registered Registrable Securities to be listed on each securities exchange, if any, on which similar securities issued by the Company are then listed;

(ix) provide an institutional transfer agent and registrar and a CUSIP number for all Registrable Securities on or before the effective date of the registration statement;

(x) enter into such customary agreements (including an underwriting agreement in customary form) and take all other actions in connection with those agreements as the holders of the Registrable Securities being registered or the underwriters, if any, request to expedite or facilitate the disposition of the Registrable Securities;

(xi) make available for inspection by any seller of Registrable Securities, any underwriter participating in any disposition pursuant to the registration statement, and any attorney, accountant, or other agent of any seller or underwriter, all financial and other records, pertinent corporate documents, and properties of the Company, and cause the Company's officers, directors, and employees to supply all information requested by any seller, underwriter, attorney, accountant, or agent in connection with the registration statement; provided that an appropriate confidentiality agreement is executed by any seller, underwriter, attorney, accountant, or other agent;

(xii) in connection with any underwritten offering, obtain a "cold comfort" letter from the Company's independent public accountants in customary form and covering those matters customarily covered by "cold comfort" letters as the holders of the Registrable Securities being registered or the managing underwriters request (and the letter will be addressed to holders of the Registrable Securities);

(xiii) furnish, at the request of any holder of Registrable Securities being registered, an opinion of the counsel representing the Company for the purposes of the registration, in the form and substance customarily given to underwriters in an

underwritten public offering and satisfactory to the counsel representing the holders of Registrable Securities being registered, addressed to the underwriters, if any, and to the holders of Registrable Securities being registered; and

(xiv) use its best efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as practicable, an earnings statement complying with the provisions of Section 11(a) of the Securities Act and covering the period of at least 12 months, but not more than 18 months, beginning with the first month after the effective date of the Registration Statement.

(b) Distribution of Securities. From time to time, the Company may require each seller of Registrable Securities subject to the registration to furnish to the Company information regarding the distribution of the securities subject to the registration.

(c) Prospectus. Each holder of Registrable Securities agrees by acquisition of those securities that, upon receipt of any notice from the Company of any event of the kind described in Section 6(a)(vii), the holder will discontinue disposition of Registrable Securities until the holder receives copies of the supplemented or amended prospectus contemplated by Section 6(a)(vii). In addition, if the Company requests, the holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in the holder's possession, of the current prospectus covering the Registrable Securities at the time of receipt of the notice. If the Company gives any such notice, the time period mentioned in Section 6(a)(iii) will be extended by the number of days elapsing between the date of notice and the date that each seller receives the copies of the supplemented or amended prospectus contemplated by Section 6(a)(iii).

(d) Duty to Provide Information. Whenever the holders of Registrable Securities have requested that any Registrable Securities be registered pursuant to this Agreement, those holders will notify the Company, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event that as to any holder of Registrable Securities is (i) to its respective knowledge, and (ii) uniquely within its respective knowledge, and (iii) solely as to matters concerning that holder of the Registrable Securities, as a result of which the prospectus included in the registration statement contains an untrue statement of a material fact or omits any fact necessary to make the statements therein not misleading.

(e) "Market Stand-Off" Agreement. Each Investor hereby agrees that during a period not to exceed 180 days and to the extent specified by the Company and an underwriter of Common Stock or other securities of the Company in connection with any Initial Public Offering of the Common Stock of the Company, following the effective date of a registration statement of the Company filed under the Securities Act, it will not, directly or indirectly, sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase, or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during that period, except Common Stock included in the registration. Notwithstanding the foregoing:

(i) the agreement provided by this Section will apply only to the first registration statement of the Company that covers Common Stock (or other securities) to be sold on its behalf to the public in an underwritten offering; and

(ii) this Section will not be effective unless all officers and directors of the Company, each holder of greater than 1% of the Company's Common Stock (on a fully converted basis), and all other Persons with registration rights (whether or not pursuant to this Agreement) enter into similar agreements.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the securities (assuming exercise of all outstanding options, warrants, and convertible

securities) of the Company held by each Investor (and the shares or securities of every other Person subject to the foregoing restriction) until the end of that period.

Section 7. Registration Expenses.

(a) Defined. All Registration Expenses incident to the Company's performance of or compliance with this Agreement will be paid as provided in this Agreement. The term "Registration Expenses" means all expenses incurred in connection with any registration, filing, or qualification of Registrable Securities pursuant to this Agreement, including (without limitation) all registration filing fees, professional fees, and other expenses of compliance with federal, state, and other securities laws (including fees and disbursements of counsel for the underwriters in connection with state or other securities law qualifications and registrations); printing expenses, messenger, telephone, and delivery expenses; fees and disbursements of counsel for the Company and for the sellers of the Registrable Securities (subject to the provisions of Section 7(b)); and fees and disbursements of all independent certified public accountants (including the expenses of any audit or "cold comfort" letters required by or incident to performance of the obligations contemplated by this Agreement).

(b) Legal Fees and Expenses. In connection with each registration for which the Company is required to pay the Registration Expenses of the holders of Registrable Securities, the Company will directly pay the reasonable fees and disbursements of one law firm, selected by the holders of a Majority of the Registrable Securities participating in such registration, to serve as counsel to all the holders.

(c) Expenses Not Covered. To the extent the Company is not required to pay Registration Expenses, each holder of securities included in any registration will pay those Registration Expenses allocable to the holders of securities so included, and any Registration Expenses not allocable will be borne by all sellers in proportion to the number of securities each registers.

Section 8. Indemnification.

(a) Indemnification by Company. To the full extent permitted by law, the Company agrees to indemnify each holder of Registrable Securities, its officers and directors, and each Person who controls the holder (within the meaning of the Securities Act and the Exchange Act) against all losses, claims, damages, liabilities, and expenses caused by any untrue or allegedly untrue statement of material fact contained in any registration statement, prospectus, or preliminary prospectus or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading or any violation by the Company of the Securities Act or any rule or regulation thereunder applicable to the Company and relating to the action or inaction of the Company in connection with any registration, qualification or compliance, except to the extent the untrue statement or omission resulted from information that the holder furnished in writing to the Company expressly for use therein or by the holder's failure to deliver a copy of the registration statement or prospectus or any amendments or supplements thereto to any purchaser after the Company has furnished the holder with a sufficient number of copies of the relevant documents. In connection with a firm or best efforts underwritten offering, to the extent required by the managing underwriters, the Company will indemnify the underwriters, their officers and directors, and each Person who controls the underwriters (within the meaning of the Securities Act and the Exchange Act), to the extent customary in such agreements.

(b) Indemnification by Holders of Securities. In connection with any registration statement, each participating holder of Registrable Securities will furnish to the Company in writing the information and affidavits that the Company reasonably requests for use in connection with any registration statement or prospectus and each holder agrees to indemnify, to the extent permitted by law, the Company, its directors and officers, and each Person who controls the Company (within the meaning of the Securities Act and the Exchange Act) against any losses, claims, liabilities and expenses resulting from any untrue or allegedly untrue statement of a material fact or any omission or alleged omission
of a

material fact required to be stated in the registration statement or prospectus or any amendment thereof or supplement thereto necessary to make the statements therein not misleading, but only to the extent that the untrue statement or omission is contained in or omitted from any information or affidavit the holder furnished in writing, or resulting from the holder's failure to deliver a copy of the registration statement or prospectus or any amendments or supplements thereto to any purchaser after the Company has furnished the holder with a sufficient number of copies of the relevant documents; provided, however, that the obligations of any holder of Registrable Securities hereunder will be limited to an amount equal to the proceeds to such holder of the sale of securities pursuant to the applicable registration statement as contemplated herein.

(c) Indemnification Proceedings. Any Person entitled to indemnification under this Agreement will (i) give prompt notice to the indemnifying party of any claim with respect to which it seeks indemnification, and (ii) unless in the indemnified party's reasonable judgment a conflict of interest may exist between the indemnified and indemnifying parties with respect to the claim, permit the indemnifying party to assume the defense of the claim with counsel reasonably satisfactory to the indemnified party. If the indemnifying party does not assume the defense, the indemnifying party will not be liable for any settlement made without its consent (but that consent may not be unreasonably withheld). No indemnifying party will consent to entry of any judgment or will enter into any settlement that does not include as an unconditional term the claimant's or plaintiff's release of the indemnified party from all liability concerning the claim or litigation. An indemnifying party who is not entitled to or elects not to assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by the indemnifying party with respect to the claim, unless in the reasonable judgment of any indemnified party a conflict of interest may exist between the indemnified party and any other indemnified party with respect to the claim, in which event the indemnifying party will be obligated to pay the fees and expenses of additional counsel.

(d) Contribution to Joint Liability. In order to provide for just and equitable contribution to joint liability under the Securities Act in any case in which either (i) any holder of Registrable Securities exercising rights under this Agreement, or any controlling Person of any such holder, makes a claim for indemnification pursuant to this Section 8 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact this Section 8 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any such selling holder or any such controlling Person in circumstances for which indemnification is provided under this Section 8; then, and in each such case, the Company and such holder will contribute to the aggregate losses, claims, damages or liabilities that they may be subject to (after contribution to others) in such proportion so that such holder is responsible for the portion represented by the percentage that the public offering price of its Registered Securities offered by the registration statement bears to the public offering price of all securities offered by such registration statement, and the Company is responsible for the remaining portion; provided, however, that in any such case, (A) no such holder will be required to contribute any amount in excess of the public offering price of all such Registered Securities offered by it pursuant to such registration statement; and (B) no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

Section 9. Rule 144 and Rule 144A; Company Obligations. If the Company files a registration statement pursuant to the requirements of the Securities Act or Section 12 of the Exchange Act, the Company covenants that it will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder (or, if the Company is not required to file such reports, it will, upon the request of any holder of Registrable

Securities, make publicly available other information), and it will take such further action as any holder of Registrable Securities reasonably may request, all to the extent required from time to time, to enable the holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (i) Rule 144 under the Securities Act as amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the SEC. Upon the request of any holder of Registrable Securities, the Company will deliver to the holder a written statement as to whether it has complied with Rule 144 or any successor rule requirements. The Company also covenants that it will provide all such information and it will take such further action as any holder of Registrable Securities reasonably may request to enable the holder to sell Registrable Securities without registration under the Securities Act within the limitation of Rule 144A under the Securities Act, as amended from time to time, or any successor rule requirements.

Section 10. Participation in Underwritten Registrations. No Person may participate in any underwritten registration without (a) agreeing to sell securities on the basis provided in underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements (the holders of the Registrable Securities in a Demand Registration pursuant to Section 3(d) and the Company in a Piggyback Registration pursuant to Section 4(e)), and (b) completing and executing all questionnaires, powers of attorneys, indemnities, underwriting agreements and other documents required by the underwriting arrangements.

Section 11. Miscellaneous.

(a) Adjustments Affecting Securities. The Company will not take any action, or permit any change to occur, with respect to the Registrable Securities that would affect adversely the ability of the holders to include those securities in a registration undertaken pursuant to this Agreement or the marketability of the Registrable Securities in any registration.

(b) Amendment. This Agreement may be amended or modified only by a written agreement executed by the Company and the holders of (i) at least 66.67% of the then issued and outstanding Series A Preferred Stock and (ii) the holders of at least 66.67% of the then issued and outstanding Series B and Series C Preferred Stock (taken together as a single class on an as-if converted to Common Stock basis).

(c) Attorneys' Fees. In any legal action or proceeding brought to enforce any provision of this Agreement, the prevailing party will be entitled to recover all reasonable expenses, charges, court costs, and attorneys' fees in addition to any other available remedy at law or in equity.

(d) Benefit of Parties; Assignability. All of the terms and provisions of this Agreement will be binding upon and inure to the benefit of the parties and their respective successors and assigns, including without limitation all subsequent holders of securities entitled to the benefits of this Agreement who agree in writing to become bound by the terms of this Agreement; provided, however, the Company may not delegate its responsibilities or assign its rights under this Agreement without the prior written consent of the holders of at least 66.67% of the then issued and outstanding shares of Preferred Stock, voting separately as a series.

(e) Cooperation. The parties agree that after execution of this Agreement they will from time to time, upon the request of any other party and without other consideration, execute, acknowledge, and deliver in proper form any further instruments and take such other action as any other party may reasonably require to carry out effectively the intent of this Agreement.

(f) Cumulative Remedies and Survival. The rights and remedies specified in this Agreement will not be exclusive of any other right or remedy and are cumulative and in addition to every other right or remedy now or hereafter existing at law or in equity or by statute or otherwise that may be available to the Investors.

(g) Counterparts. This Agreement may be executed by facsimile signature and simultaneously in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

(h) Entire Agreement. This Agreement, the Stock Purchase Agreement, the 2006 Purchase Agreement, the 2003 Purchase Agreement, the Exchange Agreement and the Amended and Restated Voting and Co-Sale Agreement, dated of even date herewith among the Company, the Investors, and certain of the Company's other stockholders ("*Voting and Co-Sale Agreement*") contain the entire understanding of the parties with respect to the subject matter hereof and thereof. There are no representations, promises, warranties, covenants, or undertakings other than those expressly set forth or provided for herein and therein. This Agreement and the Voting and Co-Sale Agreement supersede all prior agreements and understandings among the parties with respect to the transactions contemplated herein and therein. Without limiting the foregoing, this Agreement amends, supersedes and restates in its entirety the 2003 Registration Rights Agreement.

(i) Governing Law. The internal laws of the State of Delaware will govern all questions concerning the relative rights of the Company and its stockholders. Delaware law also will govern the interpretation, construction, and enforcement of this Agreement and all transactions and agreements contemplated hereby, notwithstanding any state's choice of law rules to the contrary.

(j) Interpretation. The terms and conditions of this Agreement represent the results of bargaining and negotiations among the parties, each of which has the opportunity to be represented by counsel of its own selection, and none of which has acted under duress or compulsion, whether legal, economic or otherwise, and represent the results of a combined draftsmanship effort. Consequently, the terms and conditions hereof will be interpreted and construed in accordance with their usual and customary meanings and the parties hereby expressly waive and disclaim in connection with the interpretation and construction hereof any rule of law or procedures requiring otherwise, specifically including but not limited to any rule of law to the effect that ambiguous or conflicting terms or conditions contained herein will be interpreted or construed against the party whose counsel prepared this Agreement or any earlier draft hereof.

(k) Listing. If the Common Stock is listed for trading on any national securities exchange, that listing will include all of the Registrable Securities (to the extent permitted by the rules of the exchange).

(l) No Inconsistent Agreements. Except with the prior written consent of the holders of at least a majority of the then issued and outstanding shares of Series A Preferred Stock, the holders of at least a majority of the then issued and outstanding shares of Series B Preferred Stock, each considered separately as a series, and the holders of at least a majority of the then issued and outstanding shares of Series B Preferred Stock and Series C Preferred Stock, voting together as a class, the Company will not enter into any agreement with respect to its securities that will grant to any Person registration rights that are senior to, are in conflict with, or will interfere with the practical realization of the rights provided under this Agreement except as disclosed on Schedule 3.2 to the Stock Purchase Agreement.

(m) Notices. All notices, requests, demands, or other communications that are required or may be given pursuant to the terms of this Agreement will be in writing and delivery will be deemed sufficient in all respects and to have been duly given on the date of service if delivered personally by overnight courier or by facsimile transmission if receipt is confirmed to the party to whom notice is to be given, or on the third day after mailing if mailed by first-class mail, return receipt requested, postage prepaid, and properly addressed to the most recent respective address set forth in the 2003 Purchase Agreement, the Exchange Agreement, the 2006 Purchase Agreement or the Stock Purchase Agreement or to such other addresses as the respective parties hereto may from time to time designate to the others in writing.

(n) Severability. Whenever possible, each provision of this Agreement will be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, that provision will be ineffective only to the extent of the prohibition or invalidity, without invalidating the remainder of this Agreement.

(o) Specific Performance. Each of the parties agrees that damages for a breach of or default under this Agreement would be inadequate and that in addition to all other remedies available at law or in equity the parties and their successors and assigns will be entitled to specific performance or injunctive relief, or both, in the event of a breach or a threatened breach of this Agreement.

(p) Table of Contents and Captions. The table of contents and captions of the sections and subsections of this Agreement are solely for convenient reference and will not be deemed to affect the meaning or interpretation of any provision of this Agreement.

(q) Waiver of Breach. Neither any waiver of any breach of, nor any failure to enforce any term or condition of, this Agreement will operate as a waiver of any other breach of any term or condition, nor constitute nor be deemed a waiver or release of any other rights, in law or at equity, or claims that any party may have against any other party for anything arising out of, connected with, or based upon this Agreement. No waiver will be enforceable against any party hereto unless set forth in a written instrument or agreement signed by that party. No waiver will be deemed to occur as a result of the failure of any party to enforce any term or condition of this Agreement.

(r) Additional Parties. Upon approval by the Company's board of directors, any holder of the Company's capital stock or rights, warrants, or options to purchase the Company's capital stock, may become a party to this Agreement as an "Investor." A holder of the Company's capital stock or rights, warrants, or options to purchase the Company's capital stock shall become a party to this Agreement following approval of the Company's board of directors upon such holder's execution and proper delivery to the Company of a Notice of Adoption in substantially the form attached hereto as Exhibit B and Exhibit A to this Agreement shall be automatically amended to add such holder.

[*The remainder of this page is intentionally left blank — signature pages follow*]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

COMPANY:

SPS COMMERCE, INC.

By: /s/ Archie C. Black
Archie C. Black
Chief Executive Officer

INVESTORS:

ABN AMRO CAPITAL (USA), INC.

By: _____
Name: _____
Its: _____

THE STEVEN ADDIS TRUST U/D/T 7/28/92

By: _____
Steven Addis
Trustee

ALLENWOOD VENTURES, INC.

By: _____
Name: _____
Its: _____

AXIOM VENTURE PARTNERS II LIMITED PARTNERSHIP

By: /s/ Alan Mendelson
Alan Mendelson
General Partner

/s/ Barry M. Bloom
Barry M. Bloom

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

BVCF IV, L.P.
By: J.W. Puth Associates LLC, its General Partner
By: Brinson Venture Management LLC, its Attorney-in-Fact
By: Adams Street Partners, LLC, as its Administrative Member

By: /s/ Jeffrey T. Diehl
Jeffrey T. Diehl
Partner

CID EQUITY CAPITAL V, L.P.
By: CID Equity Partners V, as General Partner

By: /s/ John C. Aplin
John C. Aplin
General Partner

CID MEZZANINE CAPITAL, L.P.
By: CID Mezzanine Partners, L.P., as General Partner

By: /s/ John C. Aplin
John C. Aplin
General Partner

/s/ Molly Joel Coye
Molly Joel Coye

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

DAMAC INVESTORS, INC.

By: _____
Name: _____
Its: _____

DAMAC TECHNOLOGY PARTNERS, L.P.

By: _____
Name: _____
Its: _____

GTG DAMAC PARTNERS, LP

By: _____
Name: _____
Its: _____

_____
Thomas Domencich

GRANITE PRIVATE EQUITY II, LLC

By: _____
Daren J. Wells
Vice President

ML PARTNERS

By: _____
Name: _____
Its: _____

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

PACIFIC CAPITAL VENTURES, LLC

By: /s/ Roy L. Wickland
Roy L. Wickland
Member

JAMIT LLC

By: _____
Roy L. Wickland
Member

PV SECURITIES CORP.

By: _____
Name: _____
Its: _____

RONALD P. KARLSBERG, TTEE FBO R.P. KARLSBERG CARDIOVASCULAR MEDICAL GROUP OF SOUTHERN CALIFORNIA 401K PROFIT SHARING PLAN DTD 1/1/1989

By: /s/ Ronald P. Karlsberg
Ronald P. Karlsberg
Trustee

RIVER CITIES CAPITAL FUND II LIMITED PARTNERSHIP
By: Mayson, Inc.
Its: General Partner

By: /s/ Edwin T. Robinson
Name: Edwin T. Robinson
Its: President

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

/s/ Casimir Skrzypcak
Casimir Skrzypcak

ST. PAUL VENTURE CAPITAL AFFILIATES FUND I, LLC
By: St. Paul Venture Capital, Inc.
Its: Manager

By: /s/ Michael B. Gorman
Michael B. Gorman
Executive Vice President

ST. PAUL VENTURE CAPITAL IV, LLC

By: /s/ Michael B. Gorman
Michael B. Gorman
Managing Member

ST. PAUL VENTURE CAPITAL V, LLC

By: /s/ Michael B. Gorman
Michael B. Gorman
Managing Member

ST. PAUL VENTURE CAPITAL VI, LLC
By: SPVC Management VI, LLC
Its: Managing Member

By: /s/ Michael B. Gorman
Michael B. Gorman
Managing Director

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

SVOBODA, COLLINS & COMPANY, L.P.
By: Svoboda, Collins L.L.C.
Its: General Partner

By: _____
Maneesh A. Gandhi
Analyst

SVOBODA, COLLINS & COMPANY Q.P., L.P.
By: Svoboda, Collins L.L.C.
Its: General Partner

By: _____
Maneesh A. Gandhi
Analyst

TENX VENTURE PARTNERS, LLC

By: _____
Name: _____
Its: _____

ZAFA LLC

By: _____
Name: _____
Its: _____

RIVER CITIES SBIC III, L.P.
By: RCCF Management Inc.
Its: General Partner

By: /s/ Edwin T. Robinson
Name: Edwin T. Robinson
Its: President

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

SVOCO, L.P.
By: SvoCo, G.P.
Its: General Partner
By: SvoCo, Inc.
Its: Managing General Partner

By: _____
John Svoboda
President

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

STOCKHOLDERS:

Gary Anderson

Roger Anderson

EXHIBIT A

INVESTORS

Steven Addis Trust U/D/T 7/28/92
Allenwood Ventures, Inc.
Axiom Venture Partners II Limited Partnership
Barry Bloom
BVCF IV, LP
CID Equity Capital V, L.P.
CID Mezzanine Capital, L.P.
Molly Joel Coye
Damac Investors, Inc.
Damac Technology Partners, LP
Thomas Domencich
Granite Private Equity II, LLC
GTG Damac Partners, LP
JAMIT, LLC
Ronald Karlsberg
Ronald Karlsberg, TTEE**
ML Partners
Pacific Capital Ventures, LLC
PV Securities Corp.
River Cities Capital Fund II Limited Partnership
River Cities SBIC III, L.P.
Casimir Skrzypczak
St. Paul Venture Capital Affiliates Fund I, L.L.C.
St. Paul Venture Capital IV, L.L.C.
St. Paul Venture Capital V, LLC
St. Paul Venture Capital VI, L.L.C.
Svoboda, Collins & Company Q.P., L.P.
Svoboda, Collins & Company, L.P.
TenX Venture Partners, LLC
ZAFA LLC
BlueCrest Strategic Limited

** Ronald P. Karlsberg, TTEE FBO R.P. Karlsberg Cardiovascular Medical Group of Southern California 401K, profit sharing plan, DTD 1/1/1989

STOCKHOLDERS

Gary Anderson
Roger Anderson

EXHIBIT B

NOTICE OF ADOPTION
(Registration Rights Agreement)

This Notice of Adoption ("*Adoption Notice*") is executed by the undersigned (the "*Adopting Party*") pursuant to the terms of that certain Amended and Restated Registration Rights Agreement dated as of April 10, 2007, as may be amended from time to time (the "*Agreement*"), by and among SPS Commerce, Inc., a Delaware corporation, and the other parties thereto. Capitalized terms used but not defined herein will have the respective meanings ascribed to such terms in the Agreement. By the execution and delivery of this Adoption Notice, the Adopting Party agrees as follows:

1. Acknowledgment. Adopting Party acknowledges that Adopting Party is purchasing the shares of the Company's capital stock set forth below (the "*Shares*").

2. Agreement. Adopting Party: (i) agrees that the Shares acquired by Adopting Party will be bound by and subject to the terms of the Agreement; and (ii) hereby adopts the Agreement with the same force and effect as if Adopting Party were originally an "Investor."

3. Notice. Any notice required or permitted by the Agreement will be given to Adopting Party at the address or facsimile listed beside Adopting Party's signature below.

IN WITNESS WHEREOF, the Adopting Party has caused this Notice of Adoption to be executed by its duly authorized representative as of the date first written below.

Shares Purchased: _____

Class of Stock: _____

Date: _____

_____

_____

_____
Address

Facsimile: (_____) _____

_____
Printed Name of Adopting Party

_____
Signature

_____
Printed Name and Title of Authorized Signatory of Adopting Party

[1]

ST. PAUL SOFTWARE, INC.
1999 EQUITY INCENTIVE PLAN

1. Purpose of the Plan. This St. Paul Software, Inc. 1999 Equity Incentive Plan adopted on this 12th day of May, 1999, is intended to enable officers and other key employees and consultants of the Company and its Subsidiaries to acquire or increase their ownership of common stock of the Company on reasonable terms. The opportunity so provided is intended to foster in participants an incentive to put forth maximum effort for the continued success and growth of the Company and its Subsidiaries, to aid in retaining individuals who put forth such efforts, and to assist in attracting the best available individuals to the Company and its Subsidiaries in the future.

2. Definitions. When used herein, the following terms shall have the meaning set forth below:

2.1 "Award" means an Option or a Restricted Stock Award.

2.2 "Award Agreement" means a written agreement in such form as may be, from time to time, hereafter approved by the Board, or the Committee if one has been appointed, which shall be duly executed by the Company and the Participant and which shall set forth the terms and conditions of an Award under the Plan.

2.3 "Board" means the Board of Directors of St. Paul Software, Inc.

2.4 "Change in Control" means a change in control of the Company of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act (as in effect on the date the Plan is adopted by the Board), whether or not the Company is then subject to such reporting requirement; provided, that, without limitation, a Change in Control shall be deemed to have occurred if:

(a) any "person" (as defined in Sections 13(d) and 14(d) of the Exchange Act) other than an Exempt Person (an "Acquiring Person") is or

becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing forty percent (40%) or more of the combined voting power of the Company’s then outstanding securities, other than either in connection with a transaction or series of related transactions approved by the Board (which Board must include at least a majority who were Continuing Directors and which transaction or series of related transactions must have been approved by a majority of the Continuing Directors) or as the result of the reduction in the number of issued and outstanding Shares pursuant to a transaction or series of related transactions approved by the Board.

(b) any “person” (as defined in Sections 13(d) and 14(d) of the Exchange Act) other than an Exempt Person commences, or publicly announces an intent to commence, a tender or exchange offer, the consummation of which would result in such person becoming the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing forty percent (40%) or more of the combined voting power of the Company’s then outstanding securities;

(c) there shall cease to be a majority of the Board comprised of Continuing Directors; or

(d) (i) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent more than eighty percent (80%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or (ii) the shareholders of the Company approve a plan of complete

liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

2.5 "Code" means the Internal Revenue Code of 1986, as in effect at the time of reference, or any successor revenue code which may hereafter be adopted in lieu thereof, and reference to any specific provisions of the Code shall refer to the corresponding provisions of the Code as it may hereafter be amended or replaced.

2.6 "Committee" means the Compensation Committee of the Board or any other committee appointed by the Board which is invested by the Board with responsibility for the administration of the Plan.

2.7 "Company" means St. Paul Software, Inc.

2.8 "Continuing Director" means a director of the Company who is not an Acquiring Person or an affiliate or associate thereof or any of their representatives and who was either a director of the Company before any "person" (as defined in Sections 13(d) and 14(d) of the Exchange Act) became an Acquiring Person or whose nomination or election to the Board was recommended or approved by a majority of the then Continuing Directors.

2.9 "Employee Shareholder" means a Participant who is an employee of the Company or any of its Subsidiaries and who, at the time an Incentive Stock Option is granted owns, as defined in Section 424 of the Code, stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of: (a) the Company; or (b) if applicable, a Subsidiary or a Parent.

2.10 "ERISA" means the Participant Retirement Income Security Act of 1974, as in effect at the time of reference, or any successor law which may hereafter be adopted in lieu thereof, and any reference to any specific provisions of ERISA shall refer to the corresponding provisions of ERISA as it may hereafter be amended or replaced.

2.11 "Exchange Act" means the Securities Exchange Act of 1934, as in effect at the time of reference, or any successor law which may hereafter be adopted in lieu

thereof, and any reference to any specific provisions of the Exchange Act shall refer to the corresponding provisions of the Exchange Act as it may hereafter be amended or replaced.

2.12 "Exempt Person" means the Company, any Subsidiary, any employee benefit plan of the Company or any Subsidiary, any entity holding Shares for or pursuant to the terms of any such plan, any director of the Company holding office as of the close of business on the date the Plan is adopted by the Board, and any immediate family member of or person controlled by any such director.

2.13 "Fair Market Value" means with respect to the Shares, the fair market value determined in good faith by the Board, or the Committee if one has been appointed, in its discretion, which determination may, but need not, be based on (i) the advice of an independent financial advisor (which may be the Company's regular outside auditors) or (ii) the last known price per Share paid by a purchaser in an arm's length transaction; provided, however, that if there shall be a public market for the Shares, Fair Market Value shall mean (i) the closing price of the Shares on the principal stock exchange on which Shares are then traded or admitted to trading, on the last business day prior to the date on which the value is to be determined, (ii) if no sale takes place on such day on any such exchange, the average of the last reported closing bid and asked prices on such day as officially quoted on any such exchange, or (iii) if the Shares are not then listed or admitted to trading on any such exchange, the average of the last reported closing bid and asked prices on such day on the over-the-counter market. For purposes of (i) above, the National Association of Securities Dealers National Market System shall be deemed a principal stock exchange. If there shall be a public market for the Shares, and the foregoing references are unavailable or inapplicable, then the Fair Market Value shall be determined on the basis of the appropriate substitute public market price indicator as determined by the Board, or the Committee if one has been appointed, in its sole discretion.

2.14 “Incentive Stock Option” means an Option intending to meet the requirements and containing the limitations and restrictions set forth in Section 422 of the Code.

2.15 “Non-Qualified Stock Option” means an Option other than an Incentive Stock Option.

2.16 “Option” means the right to purchase the number of Shares specified by the Board, or the Committee if one has been appointed, at a price and for a term fixed by the Board, or the Committee if one has been appointed, in accordance with the Plan, and subject to such other limitations and restrictions as the Plan and the Board or the Committee, as the case may be, may impose.

2.17 “Parent” means any corporation, other than the employer corporation, in an unbroken chain of corporations ending with the employer corporation if, at the time of the granting of the Option, each of the corporations other than the employer corporation owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2.18 “Participants” means officers (including officers who are members of the Board) and other key employees and consultants of the Company or any of its Subsidiaries.

2.19 “Plan” means the St. Paul Software, Inc. 1999 Equity Incentive Plan.

2.20 “Regulation T” means Part 220, chapter II, title 12 of the Code of Federal Regulations, issued by the Board of Governors of the Federal Reserve System pursuant to the Exchange Act, as amended from time to time, or any successor regulation which may hereafter be adopted in lieu thereof.

2.21 “Restricted Stock Award Agreement” means an Award Agreement executed in connection with a Restricted Stock Award.

2.22 “Restricted Stock Award” means the right to receive Shares, but subject to forfeiture and/or other restrictions set forth in the related Restricted Stock Award Agreement and the Plan.

2.23 “Rule 16b-3” means Rule 16b-3 of the General Rules and Regulations of the Securities and Exchange Commission as in effect at the time of reference, or any successor rules or regulations which may hereafter be adopted in lieu thereof, and any reference to any specific provisions of Rule 16b-3 shall refer to the corresponding provisions of Rule 16b-3 as it may hereafter be amended or replaced.

2.24 “Shares” means shares of the Company’s common stock, without par value, or, if by reason of the adjustment provisions contained herein, any rights under an Award under the Plan pertain to any other security, such other security.

2.25 “Subsidiary” or “Subsidiaries” means any corporation or corporations other than the employer corporation in an unbroken chain of corporations beginning with the employer corporation if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2.26 “Successor” means the legal representative of the estate of a deceased Participant or the person or persons who shall acquire the right to exercise or receive an Award by bequest or inheritance or by reason of the death of the Participant.

2.27 “Term” means the period during which a particular Award may be exercised.

3. Stock Subject to the Plan. There will be reserved for use, upon the issuance, vesting or exercise of Awards to be granted from time to time under the Plan, an aggregate of Five Hundred Thousand (500,000) Shares, which Shares may be, in whole or in part, as the Board shall from time to time determine, authorized but unissued Shares, or issued Shares which shall have been reacquired by the Company. Any Shares subject to issuance upon exercise of Options but which are not issued because of a surrender, lapse, expiration, forfeiture or

termination of any such Option prior to issuance of the Shares shall once again be available for issuance in satisfaction of Awards. Similarly, any Shares issued pursuant to a Restricted Stock Award which are subsequently forfeited pursuant to the terms of the related Restricted Stock Award Agreement shall once again be available for issuance in satisfaction of Awards.

4. Administration of the Plan. The Board shall be invested with the responsibility for the administration of the Plan; provided, however, that the Board may appoint a Committee which shall be invested with the responsibility for the administration of the Plan; provided further, however, that at such time, if ever, that the Company becomes subject to the Exchange Act, the Board shall appoint a Committee, which shall consist of not less than two (2) outside directors as defined in Treasury Regulation 1.162-27 who shall also qualify as disinterested directors within the meaning of Rule 16b-3, which shall be invested with the responsibility for the administration of the Plan; provided further, however, that the failure to appoint a Committee satisfying the foregoing requirement shall not effect the validity of any Options granted under the Plan. Subject to the provisions of the Plan, the Committee shall have full authority, in its discretion, to determine the Participants to whom Awards shall be granted, the number of Shares to be covered by each of the Awards, and the terms of any such Award; to amend or cancel Awards (subject to Section 19 of the Plan); to accelerate the vesting of Awards; to require the cancellation or surrender of any previously granted awards under this Plan or any other plans of the Company as a condition to the granting of an Award; to interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; and generally to interpret and determine any and all matters whatsoever relating to the administration of the Plan and the granting of Awards hereunder. The Board may from time to time appoint members to the Committee in substitution for or in addition to members previously appointed and may fill vacancies, however caused, in the Committee. The Committee shall select one of its members as its chairman and shall hold its meetings at such times and places as it shall deem advisable. A majority of its members shall constitute a quorum. Any action of the Committee may be taken by a written instrument signed by all of the members, and any action so taken shall be fully as

effective as if it had been taken by a vote of a majority of the members at a meeting duly called and held. The Committee shall make such rules and regulations for the conduct of its business as it shall deem advisable and shall appoint a Secretary who shall keep minutes of its meetings and records of all action taken in writing without a meeting. No member of the Committee shall be liable, in the absence of bad faith, for any act or omission with respect to his or her service on the Committee.

5. Participants to Whom Awards May Be Granted. Awards may be granted in each calendar year or portion thereof while the Plan is in effect to such of the Participants as the Board, or the Committee if one has been appointed, in its discretion, shall determine. In determining the Participants to whom Awards shall be granted and the number of Shares to be issued or subject to purchase or issuance under such Awards, the Board, or the Committee if one has been appointed, shall take into account the recommendations of the Company's management as to the duties of the respective Participants, their present and potential contributions to the success of the Company and its Subsidiaries, and such other factors as the Board or the Committee, as the case may be, shall deem relevant in connection with accomplishing the purposes of the Plan; provided, however, that no Incentive Stock Options may be granted to a Participant who is not an employee of the Company or any of its Subsidiaries. If the Company becomes subject to the Exchange Act, no Participant shall receive Options and/or Restricted Stock Awards to acquire more than One Hundred Twenty Five Thousand (125,000) Shares in any one calendar year. No Award shall be granted to any member of the Board who is not also an officer or key employee or consultant of the Company or any Subsidiary.

6. Stock Options.

6.1 Types of Options. Options granted under the Plan may be (i) Incentive Stock Options, (ii) Non-Qualified Stock Options or (iii) a combination of the foregoing. The Award Agreement shall designate whether an Option is an Incentive Stock Option or a Non-Qualified Stock Option and separate Award Agreements shall be issued for each type of Option when a combination of an Incentive Stock Option and a Non-Qualified Stock Option are granted on the same date to the same Participant. Any Option which is designated as a Non-Qualified Stock Option shall not be treated by the Company or the Participant to whom the Option is granted as an Incentive Stock Option for federal income tax purposes.

6.2 Option Price. The option price per Share of any Non-Qualified Stock Option granted under the Plan shall be the Fair Market Value of the Shares covered by the Option on the date the Option is granted unless the Board, or the Committee if one has been appointed, in its sole discretion, determines to set the option price at an amount less than or greater than the Fair Market Value of the Shares on such date. The option price per Share of any Incentive Stock Option granted under the Plan shall not be less than the Fair Market Value of the Shares covered by the Option on the date the Option is granted.

Notwithstanding anything herein to the contrary, the option price per Share of any Incentive Stock Option granted to an Employee Shareholder shall not be less than one hundred ten percent (110%) of the Fair Market Value of the Shares covered by the Option on the date the Option is granted.

6.3 Term of Options. Options granted hereunder shall be exercisable for a Term of not more than ten (10) years from the date of grant thereof, but shall be subject to earlier termination as hereinafter provided. Each Award Agreement issued hereunder shall specify the Term of the Option, which shall be determined by the Board, or the Committee if one has been appointed, in accordance with its discretionary authority hereunder.

Notwithstanding anything herein to the contrary, if an Incentive Stock Option is granted to an Employee Shareholder, then such Incentive Stock Option shall not be exercisable more than five (5) years from the date of grant thereof, but shall be subject to earlier termination as hereinafter provided.

7. Limit on Fair Market Value of Incentive Stock Options. No Participant may be granted an Incentive Stock Option hereunder to the extent that the aggregate fair market value (such fair market value being determined as of the date of grant of the option in question) of the stock with respect to which incentive stock options are first exercisable by such Participant during any calendar year (under all such plans of the Participant's employer corporation, its Parent, if any, and its Subsidiaries, if any) exceeds One Hundred Thousand Dollars ($100,000). For purposes of the preceding sentence, options shall be taken into account in the order in which they were granted. Any Option granted under the Plan which is intended to be an Incentive Stock Option, but which exceeds the limitation set forth in this Section 7, shall be a Non-Qualified Stock Option.

8. Restricted Stock Awards. Restricted Stock Awards granted under the Plan shall be subject to such terms and conditions as the Board, or the Committee if one has been appointed, in its discretion, determine and set forth in the related Restricted Stock Award Agreements. Restricted Stock Awards shall be granted in accordance with, and subject to, the provisions set forth below.

8.1 Issuance of Shares. Each Restricted Stock Award shall be evidenced by a Restricted Stock Award Agreement which shall set forth the number of Shares issuable under the Restricted Stock Award. Subject to the restrictions in Section 8.3 of the Plan, and subject further to such other restrictions or conditions established by the Board, or the Committee if one has been appointed, in its discretion, and set forth in the related Restricted Stock Award Agreement (such as requiring the Participant to pay an amount equal to the aggregate par value of the Shares to be issued thereunder), the number of Shares granted under a Restricted Stock Award shall be issued in the recipient

Participant's name on the date of grant of such Restricted Stock Award or as soon as reasonably practicable thereafter.

8.2 Rights of Recipient Participants. Shares received pursuant to Restricted Stock Awards shall be duly issued or transferred to the Participant, and a certificate or certificates for such Shares shall be issued in the Participant's name. Subject to the restrictions in Section 8.3 of the Plan, and subject further to such other restrictions or conditions established by the Board, or the Committee if one has been appointed, in its discretion, and set forth in the related Restricted Stock Award Agreement, the Participant shall thereupon be a shareholder with respect to all the Shares represented by such certificate or certificates and shall have all the rights of a shareholder with respect to such Shares, including the right to vote such Shares and to receive dividends and other distributions paid with respect to such Shares. In aid of the restrictions in Section 8.3 of the Plan and in the related Restricted Stock Award Agreement, the certificate or certificates for Shares awarded hereunder, together with a suitably executed stock power signed by such recipient Participant, shall be held by the Company in its control for the account of such Participant (i) until the restrictions in Section 8.3 of the Plan and in the related Restricted Stock Award Agreement lapse pursuant to the Plan or the Restricted Stock Award Agreement, at which time a certificate for the appropriate number of Shares (free of all restrictions imposed by the Plan or the Restricted Stock Award Agreement) shall be delivered to the Participant, or (ii) until such Shares are forfeited to the Company and cancelled as provided by the Plan or the Restricted Stock Award Agreement.

8.3 Restrictions. Except as otherwise determined by the Board, or the Committee, if one has been appointed, in its sole discretion, each Share issued pursuant to a Restricted Stock Award Agreement shall be subject, in addition to any other restrictions set forth in the related Restricted Stock Award Agreement, to the following restrictions until such restrictions have lapsed pursuant to Section 8.4 of the Plan or the related Restricted Stock Award Agreement:

(a) Disposition. The Shares awarded to a Participant and held by the Company pursuant to Section 8.2 of the Plan, and the right to vote such Shares or receive dividends on such Shares, may not be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of; provided, however, that such Shares may be transferred upon the death of the Participant to the Participant's Successor. Any transfer or purported transfer of such Shares in violation of the restrictions outlined in this Section 8.3 shall be null and void and shall result in the forfeiture of the Shares transferred or purportedly transferred to the Company without notice and without consideration.

(b) Forfeiture. The Shares awarded to a Participant and held by the Company pursuant to Section 8.2 of the Plan shall be forfeited to the Company without notice and without consideration therefor immediately upon the termination of the Participant's employment with the Company and all Subsidiaries of the Company for any reason whatsoever.

8.4 Lapse of Restrictions. The restrictions set forth in Section 8.3 of the Plan on Shares issued under a Restricted Stock Award shall lapse on such terms as the Board, or the Committee if one has been appointed, in its sole discretion, shall determine and set forth in the related Restricted Stock Award Agreement, and certificates for the Shares held for the account of the Participant in accordance with Section 8.2 of the Plan hereof shall be appropriately distributed to the Participant as soon as reasonably practical thereafter.

9. Date of Grant. The date of grant of an Award granted hereunder shall be the date on which the Board, or the Committee if one has been appointed, acts in granting the Award.

10. Exercise of Rights Under Options.

10.1 Notice of Exercise. A Participant entitled to exercise an Option shall do so by delivery of a written notice to that effect specifying the number of Shares with respect to which the Option is being exercised and any other relevant information the

Board, or the Committee if one has been appointed, may require. The notice shall be accompanied by payment in full of the purchase price of any Shares to be purchased, which payment may be made in cash or, with the Board's approval, or the Committee's approval if one has been appointed (which in the case of Incentive Stock Options must be given at the time of grant), in Shares valued at Fair Market Value at the time of exercise or a combination thereof. No Shares shall be issued upon exercise of an Option until full payment has been made therefor. All notices or requests provided for herein shall be delivered to the Company's President, or such other person as the Board, or the Committee if one has been appointed, may designate.

10.2 Cashless Exercise Procedures. At such time, if ever, that Shares are traded on the over-the-counter market or on any established securities market, the Company, in its sole discretion, may establish procedures whereby a Participant, subject to the requirements of Rule 16b-3, Regulation T, federal income tax laws, and other federal, state and local tax and securities laws, can exercise an Option or a portion thereof without making a direct payment of the option price to the Company; provided, however, that these cashless exercise procedures shall not apply to Incentive Stock Options which are outstanding on the date the Company establishes such procedures unless the application of such procedures to such Options is permitted pursuant to the Code and the regulations thereunder without affecting the Options' qualification under Code Section 422 as Incentive Stock Options. If the Company so elects to establish a cashless exercise program, the Company shall determine, in its sole discretion, and from time to time, such administrative procedures and policies as it deems appropriate and such procedures and policies shall be binding on any Participant wishing to utilize the cashless exercise program.

11. Other Award Terms and Conditions. Each Award or each agreement setting forth an Award shall contain such other terms and conditions not inconsistent herewith as shall be approved by the Board, or the Committee if one has been appointed.

12. Rights of Award Holder. The holder of an Award shall not have any of the rights of a shareholder with respect to the Shares subject to purchase or receipt under the Award, except that (a) an Award holder's rights with respect to a Restricted Stock Award shall be as prescribed in Section 8.2 and (b) shareholder rights with respect to any other Award shall arise at the time and to the extent that one or more certificates for such Shares shall be delivered to the holder upon the due exercise or grant of the Award.

13. Nontransferability of Awards. An Award shall not be transferable other than: (a) by will or the laws of descent and distribution, and an Award subject to exercise may be exercised, during the lifetime of the holder of the Award, only by the holder or in the event of death, the holder's Successor, or in the event of disability, the holder's personal representative, or (b) pursuant to a qualified domestic relations order, as defined in the Code or ERISA or the rules thereunder; provided, however, that an Incentive Stock Option may not be transferred pursuant to a qualified domestic relations order unless such transfer is otherwise permitted pursuant to the Code and the regulations thereunder without affecting the Option's qualification under Code Section 422 as an Incentive Stock Option.

14. Adjustments Upon Changes in Capitalization. In the event of changes in all of the outstanding Shares by reason of stock dividends, stock splits, reclassifications, recapitalizations, mergers, consolidations, combinations, or exchanges of shares, separations, reorganizations or liquidations, or similar events, or in the event of extraordinary cash or non-cash dividends being declared with respect to the Shares, or similar transactions or events, the number and class of Shares available under the Plan in the aggregate, the number and class of Shares subject to Awards theretofore granted, applicable purchase prices and all other applicable provisions, shall, subject to the provisions of the Plan, be equitably adjusted by the Board, or the Committee if one has been appointed (which adjustment may, but need not, include payment to the holder of an Option, in cash or in shares, in an amount equal to the difference between the price at which such Option may be exercised and the then current fair market value of the Shares subject to such Option as equitably determined by the Board or the Committee, as the case may

be). The foregoing adjustment and the manner of application of the foregoing provisions shall be determined by the Board, or the Committee if one has been appointed, in its sole discretion; provided, however, that to extent applicable, any adjustment to an Incentive Stock Option shall be made in a manner consistent with Section 424 of the Code. Any such adjustment may provide for the elimination of any fractional share which might otherwise become subject to an Award.

15. Change in Control. Notwithstanding anything to the contrary in the Plan or any Award Agreement, in the case of a Change in Control of the Company:

(a) If the Change in Control of the Company is described in Section 2.4(d)(i) of this Plan, the Board, or the Committee if one has been appointed, shall use its best efforts to cause the acquiring Company to assume all outstanding Awards or to replace all outstanding Awards with comparable Awards that neither enlarge nor diminish the rights thereunder;

(b) The Board, or the Committee if one has been appointed, may, in its discretion, taking into account the purposes of this Plan, determine, on a case by case basis, that each Award granted under the Plan shall, subject to the provisions in paragraphs (c) and (d) below, terminate thirty (30) days after the occurrence of such Change in Control in the event of a Change in Control described in Section 2.4(a), 2.4(b) or 2.4(c) of this Plan, or upon the closing of the corporate transaction, the approval of which resulted in the Change in Control pursuant to Section 2.4(d) of this Plan;

(c) In the event of either (i) a Change in Control of the Company described in Section 2.4(d) of the Plan pursuant to which the acquiring corporation does not either assume, or issue replacement awards in lieu of, all outstanding Awards or (ii) a decision of the Board, or the Committee if one has been appointed, to terminate an Option as provided in Section 15(b) above, an Option holder shall have the right, commencing at least five (5) days prior to such Change in Control and subject to any other limitation on the exercise of such Option in effect on the date of exercise (and, in the case of a Change in Control described in Section 2.4(d) of this Plan, conditioned upon the closing of the

corporate transaction, the approval of which constituted such Change in Control) to immediately exercise any Options in full, without regard to any vesting limitations, to the extent they shall not have been theretofore exercised; and

(d) In the event of either (i) a Change in Control of the Company described in Section 2.4(d) of the Plan pursuant to which the acquiring corporation does not assume, or issue replacement awards in lieu of, Restricted Stock Awards or (ii) a decision of the Board, or the Committee if one has been appointed, to terminate a Restricted Stock Award as provided in Section 15(b) above, all restrictions on such Restricted Stock Award shall lapse immediately prior to the consummation of the corporate transaction, the approval of which resulted in a Change in Control pursuant to Section 2.4(d) of the Plan or immediately following the Board's or Committee's decision, as the case may be, to terminate a Restricted Stock Award pursuant to Section 15(b) hereof and certificates for the affected Shares shall be appropriately distributed.

16. Forms of Awards. Nothing contained in the Plan nor any resolution adopted or to be adopted by the Board or by the shareholders of the Company shall constitute the granting of any Award. An Award shall be granted hereunder only by action taken by the Board, or the Committee if one has been appointed, in granting an Award. Whenever the Board, or the Committee if one has been appointed, shall designate a Participant for the receipt of an Award, the Company's Secretary, or such other person as the Board or the Committee, as the case may be, may designate, shall forthwith send notice thereof to the Participant, in such form as the Board or the Committee, as the case may be, shall approve, stating the number of Shares subject to the Award, its Term, and the other terms and conditions thereof. The notice shall be accompanied by a written Award Agreement in such form as may from time to time hereafter be approved by the Board, or the Committee if one has been appointed, which shall have been duly executed by or on behalf of the Company. If the surrender of previously issued Awards is made a condition of the grant, the notice shall set forth the pertinent details of such condition. Execution by the Participant to whom such Award is granted of said Award Agreement in

accordance with the provisions set forth in this Plan shall be a condition precedent to the exercise or receipt of any Award.

17. Taxes.

17.1 Right to Withhold Required Taxes. The Company shall have the right to require a person entitled to receive Shares pursuant to the receipt, vesting or exercise of an Award under the Plan to pay the Company the amount of any taxes which the Company is or will be required to withhold with respect to such Shares before the certificate for such Shares is delivered pursuant to the Award. Furthermore, the Company may elect to deduct such taxes from any other amounts then payable in cash or in shares or from any other amounts payable any time thereafter to the Participant. If the Participant disposes of Shares acquired pursuant to an Incentive Stock Option in any transaction considered to be a disqualifying disposition under Sections 421 and 422 of the Code, the Participant shall notify the Company of such transfer and the Company shall have the right to deduct any taxes required by law to be withheld from any amounts otherwise payable then or at any time thereafter to the Participant.

17.2 Participant Election to Withhold Shares. Subject to Board approval, or Committee approval if one has been appointed (which in the case of Incentive Stock Options must be given at the time of grant), a Participant may elect to satisfy the tax liability with respect to the exercise of an Option by having the Company withhold Shares otherwise issuable upon exercise of the Option; provided, however, that if a Participant is subject to Section 16(b) of the Exchange Act at the time the Option is exercised, such election must satisfy the requirements of Rule 16b-3.

18. Termination of the Plan. The Plan shall terminate ten (10) years from the date hereof, and an Award shall not be granted under the Plan after that date although the terms of any Awards may be amended at any date prior to the end of its Term in accordance with the Plan. Any Awards outstanding at the time of termination of the Plan shall continue in full force and effect according to the terms and conditions of the Award and this Plan.

19. Amendment of the Plan. The Plan may be amended at any time and from time to time by the Board, but no amendment without the approval of the shareholders of the Company shall be made if shareholder approval under Section 422 of the Code or, if the Company is subject to the Exchange Act at the time of such amendment, under Rule 16b-3, or Code Section 162(m) would be required. Notwithstanding the discretionary authority granted to the Board, or the Committee, if one has been appointed, in Section 4 of the Plan, no amendment of the Plan or any Award granted under the Plan shall impair any of the rights of any holder, without the holder's consent, under any Award theretofore granted under the Plan.

20. Delivery of Shares on Exercise or Grant. Delivery of certificates for Shares pursuant to the grant or exercise of an Award may be postponed by the Company for such period as may be required for it with reasonable diligence to comply with any applicable requirements of any federal, state or local law or regulation or any administrative or quasi-administrative requirement applicable to the sale, issuance, distribution or delivery of such Shares. The Board, or the Committee if one has been appointed, may, in its sole discretion, require a Participant to furnish the Company with appropriate representations and a written investment letter prior to the exercise of an Award or the delivery of any Shares pursuant to an Award.

21. Fees and Costs. The Company shall pay all original issue taxes on the issuance or exercise of any Award granted under the Plan and all other fees and expenses necessarily incurred by the Company in connection therewith.

22. Effectiveness of the Plan. The Plan shall become effective when approved by the Board. The Plan shall thereafter be submitted to the Company's shareholders for approval and unless the Plan is approved by the affirmative votes of the holders of shares having a majority of the voting power of all shares represented at a meeting duly held in accordance with Minnesota law within twelve (12) months after having been approved by the Board, the Plan and all Awards made under it shall be null and void and of no force and effect. In aid of this provision, any Awards granted prior to the approval of the Plan by the Company's shareholders shall be conditioned upon the receipt of such approval.

23. Other Provisions. As used in the Plan, and in Awards and other documents prepared in implementation of the Plan, references to the masculine pronoun shall be deemed to refer to the feminine or neuter, and references in the singular or the plural shall refer to the plural or the singular, as the identity of the person or persons or entity or entities being referred to may require. The captions used in the Plan and in such Awards and other documents prepared in implementation of the Plan are for convenience only and shall not affect the meaning of any provision hereof or thereof.

24. Minnesota Law to Govern. This Plan shall be governed by and construed in accordance with the laws of the State of Minnesota.

Exhibit 10.2

OPTION AGREEMENT
(Incentive Stock Option)

This Option Agreement is made as of the day of , , between SPS Commerce, Inc. (formerly known as St. Paul Software, Inc.), a Minnesota corporation (hereinafter called the "Company"), and , an employee of the Company or one or more of its Subsidiaries (hereinafter called the "Employee").

WHEREAS, the Company has heretofore adopted the St. Paul Software, Inc. 1999 Equity Incentive Plan (the "Plan"); and

WHEREAS, it is a requirement of the Plan that an Option Agreement be executed to evidence the Incentive Stock Option granted to the Employee.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth, and for other good and valuable consideration, the parties hereto have agreed, and do hereby agree, as follows:

1. Grant of Option. The Company hereby grants to the Employee the right and option (hereinafter called the "Option") to purchase all or any part of an aggregate of shares of the common stock, without par value, of the Company ("Shares") (such number being subject to adjustment as set forth herein and in the Plan) on the terms and conditions set forth herein and in the Plan; provided, however, that this grant is conditioned on the Employee's delivery to the Company, prior to, or simultaneous with, the execution of this Option Agreement, of a properly executed counterpart signature page to the Amended and Restated Voting and Co-Sale Agreement among the Company and certain of its shareholders dated as of May 13, 1999 agreeing to be bound by the terms and conditions therein.

2. Type of Option. The Option granted under this Option Agreement is intended to be an Incentive Stock Option.

3. Option Price. The option price of the Shares covered by the Option is $ per Share.

4. Term of Option. The term of the Option shall be for a period of ten (10) years from the date hereof, subject to earlier termination as hereinafter provided.

5. Exercise of Option.

(a) Prior to its expiration or termination, and except as hereinafter provided, the Option (to the extent vested) may be exercised in whole or in part as to the portion vested and not previously exercised at any time after the date of this Agreement:

(b) The Employee's right to exercise the Option shall vest (i) on the twelve (12) month anniversary of the date of this Agreement (the "Initial Vesting Date") as to one-fourth (1/4) of the Shares originally subject to the Option, and (ii) on each of the first twelve (12) quarterly anniversaries of the Initial Vesting Date as to an additional one-sixteenth (1/16) of the Shares originally subject to the Option.

(c) In order to exercise the Option, the person or persons entitled to exercise it shall deliver to the Company written notice of the number of full Shares with respect to which the Option is to be exercised. Such notice shall be delivered to the attention of the President of the Company, or such other person as the Board, or the Committee if one has been appointed, shall designate. Unless (i) the Company, in its discretion, establishes "cashless exercise" procedures pursuant to Section 10.2 of the Plan, and (ii) the Board, or the Committee if one has been appointed, in its discretion, permits the person or persons entitled to exercise the Option to utilize such "cashless exercise" procedures, the notice shall be accompanied by payment in full for any Shares being purchased, which payment shall be in

cash or, upon the approval of the Board, or the Committee if one has been appointed, by delivery of certificates of Shares that have been held for at least six (6) months, duly endorsed in blank, equal in value to the purchase price of the Shares to be purchased based on the Fair Market Value of the Shares on the date of exercise or, upon the approval of the Board, or the Committee if one has been appointed, by a combination of cash and Shares.

(d) No Shares shall be issued until full payment therefor has been made, and the Employee shall have none of the rights of a shareholder in respect of such Shares until full payment therefor has been made.

6. Nontransferability. The Option shall not be transferable, other than: (a) by will or the laws of descent and distribution, and the Option may be exercised, during the lifetime of the holder of the Option, only by him, or in the event of death, his Successor, or in the event of disability, his personal representative, or (b) pursuant to a qualified domestic relations order, as defined in the Code or ERISA or the rules thereunder, but only to the extent such transfer is permitted under the Code or the Treasury Regulations thereunder without affecting the Option's qualification under Section 422 of the Code as an Incentive Stock Option.

7. Termination of Employment. In the event of the complete termination of the Employee's employment with the Company and its Subsidiaries for any reason other than death or disability, then (a) the Option may be exercised by the Employee (to the extent that he shall have been entitled to do so at the termination of his employment) at any time within three (3) months after the date of such termination, but not beyond the original term thereof, (b) the portion of the Option that has not vested (i.e., that is not then exercisable) as of the date of the Employee's complete termination of employment with the Company and its Subsidiaries shall automatically terminate as of the date of the Employee's complete termination of employment with the Company and its

Subsidiaries, and (c) the vested portion of the Option shall automatically terminate upon the expiration of the three month period described above to the extent not theretofore exercised. So long as the Employee shall continue to be an employee of the Company or one or more of its Subsidiaries, the Option shall not be affected by any change of duties or position. Nothing in this Option Agreement shall confer upon the Employee any right to continue in the employ of the Company or any of its Subsidiaries or interfere in any way with the right of the Company or any such Subsidiary to terminate his employment at any time.

8. Death of Employee. If the Employee shall die while he shall be employed by the Company or one or more of its Subsidiaries, or within three (3) months after the complete termination of his employment with the Company and its Subsidiaries, then (a) the Option may be exercised by the Employee's Successor (to the extent the Employee shall have been entitled to do so at the time of his death) at any time within one (1) year after the date of the Employee's death, but not beyond the term of the Option, (b) the portion of the Option that has not vested as of the date of the Employee's death shall automatically terminate as of the date of the Employee's death, and (c) the vested portion of the Option shall automatically terminate upon the expiration of the one (1) year period described above to the extent not theretofore exercised.

9. Disability of Employee. If the employment of the Employee shall terminate on account of his having become "disabled", as defined in Section 22(e)(3) of the Code, then (a) the Option may be exercised (to the extent the Employee shall have been entitled to do so at the time of the termination of his employment by reason of his having become disabled) by the Employee or the Employee's personal representative, as the case may be, at any time within one (1) year after the date on which the Employee's employment terminated by reason of his having become disabled, but not beyond the original term of the Option, (b) the portion of the Option that has not vested as of the

termination of the Employee's employment by reason of his disability shall automatically terminate as of such date, and (c) the Option shall automatically terminate upon the expiration of such one (1) year period to the extent not theretofore exercised.

10. Taxes. The Company shall have the right to require a person entitled to receive Shares pursuant to the exercise of this Option under the Plan to pay the Company the amount of any taxes which the Company is or will be required to withhold with respect to such Shares before the certificate for such Shares is delivered pursuant to the Option. If the Employee disposes of Shares acquired pursuant to this Option in a transaction considered to be a disqualifying disposition under Sections 421 and 422 of the Code, the Employee shall promptly notify the Company of such disposition and the Company shall have the right to deduct any taxes required to be withheld as a result thereof from any amounts payable then or at any time thereafter to the Employee. Furthermore, the Company may elect to deduct such taxes from any other amounts then payable in cash or in shares or from any other amounts payable any time thereafter to the Employee.

11. Adjustments Upon Changes in Capitalization. In the event of changes in all of the outstanding Shares by reason of stock dividends, stock splits, reclassifications, recapitalizations, mergers, consolidations, combinations, or exchanges of shares, separations, reorganizations, liquidations, or similar events, or in the event of extraordinary cash or non-cash dividends being declared with respect to the Shares, or similar transactions or events, the number and class of Shares subject to the Option hereby granted, the option price and all of the other applicable provisions thereof shall, subject to the provisions of the Plan, be correspondingly equitably adjusted by the Board, or the Committee if one has been appointed (which adjustment may, but need not, include payment to the holder of the Option, in cash or in shares, in an amount equal to the difference between the option price and the then current Fair Market Value of the Shares subject to the Option

as equitably determined by the Board or the Committee, as the case may be), as it shall decide in its sole discretion. Any such adjustment may provide for the elimination of any fractional share which might otherwise be subject to the Option.

12. Delivery of Shares on Exercise. Delivery of certificates for Shares pursuant to the exercise of the Option may be postponed by the Company for such period as may be required for it with reasonable diligence to comply with any applicable requirements of any federal, state or local law or regulation or any administrative or quasi-administrative requirement applicable to the sale, issuance, distribution or delivery of such Shares. The Board, or the Committee if one has been appointed, may, in its sole discretion, require the holder of the Option to furnish the Company with appropriate representations and a written investment letter prior to the exercise of the Option or the delivery of any Shares pursuant to the Option.

13. Incorporation of Provisions of the Plan. All of the provisions of the Plan, pursuant to which this Option is granted, are hereby incorporated by reference and made a part hereof as if specifically set forth herein, and to the extent of any conflict between this Option Agreement and the terms contained in the Plan, the Plan shall control. To the extent any capitalized terms are not otherwise defined herein, they shall have the meanings set forth in the Plan.

14. Invalidity of Provisions. The invalidity or unenforceability of any provision of this Option Agreement as a result of a violation of any state or federal law, or of the rules or regulations of any governmental regulatory body, or any securities exchange shall not affect the validity or enforceability of the remainder of this Option Agreement.

15. Waiver and Modification. The provisions of this Option Agreement may not be waived or modified unless such waiver or modification is in writing and signed by the parties hereto.

16. Interpretation. All decisions or interpretations made by the Board, or the Committee if one has been appointed, with regard to any question arising under the Plan or this Option Agreement as provided by Section 4 of the Plan, shall be binding and conclusive on the Company and the Employee.

17. Multiple Counterparts. This Option Agreement may be signed in multiple counterparts, all of which when taken together shall constitute an original agreement. The execution by one party of any counterpart shall be sufficient execution by that party, whether or not the same counterpart has been executed by any other party.

18. Governing Law. This Option Agreement shall be governed by the laws of the State of Minnesota.

IN WITNESS WHEREOF, the Company has caused this Option Agreement to be duly executed by its duly authorized officer, and the Employee has hereunto set his hand, all as of the day and year first above written.

SPS COMMERCE, INC.

By: _____

SPS COMMERCE, INC.
2001 STOCK OPTION PLAN
[AMENDED AND RESTATED AS OF JULY 24, 2008]

1. **Purpose**. The purpose of this 2001 Stock Option Plan (the "*Plan*") is to promote the interests of SPS Commerce, Inc., a Delaware corporation (the "*Company*"), and its stockholders by providing personnel of the Company and any parent or subsidiaries thereof, and any other individuals and entities who provide services to the Company or any parent or subsidiaries in the capacity of non-employee directors or advisors or consultants, with an opportunity to acquire a proprietary interest in the Company and thereby develop a stronger incentive to put forth maximum effort for the continued success and growth of the Company. In addition, the opportunity to acquire a proprietary interest in the Company will aid in attracting and retaining personnel of outstanding ability.

2. **Administration**.

(a) General. This Plan shall be administered by a committee of two or more directors of the Company (the "*Committee*") appointed by the Company's Board of Directors (the "*Board*"). If the Board has not appointed a committee to administer this Plan, then the Board shall constitute the Committee. The Committee shall have the power, subject to the limitations contained in this Plan, to fix any terms and conditions for the grant or exercise of any award under this Plan. No director shall serve as a member of the Committee unless such director shall be a "non-employee director" as that term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), or any successor statute or regulation comprehending the same subject matter. A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee, and the acts of a majority of the members present at any meeting at which a quorum is present or the acts unanimously approved in writing by all members of the Committee shall be the acts of the Committee. Subject to the provisions of this Plan, the Committee may from time to time adopt such rules for the administration of this Plan as it deems appropriate. The decision of the Committee on any matter affecting this Plan, or the rights and obligations arising under this Plan or any award granted hereunder, shall be final, conclusive and binding upon all persons, including without limitation the Company, stockholders and optionees.

(b) Indemnification. To the full extent permitted by law, (i) no member of the Committee or person to whom authority under this Plan is delegated shall be liable for any action, omission or determination taken or made in good faith with respect to this Plan or any award granted hereunder and (ii) the members of the Committee and each person to whom authority under this Plan is delegated shall be entitled to indemnification by the Company against and from any loss incurred by such member or person by reason of any such actions and determinations.

(c) Delegation of Authority. The Committee may delegate all or any part of its authority under this Plan to the Chief Executive Officer of the Company for purposes of granting and administering awards granted to persons other than persons who are then subject to the reporting requirements of Section 16 of the Exchange Act ("*Section 16 Individuals*"). The Chief Executive Officer of the Company may, in turn, delegate all or a portion of the delegated authority to such other officer or officers of the Company as the Chief Executive Officer may determine.

(d) Action by Board. Notwithstanding subparagraph 2(a) above, any grant of awards hereunder to any director of the Company who is not an employee of the Company at the time of grant ("*Non-Employee Director Award*"), and any action taken by the Company with respect to any Non-Employee Director Award, including any amendment thereto, and any acceleration of the vesting of

any option constituting a Non-Employee Director Award, any extension of the time within which any option constituting a Non-Employee Director Award may be exercised, any determination pursuant to paragraph 8 relating to the payment of the purchase price of Shares (as defined in paragraph 3 below) subject to an option constituting a Non-Employee Director Award, or any action pursuant to paragraph 9 relating to the payment of withholding taxes, if any, through the use of Shares with respect to a Non-Employee Director Award shall be subject to prior approval by the Board.

3. **Shares**. The shares that may be made subject to awards granted under this Plan shall be authorized and unissued shares of Common Stock of the Company ("*Shares*," and each individually a "*Share*"), and they shall not exceed 6,050,000 Shares in the aggregate, subject to adjustment as provided in paragraph 13, below, except that, if any option lapses or terminates for any reason before such option has been completely exercised, the Shares covered by the unexercised portion of such option may again be made subject to options granted under this Plan. An option may not be exercisable for a fraction of a Share.

4. **Eligible Participants**. Options may be granted under this Plan to any employee of the Company, or any parent or subsidiary thereof, including any such person who is also an officer or director of the Company or any parent or subsidiary thereof. Non-statutory stock options (as defined in subparagraph 5(a) below) also may be granted to (i) any employee of the Company, or any parent or subsidiary thereof, (ii) any director of the Company who is not an employee of the Company or any parent or subsidiary thereof, (iii) other individuals or entities who are not employees but who provide services to the Company or a parent or subsidiary thereof in the capacity of an advisor or consultant, and (iv) any individual or entity that the Company desires to induce to become an employee, advisor or consultant, but any such grant shall be contingent upon such individual or entity becoming employed by (or becoming an advisor or consultant to) the Company or a parent or subsidiary thereof. References herein to "*employment*" and similar terms (except "employee") shall include the providing of services in the capacity of an advisor or consultant or as a director. The employees and other individuals and entities to whom options may be granted pursuant to this paragraph 4 are referred to herein as "*Eligible Participants*."

5. **Terms and Conditions of Options**.

(a) General. Subject to the terms and conditions of this Plan, the Committee may, from time to time during the term of this Plan, grant to such Eligible Participants as the Committee may determine options to purchase such number of Shares of the Company on such terms and conditions as the Committee may determine. In determining the Eligible Participants to whom options shall be granted and the number of Shares to be covered by each option, the Committee may take into account the nature of the services rendered by the respective Eligible Participants, their present and potential contributions to the success of the Company, and such other factors as the Committee in its sole discretion may deem relevant. The date and time of approval by the Committee of the granting of an option shall be considered the date and the time of the grant of such option. The Committee in its sole discretion may designate whether an option granted to an employee is to be considered an "incentive stock option" (as that term is defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "*Code*"), or any amendment thereto) or a non-statutory stock option (an option granted under this Plan that is not intended to be an "incentive stock option"). The Committee may grant both incentive stock options and non-statutory stock options to the same employee. However, if an incentive stock option and a non-statutory stock option are awarded simultaneously, such options shall be deemed to have been awarded in separate grants, shall be clearly identified, and in no event shall the exercise of one such option affect the right to exercise the other. To the extent that the aggregate Fair Market Value (as defined in paragraph 7 below) of Shares with respect to which incentive stock options are exercisable for

the first time by any employee during any calendar year (under all incentive stock option plans of the Company and its parent and subsidiary corporations) exceeds $100,000, such options shall be treated as non-statutory stock options. Notwithstanding the foregoing, no incentive stock option may be granted under this Plan unless this Plan is approved by the stockholders of the Company within twelve months after the effective date of this Plan.

(b) Purchase Price. The purchase price of each Share subject to an option granted pursuant to this paragraph 5 shall be fixed by the Committee, subject, however, to the remainder of this subparagraph 5(b). For non-statutory stock options, such purchase price may be set at any price the Committee may determine; provided, however, that such purchase price shall be not less than 85% of the Fair Market Value of a Share on the date of grant. For incentive stock options, such purchase price shall be no less than 100% of the Fair Market Value of a Share on the date of grant, provided that if such incentive stock option is granted to an employee who owns, or is deemed under Section 424(d) of the Code to own, at the time such option is granted, stock of the Company (or of any parent or subsidiary of the Company) possessing more than 10% of the total combined voting power of all classes of stock therein (a "*10% Stockholder*"), such purchase price shall be not less than 110% of the Fair Market Value of a Share on the date of grant.

(c) Vesting. Each option agreement provided for in paragraph 6 shall specify when each option granted under this Plan shall become exercisable with respect to the Shares covered by the option. Notwithstanding the provisions of any option agreement provided for in paragraph 6, the Committee may, in its sole discretion, declare at any time that any option granted under this Plan shall be immediately exercisable.

(d) Termination. Each option granted pursuant to this paragraph 5 shall expire, and all rights to purchase Shares thereunder shall terminate, on the earliest of:

(i) ten years after the date such option is granted (or in the case of an incentive stock option granted to a 10% Stockholder, five years after the date such option is granted) or on such date prior thereto as may be fixed by the Committee on or before the date such option is granted;

(ii) the expiration of the period after the termination of the optionee's employment within which the option is exercisable as specified in paragraph 10(b) or 10(c), whichever is applicable (provided that the Committee may, in any option agreement provided for in paragraph 6 or by Committee action with respect to any outstanding option, extend the periods specified in paragraph 10(b) and 10(c));

(iii) termination of an optionee's employment by the Company for Cause (as hereinafter defined); or

(iv) the date, if any, fixed for cancellation pursuant to paragraph 11(c) or 12 below.

6. **Option Agreements**. All options granted under this Plan shall be evidenced by a written agreement in such form or forms as the Committee may from time to time determine, which agreement

shall, among other things, designate whether the options being granted thereunder are non-statutory stock options or incentive stock options.

7. **Fair Market Value**. For purposes of this Plan, the "*Fair Market Value*" of a Share at a specified date shall, unless otherwise expressly provided in this Plan, mean the closing or last sale price of a Share on the date immediately preceding such date or, if no sale of Shares shall have occurred on that date, on the next preceding day on which a sale of Shares occurred, on the Composite Tape for New York Stock Exchange listed shares or, if Shares are not quoted on the Composite Tape for New York Stock Exchange listed shares, on the Nasdaq National Market or any similar system then in use or, if Shares are not included in the Nasdaq National Market or any similar system then in use, on the Nasdaq SmallCap Market or any similar system then in use, provided that if the Shares in question are not quoted on any such system, Fair Market Value shall be what the Committee determines in good faith to be 100% of the fair market value of a Share as of the date in question. Notwithstanding anything stated in this paragraph 7, if the applicable securities exchange or system has closed for the day by the time the determination is being made, all references in this paragraph to the date immediately preceding the date in question shall be deemed to be references to the date in question.

8. **Manner of Exercise of Options**.

(a) General. A person entitled to exercise an option granted under this Plan may, subject to its terms and conditions and the terms and conditions of this Plan, exercise it in whole at any time, or in part from time to time, by delivery to the Company at its principal executive office, to the attention of its Secretary, of written notice of exercise, specifying the number of Shares with respect to which the option is being exercised and payment of the purchase price of the Shares. The granting of an option to a person shall give such person no rights as a stockholder except as to Shares issued to such person.

(b) Payment. The consideration to be paid for the Shares, including the method(s) of payment, shall be determined by the Committee (and, in the case of an incentive stock option, shall be determined at the time of grant) in its sole discretion and may consist entirely of (i) cash (including check, bank draft or money order); (ii) delivery of optionee's promissory note with such recourse, interest, security and redemption provisions as the Committee determines to be appropriate; (iii) cancellation of indebtedness; (iv) delivery to the Company of unencumbered Shares having an aggregate Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the option is exercised; (v) authorization of the Company to retain from the total number of Shares as to which the option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of shares as to which the option is exercised; (vi) any combination of the methods of payments described above; or (vii) such other consideration and method of payment for the issuance of Shares to the extent permitted under applicable law. Notwithstanding the foregoing, no person shall be permitted to pay any portion of the purchase price with Shares, or by authorizing the Company to retain Shares upon exercise of the option, if the Committee, in its sole discretion, determines that payment in such manner is undesirable. Except for delivery of a promissory note by an optionee as provided above, the purchase price of the Shares with respect to which an option is being exercised shall be payable in full at the time of exercise, provided that, to the extent permitted by law, the holder of an option may simultaneously exercise an option and sell all or a portion of the Shares thereby acquired pursuant to a brokerage or similar relationship and use the proceeds from such sale to pay the purchase price of such Shares.

9. **Tax Withholding**. Delivery of Shares upon exercise of any non-statutory stock option granted under this Plan shall be subject to any required withholding taxes. A person exercising a

non-statutory stock option may, as a condition precedent to receiving the Shares, be required to pay the Company a cash amount equal to the amount of any required withholdings. In lieu of all or any part of such a cash payment, the Committee may, but shall not be required to, provide in any option agreement provided for in paragraph 6 (or provide by Committee action with respect to any outstanding option) that a person exercising an option may cover all or any part of the required withholdings, and any additional withholdings up to the amount needed to cover the individual's full FICA and federal, state and local income tax liability with respect to income arising from the exercise of the option, through the delivery to the Company of unencumbered Shares, through a reduction in the number of Shares delivered to the person exercising the option or through a subsequent return to the Company of Shares delivered to the person exercising the option (in each case, such Shares having an aggregate Fair Market Value on the date of exercise equal to the amount of the withholding taxes being paid through such delivery, reduction or subsequent return of Shares).

10. **Transferability and Termination of Employment**.

(a) Transferability. During the lifetime of an optionee, only such optionee or his or her guardian or legal representative may exercise options granted under this Plan, and no option granted under this Plan shall be assignable or transferable by the optionee otherwise than by will or the laws of descent and distribution or, with respect only to non-statutory stock options, pursuant to a domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder; provided, however, that any optionee may transfer a non-statutory stock option granted under this Plan to a member or members of his or her immediate family (i.e., his or her children, grandchildren and spouse) or to one or more trusts for the benefit of such family members or partnerships in which such family members are the only partners, if (i) the option agreement with respect to such options expressly so provides either at the time of initial grant or by amendment to an outstanding option agreement and (ii) the optionee does not receive any consideration for the transfer. Any options held by any such transferee shall continue to be subject to the same terms and conditions that were applicable to such options immediately prior to their transfer and may be exercised by such transferee as and to the extent that such option has become exercisable and has not terminated in accordance with the provisions of the Plan and the applicable option agreement. For purposes of any provision of this Plan relating to notice to an optionee or to vesting or termination of an option upon the death, disability or termination of employment of an optionee, the references to "optionee" shall mean the original grantee of an option and not any transferee.

(b) Termination of Employment During Lifetime. During the lifetime of an optionee who is an employee of the Company or any parent or subsidiary thereof at the time of grant of an option, an option granted to such optionee may be exercised only while the optionee is employed by the Company or by a parent or subsidiary thereof, and only if such optionee has been continuously so employed since the date the option was granted, except that:

(i) an option shall continue to be exercisable for 30 days after termination of the optionee's employment but only to the extent that the option was exercisable immediately prior to such optionee's termination of employment; provided, however, that if termination of the optionee's employment shall have been for Cause (as hereinafter defined), any option held by such optionee shall expire, and all rights to purchase Shares thereunder shall terminate, immediately upon such termination; for purposes of this paragraph 10(b)(i), "*Cause*" shall be deemed to exist upon (A) the failure to cure a material breach by the optionee of the

terms of any non-competition/non-solicitation agreement between the Company and the optionee within 30 days of receipt of written notice of such breach from the Company, (B) gross negligence or willful misconduct by the optionee, (C) conviction of the optionee of, or the entry of a pleading of guilty or nolo contendere by the optionee to, any crime involving moral turpitude or any felony, (D) willful violation of specific and lawful instructions from the Board or the Company's Chief Executive Officer that are reasonably related to the optionee's employment by the Company, and (E) fraud, embezzlement, theft or proven dishonesty against the Company;

(ii) in the case of an optionee who is disabled (as hereinafter defined) while employed, an option shall continue to be exercisable for one year after termination of such optionee's employment; and

(iii) as to any optionee whose termination occurs following a declaration pursuant to paragraph 12 below, an option may be exercised at any time permitted by such declaration.

(c) Termination Upon Death. With respect to an optionee whose employment terminates by reason of death, any option granted to such optionee may be exercised within one year after the death of such optionee.

(d) Vesting Upon Disability or Death. In the event of the disability (as hereinafter defined) or death of an optionee, any option granted to such optionee that was not previously exercisable shall become immediately exercisable in full if (i) the disabled or deceased optionee shall have been continuously employed by the Company or a parent or subsidiary thereof between the date such option was granted and the date of such disability or death and (ii) the option agreement with respect to such option expressly so provides either at the time of initial grant or by amendment to an outstanding option agreement. "*Disability*" of an optionee shall mean any physical or mental incapacitation whereby such optionee is therefore unable for a period of twelve consecutive months or for an aggregate of twelve months in any twenty-four consecutive month period to perform his or her duties for the Company or any parent or subsidiary thereof. "*Disabled*," with respect to any optionee, shall mean that such optionee has incurred a Disability.

(e) Transfers and Leaves of Absence. Neither the transfer of employment of a person to whom an option is granted between any combination of the Company, a parent corporation or a subsidiary thereof, nor a leave of absence granted to such person and approved by the Committee, shall be deemed a termination of employment for purposes of this Plan. The terms "*parent*" or "*parent corporation*" and "*subsidiary*" as used in this Plan shall have the meaning ascribed to "parent corporation" and "subsidiary corporation", respectively, in Sections 424(e) and (f) of the Code.

(f) Right to Terminate Employment. Nothing contained in this Plan, or in any option granted pursuant to this Plan, shall confer upon any optionee any right to continued employment by the Company or any parent or subsidiary of the Company or limit in any way the right of the Company or any such parent or subsidiary to terminate such optionee's employment at any time.

(g) Expiration Date. In no event shall any option be exercisable at any time after the time it shall have expired in accordance with paragraph 5(d) of this Plan. When an option is no longer exercisable, it shall be deemed to have lapsed or terminated and will no longer be outstanding.

11. **Change in Control**.

(a) Definition. For purposes of this Plan, a "*Change in Control*" of the Company shall be deemed to occur if any of the following occur:

(1) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) acquires or becomes a "beneficial owner" (as defined in Rule 13d-3 or any successor rule under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors ("*Voting Securities*"), provided, however, that the following shall not constitute a Change in Control pursuant to this paragraph (a)(1):

(A) any acquisition of Shares or Voting Securities of the Company directly from the Company;

(B) any acquisition or beneficial ownership by the Company or a subsidiary;

(C) any acquisition or beneficial ownership by any employee benefit plan (or related trust) sponsored or maintained by the Company or one or more of its subsidiaries;

(D) any acquisition or beneficial ownership by any corporation with respect to which, immediately following such acquisition, more than 50% of both the combined voting power of the Company's then outstanding Voting Securities and the Shares of the Company is then beneficially owned, directly or indirectly, by all or substantially all of the persons who beneficially owned Voting Securities and Shares of the Company immediately prior to such acquisition in substantially the same proportions as their ownership of such Voting Securities and Shares, as the case may be, immediately prior to such acquisition;

(2) A majority of the members of the Board of Directors of the Company shall not be Continuing Directors. "*Continuing Directors*" shall mean: (A) individuals who, on the date hereof, are directors of the Company, (B) individuals elected as directors of the Company subsequent to the date hereof for whose election proxies shall have been solicited by the Board of Directors of the Company or (C) any individual elected or appointed by the Board of Directors of the Company to fill vacancies on the Board of Directors of the Company caused by death or resignation (but not by removal) or to fill newly-created directorships;

(3) Approval by the stockholders of the Company of a reorganization, merger or consolidation of the Company or a statutory exchange of outstanding Voting Securities of the Company, unless, immediately following such reorganization, merger, consolidation or exchange, all or substantially all of the persons who were the beneficial owners, respectively, of Voting Securities and Shares of the Company immediately prior to such reorganization, merger, consolidation or exchange beneficially own, directly or indirectly, more than 50% of, respectively, the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors and the then outstanding shares of common stock, as the case may be, of the corporation resulting from such reorganization, merger, consolidation or exchange in substantially the same proportions as their ownership, immediately prior to such reorganization, merger, consolidation or exchange, of the Voting Securities and Shares of the Company, as the case may be; or

(4) Approval by the stockholders of the Company of (x) a complete liquidation or dissolution of the Company or (y) the sale or other disposition of all or substantially all of the assets of the Company (in one or a series of transactions), other than to a corporation with respect to which, immediately following such sale or other disposition, more than 50% of, respectively, the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and the then outstanding shares of common stock of such corporation is then beneficially owned, directly or indirectly, by all or substantially all of the persons who were the beneficial owners, respectively, of the Voting Securities and Shares of the Company immediately prior to such sale or other disposition in substantially the same proportions as their ownership, immediately prior to such sale or other disposition, of the Voting Securities and Shares of the Company, as the case may be.

(b) Acceleration of Vesting. If, but only if, so provided in an option agreement provided for in paragraph 6 or by Committee action with respect to any outstanding option, and notwithstanding anything in subparagraph 5(c) above to the contrary, if a Change in Control of the Company shall occur, then such option, if not already exercised in full or otherwise terminated, expired or cancelled, shall become immediately exercisable in full and shall remain exercisable during the remaining term thereof.

(c) Cash Payment. If a Change in Control of the Company shall occur, then, so long as a majority of the members of the Board are Continuing Directors, the Committee, in its sole discretion, and without the consent of the holder of any option affected thereby, may determine that some or all outstanding options shall be cancelled as of the effective date of any such Change in Control and that the holder or holders of such cancelled options shall receive, with respect to some or all of the Common Shares subject to such options, as of the date of such cancellation, cash in an amount, for each Share subject to an option, equal to the excess of the per Share Fair Market Value of such Shares immediately prior to such Change in Control of the Company over the exercise price per Share of such options.

(d) Limitation on Change in Control Payments. Notwithstanding anything in subparagraph 11(b) or 11(c) above or paragraph 12 below to the contrary, if, with respect to an optionee, the acceleration of the exercisability of an option or the payment of cash in exchange for all or part of an

option as provided in subparagraph 11(b) or 11(c) above or paragraph 12 below (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Code), together with any other payments which such optionee has the right to receive from the Company or any corporation which is a member of an "affiliated group" (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then such acceleration of exercisability and payments pursuant to subparagraph 11(b) or 11(c) above or paragraph 12 below shall be reduced to the largest amount as, in the sole judgment of the Committee, will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code.

12. **Dissolution, Liquidation, Merger**. In the event of (a) the proposed dissolution or liquidation of the Company, (b) a proposed sale of substantially all of the assets of the Company or (c) a proposed merger, consolidation of the Company with or into any other entity, regardless of whether the Company is the surviving corporation, or a proposed statutory share exchange with any other entity (the actual effective date of the dissolution, liquidation, sale, merger, consolidation or exchange being herein called an "*Event*"), the Committee may, but shall not be obligated to, either (i) if the Event is a merger, consolidation or statutory share exchange, make appropriate provision for the protection of outstanding options granted under this Plan by the substitution, in lieu of such options, of options to purchase appropriate voting common stock (the "*Survivor's Stock*") of the corporation surviving any such merger or consolidation or, if appropriate, the parent corporation of the Company or such surviving corporation, or, alternatively, by the delivery of a number of shares of the Survivor's Stock which has a Fair Market Value as of the effective date of such merger, consolidation or statutory share exchange equal to the product of (x) the excess of (A) the Event Proceeds per Share (as hereinafter defined) covered by the option as of such effective date over (B) the exercise price per Share of the Shares subject to such option, times (y) the number of Shares covered by such option, or (ii) declare, at least twenty days prior to the Event, and provide written notice to each optionee of the declaration, that each outstanding option, whether or not then exercisable, shall be cancelled at the time of, or immediately prior to the occurrence of, the Event (unless it shall have been exercised prior to the occurrence of the Event). In connection with any declaration pursuant to clause (ii) of the preceding sentence, the Committee may, but shall not be obligated to, cause payment to be made, within twenty days after the Event, in exchange for each cancelled option to each holder of an option that is cancelled, of cash equal to the amount (if any), for each Share covered by the cancelled option, by which the Event Proceeds per Share (as hereinafter defined) exceeds the exercise price per Share covered by such option. At the time of any declaration pursuant to clause (ii) of the first sentence of this paragraph 12, each option that has not previously expired pursuant to subparagraph 5(d)(i), 5(d)(ii) or 5(d)(iii) of this Plan or been cancelled pursuant to paragraph 11(c) of this Plan shall immediately become exercisable in full and each holder of an option shall have the right, during the period preceding the time of cancellation of the option, to exercise his or her option as to all or any part of the Shares covered thereby. In the event of a declaration pursuant to clause (ii) of the first sentence of this paragraph 12, each outstanding option granted pursuant to this Plan that shall not have been exercised prior to the Event shall be cancelled at the time of, or immediately prior to, the Event, as provided in the declaration, and this Plan shall terminate at the time of such cancellation, subject to the payment obligations of the Company provided in this paragraph 12. Notwithstanding the foregoing, no person holding an option shall be entitled to the payment provided in this paragraph 12 if such option shall have expired pursuant to subparagraph 5(d)(i), 5(d)(ii) or 5(d)(iii) of this Plan or been cancelled pursuant to paragraph 11(c) of this Plan. For purposes of this paragraph 12, "*Event Proceeds per Share*" shall mean the cash plus the fair market value, as determined in good faith by the Committee, of the non-cash consideration to be received per Share by the stockholders of the Company upon the occurrence of the Event.

13. **Adjustments**. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, or extraordinary dividend or divestiture (including a spin-off), or any other change in the corporate structure

or Shares of the Company, the Committee (or if the Company does not survive any such transaction, a comparable committee of the Board of Directors of the surviving corporation) may (but shall not be obligated to), without the consent of any holder of an option, make such adjustment as it determines in its discretion to be appropriate as to the number and kind of securities subject to and reserved under this Plan and, in order to prevent dilution or enlargement of rights of participants in this Plan, the number and kind of securities issuable upon exercise of outstanding options and the exercise price thereof.

14. **Substitute Options**. Options may be granted under this Plan from time to time in substitution for stock options held by employees of other corporations who are about to become employees of the Company, or any parent or subsidiary thereof, or whose employer is about to become a subsidiary of the Company, as the result of a merger or consolidation of the Company or a subsidiary of the Company with another corporation, the acquisition by the Company or a subsidiary of the Company of all or substantially all the assets of another corporation or the acquisition by the Company or a subsidiary of the Company of at least 50% of the issued and outstanding stock of another corporation. The terms and conditions of the substitute options so granted may vary from the terms and conditions set forth in this Plan to such extent as the Board at the time of the grant may deem appropriate to conform, in whole or in part, to the provisions of the stock options in substitution for which they are granted, but with respect to stock options which are incentive stock options, no such variation shall be permitted which affects the status of any such substitute option as an incentive stock option.

15. **Compliance With Legal Requirements**.

(a) General. No certificate for Shares distributable under this Plan shall be issued and delivered unless the issuance of such certificate complies with all applicable legal requirements including, without limitation, compliance with the provisions of applicable state securities laws, the Securities Act of 1933, as amended, and the Exchange Act, and any delivery requirements set forth in the option agreement provided for in paragraph 6.

(b) Rule 16b-3. With respect to Section 16 Individuals, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of this Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

16. **Governing Law**. To the extent that federal laws do not otherwise control, this Plan and all determinations made and actions taken under this Plan shall be governed by the laws of the State of Delaware, without regard to the conflicts of law provisions thereof, and construed accordingly.

17. **Amendment and Discontinuance of Plan**. The Board may at any time amend, suspend or discontinue this Plan; provided, however, that no amendment to this Plan shall, without the consent of the holder of the option, alter or impair any option previously granted under this Plan. To the extent considered necessary to comply with applicable provisions of the Code, any such amendments to this Plan may be made subject to approval by the stockholders of the Company.

18. **Term**.

(a) Effective Date. This Plan shall be effective as of August 22, 2001.

(b) Termination. This Plan shall remain in effect until all Shares subject to it are distributed or this Plan is terminated under paragraph 17 above. No award of an incentive stock option shall be made under this Plan more than ten years after the effective date of this Plan (or such other limit as may be required by the Code) if such limitation is necessary to qualify the option as an incentive stock option.

Exhibit 10.4

SPS COMMERCE, INC.

Incentive Stock Option Agreement
(granted under the 2001 Stock Option Plan)

Name of Optionee:

No. of Shares Covered: Date of Grant:

Exercise Price Per Share: Expiration Date:

Exercise Schedule (Cumulative):

[STANDARD GRANTS: This Option shall vest as to ___of the Shares subject to this Option on the 1st day of each month, commencing on ___, 20___ and continuing until fully vested.**]**

[FOR SENIOR MANAGEMENT: This Option shall vest as to (i) 1/4th of the Shares subject to this Option on ___, 20___and (ii) 1/36th of the remaining Shares subject to this Option on the 1st day of each month, commencing on ___, 20___and continuing to and including ___, 20_. If this exercise schedule results in the vesting of a fraction of a Share on any vesting date, such fractional Share shall be rounded up to the next whole Share, and the number of Shares vesting on the final vesting date shall be reduced accordingly.**]**

This is an Incentive Stock Option Agreement ("*Agreement*") between SPS Commerce, Inc., a Delaware corporation (the "*Company*"), and the optionee identified above (the "*Optionee*") effective as of the date of grant specified above.

RECITALS

WHEREAS, the Company maintains the SPS Commerce, Inc. 2001 Stock Option Plan (the "*Plan*"); and

WHEREAS, pursuant to the Plan, the Board of Directors of the Company (the "*Board*") or a committee of two or more directors of the Company (the "*Committee*") appointed by the Board administers the Plan and has the authority to determine the awards to be granted under the Plan (if the Board has not appointed a committee to administer the Plan, then the Board shall constitute the Committee); and

WHEREAS, the Committee has determined that the Optionee is eligible to receive an award under the Plan in the form of an incentive stock option (the "*Option*");

NOW, THEREFORE, the Company hereby grants this Option to the Optionee under the terms and conditions as follows.

Terms and Conditions*

1. Grant. The Optionee is granted this Option to purchase the number of Shares specified at the beginning of this Agreement.

2. Exercise Price. The price to the Optionee of each Share subject to this Option shall be the exercise price specified at the beginning of this Agreement.

3. Incentive Stock Option. This Option is intended to be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "*Code*").

4. Exercise Schedule. This Option shall vest and become exercisable as to the number of Shares and on the dates specified in the exercise schedule at the beginning of this Agreement. The exercise schedule shall be cumulative; thus, to the extent this Option has not already been exercised and has not expired, terminated or been cancelled, the Optionee or the person otherwise entitled to exercise this Option as provided herein may at any time, and from time to time, purchase all or any portion of the Shares then purchasable under the exercise schedule.

   This Option may also be exercised (notwithstanding the exercise schedule) under the circumstances described in Section 8 of this Agreement if it has not expired prior thereto.

5. Expiration. This Option shall expire at 5:00 p.m. Central Time on the earliest of:

   (a) The expiration date specified at the beginning of this Agreement;

   (b) The last day of the period following the termination of employment of the Optionee during which this Option can be exercised (as specified in Section 7(a) or 7(b) of this Agreement, whichever is applicable); or

   (c) The date (if any) fixed for cancellation pursuant to Section 8 of this Agreement.

   If termination of the Optionee's employment by the Company shall have been for Cause, this Option shall expire immediately upon such termination. In no event may anyone exercise this Option, in whole or in part, after it has expired, notwithstanding any other provision of this Agreement.

6. Procedure to Exercise Option.

   Notice of Exercise. This Option may be exercised by delivering written notice of exercise to the Company at the principal executive office of the Company, to the attention of the Company's Secretary, in the form attached to this Agreement. The notice shall state the number of Shares to be purchased, and shall be signed by the person exercising this Option. If the person exercising this Option is not the Optionee, he/she also must submit appropriate proof of his/her right to exercise this Option.

   Tender of Payment. Upon giving notice of any exercise hereunder, the Optionee shall provide for payment of the purchase price of the Shares being purchased through one or a combination of the following methods:

---

* Unless the context indicates otherwise, terms that are not defined in this Agreement shall have the meaning set forth in the Plan as it currently exists or as it is amended in the future.

(a) Cash;

(b) By delivery of optionee's promissory note with such recourse, interest, security and redemption provisions as the Committee determines to be appropriate;

(c) Cancellation of indebtedness;

(d) By delivery to the Company of unencumbered Shares having an aggregate Fair Market Value (as defined in paragraph 7 of the Plan) on the date of exercise equal to the purchase price of such Shares;

(e) By a reduction in the number of Shares delivered to the Optionee upon exercise, such number of Shares having an aggregate Fair Market Value on the date of exercise equal to the purchase price of such Shares; or

(f) To the extent permitted by law, a broker-assisted cashless exercise in which the Optionee irrevocably instructs a broker to deliver proceeds of a sale of all or a portion of the Shares to be issued pursuant to the exercise (or a loan secured by such Shares) to the Company in payment of the purchase price of such Shares.

Notwithstanding the foregoing, the Optionee shall not be permitted to pay any portion of the purchase price with Shares if the Committee, in its sole discretion, determines that payment in such manner is undesirable.

Delivery of Certificates. As soon as practicable after the Company receives the notice and purchase price provided for above, it shall deliver to the person exercising this Option, in the name of such person, a certificate or certificates representing the Shares being purchased. The Company shall pay any original issue or transfer taxes with respect to the issue or transfer of the Shares and all fees and expenses incurred by it in connection therewith. All Shares so issued shall be fully paid and nonassessable. Notwithstanding the foregoing, delivery of certificates for Shares pursuant to the exercise of the Option may be postponed by the Company for such period as may be required for it with reasonable diligence to comply with the applicable requirements of any federal, state or local law or regulation or any administrative or quasi-administrative requirement applicable to the sale, issuance, distribution or delivery of such Shares. The Board, or the Committee if one has been appointed, may, in its sole discretion, require the Optionee to furnish the Company with appropriate representations and a written investment letter prior to the exercise of the Option or the delivery of any Shares pursuant to the Option.

7. Employment Requirement. This Option may be exercised only while the Optionee remains employed with the Company or a parent or subsidiary thereof, and only if the Optionee has been continuously so employed since the date of this Agreement; *provided that*:

(a) This Option may be exercised for 30 days following the day the Optionee's employment by the Company ceases if such cessation of employment is for a reason other than death or disability, but only to the extent that it was exercisable immediately prior to termination of employment; provided, however, that if termination of the Optionee's employment shall have been for Cause, this Option shall expire, and all rights to purchase Shares hereunder shall terminate, immediately upon such termination**.**

(b) This Option may be exercised within one year after the Optionee's employment by the Company ceases if such cessation of employment is because of death or disability.

(c) If the Optionee's employment terminates after a declaration made pursuant to Section 8(b) of this Agreement in connection with an Event, this Option may be exercised at any time permitted by such declaration.

Notwithstanding the above, this Option may not be exercised after it has expired.

8. Acceleration of Option.

(a) *Change in Control*. In the event of a Change in Control, as defined in paragraph 11 of the Plan, ***[STANDARD GRANTS**: then the Committee may, as provided in paragraph 11(c) of the Plan, determine that this Option shall be cancelled and make certain cash payments with respect to this Option pursuant to such paragraph 11(c).] ***[ALTERNATIVE FOR SENIOR MANAGEMENT**: then, without any action by the Committee or the Board, (i) 50% of the Shares subject to this Option that have not already vested in accordance with the exercise schedule set forth above or otherwise accelerated in accordance with this Section 8 shall become immediately exercisable in full (on a pro-rata basis, such that the remaining (unaccelerated) 50% of the Shares subject to this Option (the "*Remaining Unvested Options*") shall continue to be subject, proportionately, to vesting in accordance with such exercise schedule) and (ii) the Remaining Unvested Options shall also become immediately exercisable if the Company (or the corporation resulting from such Change in Control) terminates the Optionee's employment (or materially reduces the Optionee's employment responsibilities or base salary) (A) other than for Cause and (B) prior to the first anniversary date of such Change in Control.**]**

(b) *Event*. In the event of an Event as defined in paragraph 12 of the Plan (including without limitation any Event that is also a Change in Control), the Committee may, but shall not be obligated to:

(i) if the Event is a merger or consolidation or statutory share exchange, make appropriate provision for the protection of this Option by the substitution for this Option of options or voting common stock of the corporation surviving any merger or consolidation or, if appropriate, the parent corporation of the Company or such surviving corporation, as provided in paragraph 12 of the Plan ***[INSERT FOR SENIOR MANAGEMENT**:; provided, however, that if any such Event is also a Change in Control, any acceleration resulting therefrom as a result of such Change in Control (as provided in Section 8(a) of this Agreement) shall be reflected in any such substitution**]** ; or

(ii) at least 20 days prior to the occurrence of the Event, declare, and provide written notice to the Optionee of the declaration, that this Option, whether or not then exercisable, shall be canceled at the time of, or immediately prior to the occurrence of, the Event (unless it shall have been exercised prior to the occurrence of the Event) in exchange for payment to the Optionee of cash equal to, for each Share covered by the canceled Option, the amount, if any, by which the Event Proceeds per Share, as defined in paragraph 12 of the Plan, exceeds the exercise price per Share covered by this Option. At the time of any such declaration, this Option shall immediately become exercisable in

full and the Optionee shall have the right, during the period preceding the time of cancellation of this Option, to exercise this Option as to all or any part of the Shares covered by this Option. In the event of a declaration pursuant to this subsection, to the extent this Option has not been exercised prior to the Event, the unexercised part of this Option shall be canceled at the time of, or immediately prior to, the Event, as provided in the declaration. Notwithstanding the foregoing, the holder of this Option shall not be entitled to the payment provided for in this subsection if this Option shall have expired pursuant to Section 5 above.

(c) *Discretionary Acceleration*. In addition to any acceleration provided for elsewhere herein, the Committee has the power, in its sole discretion, to declare at any time that this Option shall be immediately exercisable.

(d) *Possible Tax Effect of Acceleration*. If acceleration of this Option results in the vesting of Shares with a Fair Market Value in excess of $100,000 in any given year, then this Option shall not be deemed an "incentive stock option" within the meaning of Section 422 of the Code to the extent the Fair Market Value of vested Shares exceeds $100,000 in such year.

9. Limitation on Transfer. While the Optionee is alive, only the Optionee or his/her guardian or legal representative may exercise this Option. This Option may not be assigned or transferred other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

10. No Shareholder Rights Before Exercise. No person shall have any of the rights of a shareholder of the Company with respect to any Share subject to this Option until the Share actually is issued to him/her upon exercise of this Option.

11. Discretionary Adjustment. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, or extraordinary dividend or divestiture (including a spin-off), or any other change in the corporate structure or Shares of the Company, the Committee (or if the Company does not survive any such transaction, a comparable committee of the Board of Directors of the surviving corporation) may, without the consent of the Optionee, make such adjustment as it determines in its discretion to be appropriate as to the number and kind of securities subject to and reserved under the Plan and, in order to prevent dilution or enlargement of rights of the Optionee, the number and kind of securities issuable upon exercise of this Option and the exercise price hereof.

12. Transfer of Shares — Tax Effects. The Optionee hereby acknowledges that if any Shares received pursuant to the exercise of any portion of this Option are sold within two years from the date of grant or within one year from the effective date of exercise of the Option, or if certain other requirements of the Code are not satisfied, such Shares will be deemed under the Code not to have been acquired by the Optionee pursuant to an "incentive stock option" as defined in the Code; and that the Company shall not be liable to the Optionee in the event the Option for any reason is deemed not to be an "incentive stock option" within the meaning of the Code.

13. Interpretation of This Agreement. All decisions and interpretations made by the Committee with regard to any question arising hereunder or under the Plan shall be binding and conclusive upon the Company and the Optionee. If there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern.

14. Discontinuance of Employment. This Agreement shall not give the Optionee a right to continued employment with the Company, any parent or subsidiary of the Company or any successor entity, and the Company, any such parent or subsidiary or any such successor entity employing the Optionee may terminate his/her employment at any time, change the Optionee's employment responsibilities and terms of employment, and otherwise deal with the Optionee without regard to the effect it may have upon him/her under this Agreement.

15. Tax Consequences.

    (a) The Optionee may incur tax liability as a result of the Optionee's purchase or disposition of the Shares. **THE OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THE OPTION OR DISPOSING OF THE SHARES.**

    (b) Notwithstanding the Company's good faith determination of the Fair Market Value of the Company's common stock for purposes of determining the exercise price per Share of the Option, the taxing authorities may assert that the fair market value of the Company's common stock on the date of grant was greater than the exercise price per Share. The Option may fail to qualify as an incentive stock option if the exercise price per Share of the Option is less than the fair market value of the Company's common stock on the date of grant. In addition, under Section 409A of the Code, if the exercise price per Share of the Option is less than the fair market value of the Company's common stock on the date of grant, the Option may be treated as a form of deferred compensation and the Optionee may be subject to an additional 20% tax, plus interest and possible penalties. The Optionee is encouraged to consult a tax adviser regarding the potential impact of Section 409A of the Code.

16. Amendment to Meet the Requirements of Section 409A. The Optionee acknowledges that the Company, in the exercise of its sole discretion and without the consent of the Optionee, may amend or modify this Agreement in any manner and delay the payment of any amounts payable pursuant to this Agreement to the minimum extent necessary to meet the requirements of Section 409A of the Code as amplified by any Internal Revenue Service or U.S. Treasury Department regulations or guidance as the Company deems appropriate or advisable.

17. Option Subject to Plan, Certificate of Incorporation and By-Laws. The Optionee acknowledges that this Option and the exercise thereof is subject to the Plan, the Certificate of Incorporation, as amended from time to time, and the By-Laws, as amended from time to time, of the Company, and any applicable federal or state laws, rules or regulations. The Optionee hereby accepts this Option subject to all of the terms, conditions and provisions of this Agreement and the Plan. The Optionee has received a copy of the Plan and has agreed to be bound and to abide by all requests, decisions and determinations of the Committee made in accordance with the Plan.

18. Market Stand-Off. In connection with the Company's initial public offering of the Company's securities, Optionee agrees, upon request of the Company or the underwriters

managing any underwritten offering of the Company's securities, not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of the Shares received pursuant to the exercise of any portion of this Option (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the underwriters.

19. Binding Effect. This Agreement shall be binding in all respects on the heirs, representatives, successors and assigns of the Optionee.

20. Choice of Law. This Agreement is entered into under the laws of the State of Delaware and shall be construed and interpreted thereunder (without regard to its conflict of law principles).

IN WITNESS WHEREOF, the Optionee and the Company have executed this Agreement as of the date of grant written above.

OPTIONEE

_____

SPS COMMERCE, INC.

By: _____
Name: _____
Its: _____

_____, 20___

SPS COMMERCE, INC.
333 South Seventh Street, Suite 1000
Minneapolis, Minnesota 55402
Attention: Secretary

Ladies and Gentlemen:

I hereby exercise the following option (the "*Option*") granted to me under the SPS Commerce, Inc. 2001 Stock Option Plan (the "*Plan*") with respect to the number of shares of Common Stock ("*Shares*") of SPS Commerce, Inc. (the "*Company*"), indicated below:

Name: _____

Date of Grant of Option: _____

Exercise Price Per Share: _____

Number of Shares With Respect to Which the Option is Hereby Exercised: _____

Total Exercise Price: _____

o Enclosed with this letter is a check, bank draft or money order in the amount of the Total Exercise Price.

o Enclosed with this letter is a promissory note.

o I hereby agree to pay the Total Exercise Price by cancellation of a debt owed to me by the Company.

o I hereby agree to pay the Total Exercise Price within five business days of the date hereof and, as stated in the attached Broker's Letter, I have delivered irrevocable instructions to _____ to promptly deliver to the Company the amount of sale or loan proceeds from the Shares to be issued pursuant to this exercise necessary to satisfy my obligation hereunder to pay the Total Exercise Price.

o Enclosed with this letter is a certificate evidencing unencumbered Shares (duly endorsed in blank) having an aggregate Fair Market Value (as defined in the Plan) equal to or in excess of the Total Exercise Price.

o I elect to pay the Total Exercise Price through a reduction in the number of Shares delivered to me upon this exercise of the Option as provided in paragraph 8 of the Plan.

If I am enclosing Shares with this letter, I hereby represent and warrant that I am the owner of such Shares free and clear of all liens, security interests and other restrictions or encumbrances. I agree that I will pay any required withholding taxes in connection with this exercise as provided in paragraph 9 of the Plan.

Please issue a certificate (the "*Certificate*") for the number of Shares with respect to which the Option is being exercised in the name of the person indicated below and deliver the Certificate to the address indicated below:

Name in Which to Issue Certificate: _____

Address to Which Certificate Should be Delivered: _____

_____

_____

_____

_____

Principal Mailing Address for Holder of the Certificate (if different from above): _____

_____

_____

_____

_____

Very truly yours,

_____

Signature

_____

Name, please print

_____

Social Security Number

_____, 20___

SPS COMMERCE, INC.
333 South Seventh Street, Suite 1000
Minneapolis, Minnesota 55402
Attention: Secretary

Ladies and Gentlemen:

Name of Optionee: _____

Date of Grant of Option: _____

Exercise Price Per Share: _____

Number of Shares With Respect to Which the Option is to be Exercised: _____

Total Exercise Price: _____

The above Optionee has requested that we finance the exercise of the above Option to purchase Shares of common stock of SPS Commerce, Inc. (the "*Company*") and has given us irrevocable instructions to promptly deliver to the Company the amount of sale or loan proceeds from the Shares to be issued pursuant to such exercise to satisfy the Optionee's obligation to pay the Total Exercise Price.

Very truly yours,

_____
Broker Name

By _____

Exhibit 10.5

SPS COMMERCE, INC.

Non-Statutory Stock Option Agreement (Outside Directors)
(granted under the 2001 Stock Option Plan)

Name of Optionee:

No. of Shares Covered: Date of Grant:

Exercise Price Per Share: Expiration Date:

Exercise Schedule (Cumulative):

This Option shall be deemed to have vested as to 1/4th of the Shares subject to this Option on . This Option will vest for 1/36th of the remaining Shares subject to this Option on the 1st day of each month, commencing on and continuing until fully vested. If this exercise schedule results in the vesting of a fraction of a Share on any vesting date, such fractional Share shall be rounded up to the next whole Share, and the number of Shares vesting on the final vesting date shall be reduced accordingly.

This is a Non-Statutory Stock Option Agreement ("*Agreement*") between SPS Commerce, Inc., a Delaware corporation (the "*Company*"), and the optionee identified above (the "*Optionee*") effective as of the date of grant specified above.

Recitals

WHEREAS, the Company maintains the SPS Commerce, Inc. 2001 Stock Option Plan (the "*Plan*"); and

WHEREAS, pursuant to the Plan, the Board of Directors of the Company (the "*Board*") or a committee of two or more directors of the Company (the "*Committee*") appointed by the Board administers the Plan and has the authority to determine the awards to be granted under the Plan (if the Board has not appointed a committee to administer the Plan, then the Board shall constitute the Committee); and

WHEREAS, the Board has determined that the Optionee is eligible to receive an award under the Plan in the form of a non-statutory stock option (the "*Option*");

NOW, THEREFORE, the Company hereby grants this Option to the Optionee under the terms and conditions as follows.

Terms and Conditions*

1. Grant. The Optionee is granted this Option to purchase the number of Shares specified at the beginning of this Agreement.

2. Exercise Price. The price to the Optionee of each Share subject to this Option shall be the exercise price specified at the beginning of this Agreement.

3. Non-Statutory Stock Option. This Option is not intended to be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "*Code*").

4. Exercise Schedule. This Option shall vest and become exercisable as to the number of Shares and on the dates specified in the exercise schedule at the beginning of this Agreement. The exercise schedule shall be cumulative; thus, to the extent this Option has not already been exercised and has not expired, terminated or been cancelled, the Optionee or the person otherwise entitled to exercise this Option as provided herein may at any time, and from time to time, purchase all or any portion of the Shares then purchasable under the exercise schedule.

   This Option may also be exercised in full (notwithstanding the exercise schedule) under the circumstances described in Section 8 of this Agreement if it has not expired prior thereto.

5. Expiration. This Option shall expire at 5:00 p.m. Central Time on the earliest of:

   (a) The expiration date specified at the beginning of this Agreement (which date shall not be later than ten years after the date of grant);

   (b) The last day of the period following the termination of service of the Optionee as a director of the Company (as specified in Section 7(a) or 7(b) of this Agreement, whichever is applicable); or

   (c) The date (if any) fixed for cancellation pursuant to Section 8 of this Agreement.

   In no event may anyone exercise this Option, in whole or in part, after it has expired, notwithstanding any other provision of this Agreement.

6. Procedure to Exercise Option.

   Notice of Exercise. This Option may be exercised by delivering written notice of exercise to the Company at the principal executive office of the Company, to the attention of the Company's Secretary, in the form attached to this Agreement. The notice shall state the number of Shares to be purchased, and shall be signed by the person exercising this Option. If the person exercising this Option is not the Optionee, he/she also must submit appropriate proof of his/her right to exercise this Option.

   Tender of Payment. Upon giving notice of any exercise hereunder, the Optionee shall provide for payment of the purchase price of the Shares being purchased through one or a combination of the following methods:

---

* Unless the context indicates otherwise, terms that are not defined in this Agreement shall have the meaning set forth in the Plan as it currently exists or as it is amended in the future.

(a) Cash;

(b) By delivery of optionee's promissory note with such recourse, interest, security and redemption provisions as the Committee determines to be appropriate;

(c) Cancellation of indebtedness;

(d) By delivery to the Company of unencumbered Shares having an aggregate Fair Market Value (as defined in paragraph 7 of the Plan) on the date of exercise equal to the purchase price of such Shares;

(e) By a reduction in the number of Shares delivered to the Optionee upon exercise, such number of Shares having an aggregate Fair Market Value on the date of exercise equal to the purchase price of such Shares; or

(f) To the extent permitted by law, a broker-assisted cashless exercise in which the Optionee irrevocably instructs a broker to deliver proceeds of a sale of all or a portion of the Shares to be issued pursuant to the exercise (or a loan secured by such Shares) to the Company in payment of the purchase price of such Shares.

Notwithstanding the foregoing, the Optionee shall not be permitted to pay any portion of the purchase price with Shares if the Committee, in its sole discretion, determines that payment in such manner is undesirable.

Delivery of Certificates. As soon as practicable after the Company receives the notice and purchase price provided for above, it shall deliver to the person exercising this Option, in the name of such person, a certificate or certificates representing the Shares being purchased. The Company shall pay any original issue or transfer taxes with respect to the issue or transfer of the Shares and all fees and expenses incurred by it in connection therewith. All Shares so issued shall be fully paid and nonassessable. Notwithstanding the foregoing, delivery of certificates for Shares pursuant to the exercise of the Option may be postponed by the Company for such period as may be required for it with reasonable diligence to comply with the applicable requirements of any federal, state or local law or regulation or any administrative or quasi-administrative requirement applicable to the sale, issuance, distribution or delivery of such Shares. The Board, or the Committee if one has been appointed, may, in its sole discretion, require the Optionee to furnish the Company with appropriate representations and a written investment letter prior to the exercise of the Option or the delivery of any Shares pursuant to the Option.

7. Service Requirement. This Option may be exercised only while the Optionee serves as a director of the Company or a parent or subsidiary thereof, and only if the Optionee has continuously served as a director since the date of this Agreement; *provided that*:

(a) This Option may be exercised for 30 days following the day the Optionee's service as a director of the Company ceases if such cessation of service is for a reason other than death or disability, but only to the extent that it was exercisable immediately prior to termination of service as a director.

(b) This Option may be exercised within one year after the Optionee's service as a director of the Company ceases if such cessation of service is because of death or disability.

(c) If the Optionee's service as a director of the Company terminates after a declaration made pursuant to Section 8(b) of this Agreement in connection with an Event, this Option may be exercised at any time permitted by such declaration.

Notwithstanding the above, this Option may not be exercised after it has expired.

8. Acceleration of Option.

(a) *Change in Control*. In the event of a Change in Control as defined in paragraph 11 of the Plan, then, without any action by the Committee or the Board, 100% of the Shares subject to this Option that have not already vested in accordance with the exercise schedule set forth above shall become immediately exercisable in full.

(b) *Event*. In the event of an Event as defined in paragraph 12 of the Plan (including without limitation any Event that is also a Change in Control), the Committee may, but shall not be obligated to:

(i) if the Event is a merger or consolidation or statutory share exchange, make appropriate provision for the protection of this Option by the substitution for this Option of options or voting common stock of the corporation surviving any merger or consolidation or, if appropriate, the parent corporation of the Company or such surviving corporation, as provided in paragraph 12 of the Plan; provided, however, that if any such Event is also a Change in Control, any acceleration resulting therefrom as a result of such Change in Control (as provided in Section 8(a) of this Agreement) shall be reflected in any such substitution; or

(ii) at least 20 days prior to the occurrence of the Event, declare, and provide written notice to the Optionee of the declaration, that this Option, whether or not then exercisable, shall be canceled at the time of, or immediately prior to the occurrence of, the Event (unless it shall have been exercised prior to the occurrence of the Event) in exchange for payment to the Optionee of cash equal to, for each Share covered by the canceled Option, the amount, if any, by which the Event Proceeds per Share, as defined in paragraph 12 of the Plan, exceeds the exercise price per Share covered by this Option. At the time of any such declaration, this Option shall immediately become exercisable in full and the Optionee shall have the right, during the period preceding the time of cancellation of this Option, to exercise this Option as to all or any part of the Shares covered by this Option. In the event of a declaration pursuant to this subsection, to the extent this Option has not been exercised prior to the Event, the unexercised part of this Option shall be canceled at the time of, or immediately prior to, the Event, as provided in the declaration. Notwithstanding the foregoing, the holder of this Option shall not be entitled to the payment provided for in this subsection if this Option shall have expired pursuant to Section 5 above.

(c) *Discretionary Acceleration*. In addition to any acceleration provided for elsewhere herein, the Committee has the power, in its sole discretion, to declare at any time that this Option shall be immediately exercisable.

9. Limitation on Transfer. While the Optionee is alive, only the Optionee or his/her guardian or legal representative may exercise this Option. This Option may not be assigned or transferred other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

10. No Shareholder Rights Before Exercise. No person shall have any of the rights of a shareholder of the Company with respect to any Share subject to this Option until the Share actually is issued to him/her upon exercise of this Option.

11. Discretionary Adjustment. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, or extraordinary dividend or divestiture (including a spin-off), or any other change in the corporate structure or Shares of the Company, the Committee (or if the Company does not survive any such transaction, a comparable committee of the Board of Directors of the surviving corporation) may, without the consent of the Optionee, make such adjustment as it determines in its discretion to be appropriate as to the number and kind of securities subject to and reserved under the Plan and, in order to prevent dilution or enlargement of rights of the Optionee, the number and kind of securities issuable upon exercise of this Option and the exercise price hereof.

12. Tax Withholding. Delivery of Shares upon exercise of this Option shall be subject to any required withholding taxes. As a condition precedent to receiving Shares upon exercise of this Option, the Optionee may be required to pay to the Company, in accordance with the provisions of paragraph 9 of the Plan, an amount equal to the amount of any required withholdings.

13. Interpretation of This Agreement. All decisions and interpretations made by the Committee with regard to any question arising hereunder or under the Plan shall be binding and conclusive upon the Company and the Optionee. If there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern.

14. Option Subject to Plan, Certificate of Incorporation and By-Laws. The Optionee acknowledges that this Option and the exercise thereof is subject to the Plan, the Certificate of Incorporation, as amended from time to time, and the By-Laws, as amended from time to time, of the Company, and any applicable federal or state laws, rules or regulations. The Optionee hereby accepts this Option subject to all of the terms, conditions and provisions of this Agreement and the Plan. The Optionee has received a copy of the Plan and has agreed to be bound and to abide by all requests, decisions and determinations of the Committee made in accordance with the Plan.

15. Market Stand-Off. In connection with the Company's initial public offering of the Company's securities, Optionee agrees, upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of the Shares received pursuant to the exercise of any portion of this Option (other than those

included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred eighty (180) days) from the effective date of such registration as may be requested by the underwriters.

16. Binding Effect. This Agreement shall be binding in all respects on the heirs, representatives, successors and assigns of the Optionee.

17. Choice of Law. This Agreement is entered into under the laws of the State of Delaware and shall be construed and interpreted thereunder (without regard to its conflict of law principles).

IN WITNESS WHEREOF, the Optionee and the Company have executed this Agreement as of the date of grant.

OPTIONEE

_____

SPS COMMERCE INC.

By: _____
Name: _____
Its: _____

_____, 20___

SPS COMMERCE, INC.
333 South Seventh Street, Suite 1000
Minneapolis, Minnesota 55402
Attention: Secretary

Ladies and Gentlemen:

I hereby exercise the following option (the "*Option*") granted to me under the SPS Commerce, Inc. 2001 Stock Option Plan (the "*Plan*") with respect to the number of shares of Common Stock ("*Shares*") of SPS Commerce, Inc. (the "*Company*"), indicated below:

Name: _____

Date of Grant of Option: _____

Exercise Price Per Share: _____

Number of Shares With Respect to Which the Option is Hereby Exercised: _____

Total Exercise Price: _____

o Enclosed with this letter is a check, bank draft or money order in the amount of the Total Exercise Price.

o Enclosed with this letter is a promissory note.

o I hereby agree to pay the Total Exercise Price by cancellation of a debt owed to me by the Company.

o I hereby agree to pay the Total Exercise Price within five business days of the date hereof and, as stated in the attached Broker's Letter, I have delivered irrevocable instructions to _____ to promptly deliver to the Company the amount of sale or loan proceeds from the Shares to be issued pursuant to this exercise necessary to satisfy my obligation hereunder to pay the Total Exercise Price.

o Enclosed with this letter is a certificate evidencing unencumbered Shares (duly endorsed in blank) having an aggregate Fair Market Value (as defined in the Plan) equal to or in excess of the Total Exercise Price.

o I elect to pay the Total Exercise Price through a reduction in the number of Shares delivered to me upon this exercise of the Option as provided in paragraph 8 of the Plan.

If I am enclosing Shares with this letter, I hereby represent and warrant that I am the owner of such Shares free and clear of all liens, security interests and other restrictions or encumbrances. I agree that I will pay any required withholding taxes in connection with this exercise as provided in paragraph 9 of the Plan.

Please issue a certificate (the "*Certificate*") for the number of Shares with respect to which the Option is being exercised in the name of the person indicated below and deliver the Certificate to the address indicated below:

Name in Which to Issue Certificate: _____

Address to Which Certificate Should be Delivered: _____

_____

_____

_____

_____

Principal Mailing Address for Holder of the Certificate (if different from above): _____

_____

_____

_____

_____

Very truly yours,

_____

Signature

_____

Name, please print

_____

Social Security Number

_____, 20___

SPS COMMERCE, INC.
333 South Seventh Street, Suite 1000
Minneapolis, Minnesota 55402
Attention: Secretary

Ladies and Gentlemen:

Name of Optionee: _____

Date of Grant of Option: _____

Exercise Price Per Share: _____

Number of Shares With Respect to Which the Option is to be Exercised: _____

Total Exercise Price: _____

The above Optionee has requested that we finance the exercise of the above Option to purchase Shares of common stock of SPS Commerce, Inc. (the "*Company*") and has given us irrevocable instructions to promptly deliver to the Company the amount of sale or loan proceeds from the Shares to be issued pursuant to such exercise to satisfy the Optionee's obligation to pay the Total Exercise Price.

Very truly yours,

_____
Broker Name

By _____

LOAN AND SECURITY AGREEMENT
No. V06101

This Loan and Security Agreement (this "Loan Agreement"), made as of February 3, 2006 by and between **RITCHIE CAPITAL FINANCE, L.L.C.** ("Lender"), a Delaware limited liability company with its principal place of business at 2100 Enterprise Avenue, Geneva, Illinois 60134, and **SPS Commerce, Inc.** ("Borrower"), a Delaware corporation with its principal place of business at 333 South Seventh Street, Minneapolis, MN 55402.

In consideration of the promises set forth herein, Lender and Borrower agree upon the following terms and conditions:

1. General Definitions

The following words, terms and /or phrases shall have the meanings set forth thereafter and such meanings shall be applicable to the singular and plural form thereof giving effect to the numerical difference:

A. "Account" means any "account," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest and, in any event, shall include all accounts receivable, book debts, rights to payment, and other forms of obligations now owned or hereafter received or acquired by or belonging or owing to Borrower (including under any trade name, style or division thereof), whether or not arising out of goods or software sold or licensed or services rendered by Borrower or from any other transaction (including any such obligation that may be characterized as an account or contract right under the UCC), and all of Borrower's rights in, to and under all purchase orders or receipts now owned or hereafter acquired by it for goods or services, and all of Borrower's rights to any goods represented by any of the foregoing (including unpaid seller's rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods), and all monies due or to become due to Borrower under all purchase orders and contracts for the sale of goods or the performance of services or both by Borrower or in connection with any other transaction (whether or not yet earned by performance on the part of Borrower), now in existence or hereafter occurring, including the right to receive the proceeds of said purchase orders and contracts, and all collateral security and guarantees of any kind given by any Person with respect to any of the foregoing.

B. "Account Debtor" means any Person obligated on an Account.

C. "Affiliate" means, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power (i) to vote 5% or more of the securities having ordinary voting power for the election of directors of such Person or (ii) to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

D. "Approved Foreign Account Debtors" means the collective reference to those Account Debtors whose operations are located primarily in Canada; provided that Lender may disqualify one or more Persons as Approved Foreign Account Debtors in the exercise of its Permitted Discretion after consultation with Borrower (with any such disqualification to be effective five (5) Business Days after delivery of notice thereof to Borrower).

E. "Borrower's Liabilities" shall mean all obligations and liabilities of Borrower to Lender (including without limitation all debts, claims, and indebtedness) whether primary, secondary, direct, contingent, fixed or otherwise, heretofore, now and/or from time to time hereafter owing, due or payable, which are evidenced, created, incurred, acquired, owing or arising under this Loan Agreement and/or any promissory note or other instrument issued pursuant hereto or the "Other Agreements" (hereinafter defined).

F. "Borrowing Base" means, at any time, (a) 85% multiplied by Borrower's Eligible Accounts (other than Eligible Accounts of Approved Foreign Account Debtors) at such time, plus (b) 70% multiplied by Borrower's Eligible Accounts of Approved Foreign Account Debtors, minus (c) any Reserves heretofore established by Lender. Lender may, in its Permitted Discretion, adjust Reserves after consultation with Borrower, with any such changes to be effective five (5) Business Days after delivery of notice thereof to Borrower.

G. "Borrowing Base Certificate" means a certificate, signed and certified as accurate and complete by the chief financial officer of Borrower, in substantially the form of Exhibit B or another form which is acceptable to Lender in its sole discretion.

H. “Business Day” means a day of the year on which banks are not required or authorized to close in New York City, Chicago, Illinois or Minneapolis, Minnesota.

I. “Cash” means all cash, money (as such term is defined in the UCC), currency, and liquid funds, wherever held, in which Borrower now or hereafter acquires any right, title, or interest.

J. “Change of Control” means the occurrence of either of the following: (a) a “person” or “group” (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) becomes, after the date of this Loan Agreement, the “beneficial owner” (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, of more than 30% of the total voting power of all capital stock then outstanding of Borrower, or (b) a majority of the members of the Board of Directors of Borrower shall not constitute Continuing Directors.

K. “Charges” shall mean all national, federal, state, county, city, municipal and/or other governmental taxes, levies, assessments, charges, liens, claims or encumbrances upon and/or relating to the Collateral, Borrower’s Liabilities, Borrower’s business, Borrower’s ownership and/or use of any of its assets, and/or Borrower’s income and/or gross receipts, other than those not yet due and payable or being contested in good faith by appropriate proceedings.

L. “Chattel Paper” means any “chattel paper,” as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

M. “Cleanup” means all actions required to: (1) clean up, remove, treat or remediate Hazardous Materials in the indoor or outdoor environment; (2) prevent the release of Hazardous Materials so that they do not migrate, endanger or threaten to endanger public health or welfare or the indoor or outdoor environment; (3) perform pre-remedial studies and investigations and post-remedial monitoring and care; or (4) respond to any government requests for information or documents in any way relating to cleanup, removal, treatment or remediation or potential cleanup, removal, treatment or remediation of Hazardous Materials in the indoor or outdoor environment.

N. “Collateral” has the meaning set forth in Section 5.1 hereof.

O. “Continuing Director” means (a) any member of the Board of Directors of Borrower who was a director of Borrower on the date of this Loan Agreement, and (b) any individual who becomes a director of Borrower after the date of this Loan Agreement if such individual (i) is an officer (or comparable manager), constituent general partner or nominee of any Person who is a holder of preferred stock of Borrower as of the date of this Loan Agreement, or (ii) is the President or Chief Executive Officer of Borrower, or (iii) was appointed or nominated for election to the Board of Directors of Borrower by a majority of the Continuing Directors, but excluding any such individual originally proposed for election in opposition to the Board of Directors of Borrower in an actual or threatened election contest relating to the election of directors of Borrower (as such terms are used in Rule 14a-11 under the Securities Exchange Act of 1934, as amended) and whose initial assumption of office resulted from such contest or the settlement thereof.

P. “Copyright License” means any written agreement granting any right to use any Copyright or Copyright registration, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest

Q. “Copyrights” means all of the following property, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest: (i) all copyrights, whether registered or unregistered, held pursuant to the laws of the United States, any State thereof or of any other country; (ii) all registrations, applications and recordings in the United States Copyright Office or in any similar office or agency of the United States, of any State thereof or of any other country; (iii) all continuations, renewals or extensions thereof; and (iv) all registrations to be issued under any pending applications.

R. “Default” means any condition or event that, after notice or lapse of time or both, would constitute an Event of Default.

S. “Deposit Accounts” means any “deposit accounts,” as such term is defined in the UCC, and in any event includes any checking account, savings account, or certificate of deposit now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

T. “Documents” means any “documents,” as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

U. “Eligible Accounts” means, at any time, the Accounts of Borrower arising in the ordinary course of business with respect to goods or software sold or licensed or services rendered by Borrower, including without limitation, monthly subscription license payments, perpetual license payments, professional services billings and support and training billings, provided that Eligible Accounts shall not include any Account:

(a) which is not subject to a first priority perfected security interest (subject to Permitted Liens) in favor of Lender;

(b) which is owed by an Account Debtor which (i) does not maintain its chief executive office in the United States or (ii) is not organized under applicable law of the United States or any state of the United States unless, in either case, such Account is owed by an Approved Foreign Account Debtor;

(c) which is unpaid more than ninety (90) days after the date of the original invoice therefor;

(d) which is owing by an Account Debtor for which more than 25% of the Accounts owing from such Account Debtor and its Affiliates are ineligible pursuant to clause (c) above;

(e) which is owing by an Account Debtor to the extent the aggregate amount of Accounts owing from such Account Debtor and its Affiliates to Borrower exceeds 20% of the aggregate Eligible Accounts;

(f) with respect to which any covenant, representation, or warranty contained in this Loan Agreement or in any Other Agreement has been breached or is not true in any material respect;

(g) which (i) is not evidenced by an invoice or other documentation reasonably satisfactory to Lender which has been sent to the Account Debtor, (ii) represents a progress billing, (iii) represents obligations that do not arise from final sales or which are otherwise contingent upon Borrower’s completion of any further performance, (iv) represents a sale on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment, cash-on-delivery or any other repurchase or return basis or (iv) relates to payments of interest;

(h) for which the goods giving rise to such Account have not been shipped to the Account Debtor or for which the services giving rise to such Account have not been performed by Borrower or if such Account was invoiced more than once;

(i) with respect to which any check or other instrument of payment has been returned uncollected for any reason;

(j) which is owed by an Account Debtor which has (i) applied for, suffered, or consented to the appointment of any receiver, custodian, trustee, or liquidator of its assets, (ii) had possession of all or a material part of its property taken by any receiver, custodian, trustee or liquidator, (iii) filed, or had filed against it, any request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as bankrupt, winding-up, or voluntary or involuntary case under any state or federal bankruptcy laws, (iv) admitted in writing its inability, or is generally unable to, pay its debts as they become due, (v) become insolvent; (vi) ceased operation of its business or (vii) sold all or a substantially all of its assets;

(k) which, if owed by any Account Debtor which is a distributor, is payable by any Person other than such Account Debtor;

(l) which is owed in any currency other than U.S. dollars;

(m) which is owed by the government of the United States, or any department, agency, public corporation, or instrumentality thereof;

(n) which is owed by any Affiliate, employee, officer, director or stockholder of Borrower;

(o) which, for any Account Debtor, exceeds a credit limit determined by Lender in the exercise of its Permitted Discretion after consultation with Borrower (with any such determination to be effective five (5) Business Days after delivery of notice thereof to Borrower), to the extent of such excess;

(p) which is owed by an Account Debtor or any Affiliate of such Account Debtor to which Borrower is indebted, but only to the extent of such indebtedness, or is subject to any security, deposit, progress payment, retainage or other similar advance made by or for the benefit of an Account Debtor, in each case to the extent thereof;

(q) which is subject to any counterclaim, deduction, defense, setoff or dispute, but only to the extent of the amount of such counterclaim, deduction, defense, setoff or dispute;

(r) which is evidenced by any promissory note, chattel paper or instrument not in the possession of Lender;

(s) which is owed by an Account Debtor located in any jurisdiction which requires filing of a "Notice of Business Activities Report" or other similar report in order to permit Borrower to seek judicial enforcement in such jurisdiction of payment of such Account, unless Borrower has filed such report or qualified to do business in such jurisdiction;

(t) with respect to which Borrower has made any agreement with the Account Debtor for any reduction thereof, other than discounts and adjustments given in the ordinary course of business, or any Account which was partially paid and Borrower created a new receivable for the unpaid portion of such Account;

(u) which does not comply in all material respects with the requirements of all applicable laws and regulations, whether Federal, state or local, including without limitation the Federal Consumer Credit Protection Act, the Federal Truth in Lending Act and Regulation Z of the Board of Governors of the Federal Reserve System;

(v) which is for goods that have been sold under a purchase order or pursuant to the terms of a contract or other agreement or understanding (written or oral) that indicates or purports that any Person other than Borrower has or has had an ownership interest in such goods, or which indicates any party other than Borrower as payee or remittance party;

(w) which was created on cash on delivery terms; or

(x) which Lender determines may not be paid by reason of the Account Debtor's inability to pay or which Lender otherwise determines is unacceptable for any reason whatsoever, in each case in the exercise of its Permitted Discretion after consultation with Borrower (with any such determination to be effective five (5) Business Days after delivery of notice thereof to Borrower).

In the event that an Account which was previously an Eligible Account ceases to be an Eligible Account hereunder, Borrower shall notify Lender thereof on and at the time of submission to Lender of the next Borrowing Base Certificate. In determining the amount of an Eligible Account, the face amount of an Account shall be reduced by, without duplication, to the extent not reflected in such face amount, (i) the amount of all accrued and actual discounts, claims, credits or credits pending or of which the Account Debtor is permitted to avail itself under the credit terms provided to such Account Debtor, promotional program allowances, price adjustments, finance charges or other allowances (including any amount that Borrower may be obligated to rebate to an Account Debtor pursuant to the terms of any agreement or understanding (written or oral)) and (ii) the aggregate amount of all cash received in respect of such Account but not yet applied by Borrower to reduce the amount of such Account. Standards of eligibility may be made less restrictive from time to time by Lender in its sole discretion, with any such changes to be effective immediately upon delivery of notice thereof to Borrower, and made more restrictive from time to time by Lender in its Permitted Discretion after consultation with Borrower, with any such changes to be effective five (5) Business Days after delivery of notice thereof to Borrower.

V. "Eligible Assignee means (i) any Affiliate of Lender or any fund managed by an Affiliate of Lender, or (ii) any commercial bank organized under the laws of the United States or any state thereof having total assets in excess of $100,000,000, or any finance company, insurance company or other financial institution that is principally engaged in making, purchasing or otherwise investing in commercial loans in the ordinary course of its business and having total assets in excess of $100,000,000.

W. "Environmental Claim" means any claim, action, cause of action, investigation or notice (written or oral) by any Person alleging potential liability (including, without limitation, an obligation to conduct a Cleanup or potential liability for investigatory costs, Cleanup costs, governmental response costs, natural resources damages,

property damages, personal injuries, or penalties) arising out of, based on or resulting from (a) the presence or release of any Hazardous Materials at any location, whether or not owned, leased or operated by Borrower or any of its Subsidiaries, or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

X. “Environmental Laws” means all federal, state, local and foreign laws and regulations relating to pollution or protection of human health or the environment, including, without limitation, laws relating to releases or threatened releases of Hazardous Materials or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, release, disposal, transport or handling of Hazardous Materials, laws and regulations with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Materials and laws relating to the management or use of natural resources.

Y. “Equipment” means any “equipment”, as such term is defined in the UCC, and in any event shall include but not be limited to computers and peripherals, laboratory equipment, manufacturing equipment, networking equipment, switching and backbone equipment, servers and routers and other hardware including disk drives and laser printers, office furniture, fixtures and office equipment, test and other equipment, and software, and all accessions, additions, attachments, accessories and improvements thereof and all replacements and/or substitutions therefore and all proceeds and products thereof.

Z. “Equipment Loan” has the meaning set forth in Section 2.1(b) hereof.

AA. “Event of Default” has the meaning set forth in Section 8.1 hereof.

BB. “Financials” shall mean those financial statements described in Section 7.3 hereof.

CC. “Fixtures” means any “fixtures,” as such term is defined in the UCC, together with all right, title and interest of Borrower in and to all extensions, improvements, betterments, accessions, renewals, substitutes, and replacements of, and all additions and appurtenances to any of the foregoing property, and all conversions of the security constituted thereby, immediately upon any acquisition or release thereof or any such conversion, as the case may be, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

DD. “General Intangibles” means any “general intangibles,” as such term is defined in the UCC, and, in any event, shall include all right, title and interest which Borrower may now or hereafter have in or under any rights to payment; payment intangibles; software; proprietary or confidential information; business records and materials; customer lists; interests in partnerships, joint ventures, business associations, corporations, and limited liability companies; permits; claims in or under insurance policies (including unearned premiums and retrospective premium adjustments); and rights to receive tax refunds and other payments and rights of indemnification now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

EE. “Goods” means any “goods,” as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

FF. “Hazardous Materials” means all substances defined as Hazardous Substances, Oils, Pollutants or Contaminants in the National Oil and Hazardous Substances Pollution Contingency Plan, 40 C.F.R. §300.5, or defined as such by, or regulated as such under, any Environmental Law.

GG. “Instruments” means any “instrument,” as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

HH. “Intellectual Property” means all Copyrights; Trademarks; Patents; and Licenses; and applications therefor and reissues, extensions, or renewals thereof; and goodwill associated with any of the foregoing; together with rights to sue for past, present and future infringement of Intellectual Property and the goodwill associated therewith.

II. “Inventory” means any “inventory,” as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest, and, in any event, shall include all Goods and personal property that are held by or on behalf of Borrower for sale or lease or are furnished or are to be furnished under a contract of service, or that constitute raw materials, work in process or materials used or consumed or to be used or consumed in Borrower’s business, or the processing, packaging, promotion, delivery or shipping of the same, and all finished goods, whether or not the same is in transit or in the constructive, actual or exclusive possession of Borrower or is held by others for Borrower’s account, including all such property covered

by purchase orders and contracts with suppliers and all such Goods billed and held by suppliers and all such property that may be in the possession or custody of any carriers, forwarding agents, truckers, warehousemen, vendors, selling agents or other Persons.

JJ. “Investment Property” means all “investment property,” as such term is defined in the UCC, and in any event includes any certificated security, uncertificated security, money market funds, bonds, mutual funds, and U.S. Treasury bills or notes, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

KK. “Letter of Credit Rights” means any “letter of credit rights,” as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest, including any right to payment or performance under any letter of credit.

LL. “License” means any Copyright License, Patent License, Trademark License or other license of rights or interests now held or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest and any renewals or extensions thereof.

MM. “Loan” has the meaning set forth in Section 2.2 hereof.

NN. “Material Adverse Effect” means a material adverse effect upon (i) the business operations, properties (taken as a whole), assets (taken as a whole), results of operations or condition (financial or otherwise) of Borrower, (ii) the prospect of repayment of any portion of Borrower’s Liabilities, (iii) the validity, perfection, value or priority of Lender’s security interest in a material portion of the Collateral, (iv) the enforceability of any material provision of this Loan Agreement, the Warrants or any Other Agreement or (v) the ability of Lender to enforce its rights and remedies under this Loan Agreement, the Warrants or any Other Agreement

OO. “Other Agreements” shall mean all agreements, instruments and documents, including, without limitation, any notes, guaranties, letters of credit, mortgages, deeds of trust, pledges, powers of attorney, consents, assignments, contracts, notices, security agreements, leases, account pledge and control agreements, fee arrangements, financing statements and all other written matter heretofore, now and/or from time to time hereafter executed by and/or on behalf and/or for the benefit of Borrower and delivered to Lender under or in connection with this Loan Agreement (other than the Warrant and the Stockholders Agreements).

PP. “Patent License” means any written agreement granting any right with respect to any invention on which a Patent is in existence or a Patent application is pending, in which agreement Borrower now holds or hereafter acquires any interest.

QQ. “Patents” means all of the following property, now owned or hereafter acquired by Borrower: (a) all letters patent of, or rights corresponding thereto, in the United States or in any other country, all registrations and recordings thereof, and all applications for letters patent of, or rights corresponding thereto, in the United States or any other country, including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country; (b) all reissues, continuations, continuations-in-part or extensions thereof; (c) all petty patents, divisionals, and patents of addition; and (d) all patents to be issued under any such applications.

RR. “Permitted Debt” means (i) Borrower’s indebtedness to Lender under this Loan Agreement or any of the Other Agreements; (ii) indebtedness of Borrower existing on the date hereof and set forth on Schedule lRR hereto; (iii) indebtedness to trade creditors incurred and paid in the ordinary course of business on ordinary trade terms and accrued expenses incurred in the ordinary course of business; (iv) indebtedness (including capitalized leases) incurred for the purpose of financing all or any part of the acquisition costs of Equipment or software, and indebtedness assumed in connection with the acquisition of any such assets or secured by a lien on any such assets prior to the acquisition thereof (and not incurred in contemplation of such acquisition), provided that the aggregate outstanding principal amount of such indebtedness shall not exceed $1,500,000 at any time during the term of this Loan Agreement; (v) indebtedness of Borrower secured by Permitted Liens (as defined below); and (vi) any extension, renewal or refinancing of the indebtedness described in (ii) or (iv), provided that the principal amount of such indebtedness may not be increased, except to the extent necessary to pay reasonable and customary fees and expenses associated with such extension, renewal or refinancing.

SS. “Permitted Discretion” means a determination made in good faith and in the exercise of reasonable (from the perspective of a secured asset-based lender) business judgment.

TT. “Permitted Liens” means (i) liens arising under this Loan Agreement or any of the Other Agreements; (ii) liens existing as of the date of this Loan Agreement and set forth on Schedule 1TT hereto; (iii) liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its financial statements, provided that the proceeding contesting such taxes, fees, assessments, charges or levies shall stay the sale, disposition, foreclosure or forfeiture of any asset subject to such lien; (iv) liens securing indebtedness permitted by clause (iv) of the definition of “Permitted Debt”, so long as such liens secure only the Equipment or software acquired by Borrower and the proceeds thereof; (v) leases or subleases of real property granted in the ordinary course of Borrower’s business; (vi) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s, landlord’s and other like liens imposed by law, securing obligations arising in the ordinary course of business that either are not delinquent or are being contested in good faith and for which Borrower maintains adequate reserves on its financial statements, provided that the proceeding contesting such obligations shall stay the sale, disposition, foreclosure or forfeiture of any asset subject to such lien; (vii) pledges and deposits made in the ordinary course of business in compliance with workers’ compensation, unemployment insurance and other social security laws or regulations; (viii) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, customs bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business; (ix) judgment liens in respect of judgments that do not constitute an Event of Default under Section 8.I(k) hereof and deposits to secure the performance of appeal bonds; (x) statutory or common law liens and rights of setoff of banks and securities intermediaries as to deposit accounts or securities accounts maintained thereby; and (xi) liens securing indebtedness described in clause (vi) of the definition of Permitted Debt, provided, that any such lien may only encumber the property securing the indebtedness being extended, renewed or refinanced.

UU. “Person” shall mean any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, entity, party or government (whether national, federal, state, county, city, municipal or otherwise, including without limitation, any instrumentality, division, agency, body or department thereof).

VV. “Prime Rate” for each month means the rate of interest announced by Bank One, N.A., or its successor, as its prime rate on the first Business Day of such month.

WW. “Proceeds” means “proceeds,” as such term is defined in the UCC

XX. “Receivables” means (i) all of Borrower’s Accounts, Instruments, Documents, Chattel Paper, Supporting Obligations, letters of credit, proceeds of any letter of credit, and Letter of Credit Rights, and (ii) all customer lists, software, and business records related thereto.

YY. “Reserves” means any and all reserves which Lender deems necessary, in its Permitted Discretion, to maintain (a) to reflect any impediments to Lender’s ability to realize on the Accounts or to reflect costs, expenses and other amounts Lender may incur or be required to pay to realize on the Accounts (including, without limitation, any such reserves for rent at locations leased by Borrower and for consignee’s, warehousemen’s and bailee’s charges, for dilution of Accounts, for direct and contingent obligations owed to third parties, for uninsured, underinsured, un-indemnified or under-indemnified liabilities or potential liabilities with respect to any litigation and for taxes, fees, assessments, and other governmental charges), or (b) for accrued and unpaid interest on the Borrower’s Liabilities.

ZZ. “Revolving Advance” has the meaning set forth in Section 2.1 (c) hereof.

AAA. “Revolving Commitment” means the commitment of Lender to make Revolving Advances hereunder, subject to the terms hereof, as such commitment may be (a) reduced from time to time pursuant to Section 4.3 or Section 8.2 and, (b) increased on any Rollover Date from time to time in an amount equal to the Rollover Amount applicable to such Rollover Date. The initial amount of Lender’s Revolving Commitment is One Million Two Hundred Fifty Thousand Dollars ($1,250,000).

BBB. “Revolving Loan” means, at any time, all Revolving Advances outstanding at such time.

CCC. “Revolving Loan Termination Date” shall mean the earliest of (a) January 31, 2008, (b) the date of termination of the Revolving Commitments pursuant to Section 4.3 hereof and (c) the date on which Borrower’s Liabilities become due and payable pursuant to Section 8.2 hereof.

DDD. “Rollover Amount” means, with respect to any Rollover Date, the principal amount of the Term Loan or the Equipment Loan repaid during the immediately preceding calendar quarter and, in the case of the first

Rollover Date, the amount of the commitment to make Equipment Loans that remained unused immediately prior to termination of that commitment.

EEE. "Rollover Date" means the first day of any calendar quarter occurring prior to the Revolving Loan Termination Date, commencing April 1, 2007.

FFF. "Stockholders Agreements" means, collectively, that certain Fourth Amended and Restated Registration Rights Agreement dated as of May 16, 2003 by and among the Borrower and the stockholders of the Borrower named therein and in joinders thereto and that certain Fourth Amended and Restated Voting and Co-Sale Agreement dated as of May 16, 2003 by and among the Borrower and the stockholders of the Borrower named therein and in joinders thereto.

GGG. "Subsidiary" means, with respect to any Person, any corporation, partnership, limited liability company, association, joint venture or other business entity of which more than 50% of the total voting power of shares of stock or other ownership interests entitled (without regard to the occurrence of any contingency) to vote in the election of the Person or Persons (whether directors, managers, trustees or other Persons performing similar functions) having the power to direct or cause the direction of the management and policies thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof.

HHH. "Supporting Obligations" means any "supporting obligations," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

III. "Term Loan" has the meaning set forth in Section 2.1(a) hereof.

JJJ. "Trademark License" means any written agreement granting any right to use any Trademark or Trademark registration, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

KKK. "Trademarks" means all of the following property, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest: (a) all trademarks, tradenames, corporate names, business names, trade styles, service marks, logos, other source or business identifiers, prints and labels on which any of the foregoing have appeared or appear, and designs of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and any applications in connection therewith, including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, and (b) all reissues, extensions or renewals thereof.

LLL. "UCC" shall mean the Uniform Commercial Code as in effect from time to time in the State of Illinois, provided that if by reason of mandatory provisions of law, the perfection, the effect of perfection or non-perfection or the priority of the security interest granted hereunder in any Collateral (as hereinafter defined) or the availability of any remedy hereunder is governed by the Uniform Commercial Code as in effect on or after the date hereof in other jurisdiction(s), then "UCC" means the Uniform Commercial Code as in effect on or after the date hereof in such other jurisdiction(s) for the purposes of the provisions hereof relating to such perfection, effect of perfection or non-perfection, or priority or availability of such remedy.

MMM. "Warrant" has the meaning set forth in Section 2.5(b) hereof.

2. <u>The Loans</u>

2.1 (a) <u>Term Loan.</u> Subject to Section 2.5, Lender shall loan to Borrower on or prior to February 28, 2006 a term loan (the "Term Loan") pursuant to the terms and conditions hereof, in an amount equal to **Two Million Dollars ($2,000,000.00)**, the proceeds of which may be used to fund the purchase of assets of Owens Direct, Inc., to refinance existing indebtedness of Borrower, to pay related transaction fees and expenses, for working capital and for other general corporate purposes. This is not a revolving line of credit and Borrower may not repay and reborrow under this Section 2.1(a) the amounts advanced or to be advanced under this Section 2.1(a). The Term Loan shall be made on verbal notice given by Borrower to Lender no later than 2:00 p.m. (prevailing Chicago time) not less than three (3) Business Days prior to the date of such proposed borrowing. The Term Loan shall be repaid in six (6) interest only payments followed by thirty-nine (39) equal monthly scheduled installments of principal and interest (paid in arrears), such payments to be made on the first Business Day of each month commencing on the first Business Day of the month following the date of such borrowing (the "Initial Term Loan Payment Date"); provided,

however, that if the Initial Term Loan Payment Date is not at least 15 days after the date the Term Loan is made, such payments shall commence on the first Business Day of the immediately succeeding month and Borrower shall make one additional interest only payment on the Initial Term Loan Payment Date.

(b) Equipment Loan. Subject to Section 2.5, Lender shall loan to Borrower from time to time on or prior to July 31, 2006, one or more equipment loans (the "Equipment Loan") pursuant to the terms and conditions hereof, in an aggregate amount not to exceed **One Million Two Hundred Fifty Thousand Dollars ($1,250,000.00)**, the proceeds of which shall be used to purchase Equipment and to refinance certain indebtedness of Borrower to Silicon Valley Bank used to purchase Equipment. In no event shall the aggregate amount of the advances made hereunder exceed **One Million Two Hundred Fifty Thousand Dollars ($1,250,000.00)**. This is not a revolving line of credit and Borrower may not repay and re-borrow under this Section 2.1 (b) the amounts advanced or to be advanced under this Section 2.1(b). Each Equipment Loan shall be made on notice (substantially in the form of Exhibit C hereto and setting forth a schedule describing in detail the Equipment against which an advance is to be made hereunder) given by Borrower to Lender no later than 2:00 p.m. (prevailing Chicago time) not less than three (3) Business Days prior to the date of such proposed borrowing. Each Equipment Loan shall be repaid in thirty-six (36) equal monthly scheduled installments of principal and interest (paid in arrears), such payments to be made on the first Business Day of each month commencing on the first Business Day of the month following the date of such Equipment Loan borrowing (the "Initial Equipment Loan Payment Date"); provided, however, that if the Initial Equipment Loan Payment Date is not at least 15 days after the date the Equipment Loan is made, such payments shall commence on the first Business Day of the immediately succeeding month and Borrower shall make one interest only payment on the Initial Equipment Loan Payment Date.

(c) Revolving Loan. On the terms and subject to the conditions contained in this Loan Agreement, Lender agrees to make revolving advances to Borrower (each, a "Revolving Advance") from time to time on any Business Day during the period from the date hereof until the Revolving Loan Termination Date in an aggregate principal amount at any time outstanding for all such Revolving Advances not to exceed the lesser of (x) the Revolving Commitment at such time and (y) the Borrowing Base at such time. Each borrowing of a Revolving Advance shall be made on notice (substantially in the form of Exhibit D hereto) given by Borrower to Lender not later than noon (prevailing Chicago time) not less than 1 Business Day prior to the date of such proposed borrowing. Each borrowing of a Revolving Advance shall be in an aggregate amount of not less than $250,000. Borrower may not borrow more than two (2) Revolving Advances in any calendar month. Subject to the terms and conditions contained in this Loan Agreement, the Revolving Advances repaid may be reborrowed by Borrower under this Section 2.1(c). Borrower shall repay the entire unpaid principal amount of the Revolving Loan in full on the Revolving Loan Termination Date.

2.2 Evidence and Nature of Loans. The Term Loan, the Equipment Loan and each Revolving Advances to be made by Lender to Borrower pursuant to this Loan Agreement (each, a "Loan") will be evidenced by one or more promissory notes (in form and substance reasonably satisfactory to Lender) to be executed and delivered by Borrower to Lender before or concurrently with Lender's disbursement of such Loan to or for the account of Borrower. All of Borrower's Liabilities (including all Loans under this Loan Agreement) shall be secured by Lender's security interest in the Collateral and by all other security interests, liens, claims and encumbrances now and/or from time to time hereafter granted by Borrower to Lender hereunder or under the Other Agreements.

2.3 Use of Proceeds. Borrower warrants and represents to Lender that Borrower shall use the proceeds of each Loan made by Lender to Borrower pursuant to this Loan Agreement and any advances made pursuant to the Other Agreements solely for legal and proper corporate purposes (duly authorized by its Board of Directors) and consistent with all applicable laws and statutes.

2.4 Direction to Remit. Borrower hereby authorizes and directs Lender to disburse, for and on behalf of Borrower and for Borrower's account, the proceeds of the Loan made by Lender to Borrower pursuant to this Loan Agreement to such Person or Persons as an officer or director of Borrower shall direct, whether in writing or orally.

2.5 Conditions Precedent. (a) The following conditions precedent must be met before each Loan is made hereunder: (i) No event, condition or change that has had, or could reasonably be expected to have, a Material Adverse Effect shall have occurred since the date of this Agreement; (ii) The representations and warranties contained in this Loan Agreement and in the Warrants and the Other Agreements shall be true and correct in all material respects on and as of the date of such Loan, (iii) As of the date of such Loan, no event shall have occurred and be continuing or would result from such Loan or the application of the proceed thereof that would constitute an Event of Default or a Default, and (iv) As a condition to each Revolving Advance, Lender shall have received a

Borrowing Base Certificate and supporting information in connection therewith, together with any additional reports with respect to the Borrowing Base as Lender may reasonably request, all as of a date no more than 30 days prior to the date of such Revolving Advance.

(b) In addition, the following conditions precedent must be met before the initial Loan is made hereunder: (i) Payment of all fees required under this Loan Agreement or the Other Agreements; (ii) Receipt by Lender of satisfactory release documents from any and all conflicting secured creditors, (iii) Receipt by Lender of appropriate filings and other means of perfecting its security interest in the Collateral, including but not limited to specific assignments of Collateral consisting of instruments or evidenced by titles; (iv) Lender shall have received copies of the certificates and evidences of insurance contemplated under Section 5.6 hereof; (v) Receipt by Lender of adequate proof of free and clear ownership of the Collateral, including but not limited to paid in full invoices and cancelled checks or other means of payment for said invoices; (vi) Execution by Borrower and acceptable financial institution(s) of any required account control agreements for the benefit of Lender; (vii) Delivery by Borrower of a satisfactory executed Borrowing Base Certificate as of a recent date, (viii) Receipt by Lender of a Warrant to purchase 235,000 shares of Borrower's Series B Convertible Preferred Stock on or before February 3, 2016 at a purchase price of $0.97875 per share in form and substance reasonably satisfactory to Lender (the "Warrant"), subject to execution by Lender of a joinder to the Stockholders Agreements in form and substance reasonably satisfactory to Borrower, (ix) execution by Lender and CID Mezzanine Capital L.P. of an Intercreditor Agreement, in form and substance reasonably satisfactory to Lender; and (x) Delivery by Borrower of a legal opinion of counsel to Borrower relating to this Agreement, the Warrants and the Other Agreements in form an substance reasonably satisfactory to Lender.

2.6 Payments and Taxes. Any and all payments made by Borrower under this Loan Agreement or any Other Agreement shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any governmental authority (including any interest, additions to tax or penalties applicable thereto) other than any taxes imposed on or measured by Lender's overall net income and franchise taxes imposed on it (in lieu of net income taxes), by a jurisdiction (or any political subdivision thereof) as a result of Lender being organized or resident, conducting business or having its principal office in such jurisdiction ("Indemnified Taxes"). If any Indemnified Taxes shall be required by law to be withheld or deducted from or in respect of any sum payable under this Loan Agreement or any Other Agreement to Lender (w) an additional amount shall be payable as may be necessary so that, after making all required withholdings or deductions (including withholdings or deductions applicable to additional sums payable under this Section) Lender receives an amount equal to the sum it would have received had no such withholdings or deductions been made, (x) Borrower shall make such withholdings or deductions, (y) Borrower shall pay the full amount withheld or deducted to the relevant taxing authority or other authority in accordance with applicable law and (z) Borrower shall deliver to Lender evidence of such payment. Borrower's obligation hereunder shall survive the termination of this Loan Agreement.

3. Interest, Fees and Repayment

3.1 Interest. Each Revolving Advance made pursuant to this Agreement shall bear interest payable monthly in arrears on the first Business Day of each month calculated on a 360 day year comprised of twelve (12) thirty day months at a rate equal to the Prime Rate plus 2.25% per annum. The Term Loan shall bear interest payable monthly in arrears on the first Business Day of each month, calculated on a 360 day year comprised of twelve (12) thirty day months at a per annum rate equal to the Loan Interest Rate specified in the related note, which rate shall be the sum of (i) 695 basis points plus (ii) the greater of (a) 4.54% or (b) the yield on Four-Year U.S. Treasury Notes on the date of such Loan, as reported in the Federal Reserve Statistical Release H-15 or in such other publication as Lender may reasonably select. Each Equipment Loan shall bear interest payable monthly in arrears on the first Business Day of each month, calculated on a 360 day year comprised of twelve (12) thirty day months at a per annum rate equal to the Loan Interest Rate specified in the related note, which rate shall be the sum of (i) 695 basis points plus (ii) the greater of (a) 4.53% or (b) the yield on Three-Year U.S. Treasury Notes on the date of such advance, as reported in the Federal Reserve Statistical Release H-15 or in such other publication as Lender may reasonably select. In no event shall interest accrue or be payable in connection with any Loan in an amount in excess of that permitted under applicable law. Payments due under any note and not made by their scheduled due date for a period in excess of five (5) days after their due date shall be overdue and shall be subject to a service charge in an amount equal to two percent (2%) of the delinquent amount, but not more than the maximum rate permitted by law, whichever is less. In addition and notwithstanding the forgoing, during the continuance of an Event of Default all

outstanding principal (and past due interest, if any) in respect of the Loans shall bear interest (payable on demand) at a rate that is two percent (2%) per annum in excess of the rate of interest applicable to such Loans from time to time.

3.2 Fees.

(a) Commitment Fee. Borrower agrees to pay to Lender a commitment fee (the "Commitment Fee") equal to .75% per annum on the total amount of the Revolving Commitment, payable on the date of the first Revolving Advance and annually in advance on the anniversary of the date hereof.

(b) Audit Fees. Borrower agrees to pay to Lender its reasonable expenses incurred in connection with a semi-annual audit of Borrower, payable in accordance with Section 9.5 below, until the Borrower Liabilities are paid in full, such auditor to be selected by Lender in its sole discretion.

(c) Fees Earned. All fees payable hereunder shall be earned when due and payable hereunder, and shall not be refundable in whole or in part.

3.3 Repayment. Borrower's Liabilities under this Loan Agreement are absolute and unconditional. Any and all costs, fees and expenses payable pursuant to this Loan Agreement or any of the Other Agreements shall be payable by Borrower to Lender or to such other person or persons designated by Lender, on demand (except as otherwise provided in this Loan Agreement). All payments to Lender shall be payable by 2:00 p.m. (prevailing Chicago time) at Lender's principal place of business specified at the beginning of this Loan Agreement or at such other place or places as Lender may designate in writing to Borrower. All payments to Persons other than Lender shall be payable at such place or places as Lender may designate in writing to Borrower.

3.4 Application of Payments. Provided that an "Event of Default" (hereinafter defined) does not exist, the application of payments received by Lender pursuant to this Loan Agreement shall be applied first to any and all late charges, fees and expenses then due and payable hereunder; second to interest then due and payable hereunder; third to the principal of the Term Loan then due and payable, fourth to the principal of the Equipment Loan then due and payable, and finally to the principal of the Revolving Advances then outstanding. During the continuance of an Event of Default, Lender shall have the continuing and exclusive right to apply any and all such payments received by Lender to any portion of Borrower's Liabilities, including to any of Borrower's Liabilities arising under any of the Other Agreements. Solely for the purpose of computing interest earned by Lender, payments received by Lender shall be applied as aforesaid on the Business Day of receipt by Lender. Checks or other items of payment received after 2:00 p.m. prevailing Chicago, Illinois time shall be deemed received the following Business Day.

3.5 Accuracy of Statements. Each statement of account by Lender delivered to Borrower relating to Borrower's Liabilities shall be rebuttably presumed correct and accurate and shall constitute an account stated between Borrower and Lender unless thereafter waived in writing by Lender, in Lender's discretion. Any objection to the statement that Borrower may have must be delivered to Lender, by registered or certified mail, within thirty (30) days after Borrower's receipt of said statement.

4. Term and Prepayment

4.1 Term. This Loan Agreement shall be in effect until the payment in full to Lender of all of Borrower's Liabilities (other than contingent obligations with respect to which no claims have been made) and termination of the Revolving Commitment and all other commitments of Lender to make Loans hereunder. Except as provided below, Borrower has no right to prepay Borrower's Liabilities under this Loan Agreement and the Other Agreements.

4.2 Mandatory Prepayment of Revolving Loan. In the event the aggregate outstanding principal amount of the Revolving Advances at any time exceeds the lesser of (A) the Revolving Commitment or (B) the Borrowing Base, Borrower shall promptly, but not later than two (2) Business Days (or fifteen (15) days, in the event such overadvance has resulted solely from an adjustment to Reserves or a change to standards of eligibility of Accounts imposed by Lender), prepay the Revolving Loan in an amount equal to such excess.

4.3 Voluntary Prepayment and Commitment Reduction. (a) Borrower may upon at least 2 Business Days' written notice to Lender, prepay without premium or penalty the outstanding principal amount of any or all of the Revolving Loan, in whole or in part at any time; provided, that each partial prepayment shall be an aggregate principal amount not less than $50,000. Upon the giving of such notice of prepayment, the principal amount of Revolving Loan specified to be prepaid shall become due and payable on the date specified for such prepayment.

(b) Borrower may, upon at least twenty (20) Business Days' written notice to Lender and without premium or penalty**,** terminate in whole or reduce in part the unused portion of the Revolving Commitment; provided, however, that (i) each partial reduction shall be in an aggregate amount of not less than $50,000 and (ii) Borrower shall not reduce the Revolving Commitments if, after giving effect to any concurrent prepayment of the Revolving Loan in accordance with Section 4.3(a), the aggregate unpaid principal amount of the Revolving Loan would exceed the lesser of the total Revolving Commitment and the Borrowing Base. A notice of termination or reduction given hereunder may be conditioned upon the closing by Borrower of any other transaction; provided, however, that Borrower shall pay Lender a fee of $500 in the event of the failure of Borrower to terminate or reduce the unused portion of the Revolving Commitment by the amount contained in such notice on the date specified therein; and provided, further, that only one such payment shall be due under Section 4.3 in the event of a concurrent failure to terminate or reduce the Revolving Commitment and prepay, in whole or part, the Term Loan or Equipment Loan, as specified in a notice from Borrower.

(c) Borrower may, upon at least twenty (20) Business Days' prior written notice to Lender (stating the proposed date of prepayment and the principal amount of the Term Loan or Equipment Loan to be prepaid), prepay the outstanding principal amount of the Term Loan or the Equipment Loan then outstanding in whole, or in part (but any such partial payment shall equal at least 25% of the aggregate principal amount outstanding of the Term Loan and the Equipment Loan), by paying to Lender, in immediately available funds, an amount equal to the sum of (i) the principal amount of the Term Loan or the Equipment Loan contained in the foregoing notice, (ii) all accrued and unpaid interest on the amounts of the Term Loan or the Equipment Loan to be repaid through the date of prepayment, and (iii) (A) in the event that such prepayment is made on or prior to the first anniversary of the date of this Loan Agreement, a prepayment premium equal to 2.5% of the principal amount being prepaid, or (B) in the event that such prepayments is made on or prior to the second anniversary of the date of this Loan Agreement, a prepayment premium equal to 1.5% of the principal amount being prepaid, or (C) in the event that such prepayments is made on or prior to the third anniversary of the date of this Loan Agreement, a prepayment premium equal to .75% of the principal amount being prepaid; provided, however, that no prepayment penalty shall be payable hereunder to the extent that (i) the Term Loan or the Equipment Loan is prepaid, in whole or in part, out of the proceeds of an initial public offering, or (ii) the Term Loan and the Equipment Loan are prepaid in whole in connection with any merger, sale or other business disposition. A notice of prepayment given hereunder may be conditioned upon the closing by Borrower of any other transaction; provided, however, that Borrower shall pay Lender a fee of $500 in the event of the failure of Borrower to pay the amount contained in such notice on the prepayment date specified therein; and provided, further, that only one such payment shall be due under Section 4.3 in the event of a concurrent failure to terminate or reduce the Revolving Commitment and prepay, in whole or part the Term Loan or Equipment Loan, as specified in a notice from Borrower.

5. Collateral and Security

5.1 Grant of Security Interest. To further secure to Lender the prompt full and faithful payment and performance of Borrower's Liabilities and the prompt, full and complete performance by Borrower of each of its covenants and duties under this Loan Agreement and the Other Agreements, Borrower grants to Lender, a valid, first priority continuing security interest in and lien upon (subject to Permitted Liens) all of Borrower's right, title and interest in and to all of the following, whether now owned or hereafter acquired and wherever located:

(i) All Receivables;

(ii) All Equipment;

(iii) All Fixtures;

(iv) All General Intangibles;

(v) All Inventory;

(vi) All Investment Property;

(vii) All Deposit Accounts;

(viii) All Cash;

(ix) All Documents;

(x) All Proceeds from the sale, transfer or other disposition of Intellectual Property;

(xi) All other Goods and tangible and intangible personal property of Borrower other than Intellectual Property, whether now or hereafter owned or existing, leased, consigned by or to, or acquired by, Borrower and wherever located, and

(xii) to the extent not otherwise included, all Proceeds of each of the foregoing and all accessions to, substitutions and replacements for, and rents, profits and products of each of the foregoing and all attachments, accessories, accessions, replacements, substitutions, additions or improvements to any of the foregoing, wherever located and all products and proceeds of the foregoing including without limitation proceeds of insurance policies insuring the foregoing and all books and records with respect thereto;

(all of the foregoing personal property is hereinafter sometimes individually and sometimes collectively referred to as "Collateral"). Notwithstanding anything herein contained or construed to the contrary, Borrower is not granting to Lender, and Lender is not receiving from Borrower any grant of, a security interest in , and the term "Collateral" shall not include (i) any of the outstanding capital stock or other equity interests of any directly owned Subsidiary of Borrower organized under the laws of any jurisdiction other than the United States, any State thereof or the District of Columbia in excess of 65% of the voting power of all classes of such capital stock or other equity interests of such Subsidiary entitled to vote, (ii) assets subject to liens permitted by clause (iv) of the definition of Permitted Liens, to the extent junior liens are prohibited by the terms of the financing of such assets, so long as such financing remains unpaid, (iii) contracts, licenses or permits to the extent that the assignment thereof is prohibited by the terms thereof or applicable law, unless the relevant provisions of Article 9 of the UCC render such prohibition ineffective to the extent it would otherwise impair the creation, attachment or perfection of a security interest, or (iv) any of Borrower's now owned or hereafter acquired Intellectual Property (other than a security interest in the Proceeds from the sale, transfer or other disposition of Intellectual Property); provided, however, that software, firmware and operating systems that cannot be removed from the Collateral without rendering the Collateral inoperable shall be deemed to be part of the "Collateral" unless such construction is prohibited by or inconsistent with any relevant license or other agreement respecting such software, firmware or operating system. Borrower shall make appropriate entries upon its financial statements and its books and records disclosing Lender's security interest in the Collateral.

Borrower hereby further agrees that, except as previously disclosed, Borrower shall not hereafter grant a security interest in or pledge of its Intellectual Property to any other party; provided, however, that Borrower may continue to enter into non-exclusive licenses and similar arrangements with respect to such Intellectual Property in the ordinary course of Borrower's business as long as (i) Borrower does not encumber for the benefit of a third party other than Lender and the holders of Permitted Liens any Proceeds or licensing or other fees payable to Borrower under any such license or arrangement, and (ii) no such license or arrangement shall prohibit or restrict Borrower from disposing of any Intellectual Property that is the subject of any such license or arrangement.

Lender agrees to release its security interest in any item of Collateral upon the sale of such item of Collateral if sold, transferred or disposed of in a transaction permitted by Section 7.2(a) hereof. Upon at least two (2) Business Days' prior written request by the Borrower, the Lender shall execute such documents as may be necessary to evidence the release of its security interest in such item of Collateral, provided that such release shall not in any manner discharge, affect or impair the Borrower's Liabilities or any security interest of the Lender in any other Collateral, including without limitation the proceeds of the item of Collateral subject to such sale, transfer or other disposition.

5.2 Further Assurances. Borrower shall execute and/or deliver to Lender, at any time and from time to time hereafter at the request of Lender, all agreements, instruments, UCC financing statements (or other required perfection instruments), documents and other written matter (hereinafter individually and/or collectively, referred to as "Additional Documentation") that Lender reasonably may request, in a form and substance reasonably acceptable to Lender, to perfect and maintain Lender's perfected security interest in the Collateral and to consummate the transactions contemplated in or by this Loan Agreement, the Warrants and the Other Agreements. Borrower, irrevocably, (a) hereby makes, constitutes and appoints Lender (and all Persons designated by Lender for that purpose) as Borrower's true and lawful attorney (and agent-in-fact) to sign the name of Borrower on the Additional Documentation and to deliver the Additional Documentation to such Persons as Lender, in its sole and absolute discretion, may elect, (b) authorizes completion and filing of any such Additional Documentation by Lender or its agents, whether paper or electronic, (c) hereby ratifies and confirms the completion and filing of Additional Documentation by Lender or its agent, paper or electronic, occurring prior to the date hereof, and (d) declares that

Borrower has the present intention to authenticate and process any such Additional Documentation, whether paper or electronic, and whether or not completed and filed by Lender or its agents before or after the date hereof.

5.3 Inspection of Collateral. Lender (by any of its officers, employees and/or agents) shall have the right, at any time or times during Borrower's usual business hours and upon reasonable notice, to inspect the Collateral and all related records (and the premises upon which it is located) and to verify the amount and condition of or any other and all financial records and matters whether or not relating to the Collateral. During the continuance of an Event of Default, all costs, fees and expenses incurred by Lender, or for which Lender has become obligated, in connection with such inspection and/or verification shall be payable by Borrower to Lender. Borrower agrees to use its best efforts to cause its employees and agents to cooperate with Lender in all inspections.

5.4 Proceeds of Collateral. (a) Borrower shall establish and maintain, at its expense, lockboxes and related blocked accounts with such banks as are reasonably acceptable to Lender in good faith (such account or accounts being referred to herein, collectively, as the "Blocked Accounts"). Borrower shall promptly deposit and direct its account debtors to directly remit all payments on Accounts in the identical form in which such payments are made, whether by cash, check or other manner, to the Blocked Accounts. Borrower shall deliver, or cause to be delivered to Lender an account control agreement in form and substance reasonably satisfactory to Lender and duly authorized, executed and delivered by Borrower and each bank where a Blocked Account is maintained.

(b) All proceeds arising from the disposition of any Collateral by Borrower shall be delivered to Lender within one Business Day after receipt by Borrower, in their original form, duly endorsed to Lender, to be applied to Borrower's Liabilities pursuant to Section 3.4 hereof. Borrower agrees that it will not commingle proceeds of Collateral with any of Borrower's other funds or property, but will hold such proceeds separate and apart from such other funds and property and in an express trust for Lender. Nothing in this Section limits the restrictions on disposition of Collateral set forth elsewhere in this Loan Agreement.

5.5 Third Party Claims. Lender, in its sole and absolute discretion, without waiving or releasing any obligation, liability or duty of Borrower under this Loan Agreement or the Other Agreements or any Event of Default, may (but shall be under no obligation) at any time or times hereafter, to pay, acquire and/or accept an assignment of any security interest, lien, encumbrance or claim asserted by any Person against the Collateral other than Permitted Liens. All sums paid by Lender in respect thereof and all costs, fees and expenses, including reasonable attorneys' fees, court costs, expenses and other charges relating thereto incurred by Lender on account thereof shall be payable by Borrower to Lender.

5.6 Insurance. Borrower shall at all times throughout the term of this Agreement and any extension hereof procure and maintain at its own expense the following minimum insurance coverages which shall be provided by insurance carriers with an AM Best rating of A, Class C or as otherwise acceptable to Lender and with such deductibles and exclusions as approved by Lender in the exercise of its Permitted Discretion: (1) All risk property damage insurance covering the Collateral which shall include but not be limited to fire and extended coverage and where applicable mechanical breakdown and electrical malfunction, and which shall be written in amount not less than the greater of (x) the outstanding Loan balance or (y) the current replacement cost; and (2) Commercial general liability insurance which may include excess liability insurance written on occurrence basis with a limit of not less than $1,000,000; and, (3) Workers' compensation insurance in accordance with statutory limits and employers' liability coverage which may include excess liability in an amount not less than $500,000.

Any insurance carried and maintained in accordance with this Agreement by Borrower shall be endorsed to provide that: (i) Lender shall be loss payee with respect to the property insurance described in subsection (1) of the prior paragraph, and Lender shall be an additional insured with respect to the liability insurance described in subsection (2) of the prior paragraph; and (ii) The insurers thereunder waive all rights of subrogation against Lender, any right of setoff and counterclaim and any other right to deduction due to outstanding premiums, whether by attachment or otherwise; and (iii) Such insurance shall be primary without right of contribution of any other insurance carried by or on behalf of Lender; and (iv) If such insurance is canceled for any reason whatsoever, including nonpayment of premium, or any substantial change is made in the coverage that affects the interests of Lender, such cancellation or change shall not be effective as to Lender until thirty (30) days after receipt by Lender of written notice sent by registered mail from such insurer of such cancellation or change; providing, however, that such thirty (30) day period shall be reduced to ten (10) days in the case where cancellation results from the nonpayment of premiums. Borrower, irrevocably, appoints Lender as Borrower's true and lawful attorney (and agent-in-fact) for the purpose of making, settling and adjusting claims under such policies, endorsing the name of Borrower on any check, draft, instrument or other item of payment for the proceeds of such policies and for making

all determinations and decisions with respect to such policies, and such appointment will be immediately effective upon the occurrence and during the continuance of an Event of Default hereunder.

On or before the initial funding by Lender hereunder, and at each policy anniversary date, Borrower shall arrange to furnish Lender with appropriate Certificates of Insurance. Such Certificates of Insurance shall be executed by each insurer or by an authorized representative of each insurer, and shall identify insurers, the type of insurance, the insurance limits and the policy term and shall specifically list the special endorsements (i) through (v) above.

In case of the failure to procure or maintain such insurance, Lender shall have the right, but not the obligation, to obtain such insurance and any premium paid by Lender shall be immediately due and payable by Borrower to Lender. The maintenance of any policy or policies of insurance pursuant to this Section shall not limit any obligation or liability of Borrower pursuant to any other Sections or provisions of this Loan Agreement.

5.7 Charges on Collateral. Borrower shall not permit any material Charges to arise, or to remain, and Borrower shall pay promptly when due, and discharge, such Charges. In the event Borrower, at any time or times hereafter, shall fail to pay such Charges when due or to obtain such discharges, Borrower shall so advise Lender thereof in writing. Lender may, without waiving or releasing any obligation or liability of Borrower hereunder or Event of Default, in its sole and absolute discretion, at any time or times thereafter, make such payment, or any part thereof, or obtain such discharge and take any other action with respect thereto which Lender deems advisable. All sums so paid by Lender and any expenses, including reasonable attorneys' fees, court costs, expenses and other charges relating thereto, shall be payable by Borrower to Lender upon demand.

5.8 UCC Filing Authorization. Borrower hereby authorizes Lender and its counsel and other representatives to file, at any time on or after the date hereof, Uniform Commercial Code financing statements and continuation statements, and amendments to financing statements, in any jurisdictions and with any filing offices as Lender may determine, in its Permitted Discretion, are necessary or advisable to perfect the security interests granted to Lender hereunder and under the Other Agreements. Such financing statements may describe the Collateral in the same manner as described herein or therein or may contain an indication or description of Collateral that describes such property in any other manner as Lender may determine is necessary or advisable to ensure the perfection of the security interest in the Collateral.

5.9 Accounts. So long as no Event of Default has occurred and is continuing, subject to Section 7.4 hereof, Borrower may settle, adjust or compromise any claim, offset, counterclaim or dispute with any Account Debtor. At any time that an Event of Default has occurred and is continuing, Lender may, at its option, notify Borrower that Lender intends to have the exclusive right to settle, adjust or compromise any claim, offset, counterclaim or dispute with Account Debtors or grant any credits, discounts or allowances and on and after such notice from Lender to Borrower, Lender shall have such exclusive right.

6. Warranties and Representations

6.1 Borrower Representations. Borrower warrants and represents to Lender as of the date hereof and as of the date of any Loan made hereunder, and agrees and covenants to Lender that:

(a) Borrower is and at all times hereafter shall be (i) a Person having that legal name and organizational structure as set forth above (or as set forth in any notice delivered by Borrower to Lender pursuant to Section 7.2(i) hereof), duly organized and existing and in good standing under the laws of the state of its organization as set forth above (or as set forth in any notice delivered by Borrower to Lender pursuant to Section 7.2(i) hereof) and (ii) qualified or licensed to do business in all other states in which the laws require Borrower to be so qualified and/or licensed, except where failure to be so qualified and/or licensed has not had and could not reasonably be expected to have a Material Adverse Effect.

(b) Borrower is duly authorized and empowered to enter into, execute, deliver and perform this Loan Agreement, the Warrants and the Other Agreements and the execution, delivery and/or performance by Borrower of this Loan Agreement, the Warrants and the Other Agreements, and the use by Borrower of the proceeds of the Loans hereunder, shall not, by the lapse of time, the giving of notice or otherwise, conflict with or constitute a violation of any applicable law (including, without limitation, Regulation U or Regulation X of the Board of Governors of the Federal Reserve System or any other regulation thereof) or a breach of any provision contained in Borrower's organizational documents or contained in any agreement, instrument or document to which Borrower is now or hereafter a party or by which it is or may become bound or give rise to or result in any default thereunder.

(c) This Loan Agreement and the Warrants are (and when executed and delivered, each Other Agreement will be) the legally valid and binding obligation of Borrower, enforceable against Borrower in accordance with its respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles (whether enforcement is sought in equity or at law).

(d) Except as disclosed to Lender in writing prior to the date hereof, there are no actions or proceedings which are pending, or to its knowledge threatened, against Borrower, other than actions or proceedings which have not had and could not reasonably be expected to have a Material Adverse Effect. Borrower is not in breach of or a party to any contract or agreement or subject to any charge, restriction, judgment, decree or order which has had or could reasonably be expected to have a Material Adverse Effect, nor is Borrower in default in any material respect under any indenture, security agreement, mortgage, deed or other similar agreement relating to the borrowing of monies to which it is a party or by which it is bound.

(e) Borrower has and is in good standing with respect to all licenses, patents, copyrights, trademarks, trade names governmental permits, certificates, consents and franchises necessary to continue to conduct its business as previously conducted by it and to own or lease and operate its properties as now owned or leased by it (except where the failure to have the same or to maintain the same in good standing has not had and could not reasonably be expected to have a Material Adverse Effect);

(f) The financial statements delivered by Borrower to Lender prior to the date hereof and the Financials delivered by Borrower to Lender pursuant to Section 7.3 hereof fairly and accurately present in all material respects the assets, liabilities and financial conditions and results of operations of Borrower as of the dates and for the periods stated therein and have been prepared in accordance with generally accepted accounting principles, consistently applied (except, in the case of interim financial statements, for normal year-end adjustments and the absence of footnote disclosures), and no event, condition or change that has had, or could reasonably be expected to have, a Material Adverse Effect has occurred since the date of this Loan Agreement;

(g) As to the Accounts and other Collateral, (i) Borrower has and at all times hereafter shall have good, indefeasible and merchantable title to and ownership of the Collateral and the Accounts described and/or listed on any certificate or schedule relating to the Accounts delivered to Lender, free and clear of all liens, claims, security interests and encumbrances except Permitted Liens; (ii) the Collateral shall be kept and/or maintained solely at the addresses identified in writing to Lender; (iii) Borrower, immediately on demand by Lender, shall deliver to Lender any and all evidence of ownership of, including without limitation, vendor invoices and proofs of payment thereof, certificates of title to and applications for title to, any Collateral; (iv) Borrower shall keep and maintain the Collateral in good operating condition and repair (ordinary wear and tear excepted) and shall make all necessary replacements thereof and renewals thereto so that the value and operating efficiency thereof shall at all times be maintained and preserved in all material respects; and (v) Borrower shall not permit any such material items to become a fixture to real estate or accession to other personal property without notifying Lender promptly thereof.

(h) As to Lender's security interest, (i) Lender's security interest in the Collateral is now and at all times hereafter shall be perfected and have a first priority (subject to Permitted Liens); (ii) the offices and/or locations where Borrower keeps the Collateral and Borrower's books and records concerning the Collateral are at the locations identified to Lender in writing and Borrower shall not remove such books and records and/or the Collateral therefrom to any other location unless Borrower gives Lender written notice thereof at least thirty (30) days prior thereto and the same is within the contiguous forty-eight (48) states of the United States of America; and (iii) the addresses identified to Lender in writing as Borrower's chief executive office and principal place(s) of business are Borrower's sole offices and place(s) of business, and Borrower, by written notice delivered to Lender at least thirty (30) days prior thereto, shall advise Lender of any change thereto.

(i) Borrower is not an "investment company" or a company "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940.

(j) All material income and other tax returns and reports required to be filed by Borrower have been timely filed, and all taxes shown on such tax returns to be due and payable and all other material assessments, fees and governmental charges upon Borrower and its properties, assets, income, businesses and franchises have been paid when due and payable (other than those being contested in good faith by appropriate proceedings and for which Borrower maintains adequate reserves).

(k) As of the date hereof and of each Loan (i) the sum of Borrower's debt (including contingent liabilities) does not exceed the present fair saleable value of Borrower's then current assets; (ii) Borrower's capital is not unreasonably small in relation to its business as it exists and as is contemplated at such time; and (iii) Borrower has not incurred and does not intend to incur, or believe that it will incur, debts beyond its ability to pay such debts as they become due.

(l) No information furnished in writing to Lender by or on behalf of Borrower for use in connection with the transactions contemplated hereby (when taken as a whole) contains or will contain any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which the same were made. Any projections contained in such materials are based upon good faith estimates and assumptions believed by Borrower to be reasonable at the time made. Except as disclosed to Lender in writing prior to the date hereof, there are no facts known to Borrower that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

(m) Borrower has provided to Lender on or prior to the date hereof a schedule that correctly identifies the ownership interest (including all options, warrants and other rights to acquire capital stock) of Borrower and each of its Subsidiaries as of the date hereof.

(n) (i) Borrower (A) has been and is in compliance in all material respects with all applicable Environmental Laws; (B) has not, as of the date of this Loan Agreement, received any communication, whether from a governmental authority or otherwise, alleging that Borrower is not in such compliance, and there are no past or present actions, activities, circumstances conditions, events or incidents that may prevent or interfere with such compliance in the future; (ii) there is no material Environmental Claim pending or, to the best knowledge of Borrower, threatened against Borrower or against any Person whose liability for such Environmental Claim Borrower has or may have retained or assumed either contractually or by operation of law; and (iii) there are no past or present actions, activities, circumstances, conditions, events or incidents, including, without limitation, the release, threatened release or presence of any Hazardous Material, which could reasonably be expected to form the basis of any material Environmental Claim against Borrower or, to the best knowledge of Borrower, against any Person whose liability for such Environmental Claim Borrower has or may have retained or assumed either contractually or by operation of law.

(o) (i) Borrower is an "operating company" within the meaning of the regulations of the United States Department of Labor included within 29 CFR Section 2510.3-101 (the "DOL Regulations") or is in compliance with such other exception as may be available under such regulations to prevent the assets of Borrower from being treated as the assets of any employee benefit plan for purposes of the DOL Regulations and (ii) neither Borrower nor any Subsidiary of Borrower maintains or is obligated to make contributions to any employee benefit plan that is subject to Title IV of the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor statute ("ERISA").

7. Affirmative and Negative Covenants

7.1 Affirmative Covenants. Borrower covenants with Lender that Borrower shall, and shall cause each of its Subsidiaries to: (a) preserve and keep in full force and effect its existence and all rights and franchises, licenses and permits material to its business, (b) pay all material income and other taxes and assessments imposed upon it or any of its properties or assets or in respect of any of its income, businesses or franchises before any penalty or fine accrues thereon (except those being contested in good faith by appropriate proceedings and for which Borrower maintains adequate reserves), (c) comply with the requirements of all applicable laws, rules, regulations and orders of any governmental authority, except where failure to comply could not reasonably be expected to have a Material Adverse Effect, (d) keep adequate books of record and account, in which complete entries shall be made of all financial transactions and the assets and of its business, and (e) promptly take any and all necessary Cleanup action on, under or affecting any property owned, leased or operated by Borrower in accordance with all laws and the policies, orders and directives of all federal, state and local governmental authorities, and conduct and complete such Cleanup action in material compliance with all applicable Environmental Laws.

7.2 Negative Covenants. Borrower covenants with Lender that Borrower shall not, and shall not permit any of its Subsidiaries to: (a) grant a security interest in, assign, sell or transfer any of the Collateral or any of its Intellectual Property to any person or permit, grant, or suffer or permit a lien, claim or encumbrance upon any of the Collateral or Intellectual Property, except for (i) Permitted Liens, (ii) the sale of Inventory and obsolete or unneeded Equipment in the ordinary course of business, (iii) the granting of non-exclusive licenses of software or Intellectual

Property in the ordinary course of business, and (iv) upon Lender's prior written consent; (b) permit or suffer any material Charges to attach to or affect any of the Collateral; (c) permit or suffer any receiver, trustee or assignee for the benefit of creditors to be appointed to take possession of any of the Collateral; (d) merge or consolidate with or acquire any Person except (i) in the case of a merger or consolidation, in a transaction in which Borrower is the surviving Person or, if Borrower is not the surviving Person, if such transaction does not result in a Change of Control, or (ii) in the case of any other acquisition, if such transaction does not result in a Change of Control; (e) incur of permit or suffer to exist any indebtedness for borrowed money or for the deferred purchase price for property or services (other than Permitted Debt), (f) voluntarily prepay any such indebtedness prior to its scheduled maturity that is subordinated in right of payment to the Borrower's Liabilities; (g) make or pay (i) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock of Borrower (other than in-kind · stock dividends) or (ii) any redemption, retirement or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of stock of Borrower or any outstanding warrants, options or other rights to acquire such shares; (h) enter into any transaction with any Affiliate or third party other than on an arms' length basis (except for the payment of employee compensation in the ordinary course of business and the payment or reimbursement of reasonable and customary directors' fees and expenses); (i) make any change in its business objectives, purposes or operations, which has, or could reasonably be expected to have, a Material Adverse Effect; U) without thirty (30) days' prior written notice to Lender, make any change in its legal name or state of formation or organization; (j) adopt or otherwise become obligated to contribute to any employee benefit plan that is subject to Title IV of ERISA; or (k) take any action or fail to take an action if, as a result of such action or inaction, Borrower would fail to qualify as an "operating company" within the meaning of the DOL Regulations or otherwise comply with such other exception as may be available under such regulations to prevent the assets of Borrower from being treated as the assets of any employee benefit plan for purposes of the DOL Regulations.

7.3 Covenants regarding Financial Statements. Borrower shall cause to be furnished to Lender, (i) the unqualified, audited fiscal year-end financial statements of Borrower (which shall not contain any "going concern" exception or any exception relating to scope of review) no later than 150 days after the related fiscal year end, (ii) no later than 30 days after the related month end, the internally prepared monthly financial statements of Borrower, certified by Borrower's chief financial officer, each containing consolidated and consolidating profit and loss statements for the month then ended and for Borrower's fiscal year to date, consolidated and consolidating balance sheets as at the last day of such month and a consolidated statement of cash flows for the month then ended and for Borrower's fiscal year to date, (iii) a monthly Compliance and Disclosure Certificate, substantially in the form of Exhibit A attached hereto and made a part hereof, (iv) promptly upon Borrower's Board of Directors approval thereof, copies of Borrower's annual operating plan and any revisions thereto and (v) such other financial and business information of Borrower as Lender may reasonably require, including such other financial and operating performance data as is provided to its outside investors or commercial lenders and, if applicable, required to be provided to shareholders by the Securities and Exchange Commission. Each financial statement to be furnished to Lender must be prepared in accordance with generally accepted accounting principles, consistently applied (except, in the case of interim financial statements, for normal year-end adjustments and the absence of footnote disclosures). Borrower also agrees to promptly provide to Lender notice of, and such other data and information (financial and otherwise) at any time and from time to time reasonably requested by Lender relating to, any legal actions or proceedings pending, or to its knowledge, threatened against Borrower which, if adversely determined, could reasonably be expected to have a Material Adverse Effect or the occurrence of any event or change that has had, or could reasonably be expected to have, a Material Adverse Effect. Financial statements may be delivered via electronic mail to Lender.

7.4 Covenants relating to Accounts. (a) As soon as available but in any event within twenty (20) days of the end of each calendar month, Borrower shall deliver to Lender (i) a Borrowing Base Certificate and supporting information in connection therewith, together with any additional reports with respect to the Borrowing Base as Lender may reasonably request, (ii) a detailed aging of Borrower's Accounts (A) including all invoices aged by invoice date and due date (with an explanation of the terms offered) and (B) reconciled to the Borrowing Base Certificate delivered as of such date prepared in a manner reasonably acceptable to Lender, together with a summary specifying the name, address, and balance due for each Account Debtor; (iii) a worksheet of calculations prepared by Borrower to determine Eligible Accounts detailing the Accounts excluded from Eligible Accounts and the reason for such exclusion; and (iv) a reconciliation of Borrower's Accounts between the amounts shown in Borrower's general ledger and financial statements and the reports delivered pursuant to clauses (i) and (ii) above.

(b) Borrower may not grant any material credit, discount, allowance or extension, or enter into any agreement for any of the foregoing, except for credits, discounts, allowances or extensions made or given in the ordinary course of Borrower's business in accordance with Borrower's historic credit and collection practices and policies without the prior consent of Lender.

(c) Lender shall have the right at any time or times, in Lender's name or in the name of a nominee of Lender, to verify the validity, amount or any other matter relating to any Accounts, by mail, telephone, facsimile transmission or otherwise.

7.5 Indemnification and Liability. Borrower hereby agrees to indemnify Lender and hold Lender harmless from and against any and all claims, debts, liabilities, demands, obligations, actions, causes of action, penalties, and reasonable costs and expenses (including reasonable attorneys' fees), of every nature, character and description, which Lender may sustain or incur based upon or arising out of the Collateral, any of Borrower's Liabilities, this Loan Agreement, the Warrants or the Other Agreements, or any relationship between Lender and Borrower created hereby or thereby (except any such claims, debts, liabilities, demands, obligations, actions, causes of action, penalties, costs or expenses sustained or incurred by Lender as the result of the gross negligence or willful misconduct of Lender). Should any third-party suit or proceeding be instituted by or against Lender with respect to any Collateral or relating to Borrower's Liabilities, Borrower shall, without expense to Lender, make available Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Lender may deem them reasonably necessary in order to prosecute or defend any such suit or proceeding. Borrower's obligation hereunder shall survive termination of this Agreement.

8. Default

8.1 Events of Default. The occurrence of any one of the following events shall constitute a default ("Event of Default") by Borrower under this Agreement: (a) if Borrower fails to pay any principal of any Loans when due and payable or fails to pay any other Borrower's Liabilities within five (5) days after the same are due and payable; (b) if any representation, warranty, financial statement, statement, report or certificate made, deemed made or delivered by Borrower, or any of its officers, employees or agents, to Lender under this Loan Agreement, the Warrants or any of the Other Agreements is not true and correct in all material respects when made, deemed made or delivered; (c) if Borrower fails or neglects to perform, keep or observe any term, provision, condition or covenant contained in this Agreement, the Warrants or in the Other Agreements, which is required to be performed, kept or observed by Borrower, other than the payment of Borrower's Liabilities, and, in the case of (i) any covenant contained in Section 5.6,5.7,6.1,7.1,7.3 or 7.4 hereof, the same is not cured within fifteen (15) days, or (ii) the covenant contained in Section 7.2(i) hereof, the same is not cured within sixty (60) days; (d) if any of the Collateral or any of Borrower's other material assets are attached, seized, subjected to a writ or distress warrant, or are levied upon, or come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors; (e) if any event, condition or change shall occur that has had a Material Adverse Effect, and such Material Adverse Effect is not remediated within sixty (60) days; (f) if a petition under any section or chapter of the Bankruptcy Code or any similar law or regulation shall be filed by or against Borrower (unless, if filed against Borrower, the same shall be dismissed within forty-five (45) days) or if Borrower shall make an assignment for the benefit of its creditors or if any case or proceeding is filed by Borrower for its dissolution or liquidation; (g) if Borrower is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business affairs for a period of more than fifteen (15) days; (h) if an application is made by Borrower or any Person for the appointment of a receiver, trustee or custodian for the Collateral or any of Borrower's other material assets (unless, if made by any Person other than Borrower, the same shall be dismissed within forty-five (45) days); (i) if a notice of lien (other than a Permitted Lien) or Charges are filed of record with respect to any of the Collateral by any Person; G) if any Change of Control shall occur; (k) if any money judgment, writ or warrant of attachment or similar process (if not adequately covered by insurance as to which a solvent and unaffiliated insurance company has acknowledged coverage) involving an amount of $250,000 or more shall be entered or filed against Borrower or any of its Subsidiaries or any of their respective assets and the same is not released, discharged, bonded against or stayed pending appeal within forty-five (45) days after it first arises; (I) this Loan Agreement or any Other Agreement shall for any reason fail or cease to be valid and binding on, or enforceable in any material respect against, Borrower or any other party thereto (other than Lender) or Borrower shall so assert; (m) this Loan · Agreement or any Other Agreement shall for any reason cease to be in full force and effect or cease to create a valid and enforceable lien and security interest on any Collateral purported to be covered thereby or any such lien and security interest on any material portion of the Collateral shall fail or cease to be a perfected and first priority lien and security interest (subject to Permitted Liens); or (n) if Borrower is in default (i) in the payment of any indebtedness to Lender under

any other agreement beyond any period of grace applicable thereto, or (ii) in the payment of any debt for borrowed money or for the deferred purchase price of property or services to any Person other than Lender in either case in excess of $250,000 or any other event shall occur or condition shall exist under any agreement or instrument relating to any such debt and such default, condition or event gives the holders of such debt (or any agent or trustee on their behalf) the then current right to accelerate such indebtedness. Borrower shall provide written notice of any events or circumstances which would give rise to a Default under this Section 8.1 promptly (but in no event more than one (1) Business Day) after becoming aware of such events or circumstances. Failure of Borrower to give such notice promptly shall constitute an Event of Default hereunder.

8.2 Lender's Rights and Remedies. Upon an Event of Default under Section 8.1(e), without notice by Lender to, or demand by Lender of, Borrower, all of Borrower's Liabilities shall be automatically accelerated and shall be due and payable forthwith and the Revolving Commitment and any other commitments to provide any financing hereunder shall be automatically terminated, and upon and during the continuance of any other Event of Default, without notice by Lender to, or demand by Lender of, Borrower, Lender may accelerate all of Borrower's Liabilities and same shall be due and payable forthwith and/or Lender may terminate the Revolving Commitments and any other commitments to provide any financing hereunder. At any time that an Event of Default has occurred and is continuing, Lender may, in its sole and absolute discretion: (a) exercise any one or more of the rights and remedies accruing to a Lender under the Uniform Commercial Code or other applicable law of the relevant state or states or other applicable jurisdiction, and in equity, and under this Loan Agreement and the Other Agreements; (b) enter, with or without process of law and without breach of the peace, any premises where the Collateral or the books and records of Borrower related thereto is or may be located, and without charge or liability to Lender therefor seize and remove the Collateral (and copies of Borrower's books and records relating to the Collateral) from said premises and/or remain upon said premises and use the same (together with said books and records) for the purpose of collecting, preparing and disposing of the Collateral; (c) sell, lease, license or otherwise dispose of the Collateral or any part thereof by one or more contracts at one or more public or private sales for cash or credit, provided, however, that Borrower shall be credited with the net proceeds of such sale(s) only when such proceeds are actually received by Lender; and (d) require Borrower to assemble the Collateral and make it available to Lender at a place or places to be designated by Lender which is reasonably convenient to Lender and Borrower.

In addition, at any time an Event of Default has occurred and is continuing, Lender may, in its discretion, enforce the rights of Borrower against any Account Debtor, secondary obligor or other obligor in respect of any of the Accounts. Without limiting the generality of the foregoing, at any time or times that an Event of Default has occurred and is continuing, Lender may, in its discretion, at such time or times (1) notify any or all Account Debtors, secondary obligors or other obligors in respect thereof that the Accounts have been assigned to Lender and that Lender has a security interest therein and Lender may direct any or all accounts debtors, secondary obligors and other obligors to make payment of Accounts directly to Lender, (2) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any secondary obligors or other obligors in respect thereof without affecting any of Borrower's Liabilities, (3) demand, collect or enforce payment of any Accounts or such other obligations, but without any duty to do so, and Lender shall not be liable for any failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto and (4) take whatever other action Lender may deem necessary or desirable for the protection of its interests. At any time that an Event of Default has occurred and is continuing, at Lender's request, all invoices and statements sent to any account debtor shall state that the Accounts and such other obligations have been assigned to Lender and are payable directly and only to Lender and Borrower shall deliver to Lender such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Lender may require.

All of Lender's rights and remedies under this Loan Agreement and the Other Agreements are cumulative and non-exclusive. Exercise or partial exercise by Lender of one or more of its rights or remedies shall not be deemed an election, nor bar Lender from subsequent exercise or partial exercise of any other rights or remedies. Lender agrees to give notice of any sale to Borrower at least ten (10) days prior to any public sale or at least ten (10) days before the time after which any private sale may be held. Borrower agrees that Lender may purchase any such Collateral (including by way of credit bid), and may postpone or adjourn any such sale from time to time by an announcement at the time and place of sale or by announcement at the time and place of such postponed or adjourned sale, without being required to give a new notice of sale. Borrower agrees that Lender has no obligation to preserve rights against prior parties to the Collateral.

8.3 Power of Attorney. Upon the occurrence and during the continuance of any Event of Default, without limiting Lender's other rights and remedies, Borrower grants to Lender an irrevocable power of attorney coupled with an interest (in addition to such other powers of attorney granted to Lender elsewhere in this Loan Agreement), authorizing and permitting Lender at any time, at its option, but without obligation, with or without notice to Borrower, and at Borrower's expense, execute on behalf of Borrower any Additional Documentation, or such other instruments or documents as may be reasonably necessary in order to exercise a right of Borrower or Lender, including but not limited to the execution of any proof of claim in bankruptcy, any notice of lien, claim of mechanic's or other lien, or assignment or satisfaction of mechanic's or other lien, or to take control in any manner of any cash or non-cash proceeds of Collateral and take any action or pay any sum required of Borrower pursuant to this Loan Agreement and any Other Agreement. In no event shall Lender's rights under the foregoing power of attorney or any of Lender's other rights under this Loan Agreement be deemed to indicate that Lender is in control of the business, management or properties of Borrower.

9. General Provisions

9.1 Notices. All notices, demands or other communications required or permitted to be given or delivered under or by reason of the provisions hereof shall be in writing and shall be deemed to have been given (i) when delivered personally to the recipient, (ii) when sent via facsimile transmission, (iii) the next Business Day after having been sent to the recipient by reputable overnight courier service (charges prepaid) or (iv) four Business Days after having been mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications shall be sent to the parties hereunder at their respective addresses and transmission numbers indicated on the signature page hereof, or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

9.2 Severability. Should any provision of this Loan Agreement be held by any court of competent jurisdiction to be void or unenforceable, such defect shall not affect the remainder of this Loan Agreement, which shall continue in full force and effect.

9.3 Integration; Modification. This Loan Agreement, the Warrants, the Other Agreements and such other written agreements, documents and instruments as may be executed in connection herewith or pursuant hereto, including without limitation the Stockholders Agreements and joinders thereto (collectively, the "Transaction Documents") are the final, entire and complete agreement between Borrower and Lender regarding the subject matter hereof and supersede all prior and contemporaneous negotiations and oral representations and agreements regarding such subject matter, all of which are merged and integrated in the Transaction Documents. There are no oral understandings, representations or agreements between the parties regarding such subject matter which are not set forth in the Transaction Documents. If any provision contained in this Loan Agreement is in conflict with, or inconsistent with, any provision in the Other Agreements, the provision contained in this Loan Agreement shall govern and control, it being the intent of the parties, however, that the terms of each of the Loan Agreement and the Other Agreements shall be remain in full force and effect. This Loan Agreement, the Warrants and the Other Agreements may not be modified, altered or amended except by an agreement in writing signed by Borrower and Lender.

9.4 Time of Essence. Time is of the essence in the performance by Borrower of each and every obligation under this Agreement.

9.5 Attorneys Fees and Other Costs. Borrower shall reimburse Lender for all reasonable out-of-pocket costs and expenses, including but not limited to reasonable attorneys' fees and all filing, recording, search, title insurance, appraisal, audit, and other reasonable costs incurred by Lender in connection with any amendment or waiver to this Loan Agreement or any Other Agreement; seeking to enforce any of its rights hereunder against Borrower or the Collateral, including in bankruptcy; enforcing Lender's security interest in the Collateral, and representing Lender in all such matters. Borrower shall also pay Lender's standard charges for returned checks in effect from time to time. Lender acknowledges that Borrower has heretofore paid to Lender a due diligence fee in the amount of $25,000 to cover all costs and expenses incurred by Lender in connection with the preparation and negotiation of, and the consummation of the transactions contemplated by, this Loan Agreement, and Borrower has no obligation to reimburse Lender therefor to the extent such costs and expenses exceed the amount of such fee. Borrower's obligation hereunder shall survive termination of this Agreement.

9.6 Benefit of Agreement; Assignment. The provisions of this Loan Agreement shall be binding upon and inure to the benefit of the respective successors, assigns, heirs, beneficiaries and representatives of Borrower and

Lender; provided, however, that Borrower may not assign or transfer any of its rights under this Loan Agreement without the prior written consent of Lender and Lender may not, unless an Event of Default has occurred and is continuing, assign or transfer any of its rights under this Loan Agreement to any Person other than an Eligible Assignee without the prior written consent of Borrower (which consent may not be unreasonably withheld), and any prohibited assignment shall be void. Notwithstanding anything herein to the contrary, Borrower hereby consents to Lender's sale, assignment, transfer or other disposition of this Loan Agreement, the Warrants or the Other Agreements, or of any portion thereof, including without limitation Lender's rights, titles, interests, remedies, powers and/or duties to any Eligible Assignee at any time and from time to time hereafter and to any Person upon the occurrence and during the continuance of an Event of Default (provided that, in the case of the Warrant or any of Lender's rights, titles, interests, remedies, powers and/or duties thereunder, Lender complies with any additional transfer restrictions contained in the Warrant or the Stockholder Agreements). Borrower shall establish and maintain a record of ownership (the "Register") in which it agrees to register by book entry Lender's and each initial and subsequent assignee's interest in each Loan, and in the right to receive any payments hereunder and any assignment of any such interest. Notwithstanding anything to the contrary contained in this Loan Agreement, the Loans (including the notes in respect of such Loans) are registered obligations and the right, title, and interest of Lender and its assignees in and to such Loans shall be transferable only upon notation of such transfer in the Register. In no event is any note to be considered a bearer instrument or bearer obligation. This Section shall be construed so that the Loans are at all times maintained in "registered form" within the meaning of Sections 163(f), 871(h)(2) and 881(c)(2) of the Internal Revenue Code and any related regulations (or any successor provisions of the Code or such regulations).

9.7 Joint and Several Liability. If Borrower consists of more than one Person, their liability shall be joint and several, and the compromise of any claim with, or the release of, any Borrower shall not constitute a compromise with, or a release of, any other Borrower.

9.8 Paragraph Headings. Paragraph headings are only used in this Loan Agreement for convenience. The term "including", whenever used in this Loan Agreement, shall mean "including but not limited to". This Loan Agreement has been fully reviewed and negotiated between the parties and no uncertainty or ambiguity in any term or provision of this Loan Agreement shall be construed strictly against Lender or Borrower under any rule of construction or otherwise.

9.9 Interest Laws. Notwithstanding any provision to the contrary contained in this Agreement or any Other Document, Borrower shall not be required to pay, and Lender shall not be permitted to collect, any amount of interest in excess of the maximum amount of interest permitted by applicable law ("Excess Interest"). If any Excess Interest is provided for or determined by a court of competent jurisdiction to have been provided for in this Agreement or in any Other Agreement, then in such event: (1) the provisions of this subsection shall govern and control; (2) Borrower shall not be obligated to pay any Excess Interest; (3) any Excess Interest that Lender may have received hereunder or under any Other Agreement shall be, at such Lender's option, (a) applied as a credit against the outstanding principal balance of Borrower's Liabilities or accrued and unpaid interest (not to exceed the maximum amount permitted by law), (b) refunded to the payor thereof, or (c) any combination of the foregoing; (4) the interest rate(s) provided for herein or in any Other Agreement shall be automatically reduced to the maximum lawful rate allowed from time to time under applicable law (the "Maximum Rate"), and this Agreement and the Other Agreements shall be deemed to have been and shall be, reformed and modified to reflect such reduction; and (5) Borrower shall not have any action against Lender for any damages arising out of the payment or collection of any Excess Interest.

9.10 No Implied Waivers. Lender's failure at any time or times hereafter to exercise any rights or remedies or to require strict performance by Borrower of any provision of this Loan Agreement shall not waive, affect or diminish any right of Lender thereafter to demand strict compliance and performance therewith and all rights and remedies shall continue in full force and effect until all of Borrower's Liabilities have been paid in full (other than contingent obligations with respect to which no claims have been made) and termination of the Revolving Commitment and all other commitments of Lender to make Loans hereunder. Any suspension or waiver by Lender of an Event of Default by Borrower under this Loan Agreement, the Warrants or the Other Agreements shall not suspend, waive or affect any other Event of Default by Borrower under this Loan Agreement, the Warrants or the Other Agreements, whether the same is prior or subsequent thereto and whether of the same or of a different type. No waiver by Lender of any Event of Default or of any of the undertakings, agreements, warranties, covenants and representations of Borrower contained in this Loan Agreement, the Warrants or the Other Agreements shall be effective unless specifically waived by an instrument in writing signed by an officer of Lender.

9.11 Acceptance by Lender. This Loan Agreement become effective upon execution and delivery hereof by Borrower and acceptance by Lender, in writing. If so accepted by Lender, this Loan Agreement and the Other Agreements shall be deemed to have been made at Lender's principal place of business as set forth above.

9.12 LAW AND VENUE. THIS LOAN AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS AND DECISIONS OF THE STATE OF ILLINOIS. BORROWER CONSENTS AND SUBMITS TO THE JURISDICTION OF ANY LOCAL, STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF COOK, STATE OF ILLINOIS. BORROWER WAIVES ANY RIGHT IT MAY HAVE TO TRANSFER OR CHANGE THE VENUE OF ANY LITIGATION BROUGHT AGAINST BORROWER BY LENDER OR TO ASSERT THAT ANY ACTION INSTITUTED BY LENDER OR BORROWER IN SUCH COURT IS AN IMPROPER VENUE OR SUCH ACTION SHOULD BE TRANSFERRED TO A MORE CONVENIENT FORUM.

9.13 WAIVER OF TRIAL BY JURY. BORROWER AND LENDER EACH WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO, THIS LOAN AGREEMENT WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

9.14 Confidentiality. Lender agrees to maintain the confidentiality of all information received from Borrower related to its business, other than any such information that is available to Lender on a nonconfidential basis prior to disclosure by Borrower ("Confidential Information"), except that Confidential Information may be disclosed (a) to Lender's and its Affiliates' directors, officers, managers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Confidential Information and instructed to keep such Confidential Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable law or by any subpoena or similar legal process, (d) in connection with the exercise or enforcement by Lender of any of its rights or remedies under the Transaction Documents, (e) subject to an agreement containing provisions substantially the same as those of this Section 9.14, to any assignee or any prospective assignee of any of Lender's rights or obligations under the Transaction Documents, (f) with the consent of Borrower or (g) to the extent such Confidential Information (i) becomes publicly available other than as a result of a breach of this Section 9.14 or (ii) becomes available to Lender on a nonconfidential basis from a source other than Borrower. Lender's obligations hereunder shall survive termination of this Loan Agreement for a period of 1 year.

Signature Page Follows:

In Witness Whereof, this Loan and Security Agreement has been duly executed as of the day and year first above written.

		Accepted By:	
Borrower:	**SPS Commerce, Inc.**	**Lender:**	**RITCHIE CAPITAL FINANCE, L.L.C.**
By:	**/s/ Thomas C. Velin**	**By:**	**/s/ Mary J. Caulfield**
Name:	**Thomas C. Velin**	**Name:**	**Mary J. Caulfield**
Title:	**CFO**	**Title:**	**President**
Address for Notices:	**333 South Seventh Street, Suite 1000, Minneapolis, MN 55402 Attn: Chief Financial Officer**	**Address for Notices:**	**2100 Enterprise Avenue Geneva, IL 60134 Attention: Legal Department**
Telephone:	**612-435-9438**	**Telephone**	**630-845-5730**
Facsimile:	**612-435-9404**	**Facsimile:**	**630-345-7932**
			with a copy to:
			225 West Washington Chicago, IL 60606 Attention: Mark King
		Telephone:	**630-482-7166**
		Facsimile:	**630-345-7955**

EXHIBIT A

Officer's Compliance and Disclosure Certificate
(attachment to monthly financial reports)

Reference is hereby made to certain loan or credit agreements (together with all instruments, documents and agreements entered into in connection therewith, the "Loan Documents") by and between **RAM OPPORTUNITY FUND I, L.L.C.** ("Lender") and **SPS COMMERCE, INC.** ("Borrower"). The undersigned, _____, hereby certifies to Lender, on behalf of Borrower, that he/she is the duly elected and acting _____ of Borrower and that:

(i) FINANCIAL STATEMENTS — General. The attached financial statements fairly reflect the financial condition of Borrower in all material respects in accordance with generally accepted accounting principles applied in a consistent manner, except, in the case of interim financial statements, for normal year-end adjustments and the absence of footnote disclosures and, except as disclosed on the attached Schedule of Financial Statement Exceptions (if none, so state on said Schedule), there has been no material adverse change in the assets, liabilities or financial condition of Borrower since _____ ___, 200_;

(ii) FINANCIAL STATEMENTS — Off-Balance Sheet. All material off-balance sheet leasing obligations of Borrower and all material guarantees by Borrower of the financial obligations of others not otherwise listed and itemized on the attached financial statements are disclosed on the attached Schedule of Financial Statement Exceptions (if none, so state on said Schedule);

(iii) FINANCIAL STATEMENTS — Related Party Transactions. All material transactions between Borrower and any of Borrower's officers, employees or Affiliates, including but not limited to loans, receivables or payables due to/from Borrower's officers, employees or Affiliates, but excluding any payment of employee compensation in the ordinary course of business and any payment or reimbursement of reasonable and customary directors fees and expenses, are disclosed on the attached Schedule of Financial Statement Exceptions (if none, so state on said Schedule);

(iv) COMPLIANCE WITH APPLICABLE LAW. Except as noted on the attached Schedule of Compliance Issues, there are no events whereby Borrower or any of its Subsidiaries is acting or conducting business contrary to applicable local, state, or national laws in the country or countries in which said parties are conducting business, except for such events which have not had and could not reasonably be expected to have a Material Adverse Effect;

(v) ABSENCE OF DEFAULT. Except as noted on the attached Schedule of Compliance Issues, no Default or Event of Default exists on the date hereof; and

(vi) LITIGATION. Except as noted on the attached Schedule of Compliance Issues, there are no actions, suits or proceedings pending or, to the knowledge of Borrower and the undersigned, threatened against Borrower in any court or before any governmental commission, board or authority which, if adversely determined, will have a Material Adverse Effect (if none, so state on said Schedule).

The undersigned has executed this certificate on behalf of Borrower as of _____, 200_.

Signature: _____

By (printed name and title): _____

SPS COMMERCE, INC.

SCHEDULE OF FINANCIAL STATEMENT EXCEPTIONS

Category of Disclosure	Financial Date	Comments (if none, state “none”)
General Exceptions:		
Off-Balance Sheet:		
Related Party Transactions:		

SCHEDULE OF COMPLIANCE ISSUES

Parties Involved	Date of filing/incident	Nature of Dispute or Issue (if none, state “none”)
Compliance Issues:		
Litigation Issues:		

Signatory Initials: _____

SCHEDULE 1.RR

EXISTING INDEBTEDNESS

1. Any and all indebtedness of any kind outstanding under, or incurred in connection with, that certain 15% Senior Subordinated Secured Note, dated May 16, 2003, in the original principal amount of $1,292,472.03, issued by SPS Commerce, Inc. (as Maker thereunder) to CID Mezzanine Capital, L.P. or its registered assigns (as Holder thereunder) (the "CID Debt").

2. SPS Commerce, Inc. is party to the following capital leases of Equipment (the "Capital Leases"):

Company	Schedule	Balance at 12/31/2005	Contract Increase in Liability 2006
Data Sales	6	$ 4,394.80	
Data Sales	7	$ 8,641.02	
Data Sales	8	$ 8,055.97	
Dell	011	$ 4,917.74	
Dell	012	$ 11,387.65	
Dell	013	$ 19,759.30	
Oracle/Key Financial*	N/A	$177,280.53	$ 77,400.00
		$234,437.01	$ 77,400.00

* SPS Commerce, Inc.'s service and support agreement expires at the end of February, 2006. In March, 2006 the renewal fee, to extend this agreement, will be added to SPS Commerce, Inc.'s lease liability. This addition does not increase our quarterly liability.

SCHEDULE 1.TT

EXISTING LIENS

1. Liens, security interests and other encumbrances on substantially all of the assets of SPS Commerce, Inc. securing the CID Debt.

2. Liens, security interests and other encumbrances on the leased Equipment securing obligations under the Capital Leases.

EXHIBIT B
Borrowing Base Certificate

Ritchie Capital Finance, L.L.C.
Technology and Life Science
2100 Enterprise Avenue
Geneva, IL 60134

SPS Commerce, Inc.
333 South Seventh Street
Minneapolis, MN 55403

As of Revolver Agreement No. V06101

	Foreign		Domestic		Total
I. Accounts receivable					
1. Accounts receivable (book value from detailed aging report)					
2. Other Receivables (As applicable, to be determined by Lender)	—		—		
3. Total accounts receivable		—		—	$ —
IIa. Accounts receivable reductions:					
4. Ineligible Accounts Receivable:					
4a. Accounts unpaid over 90 days from Invoice date					
4b. Cross Age: 25% or greater of a Single Account Debtor is unpaid more than 90 days from inv date	0		0		
4c.* Concentration Limit: Single Account Debtor exceeds 20% of total Accounts Rec. book value (#3)	0		0		
4d.** Other — Foreign A/R defined as ineligible (ref. EXIM Country Limitation Sched) and Govt. A/R	0		0		
5. Total accounts receivable deductions		0		0	
6. Total Eligible Accounts Domestic and Foreign (#3 minus #5)		—		—	
7a. Loan Value of Domestic Accounts (85% of #6, Domestic Column)				$ 0	
7b. Loan Value of Foreign Accounts (70% of #6, Foreign Column)		$ 0			$ —
III. Balances (Foreign & Domestic Combined)					
8. Combined total Loan Value of Eligible Accounts (From lines #7a, 7b, and 7c above)		—			
9. Current balance owing on Line of Credit as of the date of this Certificate		—			
10. Total Borrowing Availability based on Loan Value of Eligible Accounts (#8 minus #9)		—			
11. Maximum Line or Credit Amount			1,250,000		
12. Total Borrowing Availability (lesser of #10 or #11)					
IV. Loan Balance Allocation					
13. Balance Outstanding Attributed to Value of Foreign Receivable Loan Value		$ 0			
14. Balance Outstanding Attributed to Value of Domestic Receivable Loan Value					
CURRENT BALANCE OWING AS OF DATE OF CERTIFICATE	0.00%	$ 0			
V. Request for Funding:					
Borrower hereby requests that the amount at the right be advanced pursuant to the terms of the Revolver Agreement and as permitted by the forgoing calculations		$ 0			
VI. Amount Repaid:					
Borrower hereby remits the amount at the right as either a Mandatory Prepayment (if #12 above is a negative number) or a voluntary *prepayment* of *principal*		$ 0			
VII. Other amounts remitted by Borrower for expenses and fees (detail on attachment)		$ 0			

VII. Most recent financial statement being provided as attachment: _____

* Concentration Limit in #4c above shall be calculated by multiplying gross book value book A/R times 20%, the result being the Concentration Limit. The ineligible portion, for any single account debtor, shall be the amount that exceeds the Concentration Limit for that account debtor.

** A/R arising from sales directly to the Federal Government requires specific documentation for eligibility including notification and acknowledgement by the government entity regarding assignability, etc. Government A/R is considered Ineligible until such documentation has been completed.

The undersigned represents and warrants that the foregoing is true and complete, and that the information reflected in this Borrowing Base Certificate complies with the representations set forth in the above-designated Revolver. If a request for funding is hereby made, the undersigned hereby represents and warrants that all conditions precedent for the making of an advance under the Revolver have been satisfied or waived.

Borrower:	SPS Commerce, Inc.
Signature:	
Name:	
Title:	
Date:	

EXHIBIT C

SCHEDULE A TO FUNDING REQUEST NO FOR LOAN AND SECURITY AGREEMENT NO V06101 BY AND BETWEEN RITCHIE CAPITAL FINANCE LLC. AS LENDER AND SPS COMMERCE INC. AS BORROWER

Vendor name	Invoice #	Invoice Date	QTY	Description	Serial Number	Equip Cost	Freight	Customized Items/ Installation	Tax	Sub Total	Total	Aged # Months	Accum Depreciation	Maximum Advance Amount	Customer Payment Date	Customer Check Number
						5,000.00	100,00									

Final Advance Amount: **Initials** _____

Equipment Location:

EXHIBIT D
Borrowing Base Certificate

Ritchie Capital Finance, L.L.C.
Technology and Life Science
2100 Enterprise Avenue
Geneva, IL 60134

SPS Commerce, Inc.
333 South Seventh Street
Minneapolis, MN 55403

As of Revolver Agreement No. V06101

	Foreign		Domestic		Total
I. Accounts receivable					
1. Accounts receivable (book value from detailed aging report)					
2. Other Receivables (As applicable, to be determined by Lender)	—		—		
3. Total accounts receivable		—		—	$ —
IIa. Accounts receivable reductions:					
4. Ineligible Accounts Receivable:					
4a. Accounts unpaid over 90 days from Invoice date					
4b. Cross Age: 25% or greater of a Single Account Debtor is unpaid more than 90 days from inv date	0		0		
4c.* Concentration Limit: Single Account Debtor exceeds 20% of total Accounts Rec. book value (#3)	0		0		
4d.** Other — Foreign A/R defined as ineligible (ref. EXIM Country Limitation Sched) and Govt. A/R	0		0		
5. Total accounts receivable deductions		0		0	
6. Total Eligible Accounts Domestic and Foreign (#3 minus #5)		—		—	
7a. Loan Value of Domestic Accounts (85% of #6, Domestic Column)				$ 0	
7b. Loan Value of Foreign Accounts (70% of #6, Foreign Column)		$ 0			$ —
III. Balances (Foreign & Domestic Combined)					
8. Combined total Loan Value of Eligible Accounts (From lines #7a, 7b and 7c above)		—			
9. Current balance owing on Line of Credit as of the date of this Certificate		—			
10. Total Borrowing Availability based on Loan Value of Eligible Accounts (#8 minus #9)		—			
11. Maximum Line of Credit Amount			1,250,000		
12. Total Borrowing Availability (lesser of #10 or #11)					
IV. Loan Balance Allocation					
13. Balance Outstanding Attributed to Value of Foreign Receivable Loan Value		$ 0			
14. Balance Outstanding Attributed to Value of Domestic Receivable Loan Value					
CURRENT BALANCE OWING AS OF DATE OF CERTIFICATE	0.00%	$ 0			
V. Request for Funding:					
Borrower hereby requests that the amount at the right be advanced pursuant to the terms of the Revolver Agreement and as permitted by the forgoing calculations		$ 0			
VI. Amount Repaid:					
Borrower hereby remits the amount at the right as either a Mandatory Prepayment (if #12 above is a negative number) or a voluntary prepayment of principal		$ 0			
VII. Other amounts remitted by Borrower for expenses and fees (detail on attachment)		$ 0			

VIII. Most recent financial statement being provided as attachment: _____

* Concentration Limit in #4c above shall be calculated by multiplying gross book A/R times 20%, the result being the Concentration Limit. The ineligible portion, for any single account debtor, shall be the amount that exceeds the concentration Limit for that account Debtor.

** A/R arising from sales directly to the Federal Government requires specific documentation for eligibility including notification and acknowledgment by the government entity regarding assign ability, etc. Government A/R is considered ineligible until such documentation has been completed.

The undersigned represents and warrants that the foregoing is true and complete, and that the information reflected in this Borrowing Base Certificate complies with the representations set forth in the above-designated Revolver. If a request for funding is hereby made, the undersigned hereby represents are warrants that all conditions precedent for the making of an advance under the Revolver has been satisfied or waived.

Borrower:	SPS Commerce, Inc.
Signature:	
Name:	
Title:	
Date:	

AMENDMENT TO
LOAN AND SECURITY AGREEMENT

This Amendment to Loan and Security Agreement (the "Amendment") is entered into and is effective this 20th day of March, 2007 by and between BlueCrest Venture Finance Master Fund Limited ("Lender"), as assignee of Ritchie Capital Finance, LLC ("Original Lender") and Ritchie Debt Acquisition Fund, Ltd. ("Initial Assignee"), and SPS Commerce, Inc. ("Borrower").

RECITALS

A. Original Lender provided one or more credit facilities or arrangements to Borrower pursuant to that certain Loan and Security Agreement by and between Original Lender and Borrower, dated as of February 3, 2006 (the "Loan Agreement"), which Loan Agreement had been assigned by Original Lender to Original Assignee, as of May 5, 2006, and which was then assigned to Lender as of December 18, 2006.

B. In connection with the Loan Agreement, Borrower has granted to Lender a first priority security interest in the Collateral. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Loan Agreement.

C. Lender and Borrower now desire to enter into an addition equipment loan transaction (the "Additional Equipment Loan") which shall be subject to the terms and conditions of the Loan Agreement, except as modified hereby, and which will be secured by the Collateral.

NOW, THEREFORE, in consideration of the promises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto, the parties hereto agree as follows:

1. Additional Equipment Loan.

(a) Section 2.1 of the Loan Agreement shall be amended to add a new section (d) as follows:

(d) Additional Equipment Loan. Subject to Section 2.5, Lender shall loan to Borrower from time to time on or prior to December 31, 2007, one or more equipment loans (the "Additional Equipment Loan") pursuant to the terms and conditions hereof, in an aggregate amount not to exceed One Million Two Hundred Fifty Thousand Dollars ($1,250,000.00), the proceeds of which shall be used to purchase Equipment. This is not a revolving line of credit and Borrower may not repay and re-borrow the amounts advanced or to be advanced under this Section 2.1 (d). Each Additional Equipment Loan shall be made on notice (substantially in the form of Exhibit C hereto and setting forth a schedule describing in detail the Equipment against which an advance is to be made hereunder) given by Borrower to Lender no later than 9:00 a.m. (prevailing Chicago time) not less than three (3) Business Days prior to the date of such proposed borrowing. Each Additional Equipment Loan shall be repaid in thirty-six (36) equal monthly scheduled installments of principal and interest (paid in arrears), such payments to be made on the first Business Day of each month commencing on the first Business Day of the month following the date of such Additional Equipment Loan borrowing (the "Initial Additional Equipment Loan Payment Date"); provided, however, that if the Initial Additional Equipment Loan Payment Date is not at least 15 days after the date the Additional

Equipment Loan is made, such payments shall commence on the first Business Day of the immediately succeeding month and Borrower shall make one interest only payment on the Initial Additional Equipment Loan Payment Date.

(b) The Additional Equipment Loan shall be considered a "Loan" for all purposes of the Loan Agreement and the obligations of Borrower thereunder shall be included in the definition of "Borrower's Liabilities" thereunder. Any note(s) delivered by Borrower to Lender in connection with the Additional Equipment Loan shall be included in the definition of "Other Agreements" for all purposes of the Loan Agreement.

(c) Section 3.1 of the Loan Agreement shall be amended to add the following sentence after the word "select." in line 13 thereof:

"Each Additional Equipment Loan shall bear interest payable monthly in arrears on the first Business Day of each month, calculated on a 360 day year comprised of twelve (12) thirty day months at a per annum rate equal to the Loan Interest Rate specified in the related note, which rate shall be the sum of (i) 720 basis points plus (ii) the greater of (a) 4.84% or (b) the yield on Three-Year U.S. Treasury Notes on the date of such advance, as reported in the Federal Reserve Statistical Release H-15 or in such other publication as Lender may reasonably select."

(d) The first sentence of Section 3.4 of the Loan Agreement shall be amended in its entirety as follows:

"Provided that an "Event of Default" (hereinafter defined) does not exist, the application of payments received by Lender pursuant to this Loan Agreement shall be applied first to any and all late charges, fees and expenses then due and payable hereunder; second to interest then due and payable hereunder; third to the principal of the Term Loan then due and payable, fourth *pro rata* to the principal of the Equipment Loan and the Additional Equipment Loan then due and payable, and finally to the principal of the Revolving Advances then outstanding."

(e) The last sentence of Section 4.3(b) of the Loan Agreement shall be amended in its entirety as follows:

"A notice of termination or reduction given hereunder may be conditioned upon the closing by Borrower of any other transaction; provided, however, that Borrower shall pay Lender a fee of $500 in the event of the failure of Borrower to terminate or reduce the unused portion of the Revolving Commitment by the amount contained in such notice on the date specified therein; and provided, further, that only one such payment shall be due under Section 4.3 in the event of a concurrent failure to terminate or reduce the Revolving Commitment and prepay, in whole or part, the Term Loan, the Equipment Loan or the Additional Equipment Loan, as specified in a notice from Borrower."

(f) Section 4.3(c) of the Loan Agreement shall be amended in its entirety as follows:

"(c) Borrower may, upon at least twenty (20) Business Days' prior written notice to Lender (stating the proposed date of prepayment and the principal

amount of the Term Loan, the Equipment Loan or the Additional Equipment Loan to be prepaid), prepay the outstanding principal amount of the Term Loan, the Equipment Loan or the Additional Equipment Loan then outstanding in whole, or in part (but any such partial payment shall equal at least 20% of the aggregate principal amount outstanding of the Term Loan, the Equipment Loan and the Additional Equipment Loan), by paying to Lender, in immediately available funds, an amount equal to the sum of (i) the principal amount of the Term Loan, the Equipment Loan and the Additional Equipment Loan contained in the foregoing notice, (ii) all accrued and unpaid interest on the amounts of the Term Loan, the Equipment Loan and the Additional Equipment Loan to be repaid through the date of prepayment, and (iii) (A) in the event that such prepayment is made on or prior to the first anniversary of the date of this Loan Agreement (in the case of prepayment of the Term Loan or the Equipment Loan) or the first anniversary of the date of the Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Additional Equipment Loan (in the case of prepayment of the Additional Equipment Loan), a prepayment premium equal to 2.5% of the principal amount being prepaid, or (B) in the event that such prepayments is made on or prior to the second anniversary of the date of this Loan Agreement (in the case of prepayment of the Term Loan or the Equipment Loan) or the second anniversary of the date of the Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Additional Equipment Loan (in the case of prepayment of the Additional Equipment Loan), a prepayment premium equal to 1.5% of the principal amount being prepaid, or (C) in the event that such prepayments is made on or prior to the third anniversary of the date of this Loan Agreement (in the case of prepayment of the Term Loan or the Equipment Loan) or the third anniversary of the date of the Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Additional Equipment Loan (in the case of prepayment of the Additional Equipment Loan), a prepayment premium equal to .75% of the principal amount being prepaid; provided, however, that no prepayment penalty shall be payable hereunder to the extent that (i) the Term Loan, the Equipment Loan or the Additional Equipment Loan is prepaid, in whole or in part, out of the proceeds of an initial public offering, or (ii) the Term Loan, the Equipment Loan and the Additional Equipment Loan are prepaid in whole in connection with any merger, sale or other business disposition. A notice of prepayment given hereunder may be conditioned upon the closing by Borrower of any other transaction; provided, however, that Borrower shall pay Lender a fee of $500 in the event of the failure of Borrower to pay the amount contained in such notice on the prepayment date specified therein; and provided, further, that only one such payment shall be due under Section 4.3 in the event of a concurrent failure to terminate or reduce the Revolving Commitment and prepay, in whole or part the Term Loan, the Equipment Loan or the Additional Equipment Loan, as specified in a notice from Borrower."

2. Acknowledgement by Borrower. Borrower acknowledges that to the best of its knowledge, as of the date hereof, there are no Events of Default that have occurred and which are continuing under the Loan Agreement.

3. Due Diligence Fee. Lender acknowledges that Borrower has heretofore paid to Lender a due diligence fee in the amount of $5,000 to cover all costs and expenses incurred by Lender in connection

with the preparation and negotiation of, and the consummation of the transactions contemplated by, this Amendment to the Loan Agreement, and Borrower has no obligation to reimburse Lender therefor to the extent such costs and expenses exceed the amount of such fee.

4. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of Illinois (without giving effect to its laws of conflicts) and to the extent applicable, federal law.

5. Effect of Amendment. Except as expressly modified hereby, the terms and conditions of the Loan Agreement remain in full force and effect.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the parties hereto as of the date first above written.

BLUECREST VENTURE FINANCE MASTER FUND LIMITED

By: BlueCrest Capital Management L.P.
(acting through its general partner BlueCrest Capital Management Limited)
in its capacity as investment manager to and for and on behalf of
BlueCrest Venture Finance Master Fund Limited

By: /s/ Paul Dehadray
Name: Paul Dehadray
Title: General Counsel

SPS COMMERCE, INC.

By: /s/ Thomas C. Velin
Name: Thomas C. Velin
Title: CFO

Exhibit 10.11

SECOND AMENDMENT TO
LOAN AND SECURITY AGREEMENT

This Second Amendment to Loan and Security Agreement (the "Second Amendment") is entered into and is effective this 24th day of March, 2008 by and between BlueCrest Venture Finance Master Fund Limited ("Lender"), as assignee of Ritchie Capital Finance, LLC ("Original Lender") and Ritchie Debt Acquisition Fund, Ltd. ("Initial Assignee"), and SPS Commerce, Inc. ("Borrower").

RECITALS

A. Original Lender provided one or more credit facilities or arrangements to Borrower pursuant to that certain Loan and Security Agreement by and between Original Lender and Borrower, dated as of February 3, 2006 (the "Loan Agreement"), which Loan Agreement had been assigned by Original Lender to Original Assignee, as of May 5, 2006, and which was then assigned to Lender as of December 18, 2006.

B. In connection with the Loan Agreement, Borrower has granted to Lender a first priority security interest in the Collateral. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Loan Agreement.

C. Lender and Borrower entered into an Amendment to Loan and Security Agreement, dated as of March 20, 2007, whereby Lender made an additional equipment loan to Borrower.

D. Lender and Borrower now desire to enter into an additional equipment loan transaction (the "Second Additional Equipment Loan") which shall be subject to the terms and conditions of the Loan Agreement (as amended), except as modified hereby, and which will be secured by the Collateral.

NOW, THEREFORE, in consideration of the promises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto, the parties hereto agree as follows:

1. Second Additional Equipment Loan.

(a) Section 2.1 of the Loan Agreement shall be amended to add a new section (e) as follows:

(e) Second Additional Equipment Loan. Subject to Section 2.5, Lender shall loan to Borrower from time to time on or prior to December 31, 2008, one or more equipment loans (the "Second Additional Equipment Loan") pursuant to the terms and conditions hereof, in an aggregate amount not to exceed One Million Two Hundred Fifty Thousand Dollars ($1,250,000.00), the proceeds of which shall be used to purchase Equipment. This is not a revolving line of credit and Borrower may not repay and re-borrow the amounts advanced or to be advanced under this

Section 2.1(d). Each advance in respect of the Second Additional Equipment Loan shall be made on notice (substantially in the form of Exhibit C hereto and setting forth a schedule describing in detail the Equipment against which an advance is to be made hereunder) given by Borrower to Lender no later than 9:00 a.m. (prevailing Chicago time) not less than three (3) Business Days prior to the date of such proposed borrowing. Each advance in respect of the Second Additional Equipment Loan shall be repaid in thirty-six (36) equal monthly scheduled installments of principal and interest (paid in arrears), such payments to be made on the first Business Day of each month commencing on the first Business Day of the month following the date of such advance in respect of the Second Additional Equipment Loan borrowing (the "Initial Second Additional Equipment Loan Payment Date"); provided, however, that if the Initial Second Additional Equipment Loan Payment Date is not at least 15 days after the date the advance in respect of the Second Additional Equipment Loan is made, such payments shall commence on the first Business Day of the immediately succeeding month and Borrower shall make one interest only payment on the Initial Second Additional Equipment Loan Payment Date.

(b) The Second Additional Equipment Loan shall be considered a "Loan" for all purposes of the Loan Agreement and the obligations of Borrower thereunder shall be included in the definition of "Borrower's Liabilities" thereunder. Any note(s) delivered by Borrower to Lender in connection with the Second Additional Equipment Loan shall be included in the definition of "Other Agreements" for all purposes of the Loan Agreement.

(c) Section 3.1 of the Loan Agreement shall be amended to add the following sentence after the word "select." in line 13 thereof:

"Each advance in respect of the Second Additional Equipment Loan shall bear interest payable monthly in arrears on the first Business Day of each month, calculated on a 360 day year comprised of twelve (12) thirty day months at a per annum rate equal to the Loan Interest Rate specified in the related note, which rate shall be the sum of (i) 925 basis points plus (ii) the greater of (a) 2.55% or (b) the yield on Three-Year U.S. Treasury Notes on the date of such advance, as reported in the Federal Reserve Statistical Release H-15 or in such other publication as Lender may reasonably select."

(d) The first sentence of Section 3.4 of the Loan Agreement shall be amended in its entirety as follows:

"Provided that an "Event of Default" (hereinafter defined) does not exist, the application of payments received by Lender pursuant to this Loan Agreement shall be applied first to any and all late charges, fees and expenses then due and payable hereunder; second to interest then due and payable hereunder; third to the principal of the Term Loan then due and payable, fourth *pro rata* to the principal of the Equipment Loan, the

Additional Equipment Loan and the Second Additional Equipment Loan then due and payable, and finally to the principal of the Revolving Advances then outstanding."

(e) The last sentence of Section 4.3(b) of the Loan Agreement shall be amended in its entirety as follows:

"A notice of termination or reduction given hereunder may be conditioned upon the closing by Borrower of any other transaction; provided, however, that Borrower shall pay Lender a fee of $500 in the event of the failure of Borrower to terminate or reduce the unused portion of the Revolving Commitment by the amount contained in such notice on the date specified therein; and provided, further, that only one such payment shall be due under Section 4.3 in the event of a concurrent failure to terminate or reduce the Revolving Commitment and prepay, in whole or part, the Term Loan, the Equipment Loan, the Additional Equipment Loan or the Second Additional Equipment Loan, as specified in a notice from Borrower."

(f) Section 4.3(c) of the Loan Agreement shall be amended in its entirety as follows:

"(c) Borrower may, upon at least twenty (20) Business Days' prior written notice to Lender (stating the proposed date of prepayment and the principal amount of the Term Loan, the Equipment Loan, the Additional Equipment Loan or the Second Additional Equipment Loan to be prepaid), prepay the outstanding principal amount of the Term Loan, the Equipment Loan, the Additional Equipment Loan or the Second Additional Equipment Loan then outstanding in whole, or in part (but any such partial payment shall equal at least 25% of the aggregate principal amount outstanding of the Term Loan, the Equipment Loan, the Additional Equipment Loan and the Second Additional Equipment Loan), by paying to Lender, in immediately available funds, an amount equal to the sum of (i) the principal amount of the Term Loan, the Equipment Loan, the Additional Equipment Loan and the Second Additional Equipment Loan contained in the foregoing notice, (ii) all accrued and unpaid interest on the amounts of the Term Loan, the Equipment Loan, the Additional Equipment Loan and the Second Additional Equipment Loan to be repaid through the date of prepayment, and (iii) (A) in the event that such prepayment is made on or prior to the first anniversary of the date of this Loan Agreement (in the case of prepayment of the Term Loan or the Equipment Loan), the first anniversary of the date of the Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Additional Equipment Loan (in the case of prepayment of the Additional Equipment Loan), or the first anniversary of the date of the Second Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Second Additional Equipment Loan (in the case of prepayment of the Second Additional Equipment Loan), a prepayment premium equal to 2.50% of the principal amount being prepaid, or (B) in the event that such

prepayments is made on or prior to the second anniversary of the date of this Loan Agreement (in the case of prepayment of the Term Loan or the Equipment Loan), the second anniversary of the date of the Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Additional Equipment Loan (in the case of prepayment of the Additional Equipment Loan), or the second anniversary of the date of the Second Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Second Additional Equipment Loan (in the case of prepayment of the Second Additional Equipment Loan), a prepayment premium equal to 1.50% of the principal amount being prepaid, or (C) in the event that such prepayments is made on or prior to the third anniversary of the date of this Loan Agreement (in the case of prepayment of the Term Loan or the Equipment Loan), the third anniversary of the date of the Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Additional Equipment Loan (in the case of prepayment of the Additional Equipment Loan), or the third anniversary of the date of the Second Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Second Additional Equipment Loan (in the case of prepayment of the Second Additional Equipment Loan), a prepayment premium equal to 0.75% of the principal amount being prepaid; provided, however, that no prepayment penalty shall be payable hereunder to the extent that (i) the Term Loan, the Equipment Loan, the Additional Equipment Loan or the Second Additional Equipment Loan is prepaid, in whole or in part, out of the proceeds of an initial public offering, or (ii) the Term Loan, the Equipment Loan, the Additional Equipment Loan and the Second Additional Equipment Loan are prepaid in whole in connection with any merger, sale or other business disposition. A notice of prepayment given hereunder may be conditioned upon the closing by Borrower of any other transaction; provided, however, that Borrower shall pay Lender a fee of $500 in the event of the failure of Borrower to pay the amount contained in such notice on the prepayment date specified therein; and provided, further, that only one such payment shall be due under Section 4.3 in the event of a concurrent failure to terminate or reduce the Revolving Commitment and prepay, in whole or part the Term Loan, the Equipment Loan, the Additional Equipment Loan or the Second Additional Equipment Loan, as specified in a notice from Borrower."

2. Extension of Revolver. (a) The definition of "Revolving Loan Termination Date" shall be amended to read in its entirety as follows:

"Revolving Loan Termination Date" shall mean the earliest of (a) March 31, 2009, (b) the date of termination of the Revolving Commitments pursuant to Section 4.3 hereof, and (c) the date on which Borrower Liabilities become due and payable pursuant to Section 8.2 hereof.

(b) The Commitment Fee payable by Borrower pursuant to Section 3.2 of the Loan Agreement shall be pro-rated so as to cover the 14-month period from February 1, 2008 through

March 31, 2009, and such Commitment Fee shall be payable upon execution of this Second Amendment.

3. Acknowledgement by Borrower. Borrower acknowledges that to the best of its knowledge, as of the date hereof, there are no Events of Default that have occurred and which are continuing under the Loan Agreement.

4. Due Diligence Fee. Lender acknowledges that Borrower has heretofore paid to Lender a due diligence fee in the amount of $5,000 to cover all costs and expenses incurred by Lender in connection with the preparation and negotiation of, and the consummation of the transactions contemplated by, this Second Amendment to the Loan Agreement, and Borrower has no obligation to reimburse Lender therefor to the extent such costs and expenses exceed the amount of such fee.

5. Governing Law. This Second Amendment shall be governed by and construed in accordance with the laws of the State of Illinois (without giving effect to its laws of conflicts) and to the extent applicable, federal law.

6. Effect of Amendment. Except as expressly modified hereby, the terms and conditions of the Loan Agreement (as amended) remain in full force and effect.

IN WITNESS WHEREOF, this Second Amendment has been duly executed and delivered by the parties hereto as of the date first above written.

BLUECREST VENTURE FINANCE MASTER FUND LIMITED
By: BlueCrest Capital Management L.P. (acting through its general partner BlueCrest Capital Management Limited) in its capacity as investment manager to and for and on behalf of BlueCrest Venture Finance Master Fund Limited

By: /s/ Peter Cox
Name: Peter Cox
Title: Chief Operation Officer

SPS COMMERCE, INC.

By: /s/ Kimberly K. Nelson
Name: Kimberly Nelson
Title: CFO

Exhibit 10.12

THIRD AMENDMENT TO
LOAN AND SECURITY AGREEMENT

This Third Amendment to Loan and Security Agreement (the "Third Amendment") is entered into and is effective this 30th day of March, 2009 by and between BlueCrest Venture Finance Master Fund Limited ("Lender"), as assignee of Ritchie Capital Finance, LLC ("Original Lender"') and Ritchie Debt Acquisition Fund, Ltd. ("Initial Assignee"), and SPS Commerce, Inc. ("Borrower").

RECITALS

A. Original Lender provided one or more credit facilities or arrangements to Borrower pursuant to that certain Loan and Security Agreement by and between Original Lender and Borrower, dated as of February 3, 2006 (the "Loan Agreement"), which Loan Agreement had been assigned by Original Lender to Original Assignee, as of May 5, 2006, and which was then assigned to Lender as of December 18, 2006.

B. In connection with the Loan Agreement, Borrower has granted to Lender a first priority security interest in the Collateral. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Loan Agreement.

C. Lender and Borrower entered into an Amendment to Loan and Security Agreement, dated as of March 20, 2007, whereby Lender made an additional equipment loan to Borrower.

D. Lender and Borrower entered into a Second Amendment to Loan and Security Agreement, dated as of March 24, 2008, whereby Lender made an additional equipment loan to Borrower.

E. Lender and Borrower now desire to enter into an additional equipment loan transaction (the "Third Additional Equipment Loan") which shall be subject to the terms and conditions of the Loan Agreement (as amended), except as modified hereby, and which will be secured by the Collateral.

NOW, THEREFORE, in consideration of the promises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto, the parties hereto agree as follows:

1. Third Additional Equipment Loan.

(a) Section 2.1 of the Loan Agreement shall be amended to add a new section (e) as follows:

(e) Third Additional Equipment Loan. Subject to Section 2.5, Lender shall loan to Borrower from time to time on or prior to December 31, 2009, one or more equipment loans (the "Third Additional Equipment

Loan") pursuant to the terms and conditions hereof, in an aggregate amount not to exceed One Million One Hundred Thousand and 00/100 Dollars ($1,100,000.00), the proceeds of which shall be used to purchase Equipment. This is not a revolving line of credit and Borrower may not repay and re-borrow the amounts advanced or to be advanced under this Section 2.1(d). Each advance in respect of the Third Additional Equipment Loan shall be made on notice (substantially in the form of Exhibit C hereto and setting forth a schedule describing in detail the Equipment against which an advance is to be made hereunder) given by Borrower to Lender no later than 9:00 a.m. (prevailing Chicago time) not less than three (3) Business Days prior to the date of such proposed borrowing. Each advance in respect of the Third Additional Equipment Loan shall be repaid in thirty-six (36) month amortization of principal and interest (paid in arrears), such payments to be made on the first Business Day of each month commencing on the first Business Day of the month following the date of such advance in respect of the Third Additional Equipment Loan borrowing (the "Initial Third Additional Equipment Loan Payment Date"); provided, however, that if the Initial Third Additional Equipment Loan Payment Date is not at least 15 days after the date the advance in respect of the Third Additional Equipment Loan is made, such payments shall commence on the first Business Day of the immediately succeeding month and Borrower shall make one interest only payment on the Initial Third Additional Equipment Loan Payment Date.

(b) The Third Additional Equipment Loan shall be considered a "Loan" for all purposes of the Loan Agreement and the obligations of Borrower thereunder shall be included in the definition of "Borrower's Liabilities" thereunder. Any note(s) delivered by Borrower to Lender in connection with the Third Additional Equipment Loan shall be included in the definition of "Other Agreements" for all purposes of the Loan Agreement.

(c) Section 3.1 of the Loan Agreement shall be amended to add the following sentence after the word "select." in line 13 thereof:

"Each advance in respect of the Third Additional Equipment Loan shall bear interest payable monthly in arrears on the first Business Day of each month, calculated on the basis of a 360 day year and the actual number of days elapsed, at a per annum rate equal to 12.75%."

(d) The first sentence of Section 3.4 of the Loan Agreement shall be amended in its entirety as follows:

"Provided that an "Event of Default" (hereinafter defined) does not exist, the application of payments received by Lender pursuant to this Loan Agreement shall be applied first to any and all late charges, fees and expenses then due and payable hereunder; second to interest then due and payable hereunder; third to the principal of the Term Loan then due and payable, fourth *pro rata* to the principal of the Equipment Loan, the Additional Equipment Loan, the Second Additional Equipment Loan and

the Third Additional Equipment Loan then due and payable, and finally to the principal of the Revolving Advances then outstanding."

(e) The last sentence of Section 4.3(b) of the Loan Agreement shall be amended in its entirety as follows:

"A notice of termination or reduction given hereunder may be conditioned upon the closing by Borrower of any other transaction; provided, however, that Borrower shall pay Lender a fee of $500 in the event of the failure of Borrower to terminate or reduce the unused portion of the Revolving Commitment by the amount contained in such notice on the date specified therein; and provided, further, that only one such payment shall be due under Section 4.3 in the event of a concurrent failure to terminate or reduce the Revolving Commitment and prepay, in whole or part, the Term Loan, the Equipment Loan, the Additional Equipment Loan, the Second Additional Equipment Loan or the Third Additional Equipment Loan, as specified in a notice from Borrower."

(f) Section 4.3(c) of the Loan Agreement shall be amended in its entirety as follows:

"(c) Borrower may, upon at least twenty (20) Business Days' prior written notice to Lender (stating the proposed date of prepayment and the principal amount of the Term Loan, the Equipment Loan, the Additional Equipment Loan, the Second Additional Equipment Loan or the Third Additional Equipment Loan to be prepaid), prepay the outstanding principal amount of the Term Loan, the Equipment Loan, the Additional Equipment Loan, the Second Additional Equipment Loan or the Third Additional Equipment Loan then outstanding in whole, or in part (but any such partial payment shall equal at least 25% of the aggregate principal amount outstanding of the Term Loan, the Equipment Loan, the Additional Equipment Loan, the Second Additional Equipment Loan and the Third Additional Equipment Loan), by paying to Lender, in immediately available funds, an amount equal to the sum of (i) the principal amount of the Term Loan, the Equipment Loan, the Additional Equipment Loan, the Second Additional Equipment Loan and the Third Additional Equipment Loan contained in the foregoing notice, (ii) all accrued and unpaid interest on the amounts of the Term Loan, the Equipment Loan, the Additional Equipment Loan, the Second Additional Equipment Loan, and the Third Additional Equipment Loan to be repaid through the date of prepayment, and (iii) (A) in the event that such prepayment is made on or prior to the first anniversary of the date of this Loan Agreement (in the case of prepayment of the Term Loan or the Equipment Loan), the first anniversary of the date of the Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Additional Equipment Loan (in the case of prepayment of the Additional Equipment Loan), the first anniversary of the date of the Second Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Second Additional Equipment Loan (in

the case of prepayment of the Second Additional Equipment Loan), or the first anniversary of the date of the Third Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Third Additional Equipment Loan (in the case of prepayment of the Third Additional Equipment Loan), a prepayment premium equal to 2.50% of the principal amount being unpaid, or (B) in the event that such prepayments is made on or prior to the second anniversary of the date of this Loan Agreement (in the case of prepayment of the Term Loan or the Equipment Loan), the second anniversary of the date of the Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Additional Equipment Loan (in the case of prepayment of the Additional Equipment Loan), the second anniversary of the date of the Second Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Second Additional Equipment Loan (in the case of prepayment of the Second Additional Equipment Loan), or the second anniversary of the date of the Third Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Third Additional Equipment Loan (in the case of prepayment of the Third Additional Equipment Loan), a prepayment premium equal to 1.50% of the principal amount being prepaid, or (C) in the event that such prepayments is made on or prior to the third anniversary of the date of this Loan Agreement (in the case of prepayment of the Term Loan or the Equipment Loan), the third anniversary of the date of the Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Additional Equipment Loan (in the case of prepayment of the Additional Equipment Loan), the third anniversary of the date of the Second Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Second Additional Equipment Loan (in the case of prepayment of the Second Additional Equipment Loan), or the third anniversary of the date of the Third Amendment to the Loan and Security Agreement pursuant to which Lender agreed to make the Third Additional Equipment Loan (in the case of prepayment of the Third Additional Equipment Loan), a prepayment premium equal to 0.75% of the principal amount being prepaid; provided, however, that no prepayment penalty shall be payable hereunder to the extent that (i) the Term Loan, the Equipment Loan, the Additional Equipment Loan, the Second Additional Equipment Loan or the Third Additional Equipment Loan is prepaid, in whole or in part, out of the proceeds of an initial public offering, or (ii) the Term Loan, the Equipment Loan, the Additional Equipment Loan, the Second Additional Equipment Loan and the Third Additional Equipment Loan are prepaid in whole in connection with any merger, sale or other business disposition. A notice of prepayment given hereunder may be conditioned upon the closing by Borrower of any other transaction; provided, however, that Borrower shall pay Lender a fee of $500 in the event of the failure of Borrower to pay the amount contained in such notice on the prepayment date specified therein; and provided,

further, that only one such payment shall be due under Section 4.3 in the event of a concurrent failure to terminate or reduce the Revolving Commitment and prepay, in whole or part the Term Loan, the Equipment Loan, the Additional Equipment Loan, the Second Additional Equipment Loan or the Third Additional Equipment Loan as specified in a notice from Borrower."

2. Revolving Loan.

(a) The last sentence of the definition of Revolving Commitment" shall be amended to read in its entirety as follows:

"The initial amount of Lender's Revolving Commitment is Three Million Five Hundred Thousand Dollars ($3,500,000)."

(b) The definition of "Revolving Loan Termination Date" shall be amended to read in its entirety as follows:

"Revolving Loan Termination Date" shall mean the earliest of (a) March 31, 2010, (b) the date of termination of the Revolving Commitments pursuant to Section 4.3 hereof, and (c) the date on which Borrower Liabilities become due and payable pursuant to Section 8.2 hereof.

(c) The first sentence of Section 3.1 of the Loan Agreement shall be amended in its entirety, effective as of March 30, 2009, as follows:

"Each Revolving Advance made pursuant to this Agreement shall bear interest payable monthly in arrears on the first Business Day of each month calculated on a 360 day year and actual days elapsed at a rate equal to 9.00% per annum."

(d) The Commitment Fee payable by Borrower pursuant to Section 3.2 (a) of the Loan Agreement shall be equal to .75% per annum (pro-rated daily) on the total amount of the Revolving Commitment, payable upon execution of this Third Amendment for the period from the date hereof through March 31, 2010 and annually thereafter.

3. Acknowledgement by Borrower. Borrower acknowledges that to the best of its knowledge, as of the date hereof, there are no Events of Default that have occurred and which are continuing under the Loan Agreement.

4. Due Diligence Fee. Lender acknowledges that Borrower has heretofore paid to Lender a due diligence fee in the amount of $5,000 to cover all costs and expenses incurred by Lender in connection with the preparation and negotiation of, and the consummation of the transactions contemplated by, this Third Amendment to the Loan Agreement, and Borrower has no obligation to reimburse Lender therefor to the extent such costs and expenses exceed the amount of such fee.

5. Governing Law. This Third Amendment shall be governed by and construed in accordance with the laws of the State of Illinois (without giving effect to its laws of conflicts) and to the extent applicable, federal law.

6. Effect of Amendment. Except as expressly modified hereby, the terms and conditions of the Loan Agreement (as amended) remain in full force and effect.

IN WITNESS WHEREOF, this Third Amendment has been duly executed and delivered by the parties hereto as of the date first above written.

BLUECREST VENTURE FINANCE MASTER FUND LIMITED
acting through its duly appointed agent and investment manager, BlueCrest Capital Management LLP

By: /s/ Peter Cox
Name: Peter Cox
Title: C.O.O.

SPS COMMERCE, INC.

By: /s/ Kimberly K. Nelson
Name: Kim Nelson
Title: CFO

Exhibit 10.13

FOURTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT

This Fourth Amendment to Loan and Security Agreement (the "Fourth Amendment") is entered into and is effective this 8th day of April, 2009 by and between BlueCrest Venture Finance Master Fund Limited ("Lender"), as assignee of Ritchie Capital Finance, LLC ("Original Lender") and Ritchie Debt Acquisition Fund, Ltd. ("Initial Assignee"), and SPS Commerce, Inc. ("Borrower").

RECITALS

A. Original Lender provided one or more credit facilities or arrangements to Borrower pursuant to that certain Loan and Security Agreement, as amended, by and between Original Lender and Borrower, dated as of February 3, 2006 (the "Loan Agreement"), which Loan Agreement had been assigned by Original Lender to Original Assignee, as of May 5, 2006, and which was then assigned to Lender as of December 18, 2006.

B. In connection with the Loan Agreement, Borrower has granted to Lender a first priority security interest in the Collateral. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Loan Agreement.

C. Lender and Borrower now desire to amend the Loan Agreement to remove the swing feature from the Revolving Loan Commitment, on the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the promises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto, the parties hereto agree as follows:

1. Amendment of Loan Agreement. Lender and Borrower hereby agree that the Loan Agreement shall be amended as follows:

(a) The definition of "Revolving Commitment" shall be amended to read in its entirety as follows:

> "Revolving Commitment" means the commitment of Lender to make Revolving Advances hereunder, subject to the terms hereof, as such commitment may be reduced from time to time pursuant to Section 4.3 or Section 8. The initial amount of Lender's Revolving Commitment is Three Million Five Hundred Thousand Dollars ($3,500,000)."

(b) The definition of "Rollover Amount" and "Rollover Date" shall be deleted.

2. Acknowledgement by Borrower. Borrower acknowledges that to the best of its knowledge, as of the date hereof, there are no Events of Default that have occurred and which are continuing under the Loan Agreement.

3. Governing Law. This Fourth Amendment shall be governed by and construed in accordance with the laws of the State of Illinois (without giving effect to its laws of conflicts) and to the extent applicable, federal law.

4. Effect of Amendment. Except as expressly modified hereby, the terms and conditions of the Loan Agreement (as amended) remain in full force and effect.

IN WITNESS WHEREOF, this Fourth Amendment has been duly executed and delivered by the parties as of the date first above written.

BLUECREST VENTURE FINANCE MASTER FUND LIMITED
acting through its duly appointed agent and investment manger, BlueCrest Capital Management LLP

By: /s/ Peter Cox
Name: Peter Cox
Title: Chief Operation Officer

SPS COMMERCE, INC.

By: /s/ Kimberly K. Nelson
Name: Kim Nelson
Title: CFO

Exhibit 10.14

SPS COMMERCE, INC.
2002 MANAGEMENT INCENTIVE AGREEMENT

THIS 2002 MANAGEMENT INCENTIVE AGREEMENT (this "*Agreement*") is entered into effective as of the 1st day of July, 2002, by and between SPS Commerce, Inc., a Delaware corporation (the "*Company*"), and Archie Black ("*Employee*").

WHEREAS, the Company has in the past considered the possible sale of the Company, and may consider such a sale in the future; and

WHEREAS, subject to the terms and under the conditions herein, the Company desires to provide an additional inducement for Employee to assist the Company at such time (if any) during which the Company considers pursuing such a sale.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and conditions contained herein, the parties hereto agree as follows:

1. Sale Bonus. Subject to the conditions and limitations herein (including without limitation Sections 1(b), 1(c), 1(d) and 1(e) below), if a Sale (as hereinafter defined) of the Company occurs, the Company shall pay to Employee an amount equal to the Sale Bonus (as hereinafter defined) as follows:

(a) Calculation. If the Purchase Price (as hereinafter defined) to the Company in respect of any Sale is at least $25,000,000, then the "Sale Bonus" shall be an amount equal to .114% (the "*Designated Percentage*") of the amount of the Purchase Price that (x) exceeds $25,000,000 and (y) does not exceed $65,000,000, subject to adjustment and paid as follows:

(i) The Company shall pay the Sale Bonus to Employee within 5 days after the closing date of the Sale.

(ii) If Employee's employment with the Company terminates for any or no reason (whether voluntary, involuntary, or with or without cause, by death or for any other reason), such termination shall not affect the Company's obligation to pay the Sale Bonus to Employee, or Employee's rights thereto, in the event of a Sale.

(iii) The form of payment of any Sale Bonus due hereunder shall be in the sole discretion of the Board of Directors of the Company, and may consist of cash, securities, other property, or a combination of the foregoing, all as decided by the Board of Directors.

For the avoidance of doubt, the following example of the above calculation is set forth: If a Sale occurs with a Purchase Price of $70,000,000, then the amount of the Sale Bonus (to the extent otherwise due hereunder) would be $45,600, which is the amount equal to the Designated Percentage of $40,000,000 (which $40,000,000 is in turn the amount of such Purchase Price that exceeds $25,000,000 but does not exceed $65,000,000).

(b) Minimum Purchase Price. If the Purchase Price to the Company in respect of any Sale of the Company is less than $25,000,000, then Employee shall not be entitled to any Sale Bonus or other payment pursuant to this Agreement, and all of the Company's obligations to pay the Sale Bonus shall be canceled and be of no effect.

(c) Termination of Right to Receive Payments. Notwithstanding any other provision herein, if a Sale does not occur by June 30, 2012, then the Company's obligation to make any payment to Employee pursuant to this Agreement, and all of Employee's rights thereto, shall be canceled and be of no effect.

(d) Possible Reduction of Payments Pursuant to Section 280G of the Internal Revenue Code. Notwithstanding any provision to the contrary contained herein, if the payments to which Employee may become entitled under this Section 1, either alone or together with other payments (if any) in the nature of compensation to Employee which are contingent on a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company or otherwise, would constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "*Code*") (or any successor provision thereto, together "*Section 280G*"), such cash payments and/or such other benefits shall be reduced (but not below zero) to the largest aggregate amount as will result in no portion thereof being subject to the excise tax imposed under Section 4999 of the Code (or any successor provision thereto, together "*Section 4999*"), or being non-deductible to the Company for federal income tax purposes pursuant to Section 280G. Company shall determine the amount of any reduction to be made pursuant to this Section 1(d) and shall select from among the foregoing benefits and payments those that shall be reduced.

(e) Company Right to Amend Agreement. Notwithstanding any provision to the contrary contained herein, Employee acknowledges that an independent committee of the Company's Board of Directors ("independent" in that it does not contain representatives of the preferred stockholders of the Company), in its sole discretion, may at any time (upon notice to Employee) amend this Agreement to reflect an equitable (as determined by the such committee in its sole discretion) adjustment as a result of any (i) merger or acquisition made by the Company, (ii) additional rounds of financing or (iii) similar events that the Company enters into prior to the occurrence of a Sale, but only to the extent such committee determines that such events independently increased the Purchase Price and that an equitable adjustment is required as a result. Such an amendment may include, without limitation, a reduction in the Designated Percentage or other revisions to the calculation of the Sale Bonus. EMPLOYEE AGREES THAT ANY SUCH AMENDMENT SHALL BE IN THE SOLE DISCRETION OF THE INDEPENDENT COMMITTEE OF THE COMPANY'S BOARD OF DIRECTORS AND SHALL BE BINDING UPON EMPLOYEE. EMPLOYEE WAIVES ANY AND ALL RIGHTS EMPLOYEE MAY HAVE TO CHALLENGE SUCH AMENDMENT.

(f) Certain Definitions. As used herein, the following terms shall have the following respective meanings:

(i) "Sale" shall mean the actual closing (if any) of (A) the sale of all or substantially all of the assets of the Company, other than to one or more persons who

are stockholders of, or employed by, the Company on the date of this letter, an entity controlled by or affiliated with such persons, an entity controlled by, or under common control with, the Company, or any of them, (B) the sale of more than 70% of the voting stock of the Company (on an as-converted basis) in a single transaction or series of transactions other than to one or more persons who are stockholders of, or employed by, the Company on the date of this Agreement, an entity controlled by or affiliated with such persons, an entity controlled by, or under common control with, the Company, or any of them, or (C) a merger or consolidation of the Company resulting in more than 70% of the voting power of the Company or of the surviving or resulting corporation being vested in persons other than one or more persons who are stockholders of, or employed by, the Company on the date of this Agreement, an entity controlled by or affiliated with such persons, an entity controlled by, or under common control with, the Company, or any of them.

(ii) "Purchase Price" shall mean the aggregate of (A) cash amounts payable to the Company as consideration pursuant to the terms of the Sale (including any non-competition payments payable to the Company, but excluding any amounts payable to any employees in connection with the Sale); and (B) any bona fide debt (*i.e.*, debt represented by a written promissory note or similar instrument) of the Company assumed by the purchaser as consideration pursuant to the terms of the Sale. Notwithstanding the foregoing, to the extent any amount of the Purchase Price is (x) subject to a post-closing adjustment (for example, to reflect actual inventory or accounts receivables), or (y) payable only as an "earn-out" contingency upon certain performance thresholds being achieved (*i.e.*, minimum revenue or earnings thresholds), then the Company shall, in consultation with its certified public accountant, have the right in its discretion to determine an appropriate amount (if any) to reflect the probable amount (as of the date of closing of the Sale) payable (or other adjustment to be made) as a result of such an adjustment or earn-out contingency, and in such event Employee hereby waives to the fullest extent permitted by law, any and all rights to challenge or question such determination by the Company, it being understood by Employee that any such determination would be based upon assumptions and projections that might well be proven inaccurate.

2. Effect on Other Bonus or Severance Programs. Any payments made under Section 1(a) above shall be in addition to, and not in lieu of, any payments (if any) that may become due to Employee under any existing or future executive management bonus or severance program of the Company or any agreements in respect thereof.

3. Sale at Company's Discretion; No Obligation to Inform. Employee hereby acknowledges and agrees that any decision to consider or pursue a Sale (and to establish the amount of any consideration related thereto) shall be in the Company's sole discretion, and that the Company has no obligation to Employee (including without limitation pursuant to this Agreement) to (a) cause a Sale to occur, including without limitation to seek or entertain offers from third parties relating to any such matter, (b) negotiate with any third party regarding any such matter, (c) seek any alternative to any such matter, or (d) establish the amount of any consideration relating to a Sale in a manner that would cause the Company to be obligated to pay

a Sale Bonus or maximize the amount of any Sale Bonus. Employee further acknowledges and agrees that the Company shall have no obligation to disclose to Employee the status of the Company's efforts in pursuing a Sale.

4. Certain Representations, Warranties and Covenants of Employee. Employee hereby represents, warrants and covenants to the Company as follows:

(a) While an employee of the Company, Employee shall assist the Company in preparation for, and in the consummation of, a Sale if requested by the Company, through the performance of Employee's normal and customary employment duties, as well as those duties as may be reasonably requested by the Company from time to time, including without limitation assisting in the compilation and analysis of data relating to the Company.

(b) Employee acknowledges and agrees that the Company's entering into this Agreement, and its contingent obligations to make payments pursuant to Section 1 hereof, constitute full and complete consideration for each of Employee's obligations hereunder.

5. No Right to Employment or Benefits. This Agreement does not constitute or imply (a) any obligation or undertaking to employ Employee for any period of time or in any position, or (b) any limitation on the right of the Company to terminate Employee's employment at any time with or without notice or cause.

6. Withholding/Reduction of Payments. All payments hereunder are subject to withholding of all taxes and other amounts required by law to be withheld or paid to others. The Company may, in its discretion and to the full extent permitted by law, apply a payment otherwise due Employee to pay any amounts, debts or claims owed to the Company by Employee, until all such amounts, debts and claims are paid in full.

7. No Waiver. No delay or failure by any party hereto to insist, in any one or more instances, upon performance of any of the terms and conditions of this Agreement or to exercise any rights or remedies hereunder shall constitute a waiver or relinquishment of such rights or remedies or any other rights or remedies hereunder.

8. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the successors, legal representatives and assigns of the parties hereto; provided, however, that Employee shall not have any right to assign, pledge or otherwise dispose of or transfer any interest in this Agreement or any payment hereunder, whether directly or indirectly or in whole or in part, without the prior written consent of the Company, and any such attempted assignment, pledge or other disposition or transfer in contravention of the foregoing shall be null and void. Notwithstanding the foregoing, in the event of Employee's death, the Employee's estate and/or legal beneficiaries shall be entitled to the rights of Employee hereunder in the event of a Sale occurring prior to June 30, 2012.

9. Separate Representation. Employee hereby acknowledges that Employee has been advised, and has had ample opportunity, to obtain independent advice and representation from counsel of Employee's own selection in connection with this Agreement and has not relied

to any extent on any officer, director or shareholder of, or counsel to, the Company in deciding to enter into this Agreement.

10. Amendment; Complete Agreement. No provision of this Agreement may be altered, amended, modified, waived or discharged in any manner whatsoever except (i) by the independent committee pursuant to Section 1(e) and (ii) by written agreement executed by both parties hereto. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof.

11. Governing Law. This Agreement shall be construed under and governed by the laws of the State of Minnesota, without giving effect to principles of conflicts of law.

12. Severability. In the event that any portion of this Agreement is held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the other portions of this Agreement, and the remaining covenants, terms and conditions or portions hereof shall remain in full force and effect, and any court of competent jurisdiction may so modify the objectionable provision so as to make it valid, enforceable and as close in meaning and economic effect to the original provision as possible.

13. Counterparts. This Agreement may be executed by facsimile signature and in counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Management Incentive Agreement as of the date first above written.

SPS COMMERCE, INC.

By: /s/ Archie Black
Name: Archie Black
Its: CEO

EMPLOYEE

/s/ Archie Black
Archie Black

Exhibit 10.15

SPS COMMERCE, INC.
2002 MANAGEMENT INCENTIVE AGREEMENT

THIS 2002 MANAGEMENT INCENTIVE AGREEMENT (this "*Agreement*") is entered into effective as of the 1st day of July, 2002, by and between SPS Commerce, Inc., a Delaware corporation (the "*Company*"), and James Frome ("*Employee*").

WHEREAS, the Company has in the past considered the possible sale of the Company, and may consider such a sale in the future; and

WHEREAS, subject to the terms and under the conditions herein, the Company desires to provide an additional inducement for Employee to assist the Company at such time (if any) during which the Company considers pursuing such a sale.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and conditions contained herein, the parties hereto agree as follows:

1. Sale Bonus. Subject to the conditions and limitations herein (including without limitation Sections 1(b), 1(c), 1(d) and 1(e) below), if a Sale (as hereinafter defined) of the Company occurs, the Company shall pay to Employee an amount equal to the Sale Bonus (as hereinafter defined) as follows:

(a) Calculation. If the Purchase Price (as hereinafter defined) to the Company in respect of any Sale is at least $25,000,000, then the "Sale Bonus" shall be an amount equal to .115% (the "*Designated Percentage*") of the amount of the Purchase Price that (x) exceeds $25,000,000 and (y) does not exceed $65,000,000, subject to adjustment and paid as follows:

(i) The Company shall pay the Sale Bonus to Employee within 5 days after the closing date of the Sale.

(ii) If Employee's employment with the Company terminates for any or no reason (whether voluntary, involuntary, or with or without cause, by death or for any other reason), such termination shall not affect the Company's obligation to pay the Sale Bonus to Employee, or Employee's rights thereto, in the event of a Sale.

(iii) The form of payment of any Sale Bonus due hereunder shall be in the sole discretion of the Board of Directors of the Company, and may consist of cash, securities, other property, or a combination of the foregoing, all as decided by the Board of Directors.

For the avoidance of doubt, the following example of the above calculation is set forth: If a Sale occurs with a Purchase Price of $70,000,000, then the amount of the Sale Bonus (to the extent otherwise due hereunder) would be $46,000, which is the amount equal to the Designated Percentage of $40,000,000 (which $40,000,000 is in turn the amount of such Purchase Price that exceeds $25,000,000 but does not exceed $65,000,000).

(b) Minimum Purchase Price. If the Purchase Price to the Company in respect of any Sale of the Company is less than $25,000,000, then Employee shall not be entitled to any Sale Bonus or other payment pursuant to this Agreement, and all of the Company's obligations to pay the Sale Bonus shall be canceled and be of no effect.

(c) Termination of Right to Receive Payments. Notwithstanding any other provision herein, if a Sale does not occur by June 30, 2012, then the Company's obligation to make any payment to Employee pursuant to this Agreement, and all of Employee's rights thereto, shall be canceled and be of no effect.

(d) Possible Reduction of Payments Pursuant to Section 280G of the Internal Revenue Code. Notwithstanding any provision to the contrary contained herein, if the payments to which Employee may become entitled under this Section 1, either alone or together with other payments (if any) in the nature of compensation to Employee which are contingent on a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company or otherwise, would constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "*Code*") (or any successor provision thereto, together "*Section 280G*"), such cash payments and/or such other benefits shall be reduced (but not below zero) to the largest aggregate amount as will result in no portion thereof being subject to the excise tax imposed under Section 4999 of the Code (or any successor provision thereto, together "*Section 4999*"), or being non-deductible to the Company for federal income tax purposes pursuant to Section 280G. Company shall determine the amount of any reduction to be made pursuant to this Section 1(d) and shall select from among the foregoing benefits and payments those that shall be reduced.

(e) Company Right to Amend Agreement. Notwithstanding any provision to the contrary contained herein, Employee acknowledges that an independent committee of the Company's Board of Directors ("independent" in that it does not contain representatives of the preferred stockholders of the Company), in its sole discretion, may at any time (upon notice to Employee) amend this Agreement to reflect an equitable (as determined by the such committee in its sole discretion) adjustment as a result of any (i) merger or acquisition made by the Company, (ii) additional rounds of financing or (iii) similar events that the Company enters into prior to the occurrence of a Sale, but only to the extent such committee determines that such events independently increased the Purchase Price and that an equitable adjustment is required as a result. Such an amendment may include, without limitation, a reduction in the Designated Percentage or other revisions to the calculation of the Sale Bonus. EMPLOYEE AGREES THAT ANY SUCH AMENDMENT SHALL BE IN THE SOLE DISCRETION OF THE INDEPENDENT COMMITTEE OF THE COMPANY'S BOARD OF DIRECTORS AND SHALL BE BINDING UPON EMPLOYEE. EMPLOYEE WAIVES ANY AND ALL RIGHTS EMPLOYEE MAY HAVE TO CHALLENGE SUCH AMENDMENT.

(f) Certain Definitions. As used herein, the following terms shall have the following respective meanings:

(i) "Sale" shall mean the actual closing (if any) of (A) the sale of all or substantially all of the assets of the Company, other than to one or more persons who

are stockholders of, or employed by, the Company on the date of this letter, an entity controlled by or affiliated with such persons, an entity controlled by, or under common control with, the Company, or any of them, (B) the sale of more than 70% of the voting stock of the Company (on an as-converted basis) in a single transaction or series of transactions other than to one or more persons who are stockholders of, or employed by, the Company on the date of this Agreement, an entity controlled by or affiliated with such persons, an entity controlled by, or under common control with, the Company, or any of them, or (C) a merger or consolidation of the Company resulting in more than 70% of the voting power of the Company or of the surviving or resulting corporation being vested in persons other than one or more persons who are stockholders of, or employed by, the Company on the date of this Agreement, an entity controlled by or affiliated with such persons, an entity controlled by, or under common control with, the Company, or any of them.

(ii) "Purchase Price" shall mean the aggregate of (A) cash amounts payable to the Company as consideration pursuant to the terms of the Sale (including any non-competition payments payable to the Company, but excluding any amounts payable to any employees in connection with the Sale); and (B) any bona fide debt (*i.e.*, debt represented by a written promissory note or similar instrument) of the Company assumed by the purchaser as consideration pursuant to the terms of the Sale. Notwithstanding the foregoing, to the extent any amount of the Purchase Price is (x) subject to a post-closing adjustment (for example, to reflect actual inventory or accounts receivables), or (y) payable only as an "earn-out" contingency upon certain performance thresholds being achieved (*i.e.*, minimum revenue or earnings thresholds), then the Company shall, in consultation with its certified public accountant, have the right in its discretion to determine an appropriate amount (if any) to reflect the probable amount (as of the date of closing of the Sale) payable (or other adjustment to be made) as a result of such an adjustment or earn-out contingency, and in such event Employee hereby waives to the fullest extent permitted by law, any and all rights to challenge or question such determination by the Company, it being understood by Employee that any such determination would be based upon assumptions and projections that might well be proven inaccurate.

2. Effect on Other Bonus or Severance Programs. Any payments made under Section 1(a) above shall be in addition to, and not in lieu of, any payments (if any) that may become due to Employee under any existing or future executive management bonus or severance program of the Company or any agreements in respect thereof.

3. Sale at Company's Discretion; No Obligation to Inform. Employee hereby acknowledges and agrees that any decision to consider or pursue a Sale (and to establish the amount of any consideration related thereto) shall be in the Company's sole discretion, and that the Company has no obligation to Employee (including without limitation pursuant to this Agreement) to (a) cause a Sale to occur, including without limitation to seek or entertain offers from third parties relating to any such matter, (b) negotiate with any third party regarding any such matter, (c) seek any alternative to any such matter, or (d) establish the amount of any consideration relating to a Sale in a manner that would cause the Company to be obligated to pay

a Sale Bonus or maximize the amount of any Sale Bonus. Employee further acknowledges and agrees that the Company shall have no obligation to disclose to Employee the status of the Company's efforts in pursuing a Sale.

4. Certain Representations, Warranties and Covenants of Employee. Employee hereby represents, warrants and covenants to the Company as follows:

(a) While an employee of the Company, Employee shall assist the Company in preparation for, and in the consummation of, a Sale if requested by the Company, through the performance of Employee's normal and customary employment duties, as well as those duties as may be reasonably requested by the Company from time to time, including without limitation assisting in the compilation and analysis of data relating to the Company.

(b) Employee acknowledges and agrees that the Company's entering into this Agreement, and its contingent obligations to make payments pursuant to Section 1 hereof, constitute full and complete consideration for each of Employee's obligations hereunder.

5. No Right to Employment or Benefits. This Agreement does not constitute or imply (a) any obligation or undertaking to employ Employee for any period of time or in any position, or (b) any limitation on the right of the Company to terminate Employee's employment at any time with or without notice or cause.

6. Withholding/Reduction of Payments. All payments hereunder are subject to withholding of all taxes and other amounts required by law to be withheld or paid to others. The Company may, in its discretion and to the full extent permitted by law, apply a payment otherwise due Employee to pay any amounts, debts or claims owed to the Company by Employee, until all such amounts, debts and claims are paid in full.

7. No Waiver. No delay or failure by any party hereto to insist, in any one or more instances, upon performance of any of the terms and conditions of this Agreement or to exercise any rights or remedies hereunder shall constitute a waiver or relinquishment of such rights or remedies or any other rights or remedies hereunder.

8. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the successors, legal representatives and assigns of the parties hereto; provided, however, that Employee shall not have any right to assign, pledge or otherwise dispose of or transfer any interest in this Agreement or any payment hereunder, whether directly or indirectly or in whole or in part, without the prior written consent of the Company, and any such attempted assignment, pledge or other disposition or transfer in contravention of the foregoing shall be null and void. Notwithstanding the foregoing, in the event of Employee's death, the Employee's estate and/or legal beneficiaries shall be entitled to the rights of Employee hereunder in the event of a Sale occurring prior to June 30, 2012.

9. Separate Representation. Employee hereby acknowledges that Employee has been advised, and has had ample opportunity, to obtain independent advice and representation from counsel of Employee's own selection in connection with this Agreement and has not relied

to any extent on any officer, director or shareholder of, or counsel to, the Company in deciding to enter into this Agreement.

10. Amendment; Complete Agreement. No provision of this Agreement may be altered, amended, modified, waived or discharged in any manner whatsoever except (i) by the independent committee pursuant to Section 1(e) and (ii) by written agreement executed by both parties hereto. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof.

11. Governing Law. This Agreement shall be construed under and governed by the laws of the State of Minnesota, without giving effect to principles of conflicts of law.

12. Severability. In the event that any portion of this Agreement is held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the other portions of this Agreement, and the remaining covenants, terms and conditions or portions hereof shall remain in full force and effect, and any court of competent jurisdiction may so modify the objectionable provision so as to make it valid, enforceable and as close in meaning and economic effect to the original provision as possible.

13. Counterparts. This Agreement may be executed by facsimile signature and in counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Management Incentive Agreement as of the date first above written.

SPS COMMERCE, INC.

By: /s/ Archie Black
Name: Archie Black
Its: CEO

EMPLOYEE

/s/ James Frome
James Frome

SPS COMMERCE, INC.
INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "**Agreement**") is made and entered into as of , 2009 between **SPS COMMERCE, INC.**, a Delaware corporation (the "**Company**"), and ("**Indemnitee**").

WITNESSETH THAT:

WHEREAS, the Board has determined that the increased difficulty in attracting and retaining directors is detrimental to the best interests of the Company's stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future;

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, directors to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified;

WHEREAS, this Agreement is intended to clarify Indemnitee's entitlement to the maximum indemnity afforded directors under the Delaware General Corporation Law (the **"DGCL"**) and is a supplement to and in furtherance of the provision calling for indemnification of directors contained in the By-laws or Certificate of Incorporation (collectively, the "**Charter Documents**") of the Company and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder;

WHEREAS, Indemnitee is employed by, or has agreed to serve as a director at the direction of (the "**Sponsor**"); and

WHEREAS, neither Indemnitee nor Sponsor regards the protection available under the Company's Charter Documents and insurance as adequate in the present circumstances, and Indemnitee is not willing to serve, and Sponsor will not consent to Indemnitee's service, as a director without adequate protection, and the Company desires Indemnitee to serve in such capacity. Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that Indemnitee be so indemnified and Sponsor is willing to consent to such service on the condition that the Company acknowledge its primary obligation as indemnitor and its obligation to reimburse Sponsor for any expenditure of Sponsor's own funds in indemnifying Indemnitee because of his or her Corporate Status.

NOW, THEREFORE, in consideration of Indemnitee's agreement to serve as a director from and after the date hereof, the parties hereto agree as follows:

1. Indemnity of Indemnitee. The Company hereby agrees to hold harmless and indemnify Indemnitee to the fullest extent permitted by law, as such may be amended from time to time. In furtherance of the foregoing indemnification, and without limiting the generality thereof:

(a) Proceedings Other Than Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section l(a) if, by reason of his or her Corporate Status (as hereinafter defined), the Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding (as hereinafter defined) other than a Proceeding by or in the right of the Company. Pursuant to this Section 1(a), Indemnitee shall be indemnified against all Expenses (as hereinafter defined), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee, or on his or her behalf, in connection with such Proceeding or any claim, issue or matter therein, if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal Proceeding, had no reasonable cause to believe the Indemnitee's conduct was unlawful.

(b) Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(b) if, by reason of his or her Corporate Status, the Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding brought by or in the right of the Company. Pursuant to this Section 1(b), Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by the Indemnitee, or on the Indemnitee's behalf, in connection with such Proceeding if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; provided, however, if applicable law so provides, no indemnification against such Expenses shall be made in respect of any claim, issue or matter in such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Company unless and to the extent that the Court of Chancery of the State of Delaware shall determine that such indemnification may be made.

(c) Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, Indemnitee shall be indemnified to the maximum extent permitted by law, as such may be amended from time to time, against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

2. Additional Indemnity. In addition to, and without regard to any limitations on, the indemnification provided for in Section 1 of this Agreement, the Company shall and hereby does indemnify and hold harmless Indemnitee against all Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf if, by reason of his or her Corporate Status, Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding (including a Proceeding by or in the right of the Company), including, without limitation, all liability arising out of the negligence or active or passive wrongdoing of Indemnitee. The only limitation that shall exist upon the Company's obligations pursuant to this Agreement shall be that the Company shall not be obligated to make any payment to Indemnitee that is finally determined (under the procedures, and subject to the presumptions, set forth in Sections 6 and 7 hereof) to be unlawful.

3. Contribution.

(a) Whether or not the indemnification provided in Sections 1 and 2 hereof is available, in respect of any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall pay, in the first instance, the entire amount of any judgment or settlement of such action, suit or proceeding without requiring Indemnitee to contribute to such payment and the Company hereby waives and relinquishes any right of contribution it may have against Indemnitee. The Company shall not enter into any settlement of any action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

(b) Without diminishing or impairing the obligations of the Company set forth in the preceding subparagraph, if, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall contribute to the amount of Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in proportion to the relative benefits received by the Company and all officers, directors or employees of the

Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction from which such action, suit or proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the events that resulted in such expenses, judgments, fines or settlement amounts, as well as any other equitable considerations which the Law may require to be considered. The relative fault of the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary and the degree to which their conduct is active or passive.

(c) The Company hereby agrees to fully indemnify and hold Indemnitee harmless from any claims of contribution which may be brought by officers, directors or employees of the Company, other than Indemnitee, who may be jointly liable with Indemnitee.

(d) To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

4. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a witness, or is made (or asked to) respond to discovery requests, in any Proceeding to which Indemnitee is not a party, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

5. Advancement of Expenses. Notwithstanding any other provision of this Agreement, the Company shall advance all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding by reason of Indemnitee's Corporate Status within thirty (30) days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by a written undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses. Any advances and undertakings to repay pursuant to this Section 5 shall be unsecured and interest free.

6. Procedures and Presumptions for Determination of Entitlement to Indemnification. It is the intent of this Agreement to secure for Indemnitee rights of indemnity that are as favorable as may be permitted under the DGCL and public policy of the State of Delaware. Accordingly, the parties agree that the following procedures and presumptions shall apply in the event of any question as to whether Indemnitee is entitled to indemnification under this Agreement:

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether

and to what extent Indemnitee is entitled to indemnification. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification. Notwithstanding the foregoing, any failure of Indemnitee to provide such a request to the Company, or to provide such a request in a timely fashion, shall not relieve the Company of any liability that it may have to Indemnitee unless, and to the extent that, such failure actually and materially prejudices the interests of the Company.

(b) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 6(a) hereof, a determination with respect to Indemnitee's entitlement thereto shall be made in the specific case by one of the following four methods, which shall be at the election of the board: (1) by a majority vote of the disinterested directors, even though less than a quorum, (2) by a committee of disinterested directors designated by a majority vote of the disinterested directors, even though less than a quorum, (3) if there are no disinterested directors or if the disinterested directors so direct, by independent legal counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to the Indemnitee, or (4) if so directed by the Board of Directors, by the stockholders of the Company. For purposes hereof, disinterested directors are those members of the board of directors of the Company who are not parties to the action, suit or proceeding in respect of which indemnification is sought by Indemnitee.

(c) If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 6(b) hereof, the Independent Counsel shall be selected as provided in this Section 6(c). The Independent Counsel shall be selected by the Board of Directors and Indemnitee shall be promptly notified of such selection. Indemnitee may, within ten (10) days after such written notice of selection shall have been given, deliver to the Company a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "**Independent Counsel**" as defined in Section 13 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If a written objection is made and substantiated, the Independent Counsel selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within 20 days after submission by Indemnitee of a written request for indemnification pursuant to Section 6(a) hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Court of Chancery of the State of Delaware or other court of competent jurisdiction for resolution of any objection which shall have been made by the Indemnitee to the Company's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 6(b) hereof. The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to Section 6(b) hereof, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 6(c), regardless of the manner in which such Independent Counsel was selected or appointed.

(d) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence. Neither the failure of the Company (including by its directors or independent legal counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or independent legal counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(e) Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of the Enterprise (as hereinafter defined) in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Enterprise. In addition, the knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement. Whether or not the foregoing provisions of this Section 6(e) are satisfied, it shall in any event be presumed that Indemnitee has at all times acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(f) If the person, persons or entity empowered or selected under Section 6 to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making such determination with respect to entitlement to indemnification in good faith requires such additional time to obtain or evaluate documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 6(f) shall not apply if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 6(b) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination, the Board of Directors or the Disinterested Directors, if appropriate, resolve to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy-five (75) days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat.

(g) Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Independent Counsel, member of the Board of Directors or stockholder of the Company shall act reasonably and in good faith in making a determination regarding the Indemnitee's entitlement to indemnification under this Agreement. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(h) The Company acknowledges that a settlement or other disposition short of final judgment may be successful if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. In the event that any action, claim or proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such action, claim or proceeding with or without payment of money or other consideration) it shall be presumed that Indemnitee has been successful on the merits or otherwise in such action, suit or proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(i) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

7. Remedies of Indemnitee.

(a) In the event that (i) a determination is made pursuant to Section 6 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 5 of this Agreement, (iii) no determination of entitlement to indemnification is made pursuant to Section 6(b) of this Agreement within 90 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to this Agreement within ten (10) days after receipt by the Company of a written request therefor or (v) payment of indemnification is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Section 6 of this Agreement, Indemnitee shall be entitled to an adjudication in an appropriate court of the State of Delaware, or in any other court of competent jurisdiction, of Indemnitee's entitlement to such indemnification. Indemnitee shall commence such proceeding seeking an adjudication within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 7(a). The Company shall not oppose Indemnitee's right to seek any such adjudication.

(b) In the event that a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this Section 7 shall be conducted in all respects as a de novo trial on the merits, and Indemnitee shall not be prejudiced by reason of the adverse determination under Section 6(b).

(c) If a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 7, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's misstatement not materially misleading in connection with the application for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) In the event that Indemnitee, pursuant to this Section 7, seeks a judicial adjudication of Indemnitee's rights under, or to recover damages for breach of, this Agreement, or to recover under any directors' and officers' liability insurance policies maintained by the Company, the Company shall pay on Indemnitee's behalf, in advance, any and all expenses (of the types described in the definition of Expenses in Section 13 of this Agreement) actually and reasonably incurred by Indemnitee in such judicial adjudication, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of expenses or insurance recovery.

(e) The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 7 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court that the Company is bound by all the provisions of this Agreement. The Company shall indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefore) advance, to the extent not prohibited by law, such expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee for indemnification or advance of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of Expenses or insurance recovery, as the case may be.

(f) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding.

8. Non-Exclusivity; Survival of Rights; Insurance; Primacy of Indemnification; Subrogation.

(a) The rights of indemnification as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Charter Documents, any agreement, a vote of stockholders, a resolution of directors or otherwise, of the Company. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in the DGCL, whether by statute or judicial decision, permits greater indemnification than would be afforded currently under the Certificate of Incorporation, By-laws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents or fiduciaries of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise that such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any director, officer, employee, agent or fiduciary under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(c) The Company hereby acknowledges that Indemnitee has certain rights to indemnification, advancement of expenses and/or insurance provided by the Sponsor and certain of its affiliates (collectively, the "**Sponsor Indemnitors**"). The Company hereby agrees (i) that it is the indemnitor of first resort (i.e., its obligations to Indemnitee are primary and any obligation of the Sponsor Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by Indemnitee are secondary), (ii) that it shall be required to advance the full amount of expenses incurred by Indemnitee and shall be liable for the full amount of all Expenses, judgments, penalties, fines and amounts paid in settlement to the extent legally permitted and as required by the terms of this Agreement and the Charter Documents of the Company (or any other agreement between the Company and Indemnitee), without regard to any rights Indemnitee may have against the Sponsor Indemnitors, and, (iii) that it irrevocably waives, relinquishes and releases the Sponsor Indemnitors from any and all claims against the Sponsor Indemnitors for contribution, subrogation or any other recovery of any kind in respect thereof. The Company further agrees that (i) no advancement or payment by the Sponsor Indemnitors on behalf of Indemnitee with respect to any claim for which Indemnitee has sought indemnification from the Company shall affect the foregoing, (ii) the Company will immediately reimburse the Sponsor Indemnitors for any such advancement of their own funds to Indemnitee, or payment to Indemnitee by way of indemnification made by Sponsor Indemnitors to Indemnitee for which Indemnitee would be entitled to indemnity (including advancement of Expenses) under this Agreement, and (iii) the Sponsor Indemnitors shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of Indemnitee against the Company. The Company and Indemnitee agree that the Sponsor Indemnitors are express third party beneficiaries of the terms of this

Section 8(c).

(d) Except as provided in paragraph (c) above, in the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee (other than against the Sponsor Indemnitors), who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(e) Except as provided in paragraph (c) above, the Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

(f) Except as provided in paragraph (c) above, the Company's obligation to indemnify or advance Expenses hereunder to Indemnitee who is or was serving at the request of the Company as a director, officer, employee or agent of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of expenses from such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise.

9. Exception to Right of Indemnification. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision, provided, that the foregoing shall not affect the rights of Indemnitee or the Sponsor Indemnitors set forth in Section 8(c) above; or

(b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of state statutory law or common law; or

(c) except with respect to a Proceeding relating to enforcement of, or to indemnity under this Agreement, or under the Charter Documents, the DGCL, or any insurance policy relating to Indemnitee's Corporate Status, in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board of Directors of the Company authorized the Proceeding (or any part of any Proceeding) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

10. Duration of Agreement. All agreements and obligations of the Company contained herein shall commence upon the execution of this Agreement, and shall continue thereafter so long as Indemnitee could be subject to any Proceeding (or any proceeding commenced under Section 7 hereof) by reason of Indemnitee's Corporate Status, whether or not Indemnitee is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement and regardless of any subsequent amendment to the Charter Documents, the DGCL or any other agreement relating to indemnification of Indemnitee. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), assigns, spouses, heirs, executors and personal and legal representatives.

11. Security. To the extent requested by Indemnitee and approved by the Board of Directors of the Company, the Company may at any time and from time to time provide security to

Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnitee, may not be revoked or released without the prior written consent of the Indemnitee.

12. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumes the obligations imposed on it hereby in order to induce Indemnitee to serve as an officer or director of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as an officer or director of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

13. Definitions. For purposes of this Agreement:

(a) "**Corporate Status**" describes the status of a person who is or was a director of the Company in his or her official capacity as such or as agent or fiduciary of the Company related to such status as a director (but not as an officer or employee), or as a director, agent or fiduciary of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving at the express written request of the Company.

(b) "**Disinterested Director**" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(c) "**Enterprise**" shall mean the Company and any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise that Indemnitee is or was serving at the express written request of the Company as a director, officer, employee, agent or fiduciary.

(d) "**Expenses**" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding, or responding to, or objecting to, a request to provide discovery in any Proceeding. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, including without limitation the premium, security for, and other costs relating to any cost bond, supersede as bond, or other appeal bond or its equivalent. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(e) "**Independent Counsel**" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five (5) years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(f) "**Proceeding**" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or

any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether civil, criminal, administrative or investigative, in which Indemnitee was, is or will be involved as a party or otherwise, by reason of the fact that Indemnitee is or was an officer or director of the Company, by reason of any action taken by Indemnitee or of any inaction on Indemnitee's part while acting as an officer or director of the Company, or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other Enterprise; in each case whether or not Indemnitee is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement; including one pending on or before the date of this Agreement, but excluding one initiated by an Indemnitee pursuant to Section 7 of this Agreement to enforce Indemnitee's rights under this Agreement.

14. Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision. Without limiting the generality of the foregoing, this Agreement is intended to confer upon Indemnitee indemnification rights to the fullest extent permitted by applicable laws and to ensure that indemnification rights provided by the Sponsor are secondary to the primary obligation of the Company to indemnify Indemnitee as provided in this Agreement. In the event any provision hereof conflicts with any applicable law, such provision shall be deemed modified, consistent with the aforementioned intent, to the extent necessary to resolve such conflict.

15. Modification and Waiver. No supplement, modification, termination or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

16. Notice By Indemnitee. Indemnitee agrees promptly to notify the Company in writing upon being served with or otherwise receiving any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification covered hereunder. The failure to so notify the Company shall not relieve the Company of any obligation which it may have to Indemnitee under this Agreement or otherwise unless and only to the extent that such failure or delay materially prejudices the Company.

17. Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient, and if not so confirmed, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent:

(a) To Indemnitee at the address set forth below Indemnitee signature hereto.

(b) To the Company at:

SPS Commerce, Inc.
Attention: Chief Executive Officer
Accenture Tower
333 South Seventh Street, Suite 1000
Minneapolis, MN 55402
Fax: 612-435-9402

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

18. Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement. This Agreement may also be executed and delivered by facsimile signature and in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

19. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

20. Governing Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. The Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Chancery Court of the State of Delaware (the "**Delaware Court**"), and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court, and (iv) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

21. Amendment and Restatement of Prior Agreements. The parties hereby agree that this Agreement supersedes any prior indemnification agreement between the parties in its entirety and this Agreement is hereby determined to amend and restate such prior agreements, if any.

SIGNATURE PAGE TO FOLLOW

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

COMPANY

By: _____
Archie C. Black
Chief Executive Officer

INDEMNITEE

_____
Name:

Address:

_____

_____

_____

SPS COMMERCE, INC.
INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "**Agreement**") is made and entered into as of , 2009 between **SPS COMMERCE, INC.**, a Delaware corporation (the "**Company**"), and ("**Indemnitee**").

WITNESSETH THAT:

WHEREAS, the Board has determined that the increased difficulty in attracting and retaining directors is detrimental to the best interests of the Company's stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future;

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, directors to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified;

WHEREAS, this Agreement is intended to clarify Indemnitee's entitlement to the maximum indemnity afforded directors under the Delaware General Corporation Law (the **"DGCL"**) and is a supplement to and in furtherance of the provision calling for indemnification of directors contained in the By-laws or Certificate of Incorporation (collectively, the "**Charter Documents**") of the Company and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder; and

WHEREAS, Indemnitee does not regard the protection available under the Company's Charter Documents and insurance as adequate in the present circumstances, and Indemnitee is not willing to serve as a director without adequate protection, and the Company desires Indemnitee to serve in such capacity. Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that Indemnitee be so indemnified.

NOW, THEREFORE, in consideration of Indemnitee's agreement to serve as a director from and after the date hereof, the parties hereto agree as follows:

1. Indemnity of Indemnitee. The Company hereby agrees to hold harmless and indemnify Indemnitee to the fullest extent permitted by law, as such may be amended from time to time. In furtherance of the foregoing indemnification, and without limiting the generality thereof:

(a) Proceedings Other Than Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(a) if, by reason of his or her Corporate Status (as hereinafter defined), the Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding (as hereinafter defined) other than a Proceeding by or in the right of the Company. Pursuant to this Section 1(a), Indemnitee shall be indemnified against all Expenses (as hereinafter defined), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee, or on his or her behalf, in connection with such Proceeding or any claim, issue or matter therein, if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal Proceeding, had no reasonable cause to believe the Indemnitee's conduct was unlawful.

(b) Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(b) if, by reason of his or her Corporate Status, the Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding brought by or in the right of the Company. Pursuant to this Section 1(b), Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by the Indemnitee, or on the Indemnitee's behalf, in connection with such Proceeding if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; provided, however, if applicable law so provides, no indemnification against such Expenses shall be made in respect of any

claim, issue or matter in such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Company unless and to the extent that the Court of Chancery of the State of Delaware shall determine that such indemnification may be made.

(c) Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, Indemnitee shall be indemnified to the maximum extent permitted by law, as such may be amended from time to time, against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

2. Additional Indemnity. In addition to, and without regard to any limitations on, the indemnification provided for in Section 1 of this Agreement, the Company shall and hereby does indemnify and hold harmless Indemnitee against all Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf if, by reason of his or her Corporate Status, Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding (including a Proceeding by or in the right of the Company), including, without limitation, all liability arising out of the negligence or active or passive wrongdoing of Indemnitee. The only limitation that shall exist upon the Company's obligations pursuant to this Agreement shall be that the Company shall not be obligated to make any payment to Indemnitee that is finally determined (under the procedures, and subject to the presumptions, set forth in Sections 6 and 7 hereof) to be unlawful.

3. Contribution.

(a) Whether or not the indemnification provided in Sections 1 and 2 hereof is available, in respect of any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall pay, in the first instance, the entire amount of any judgment or settlement of such action, suit or proceeding without requiring Indemnitee to contribute to such payment and the Company hereby waives and relinquishes any right of contribution it may have against Indemnitee. The Company shall not enter into any settlement of any action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

(b) Without diminishing or impairing the obligations of the Company set forth in the preceding subparagraph, if, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall contribute to the amount of Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in proportion to the relative benefits received by the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction from which such action, suit or proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the events that resulted in such expenses, judgments, fines or settlement amounts, as well as any other equitable

considerations which the Law may require to be considered. The relative fault of the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary and the degree to which their conduct is active or passive.

(c) The Company hereby agrees to fully indemnify and hold Indemnitee harmless from any claims of contribution which may be brought by officers, directors or employees of the Company, other than Indemnitee, who may be jointly liable with Indemnitee.

(d) To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

4. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a witness, or is made (or asked to) respond to discovery requests, in any Proceeding to which Indemnitee is not a party, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

5. Advancement of Expenses. Notwithstanding any other provision of this Agreement, the Company shall advance all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding by reason of Indemnitee's Corporate Status within thirty (30) days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by a written undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses. Any advances and undertakings to repay pursuant to this Section 5 shall be unsecured and interest free.

6. Procedures and Presumptions for Determination of Entitlement to Indemnification. It is the intent of this Agreement to secure for Indemnitee rights of indemnity that are as favorable as may be permitted under the DGCL and public policy of the State of Delaware. Accordingly, the parties agree that the following procedures and presumptions shall apply in the event of any question as to whether Indemnitee is entitled to indemnification under this Agreement:

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification. Notwithstanding the foregoing, any failure of Indemnitee to provide such a request to the Company, or to provide such a request in a timely fashion, shall not relieve the Company of any liability that it may have to Indemnitee unless, and to the extent that, such failure actually and materially prejudices the interests of the Company.

(b) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 6(a) hereof, a determination with respect to Indemnitee's entitlement thereto shall be made in the specific case by one of the following four methods, which shall be at the election of the board: (1) by a majority vote of the disinterested directors, even though less than a quorum, (2) by a committee of disinterested directors designated by a majority vote of the disinterested directors, even though less than a quorum, (3) if there are no disinterested directors or if the disinterested directors so direct, by independent legal counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to the Indemnitee, or (4) if so directed by the Board of Directors, by the stockholders of the Company. For purposes hereof, disinterested directors are those members of the board of directors of the Company who are not parties to the action, suit or proceeding in respect of which indemnification is sought by Indemnitee.

(c) If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 6(b) hereof, the Independent Counsel shall be selected as provided in this Section 6(c). The Independent Counsel shall be selected by the Board of Directors and Indemnitee shall be promptly notified of such selection. Indemnitee may, within ten (10) days after such written notice of selection shall have been given, deliver to the Company a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "**Independent Counsel**" as defined in Section 13 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If a written objection is made and substantiated, the Independent Counsel selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within 20 days after submission by Indemnitee of a written request for indemnification pursuant to Section 6(a) hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Court of Chancery of the State of Delaware or other court of competent jurisdiction for resolution of any objection which shall have been made by the Indemnitee to the Company's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 6(b) hereof. The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to Section 6(b) hereof, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 6(c), regardless of the manner in which such Independent Counsel was selected or appointed.

(d) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence. Neither the failure of the Company (including by its directors or independent legal counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or independent legal counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(e) Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of the Enterprise (as hereinafter defined) in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Enterprise. In addition, the knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Enterprise shall not be imputed to

Indemnitee for purposes of determining the right to indemnification under this Agreement. Whether or not the foregoing provisions of this Section 6(e) are satisfied, it shall in any event be presumed that Indemnitee has at all times acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(f) If the person, persons or entity empowered or selected under Section 6 to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making such determination with respect to entitlement to indemnification in good faith requires such additional time to obtain or evaluate documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 6(f) shall not apply if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 6(b) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination, the Board of Directors or the Disinterested Directors, if appropriate, resolve to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy-five (75) days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat.

(g) Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Independent Counsel, member of the Board of Directors or stockholder of the Company shall act reasonably and in good faith in making a determination regarding the Indemnitee's entitlement to indemnification under this Agreement. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(h) The Company acknowledges that a settlement or other disposition short of final judgment may be successful if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. In the event that any action, claim or proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such action, claim or proceeding with or without payment of money or other consideration) it shall be presumed that Indemnitee has been successful on the merits or otherwise in such action, suit or proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(i) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

7. Remedies of Indemnitee.

(a) In the event that (i) a determination is made pursuant to Section 6 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 5 of this Agreement, (iii) no determination of entitlement to indemnification is made pursuant to Section 6(b) of this Agreement within 90 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to this Agreement within ten (10) days after receipt by the Company of a written request therefor or (v) payment of indemnification is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Section 6 of this Agreement, Indemnitee shall be entitled to an adjudication in an appropriate court of the State of Delaware, or in any other court of competent jurisdiction, of Indemnitee's entitlement to such indemnification. Indemnitee shall commence such proceeding seeking an adjudication within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 7(a). The Company shall not oppose Indemnitee's right to seek any such adjudication.

(b) In the event that a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this Section 7 shall be conducted in all respects as a de novo trial on the merits, and Indemnitee shall not be prejudiced by reason of the adverse determination under Section 6(b).

(c) If a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 7, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's misstatement not materially misleading in connection with the application for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) In the event that Indemnitee, pursuant to this Section 7, seeks a judicial adjudication of Indemnitee's rights under, or to recover damages for breach of, this Agreement, or to recover under any directors' and officers' liability insurance policies maintained by the Company, the Company shall pay on Indemnitee's behalf, in advance, any and all expenses (of the types described in the definition of Expenses in Section 13 of this Agreement) actually and reasonably incurred by Indemnitee in such judicial adjudication, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of expenses or insurance recovery.

(e) The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 7 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court that the Company is bound by all the provisions of this Agreement. The Company shall indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefore) advance, to the extent not prohibited by law, such expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee for indemnification or advance of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of Expenses or insurance recovery, as the case may be.

(f) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding.

8. Non-Exclusivity; Survival of Rights; Insurance; Primacy of Indemnification; Subrogation.

(a) The rights of indemnification as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable

law, the Charter Documents, any agreement, a vote of stockholders, a resolution of directors or otherwise, of the Company. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in the DGCL, whether by statute or judicial decision, permits greater indemnification than would be afforded currently under the Certificate of Incorporation, By-laws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents or fiduciaries of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise that such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any director, officer, employee, agent or fiduciary under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

(e) The Company's obligation to indemnify or advance Expenses hereunder to Indemnitee who is or was serving at the request of the Company as a director, officer, employee or agent of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of expenses from such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise.

9. Exception to Right of Indemnification. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision, provided; or

(b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of state statutory law or common law; or

(c) except with respect to a Proceeding relating to enforcement of, or to indemnity under this Agreement, or under the Charter Documents, the DGCL, or any insurance policy relating to Indemnitee's Corporate Status, in connection with any Proceeding (or any part of any

Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board of Directors of the Company authorized the Proceeding (or any part of any Proceeding) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

10. Duration of Agreement. All agreements and obligations of the Company contained herein shall commence upon the execution of this Agreement, and shall continue thereafter so long as Indemnitee could be subject to any Proceeding (or any proceeding commenced under Section 7 hereof) by reason of Indemnitee's Corporate Status, whether or not Indemnitee is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement and regardless of any subsequent amendment to the Charter Documents, the DGCL or any other agreement relating to indemnification of Indemnitee. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), assigns, spouses, heirs, executors and personal and legal representatives.

11. Security. To the extent requested by Indemnitee and approved by the Board of Directors of the Company, the Company may at any time and from time to time provide security to Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnitee, may not be revoked or released without the prior written consent of the Indemnitee.

12. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumes the obligations imposed on it hereby in order to induce Indemnitee to serve as an officer or director of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as an officer or director of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

13. Definitions. For purposes of this Agreement:

(a) "**Corporate Status**" describes the status of a person who is or was a director of the Company in his or her official capacity as such or as agent or fiduciary of the Company related to such status as a director (but not as an officer or employee), or as a director, agent or fiduciary of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving at the express written request of the Company.

(b) "**Disinterested Director**" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(c) "**Enterprise**" shall mean the Company and any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise that Indemnitee is or was serving at the express written request of the Company as a director, officer, employee, agent or fiduciary.

(d) "**Expenses**" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding, or responding to, or objecting to, a request to provide discovery in any Proceeding. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any

payments under this Agreement, including without limitation the premium, security for, and other costs relating to any cost bond, supersede as bond, or other appeal bond or its equivalent. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(e) "**Independent Counsel**" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five (5) years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(f) "**Proceeding**" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether civil, criminal, administrative or investigative, in which Indemnitee was, is or will be involved as a party or otherwise, by reason of the fact that Indemnitee is or was an officer or director of the Company, by reason of any action taken by Indemnitee or of any inaction on Indemnitee's part while acting as an officer or director of the Company, or by reason of the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other Enterprise; in each case whether or not Indemnitee is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement; including one pending on or before the date of this Agreement, but excluding one initiated by an Indemnitee pursuant to Section 7 of this Agreement to enforce Indemnitee's rights under this Agreement.

14. Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision. Without limiting the generality of the foregoing, this Agreement is intended to confer upon Indemnitee indemnification rights to the fullest extent permitted by applicable laws. In the event any provision hereof conflicts with any applicable law, such provision shall be deemed modified, consistent with the aforementioned intent, to the extent necessary to resolve such conflict.

15. Modification and Waiver. No supplement, modification, termination or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

16. Notice By Indemnitee. Indemnitee agrees promptly to notify the Company in writing upon being served with or otherwise receiving any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification covered hereunder. The failure to so notify the Company shall not relieve the Company of any obligation which it may have to Indemnitee under this Agreement or otherwise unless and only to the extent that such failure or delay materially prejudices the Company.

17. Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient, and if not so confirmed, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one

(1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent:

(a) To Indemnitee at the address set forth below Indemnitee signature hereto.

(b) To the Company at:

SPS Commerce, Inc.
Attention: Chief Executive Officer
Accenture Tower
333 South Seventh Street, Suite 1000
Minneapolis, MN 55402
Fax: 612-435-9402

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

18. Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement. This Agreement may also be executed and delivered by facsimile signature and in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

19. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

20. Governing Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. The Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Chancery Court of the State of Delaware (the "**Delaware Court**"), and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court, and (iv) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

21. Amendment and Restatement of Prior Agreements. The parties hereby agree that this Agreement supersedes any prior indemnification agreement between the parties in its entirety and this Agreement is hereby determined to amend and restate such prior agreements, if any.

SIGNATURE PAGE TO FOLLOW

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

COMPANY

By: _____
Archie C. Black
Chief Executive Officer

INDEMNITEE

_____
Name:

Address:

_____

_____

_____

SPS COMMERCE, INC.
INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "**Agreement**") is made and entered into as of , 2009 between **SPS COMMERCE, INC.**, a Delaware corporation (the "**Company**"), and Archie C. Black ("**Indemnitee**").

WITNESSETH THAT:

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, directors to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified; and

WHEREAS, this Agreement is intended to clarify Indemnitee's entitlement, in his capacity as a director of the Company, to the maximum indemnity afforded directors under the Delaware General Corporation Law (the **"DGCL"**) and is a supplement to and in furtherance of the provision calling for indemnification of directors contained in the By-laws or Certificate of Incorporation (collectively, the "**Charter Documents**") of the Company and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

NOW, THEREFORE, in consideration of Indemnitee's agreement to serve as a director from and after the date hereof, the parties hereto agree as follows:

1. Indemnity of Indemnitee. The Company hereby agrees to hold harmless and indemnify Indemnitee to the fullest extent permitted by law, as such may be amended from time to time. In furtherance of the foregoing indemnification, and without limiting the generality thereof:

(a) Proceedings Other Than Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(a) if, by reason of his or her Corporate Status (as hereinafter defined), the Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding (as hereinafter defined) other than a Proceeding by or in the right of the Company. Pursuant to this Section 1(a), Indemnitee shall be indemnified against all Expenses (as hereinafter defined), judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee, or on his or her behalf, in connection with such Proceeding or any claim, issue or matter therein, if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal Proceeding, had no reasonable cause to believe the Indemnitee's conduct was unlawful.

(b) Proceedings by or in the Right of the Company. Indemnitee shall be entitled to the rights of indemnification provided in this Section 1(b) if, by reason of his or her Corporate Status, the Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding brought by or in the right of the Company. Pursuant to this Section 1(b), Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by the Indemnitee, or on the Indemnitee's behalf, in connection with such Proceeding if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; provided, however, if applicable law so provides, no indemnification against such Expenses shall be made in respect of any claim, issue or matter in such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Company unless and to the extent that the Court of Chancery of the State of Delaware shall determine that such indemnification may be made.

(c) Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, Indemnitee shall be indemnified to the maximum extent permitted by law, as such may be amended from time to time, against all Expenses actually and reasonably incurred by Indemnitee or on

Indemnitee's behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

2. Additional Indemnity. In addition to, and without regard to any limitations on, the indemnification provided for in Section 1 of this Agreement, the Company shall and hereby does indemnify and hold harmless Indemnitee against all Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf if, by reason of his or her Corporate Status, Indemnitee is, or is threatened to be made, a party to or participant in any Proceeding (including a Proceeding by or in the right of the Company), including, without limitation, all liability arising out of the negligence or active or passive wrongdoing of Indemnitee. Except as provided in Section 13, the only limitation that shall exist upon the Company's obligations pursuant to this Agreement shall be that the Company shall not be obligated to make any payment to Indemnitee that is finally determined (under the procedures, and subject to the presumptions, set forth in Sections 6 and 7 hereof) to be unlawful.

3. Contribution.

(a) Whether or not the indemnification provided in Sections 1 and 2 hereof is available, in respect of any threatened, pending or completed action, suit or proceeding involving Indemnitee by reason of his Corporate Status in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall pay, in the first instance, the entire amount of any judgment or settlement of such action, suit or proceeding without requiring Indemnitee to contribute to such payment and the Company hereby waives and relinquishes any right of contribution it may have against Indemnitee. The Company shall not enter into any settlement of any action, suit or proceeding involving Indemnitee by reason of his Corporate Status in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee by reason of his Corporate Status.

(b) Without diminishing or impairing the obligations of the Company set forth in the preceding subparagraph, if, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed action, suit or proceeding involving Indemnitee by reason of his Corporate Status in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall contribute to the amount of Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee by reason of his Corporate Status in proportion to the relative benefits received by the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction from which such action, suit or proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the events that resulted in such expenses, judgments, fines or settlement amounts, as well as any other equitable considerations which the Law may require to be considered. The relative fault of the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain

personal profit or advantage, the degree to which their liability is primary or secondary and the degree to which their conduct is active or passive.

(c) The Company hereby agrees to fully indemnify and hold Indemnitee harmless from any claims of contribution relating to Indemnitee's Corporate Status which may be brought by officers, directors or employees of the Company, other than Indemnitee, who may be jointly liable with Indemnitee.

(d) To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee by reason of his Corporate Status, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

4. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his or her Corporate Status, a witness, or is made (or asked to) respond to discovery requests, in any Proceeding to which Indemnitee is not a party, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

5. Advancement of Expenses. Notwithstanding any other provision of this Agreement, the Company shall advance all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding by reason of Indemnitee's Corporate Status within thirty (30) days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by a written undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses. Any advances and undertakings to repay pursuant to this Section 5 shall be unsecured and interest free.

6. Procedures and Presumptions for Determination of Entitlement to Indemnification. It is the intent of this Agreement to secure for Indemnitee rights of indemnity with respect to his Corporate Status that are as favorable as may be permitted under the DGCL and public policy of the State of Delaware. Accordingly, the parties agree that the following procedures and presumptions shall apply in the event of any question as to whether Indemnitee is entitled to indemnification under this Agreement:

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnitee has requested indemnification. Notwithstanding the foregoing, any failure of Indemnitee to provide such a request to the Company, or to provide such a request in a timely fashion, shall not relieve the Company of any liability that it may have to Indemnitee unless, and to the extent that, such failure actually and materially prejudices the interests of the Company.

(b) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 6(a) hereof, a determination with respect to Indemnitee's entitlement thereto shall be made in the specific case by one of the following four methods, which shall be at the election of

the board: (1) by a majority vote of the disinterested directors, even though less than a quorum, (2) by a committee of disinterested directors designated by a majority vote of the disinterested directors, even though less than a quorum, (3) if there are no disinterested directors or if the disinterested directors so direct, by independent legal counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to the Indemnitee, or (4) if so directed by the Board of Directors, by the stockholders of the Company. For purposes hereof, disinterested directors are those members of the board of directors of the Company who are not parties to the action, suit or proceeding in respect of which indemnification is sought by Indemnitee.

(c) If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 6(b) hereof, the Independent Counsel shall be selected as provided in this Section 6(c). The Independent Counsel shall be selected by the Board of Directors and Indemnitee shall be promptly notified of such selection. Indemnitee may, within ten (10) days after such written notice of selection shall have been given, deliver to the Company a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "**Independent Counsel**" as defined in Section 14 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If a written objection is made and substantiated, the Independent Counsel selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within 20 days after submission by Indemnitee of a written request for indemnification pursuant to Section 6(a) hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Court of Chancery of the State of Delaware or other court of competent jurisdiction for resolution of any objection which shall have been made by the Indemnitee to the Company's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 6(b) hereof. The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to Section 6(b) hereof, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 6(c), regardless of the manner in which such Independent Counsel was selected or appointed.

(d) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence. Neither the failure of the Company (including by its directors or independent legal counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or independent legal counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(e) Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the advice of legal counsel for the Company or on information or records given or reports made to the Company by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Company. Whether or not the foregoing provisions of this Section 6(e) are satisfied, it shall in any event be presumed that Indemnitee has at all times acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(f) If the person, persons or entity empowered or selected under Section 6 to determine whether Indemnitee is entitled to indemnification shall not have made a determination within

sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making such determination with respect to entitlement to indemnification in good faith requires such additional time to obtain or evaluate documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 6(f) shall not apply if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 6(b) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination, the Board of Directors or the Disinterested Directors, if appropriate, resolve to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy-five (75) days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat.

(g) Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Independent Counsel, member of the Board of Directors or stockholder of the Company shall act reasonably and in good faith in making a determination regarding the Indemnitee's entitlement to indemnification under this Agreement. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(h) The Company acknowledges that a settlement or other disposition short of final judgment may be successful if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. In the event that any action, claim or proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including, without limitation, settlement of such action, claim or proceeding with or without payment of money or other consideration) it shall be presumed that Indemnitee has been successful on the merits or otherwise in such action, suit or proceeding. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

(i) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

7. Remedies of Indemnitee.

(a) In the event that (i) a determination is made pursuant to Section 6 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 5 of this Agreement, (iii) no determination of entitlement to indemnification is made pursuant to Section 6(b) of this Agreement within 90 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to this Agreement within ten (10) days after receipt by the Company of a written request therefor or (v) payment

of indemnification is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Section 6 of this Agreement, Indemnitee shall be entitled to an adjudication in an appropriate court of the State of Delaware, or in any other court of competent jurisdiction, of Indemnitee's entitlement to such indemnification. Indemnitee shall commence such proceeding seeking an adjudication within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 7(a). The Company shall not oppose Indemnitee's right to seek any such adjudication.

(b) In the event that a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this Section 7 shall be conducted in all respects as a de novo trial on the merits, and Indemnitee shall not be prejudiced by reason of the adverse determination under Section 6(b).

(c) If a determination shall have been made pursuant to Section 6(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 7, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's misstatement not materially misleading in connection with the application for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) In the event that Indemnitee, pursuant to this Section 7, seeks a judicial adjudication of Indemnitee's rights under, or to recover damages for breach of, this Agreement, or to recover under any directors' and officers' liability insurance policies maintained by the Company, the Company shall pay on Indemnitee's behalf, in advance, any and all expenses (of the types described in the definition of Expenses in Section 14 of this Agreement) actually and reasonably incurred by Indemnitee in such judicial adjudication, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of expenses or insurance recovery.

(e) The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 7 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court that the Company is bound by all the provisions of this Agreement. The Company shall indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefore) advance, to the extent not prohibited by law, such expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee for indemnification or advance of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of Expenses or insurance recovery, as the case may be.

(f) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding.

8. Non-Exclusivity; Survival of Rights; Insurance; Subrogation.

(a) The rights of indemnification as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Charter Documents, any agreement, a vote of stockholders, a resolution of directors or otherwise, of the Company. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in the DGCL, whether by statute or judicial decision, permits greater indemnification than would be afforded currently under the Certificate of Incorporation, By-laws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other

right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents or fiduciaries of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any director, officer, employee, agent or fiduciary under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

9. Exception to Right of Indemnification. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision, provided; or

(b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of state statutory law or common law; or

(c) except with respect to a Proceeding relating to enforcement of, or to indemnity under this Agreement, or under the Charter Documents, the DGCL, or any insurance policy relating to Indemnitee's Corporate Status, in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board of Directors of the Company authorized the Proceeding (or any part of any Proceeding) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

10. Duration of Agreement. All agreements and obligations of the Company contained herein shall commence upon the execution of this Agreement, and shall continue thereafter so long as Indemnitee could be subject to any Proceeding (or any proceeding commenced under Section 7 hereof) by reason of Indemnitee's Corporate Status, whether or not Indemnitee is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement and regardless of any subsequent amendment to the Charter Documents, the DGCL or any other agreement relating to indemnification of Indemnitee. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or

substantially all of the business or assets of the Company), assigns, spouses, heirs, executors and personal and legal representatives.

11. Security. To the extent requested by Indemnitee and approved by the Board of Directors of the Company, the Company may at any time and from time to time provide security to Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnitee, may not be revoked or released without the prior written consent of the Indemnitee.

12. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumes the obligations imposed on it hereby in order to induce Indemnitee to serve as a director of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.

13. Limitation on Indemnity. Notwithstanding any provision to the contrary in this Agreement, this Agreement applies only to indemnification of Indemnitee in his capacity as a director of the Company and does not, and shall not be deemed to, apply in any way with respect to Indemnitee's status as an officer or employee of the Company or otherwise expand or affect the indemnification provisions of the Company's Charter Documents as they relate to indemnification of officers. For avoidance of doubt, the Company's sole obligation to Indemnitee with respect to indemnification (and related contribution and advancement of expenses) with respect to Indemnitee's status as an officer of the Company are as set forth in the Company's Charter Documents.

14. Definitions. For purposes of this Agreement:

(a) "**Corporate Status**" describes the status of a person who is or was a director of the Company in his or her official capacity as such or as agent or fiduciary of the Company related to such status as a director (but not as an officer or employee).

(b) "**Disinterested Director**" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(c) "**Expenses**" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, participating, or being or preparing to be a witness in a Proceeding, or responding to, or objecting to, a request to provide discovery in any Proceeding. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding and any federal, state, local or foreign taxes imposed on the Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, including without limitation the premium, security for, and other costs relating to any cost bond, supersede as bond, or other appeal bond or its equivalent. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(d) "**Independent Counsel**" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five (5) years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would

have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(e) "**Proceeding**" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether civil, criminal, administrative or investigative, in which Indemnitee was, is or will be involved as a party or otherwise, by reason of the fact that Indemnitee is or was a director of the Company, by reason of any action taken by Indemnitee or of any inaction on Indemnitee's part while acting as a director of the Company; in each case whether or not Indemnitee is acting or serving in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement; including one pending on or before the date of this Agreement, but excluding one initiated by an Indemnitee pursuant to Section 7 of this Agreement to enforce Indemnitee's rights under this Agreement.

15. Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision. Without limiting the generality of the foregoing, this Agreement is intended to confer upon Indemnitee indemnification rights to the fullest extent permitted by applicable laws. In the event any provision hereof conflicts with any applicable law, such provision shall be deemed modified, consistent with the aforementioned intent, to the extent necessary to resolve such conflict.

16. Modification and Waiver. No supplement, modification, termination or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

17. Notice By Indemnitee. Indemnitee agrees promptly to notify the Company in writing upon being served with or otherwise receiving any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification covered hereunder. The failure to so notify the Company shall not relieve the Company of any obligation which it may have to Indemnitee under this Agreement or otherwise unless and only to the extent that such failure or delay materially prejudices the Company.

18. Notices. All notices and other communications given or made pursuant to this Agreement shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient, and if not so confirmed, then on the next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent:

(a) To Indemnitee at the address set forth below Indemnitee signature hereto.

(b) To the Company at:

SPS Commerce, Inc.
Attention: Chief Executive Officer
Accenture Tower
333 South Seventh Street, Suite 1000
Minneapolis, MN 55402
Fax: 612-435-9402

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

19. Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement. This Agreement may also be executed and delivered by facsimile signature and in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

20. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

21. Governing Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. The Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Chancery Court of the State of Delaware (the "**Delaware Court**"), and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court, and (iv) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

22. Amendment and Restatement of Prior Agreements. The parties hereby agree that this Agreement supersedes any prior indemnification agreement between the parties in its entirety and this Agreement is hereby determined to amend and restate such prior agreements, if any.

SIGNATURE PAGE TO FOLLOW

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

COMPANY

By: _____
Name: _____
Its: _____

INDEMNITEE

_____
Name: Archie C. Black

Address:
c/o SPS Commerce, Inc.
Accenture Tower
333 South Seventh Street, Suite 1000
Minneapolis, MN 55402

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated December 3, 2009, with respect to the financial statements and schedule of SPS Commerce, Inc. contained in Amendment No. 1 to the Registration Statement and Prospectus. We consent to the use of the aforementioned report in Amendment No. 1 to the Registration Statement and Prospectus, and to the use of our name as it appears under the caption "Experts."

/s/ *GRANT THORNTON LLP*

Minneapolis, Minnesota
January 11, 2010