As filed with the Securities and Exchange Commission on March 5, 2010

Registration No. 333-163476

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**Amendment No. 3**
**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**<br>**Jonathan R. Zimmerman**<br>Faegre & Benson LLP<br>2200 Wells Fargo Center<br>90 South Seventh Street<br>Minneapolis, MN 55402-3901<br>(612) 766-7000 | **Mark J. Macenka**<br>**Kenneth J. Gordon**<br>Goodwin Procter LLP<br>Exchange Place<br>53 State Street<br>Boston, MA 02109<br>(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<br>(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**.

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 MARCH 5, 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 8.

| | 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 Report 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 allow us to expand our platform and generate additional revenues.

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 and 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.

For 2007, 2008 and 2009, we generated revenues of $25.2 million, $30.7 million and $37.7 million. Our fiscal quarter ended December 31, 2009 represented our 36th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 83%, 84% and 80% of our total revenues for 2007, 2008 and 2009. No customer represented over 1% of our revenues for 2007, 2008 or 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 will continue to turn to on-demand delivery methods like ours for their supply chain integration needs.

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. Noncompliance with rule books can lead to refusal of delivered goods, fines and termination of the supplier's relationship with the retailer.

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;
- globalization of the supply chain ecosystem;
- increasing complexity of the supply chain ecosystem; and
- increasing use of outsourcing by small- and medium-sized suppliers.

Trading partners are demanding better supply chain management solutions than traditional methods, which include non-automated paper or fax solutions and electronic solutions implemented using on-premise licensed software. These software solutions primarily link retailers and suppliers through the Electronic Data Interchange protocol and typically have significant setup and maintenance requirements. Software-as-a-Service solutions such as ours allow organizations to connect across the supply chain ecosystem, addressing increased retailer demands, globalization and increased complexity affecting the supply chain. The enhanced integration with trading partners and into organizations' other business systems increases the reliance of customers on the solutions provided by their Software-as-a-Service vendors.

**SPSCommerce.net: Our Platform**

We operate one of the largest trading partner integration centers through SPSCommerce.net. 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 eliminates the need for suppliers to continually stay up-to-date with the rule book changes required by large retailers.

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 helps buying organizations reduce expenses, enhance quality of inventory and more effectively reconcile shipments, orders and payments.

Our platform delivers suppliers and retailers the following solutions:

- *Trading Partner Integration.* Our Trading Partner Integration solution enables suppliers to comply with retailers' rule books and allows 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 addition of each new customer to our platform allows the customer to communicate with our existing customers and allows our existing customers to route orders to the new customer. This "network effect" of adding customers to our platform creates opportunities for existing customers to make incremental sales by working with new trading partners and vice versa.

**Our Growth Strategy**

We seek to be the leading global provider of supply chain management solutions. Key elements of our strategy include:

- further penetrating our current market;
- increasing revenues from our customer base;
- expanding our distribution channels;
- expanding our international presence;
- enhancing and expanding our platform; and
- selectively pursuing strategic acquisitions.

**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."<br><br>We intend to use $594,000 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, 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, subject to increase on an annual basis and subject to increase for shares subject to awards under our prior equity plans that expire unexercised or otherwise do not result in the issuance of shares.

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, 2008 and 2009, under the heading "Statement of Operations Data" for each of the years ended December 31, 2007, 2008 and 2009 and under the heading "Operating Data" relating to Adjusted EBITDA for each of the three years ended December 31, 2007, 2008 and 2009 have been derived from our audited annual financial statements, which are included elsewhere in this prospectus. 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.

The pro forma balance sheet data as of December 31, 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 December 31, 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 $594,000 of our net proceeds from this offering to repay indebtedness under our equipment term loans, as if each had occurred as of December 31, 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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| **Statement of Operations Data:** | | | |
| Revenues | $ 25,198 | $ 30,697 | $ 37,746 |
| Cost of revenues (1) | 6,379 | 9,258 | 11,715 |
| Gross profit | 18,819 | 21,439 | 26,031 |
| Operating expenses | | | |
| Sales and marketing (1) | 11,636 | 12,493 | 13,506 |
| Research and development (1) | 3,546 | 3,640 | 4,305 |
| General and administrative (1) | 5,458 | 6,716 | 6,339 |
| Total operating expenses | 20,640 | 22,849 | 24,150 |
| Income (loss) from operations | (1,821) | (1,410) | 1,881 |
| Other income (expense) | | | |
| Interest expense | (439) | (419) | (270) |
| Other income | 120 | 28 | (358) |
| Total other expense | (319) | (391) | (628) |
| Income tax expense | (16) | (94) | (91) |
| Net income (loss) | $ (2,156) | $ (1,895) | $ 1,162 |
| Net income (loss) per share | | | |
| Basic | $ (3.12) | $ (1.72) | $ 0.94 |
| Fully diluted | $ (3.12) | $ (1.72) | $ 0.03 |
| Weighted average shares outstanding | | | |
| Basic | 692 | 1,101 | 1,232 |
| Fully diluted | 692 | 1,101 | 34,711 |
| 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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | | (Unaudited) | |
| **Operating Data:** | | | |
| Adjusted EBITDA (3) | $ 103 | $ 763 | 3,206 |
| Recurring revenue customers (4) | 9,496 | 10,076 | 11,003 |

| | As of December 31, | | As of December 31, 2009 | |
|---|---|---|---|---|
| | 2008 | 2009 | Pro Forma | Pro Forma As Adjusted |
| | | | (Unaudited) | |
| **Balance Sheet Data:** | | | | |
| Cash, cash equivalents and short-term investments | $ 3,715 | $ 5,931 | $ 5,931 | |
| Working capital | 3,995 | 4,973 | 4,973 | |
| Total debt (5) | 4,471 | 2,694 | 2,694 | |
| Total redeemable convertible preferred stock | 65,964 | 65,778 | — | |
| Total stockholders' equity (deficit) | (61,844) | (60,466) | 5,312 | |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Cost of revenues | $ 2 | $ 19 | $ 53 |
| Sales and marketing | 33 | 60 | 91 |
| Research and development | 2 | 4 | 4 |
| General and administrative | 9 | 74 | 80 |
| Total | $ 46 | $ 157 | $ 228 |

(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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | | (Unaudited) | |
| Net income (loss) | $ (2,156) | $ (1,895) | $ 1,162 |
| Depreciation and amortization | 1,758 | 1,988 | 1,455 |
| Interest expense | 439 | 419 | 270 |
| Income tax expense | 16 | 94 | 91 |
| EBITDA | 57 | 606 | 2,978 |
| Non-cash, share-based compensation expense | 46 | 157 | 228 |
| Adjusted EBITDA | $ 103 | $ 763 | $ 3,206 |

(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 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 December 31, 2009, we had an accumulated deficit of $65.7 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, 2009, we had net operating loss carryforwards of $53.4 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. Due to changes in ownership, some of our net operating loss carryforwards will be limited. In addition, future changes in ownership could further limit the availability of our net operating loss carryforwards. Our ability to utilize the current net operating loss carryforwards also might be 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 2009, and, in February 2010, we opened sales and support offices in the United Kingdom and France. 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 $594,000 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;
- divide our board of directors into three classes;
- 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.

Based on amounts we owed as of March 1, 2010, we intend to use these net proceeds to:

- repay approximately $69,000 of indebtedness under equipment term loans that bear interest at a rate of 12.0% per annum and mature in the year ending December 31, 2010;
- repay approximately $346,000 of indebtedness under equipment term loans that bear interest at rates between 11.9% and 12.5% per annum and mature in the year ending December 31, 2011; and
- repay approximately $179,000 of indebtedness under equipment term loans that bear interest at a rate of 11.8% per annum 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 December 31, 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 December 31, 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 $594,000 of indebtedness under our equipment term loans, as if each had occurred as of December 31, 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 December 31, 2009 | | |
|---|---|---|---|
| | Actual | Pro Forma | Pro Forma As Adjusted |
| | (In thousands, except share data) | | |
| Cash and cash equivalents | $ 5,931 | $ 5,931 | $ |
| Current liabilities | 11,290 | 11,290 | |
| Long-term liabilities | 5,317 | 5,317 | |
| 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, 21,303,838 shares issued and outstanding, actual, and no shares authorized, issued or outstanding, pro forma and pro forma as adjusted | 20,658 | — | |
| 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 | 65,778 | — | |
| Stockholders' deficit: | | | |
| Common stock $0.001 par value, 50,345,706 shares authorized, 1,225,459 shares issued and outstanding, actual, authorized, shares issued and outstanding pro forma, and authorized, shares issued and outstanding pro forma as adjusted | 1 | 32 | |
| 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 | 5,185 | 70,932 | |
| Accumulated deficit | (65,652) | (65,652) | |
| Total stockholders' equity (deficit) | (60,466) | 5,312 | |
| Total capitalization | $ 21,919 | $ 21,919 | $ |

The table and calculations above are based on the number of 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 reserved for issuance under our 2010 Equity Incentive Plan, subject to increase on an annual basis and subject to increase for shares subject to awards under our prior equity plans that expire unexercised or otherwise do not result in the issuance of shares; 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 $(7.7 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 reserved for issuance under our 2010 Equity Incentive Plan, subject to increase on an annual basis and subject to increase for shares subject to awards under our prior equity plans that expire unexercised or otherwise do not result in the issuance of shares; 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, 2008 and 2009, under the heading "Statement of Operations Data" for each of the years ended December 31, 2007, 2008 and 2009 and under the heading "Operating Data" relating to Adjusted EBITDA for each of the years ended December 31, 2007, 2008 and 2009 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, 2005, 2006 and 2007, under the heading "Statement of Operations Data" for each of the years ended December 31, 2005 and 2006 and under the heading "Operating Data" relating to Adjusted EBITDA for each of the years ended December 31, 2005 and 2006 have been derived from our audited annual financial statements, which have not been included in this prospectus. 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.

The pro forma balance sheet data as of December 31, 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 December 31, 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 $594,000 of our net proceeds from this offering to repay indebtedness under our equipment term loans, as if each had occurred as of December 31, 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, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| | (In thousands, except per share data) | | | | |
| **Statement of Operations Data:** | | | | | |
| Revenues | $ 13,827 | $ 19,859 | $ 25,198 | $ 30,697 | $ 37,746 |
| Cost of revenues (1) | 3,823 | 5,219 | 6,379 | 9,258 | 11,715 |
| Gross profit | 10,004 | 14,640 | 18,819 | 21,439 | 26,031 |
| Operating expenses | | | | | |
| Sales and marketing (1) | 5,034 | 8,098 | 11,636 | 12,493 | 13,506 |
| Research and development (1) | 2,129 | 3,190 | 3,546 | 3,640 | 4,305 |
| General and administrative (1) | 3,180 | 4,199 | 5,458 | 6,716 | 6,339 |
| Total operating expenses | 10,343 | 15,487 | 20,640 | 22,849 | 24,150 |
| Income (loss) from operations | (339) | (847) | (1,821) | (1,410) | 1,881 |
| Other income (expense) | | | | | |
| Interest expense | (299) | (558) | (439) | (419) | (270) |
| Other income (expense) | (15) | 108 | 120 | 28 | (358) |
| Total other expense | (314) | (450) | (319) | (391) | (628) |
| Income tax expense | (23) | (4) | (16) | (94) | (91) |
| Net income (loss) | $ (676) | $ (1,301) | $ (2,156) | $ (1,895) | $ 1,162 |
| Net income (loss) per share | | | | | |
| Basic | $ (1.78) | $ (2.93) | $ (3.12) | $ (1.72) | $ 0.94 |
| Fully diluted | $ (1.78) | $ (2.93) | $ (3.12) | $ (1.72) | $ 0.03 |
| Weighted average shares outstanding | | | | | |
| Basic | 379 | 444 | 692 | 1,101 | 1,232 |
| Fully diluted | 379 | 444 | 692 | 1,101 | 34,711 |
| 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 December 31, 2009 | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | Pro Forma | Pro Forma As Adjusted |
| | | | | (In thousands) | | (Unaudited) | |
| **Balance Sheet Data:** | | | | | | | |
| Cash, cash equivalents and short-term investments | $ 1,609 | $ 1,942 | $ 6,117 | $ 3,715 | $ 5,931 | $ 5,931 | |
| Working capital | (234) | (647) | 4,535 | 3,995 | 4,973 | 4,973 | |
| Total assets | 6,767 | 12,228 | 20,687 | 19,197 | 21,919 | 21,919 | |
| Long-term liabilities | 2,719 | 5,167 | 5,550 | 5,950 | 5,317 | 5,317 | |
| Total debt (3) | 2,675 | 5,018 | 4,992 | 4,471 | 2,694 | 2,694 | |
| Total redeemable convertible preferred stock | 56,072 | 58,520 | 65,964 | 65,964 | 65,778 | — | |
| Total stockholders' equity (deficit) | $ (56,758) | $ (58,046) | $ (60,111) | $ (61,844) | $ (60,466) | $ 5,312 | |

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| | | (Unaudited; Adjusted EBITDA in thousands) | | | |
| **Operating Data:** | | | | | |
| Adjusted EBITDA (4) | $ 385 | $ 748 | $ 103 | $ 763 | 3,206 |
| Recurring revenue customers (5) | 6,056 | 7,940 | 9,496 | 10,076 | 11,003 |

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| | | | (In thousands) | | |
| Cost of revenues | $ — | $ — | $ 2 | $ 19 | $ 53 |
| Sales and marketing | — | — | 33 | 60 | 91 |
| Research and development | — | — | 2 | 4 | 4 |
| General and administrative | — | 6 | 9 | 74 | 80 |
| Total | $ — | $ 6 | $ 46 | $ 157 | $ 228 |

(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, 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, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| | (Unaudited; in thousands) | | | | |
| Net income (loss) | $ (676) | $ (1,301) | $ (2,156) | $ (1,895) | $ 1,162 |
| Depreciation and amortization | 739 | 1,481 | 1,758 | 1,988 | 1,455 |
| Interest expense | 299 | 558 | 439 | 419 | 270 |
| Income tax expense | 23 | 4 | 16 | 94 | 91 |
| EBITDA | 385 | 742 | 57 | 606 | 2,978 |
| Non-cash, share-based compensation expense | — | 6 | 46 | 157 | 228 |
| Adjusted EBITDA | $ 385 | $ 748 | $ 103 | $ 763 | $ 3,206 |

(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 2007, 2008 and 2009, we generated revenues of $25.2 million, $30.7 million and $37.7 million. Our fiscal quarter ended December 31, 2009 represented our 36th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 83%, 84% and 80% of our total revenues for 2007, 2008 and 2009. No customer represented over 1% of our revenues for 2007, 2008 or 2009. For 2008 and 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 consist 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 2007, 2008 and 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. 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 2007, 2008 and 2009, revenues from fixed monthly subscription and transaction-based fees accounted for 83%, 84% and 80% of our revenues, which we refer to as recurring revenues. All of these recurring revenues in 2007 and 2008 and more than 95% of the recurring revenues for 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 2007, 2008 or 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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | (Unaudited; in thousands) | | |
| Net income (loss) | $ (2,156) | $ (1,895) | $ 1,162 |
| Depreciation and amortization | 1,758 | 1,988 | 1,455 |
| Interest expense | 439 | 419 | 270 |
| Income tax expense | 16 | 94 | 91 |
| EBITDA | 57 | 606 | 2,978 |
| Non-cash, share-based compensation expense | 46 | 157 | 228 |
| Adjusted EBITDA | $ 103 | $ 763 | $ 3,206 |

**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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Risk-free interest rate (1) | 4.4% | 4.0% | 2.7% - 4.0% |
| Expected term (2) | 8 | 7 | 4-7 |
| Estimated volatility (3) | 52% | 53% | 49%-53% |
| Expected dividend yield | 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.

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.

The expected term of the options is based on evaluations of historical and expected future employee exercise behavior.

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.

We recorded non-cash, stock-based compensation expense under ASC 718 of $46,000 during 2007, $157,000 during 2008 and $228,000 during 2009. Based on stock options outstanding as of December 31, 2009, we had unrecognized, stock-based compensation of $459,000. 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 January 1, 2009 through December 31, 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 |
|---|---|---|---|---|---|
| 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 |
| Fourth Quarter — 2009 | 3,000 | $ 0.99 | $ 0.99 | October 22, 2009 | $ 2.00 |

(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) On July 23, 2009, we unilaterally amended the terms of 890,364 stock options granted to 17 employees and one director 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 January 1, 2009 to December 31, 2009 are as follows:

*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), ($134,000) 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 ($134,000), ($287,000) and ($54,000).
- *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, on July 23, 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 income (loss) for each of the three most recently completed quarters were ($287,000), ($54,000) and $657,000.
- *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%.

*Fourth Quarter — 2009*

During the fourth quarter of 2009, we granted 3,000 stock options on October 22, 2009 with a per share exercise price of $0.99. 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 $0.99 per share.

- *Results of Operations:* Our cash and cash equivalents and short-term investments balances of $5.8 million as of September 30, 2009 were not sufficient to sustain long-term growth and provide cash to invest in operations. Our revenues grew from $8.1 million for the three months ended September 30, 2008 to $9.6 million for the three months ended September 30, 2009. At the same time, our income (loss) for each of the three most recently completed quarters was ($54,000), $657,000 and $346,000.
- *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, 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. In early October 2009, the board of directors received feedback from potential underwriters that we were a potentially viable candidate for an initial public offering, but the board was unsure if it would proceed with such an offering and therefore did not change any of the Key Valuation Considerations at that time.

As indicated above, we performed a contemporaneous valuation of the fair value of our common stock as of October 22, 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 $82.2 million. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $82.2 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 $0.99 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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| | | (In thousands) | |
| Revenues | $ 25,198 | $ 30,697 | $ 37,746 |
| Cost of revenues | 6,379 | 9,258 | 11,715 |
| Gross profit | 18,819 | 21,439 | 26,031 |
| Operating expenses | | | |
| Sales and marketing | 11,636 | 12,493 | 13,506 |
| Research and development | 3,546 | 3,640 | 4,305 |
| General and administrative | 5,458 | 6,716 | 6,339 |
| Total operating expenses | 20,640 | 22,849 | 24,150 |
| Income (loss) from operations | (1,821) | (1,410) | 1,881 |
| Other income (expense) | | | |
| Interest expense | (439) | (419) | (270) |
| Other income | 120 | 28 | (358) |
| Total other expense | (319) | (391) | (628) |
| Income tax expense | (16) | (94) | (91) |
| Net income (loss) | $ (2,156) | $ (1,895) | $ 1,162 |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Revenues | 100% | 100% | 100% |
| Cost of revenues | 25 | 30 | 31 |
| Gross profit | 75 | 70 | 69 |
| Operating expenses | | | |
| Sales and marketing | 46 | 41 | 36 |
| Research and development | 14 | 12 | 11 |
| General and administrative | 22 | 22 | 17 |
| Total operating expenses | 82 | 75 | 64 |
| Income (loss) from operations | (7) | (5) | 5 |
| Other income (expense) | | | |
| Interest expense | (2) | (1) | (1) |
| Other income | – | – | (1) |
| Total other expense | (2) | (1) | (2) |
| Income tax expense | – | – | – |
| Net income (loss) | (9)% | (6)% | 3% |

*Year ended December 31, 2009 compared to year ended December 31, 2008*

*Revenues.* Revenues for 2009 increased $7.0 million, or 23%, to $37.7 million from $30.7 million for 2008. The increase in revenues resulted primarily from a 9% increase in recurring revenue customers to 11,003 from 10,076 as well as a 10% increase in average recurring revenues per recurring revenue customer to $2,879 from $2,622. 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. In addition, $1.2 million of the increase in revenues was due to higher testing and certification revenues due to a greater number of enablement campaigns for 2009. In 2009, we had our highest level of revenues from Trading Partner Enablement due to significant increased demand for enablement from our retailers in the year. 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 2009 increased $2.4 million, or 27%, to $11.7 million from $9.3 million for 2008. Of the increase in costs, approximately $2.1 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 $300,000 increase was primarily due to higher costs of network services and depreciation. As a percentage of revenues, cost of revenues was 31% for 2009 compared to 30% for 2008.

*Sales and Marketing Expenses.* Sales and marketing expenses for 2009 increased $1.0 million, or 8%, to $13.5 million from $12.5 million for 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 2009 compared to 41% for 2008. Increased revenues for 2009 compared to 2008 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 2009 increased $665,000, or 18%, to $4.3 million from $3.6 million for 2008. The increase in the dollar amount was primarily related to increased personnel costs of $502,000 due to increased salaries and wages for 2009 as well as costs for employees added during 2009. We also had additional consulting fees of $147,000 during 2009 compared to 2008, as consultants supplemented development work on new solutions. As a percentage of revenues, research and development expenses were 11% for 2009 compared to 12% for 2008.

*General and Administrative Expenses.* General and administrative expenses for 2009 decreased $377,000, or 6%, to $6.3 million from $6.7 million for 2008. As a percentage of revenues, general and administrative expenses were 17% for 2009 compared to 22% for 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 2009 and driving the decrease in general and administrative expenses in absolute dollars and as a percentage of revenues.

*Other Income (Expense).* Interest expense for 2009 decreased $149,000, or 36%, to $270,000 from $419,000 for 2008. The decrease in interest expense is principally due to reduced equipment borrowings. Other expense for 2009 was $358,000 compared to other income of $28,000 for 2008. The other income (expense) 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 10,076 from 9,496 as well as a 10% increase in average recurring revenues per recurring revenue customer to $2,622 from $2,385. 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 $2.9 million, or 45%, to $9.3 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. Additionally, $500,000 of the 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 $857,000, or 7%, 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.

### Quarterly Results of Operations

The following tables set forth our unaudited operating results and Adjusted EBITDA for each of the eight quarters preceding and including the period ended December 31, 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, 2008 | June 30, 2008 | September 30, 2008 | December 31, 2008 | March 31, 2009 | June 30, 2009 | September 30, 2009 | December 31, 2009 |
| | (Unaudited; in thousands) | | | | | | | |
| **Statement of Operations Data:** | | | | | | | | |
| Revenues | $ 6,957 | $ 7,586 | $ 8,074 | $ 8,080 | $ 8,531 | $ 9,600 | $ 9,634 | $ 9,981 |
| Cost of revenues (1) | 1,986 | 2,199 | 2,435 | 2,638 | 2,837 | 2,896 | 3,009 | 2,973 |
| Gross profit | 4,971 | 5,387 | 5,639 | 5,442 | 5,694 | 6,704 | 6,625 | 7,008 |
| Operating expenses | | | | | | | | |
| Sales and marketing (1) | 3,162 | 3,240 | 3,101 | 2,990 | 3,075 | 3,397 | 3,533 | 3,501 |
| Research and development (1) | 949 | 954 | 875 | 862 | 1,044 | 1,059 | 1,123 | 1,079 |
| General and administrative (1) | 1,639 | 1,669 | 1,684 | 1,724 | 1,652 | 1,514 | 1,505 | 1,668 |
| Total operating expenses | 5,750 | 5,863 | 5,660 | 5,576 | 5,771 | 5,970 | 6,161 | 6,248 |
| Income (loss) from operations | (779) | (476) | (21) | (134) | (77) | 734 | 464 | 760 |
| Other income (expense) | | | | | | | | |
| Interest expense | (112) | (106) | (104) | (97) | (89) | (75) | (61) | (45) |
| Other income (expense) | (21) | 29 | (6) | 26 | 123 | (2) | (8) | (471) |
| Total other expense | (133) | (77) | (110) | (71) | 34 | (77) | (69) | (516) |
| Income tax expense | (7) | (2) | (3) | (82) | (11) | — | (49) | (31) |
| Net income (loss) | $ (919) | $ (555) | $ (134) | $ (287) | $ (54) | $ 657 | $ 346 | $ 213 |
| **Operating Data:** | | | | | | | | |
| Adjusted EBITDA (2) | $ (259) | $ 76 | $ 504 | $ 442 | $ 536 | $ 1,103 | $ 861 | $ 706 |

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

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | March 31, 2008 | June 30, 2008 | September 30, 2008 | December 31, 2008 | March 31, 2009 | June 30, 2009 | September 30, 2009 | December 31, 2009 |
| | (Unaudited; in thousands) | | | | | | | |
| Cost of revenues | $ 4 | $ 4 | $ 4 | $ 7 | $ 12 | $ 11 | $ 20 | $ 10 |
| Sales and marketing | 14 | 15 | 15 | 16 | 15 | 17 | 42 | 17 |
| Research and development | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| General and administrative | 17 | 17 | 17 | 23 | 20 | 21 | 16 | 23 |
| Total | $ 36 | $ 37 | $ 37 | $ 47 | $ 48 | $ 50 | $ 79 | $ 51 |

(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, 2008 | June 30, 2008 | September 30, 2008 | December 31, 2008 | March 31, 2009 | June 30, 2009 | September 30, 2009 | December 31, 2009 |
| | (Unaudited; in thousands) | | | | | | | |
| Net income (loss) | $ (919) | $ (555) | $ (134) | $ (287) | $ (54) | $ 657 | $ 346 | $ 213 |
| Depreciation and amortization | 505 | 486 | 494 | 503 | 442 | 321 | 326 | 366 |
| Interest expense | 112 | 106 | 104 | 97 | 89 | 75 | 61 | 45 |
| Income tax expense (benefit) | 7 | 2 | 3 | 82 | 11 | – | 49 | 31 |
| EBITDA | (295) | 39 | 467 | 395 | 488 | 1,053 | 782 | 655 |
| Non-cash, share-based compensation expense | 36 | 37 | 37 | 47 | 48 | 50 | 79 | 51 |
| Adjusted EBITDA | $ (259) | $ 76 | $ 504 | $ 442 | $ 536 | $ 1,103 | $ 861 | $ 706 |

As a percentage of revenues:

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | March 31, 2008 | June 30, 2008 | September 30, 2008 | December 31, 2008 | March 31, 2009 | June 30, 2009 | September 30, 2009 | December 31, 2009 |
| | (Unaudited) | | | | | | | |
| Revenues | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Cost of revenues | 29 | 29 | 30 | 33 | 33 | 30 | 31 | 30 |
| Gross profit | 71 | 71 | 70 | 67 | 67 | 70 | 69 | 70 |
| Operating expenses | | | | | | | | |
| Sales and marketing | 45 | 43 | 38 | 37 | 36 | 35 | 37 | 35 |
| Research and development | 14 | 13 | 11 | 11 | 12 | 11 | 12 | 11 |
| General and administrative | 24 | 22 | 21 | 21 | 19 | 16 | 16 | 17 |
| Total operating expenses | 83 | 77 | 70 | 69 | 68 | 62 | 64 | 63 |
| Income (loss) from operations | (11) | (6) | – | (2) | (1) | 8 | 5 | 7 |
| Other income (expense) | | | | | | | | |
| Interest expense | (2) | (1) | (1) | (1) | (1) | (1) | (1) | – |
| Other income (expense) | – | – | – | – | 1 | – | – | (5) |
| Total other expense | (2) | (1) | (1) | (1) | – | (1) | (1) | (5) |
| Income tax expense | – | – | – | (1) | – | – | (1) | – |
| Net income (loss) | (13)% | (7)% | (2)% | (4)% | (1)% | 7% | 4% | 2% |

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 December 31, 2009, our principal sources of liquidity were cash and cash equivalents totaling $5.9 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 December 31, 2009 was $5.0 million compared to working capital of $4.0 million as of December 31, 2008. During 2009, we borrowed against our revolving credit facility and, as of December 31, 2009, we had an outstanding balance of $1.5 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 $5.2 million for 2009, $(807,000) for 2008 and $(803,000) for 2007. For 2009, net cash provided by operating activities was primarily a result of $1.2 million of net income, non-cash depreciation and amortization of $1.5 million, a $1.1 million increase in accrued compensation for bonuses in 2009 compared to 2008 due to our improved performance in 2009, and an $844,000 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 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 $1.8 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.

*Net Cash Flows from Investing Activities*

For 2009, cash used in investing activities was $1.0 million 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 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.

*Net Cash Flows from Financing Activities*

Cash used in financing activities was $1.9 million for 2009. We used these funds to pay $1.3 million in equipment loans and capital lease obligations and to pay $679,000 toward 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 2007.

*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 $212,000 was outstanding as of December 31, 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 $520,000 was outstanding as of December 31, 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, BlueCrest 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 December 31, 2009, the maximum amount we could borrow under the revolving facility was $1.5 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. We do not anticipate that we will extend or refinance this facility when it expires.

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, 2009 are summarized below:

| Contractual Obligations | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| | | | (In thousands) | | |
| Long-term debt obligations (1) | $ 732 | $ 499 | $ 233 | $ — | $ – |
| Capital lease obligations | $ 460 | 338 | 122 | – | – |
| Operating lease obligations | $ 2,229 | 776 | 1,453 | – | – |
| Other long-term liabilities (2) | $ 4,135 | – | – | – | – |
| Total | $ 7,556 | $ 1,613 | $ 1,808 | $ — | $ – |

(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 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.

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 2007, 2008 and 2009, we generated revenues of $25.2 million, $30.7 million and $37.7 million. Our fiscal quarter ended December 31, 2009 represented our 36th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 83%, 84% and 80% of our total revenues for 2007, 2008 and 2009. No customer represented over 1% of our revenues for 2007, 2008 or 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 $8.8 billion in 2008 and expects it to increase to $19.8 billion in 2012, a compounded annual growth rate of 18%.

*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 and opened direct sales offices in the United Kingdom and France in February 2010. Our 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. As part of this plan, we opened direct sales and support offices in the United Kingdom and France in February 2010. We 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 2007, 2008 or 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 | 44 | Director |
| Martin J. Leestma | 52 | Director |
| George H. Spencer, III | 46 | Director |
| Sven A. Wehrwein | 59 | 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 Special Consultant to Mayfield & Robinson, Inc., the investment management company for River Cities Capital Funds, a family of venture capital funds. He served as a Managing Director of Mayfield & Robinson from 2004 until January 2010, and as a Principal from 1995 to 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.

In accordance with our amended and restated certificate of incorporation, immediately after this offering, our board of directors will be divided into three classes with staggered three-year terms. At each annual general meeting of stockholders, the successors to directors whose terms then expire will be elected to serve

from the time of election and qualification until the third annual meeting following election. Our directors will be divided among the three classes as follows:

- The Class I directors will be Messrs. Gorman and Wilson and their terms will expire at the annual meeting of stockholders to be held in 2011;
- The Class II directors will be Messrs. Black and Spencer and their terms will expire at the annual meeting of stockholders to be held in 2012; and
- The Class III directors will be Messrs. Cobb, Leestma and Wehrwein and their terms will expire at the annual meeting of stockholders to be held in 2013.

Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors.

The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control.

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-employee 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 G 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.

We adopted a new director compensation policy that will be effective immediately prior to consummation of this offering. The new policy will provide that each non-employee director will receive an initial stock option grant to purchase up to 60,000 shares of our common stock upon appointment to the board. Each grant will vest in equal monthly installments over three years for so long as the director remains a member of

the board. With respect to our current non-employee directors other than Mr. Wehrwein, each will receive a stock option grant to purchase up to 60,000 shares of our common stock upon consummation of this offering, with each grant vesting on the schedule described above. Mr. Wehrwein will receive an award to purchase up to 16,250 shares of our common stock upon consummation of this offering, which will give him unvested options to purchase up to 60,000 shares of our common stock upon the consummation of the offering in combination with the July 2008 option grant we made when he joined the board.

The new director compensation policy also will provide that each non-employee director will receive an annual stock option grant to purchase up to 20,000 shares of our common stock on the date of each annual meeting of stockholders at which the director is elected to the board or continues to serve as a director. The awards will vest in full on the earlier of one year after the date of grant or the date of the next year's annual meeting of stockholders, provided the recipient remains a member of the board as of the vesting date. All stock options granted under the new policy will have an exercise price equal to the fair market value of our common stock on the date of grant in accordance with our 2010 Equity Incentive Plan, which, in the case of grants made upon consummation of this offering, will be the price to the public for shares sold in this offering. All share numbers described above for the new policy will be adjusted to reflect the reverse stock split that will occur immediately prior to consummation of this offering.

Non-employee directors will receive cash fees in addition to the equity awards described above. Each non-employee director will receive an annual retainer of $20,000. In addition, the chair of each committee will receive an annual fee as follows:

| Committee Chair | Annual Cash Fee |
|---|---|
| Audit | $11,000 |
| Compensation | $ 8,000 |
| Nominating and Governance | $ 5,000 |

Each committee member, other than the chair, will receive an annual fee as follows:

| Non-Chair Committee Members | Annual Cash Fee |
|---|---|
| Audit | $5,000 |
| Compensation | $4,000 |
| Nominating and Governance | $2,000 |

The chairman of our board of directors will receive an additional annual fee of $12,500.

**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. In January 2010, our compensation committee increased the base salaries of our named executive officers based in part on a comparison of their compensation relative to compensation paid by a peer group of companies outlined in a report prepared by Compensia. Despite these increases, our named executive officers remain at the low end of compensation for this peer group. Our compensation committee intends to annually reevaluate our named executive officers' compensation and to incrementally move their compensation closer to the median compensation paid to comparable executives at comparable companies.

*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. In January 2010, our named executive officers received salary increases ranging from 5% to 9% compared to 2009.

*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 during the year. Our compensation committee does not have any predetermined criteria or goals that they are required to consider in connection with payment of the discretionary bonus. For 2009, in determining whether to pay a discretionary bonus, the compensation committee, in January 2010, discussed our Company's performance and our executive officers' performance in the areas of general leadership, pursuit of strategic initiatives and overall performance relative to expectations. The compensation committee has historically evaluated achievement for our executive team as a group and 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 from $0.92 per share 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<br>*Chief Executive Officer and President* | 2009 | 276,000 | 29,728 | – | 100,579 | 2,827 | 409,134 |
| Kimberly K. Nelson<br>*Executive Vice President and Chief Financial Officer* | 2009 | 215,000 | 23,625 | 22,550(2) | 79,931 | 3,110 | 344,216 |
| James J. Frome<br>*Executive Vice President and Chief Strategy Officer* | 2009 | 215,000 | 24,800 | 28,431(2) | 83,908 | 3,123 | 355,262 |
| Michael J. Gray<br>*Executive Vice President of Operations* | 2009 | 184,000 | 15,000 | 113,790(3) | 50,750 | – | 363,540 |
| David J. Novak, Jr.<br>*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 G 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 G 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 | 162,500 | – | 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) |
| | 144,000 | – | 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 an employment agreement with Archie C. Black, our Chief Executive Officer. The initial term of the agreement expired on December 31, 2009, but the agreement automatically renews for additional one-year terms unless terminated by us or Mr. Black. This agreement renewed for an additional year on January 1, 2010. Pursuant to the agreement, Mr. Black's salary is reviewed annually by our compensation committee and may be maintained or increased, but not decreased, in the compensation committee's discretion. Mr. Black's employment agreement requires him not disclose our confidential information or disparage us or our officers or employees at any time during the term of the agreement or thereafter.

We entered into confidentiality and non-competition agreements with our named executive officers other than Mr. Black. These agreements require the executives to not to disclose our confidential information at any time. The agreements also require the executives not to compete with us or solicit our employees to engage in other employment during the term of the executive's employment with us and for one year thereafter. We do not have a non-competition agreement with Mr. Black.

The employment and confidentiality and non-competition agreements with our named executive officers address various termination of employment scenarios. No severance payments are made to executives who are terminated for cause. The terms of potential payments under these agreements upon termination 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*

In connection with this offering, we adopted 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.* As of March 1, 2010, options to purchase shares of our common stock were outstanding under the 2010 Plan and shares were reserved for future issuance under the plan. The number of shares 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: 6% 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. The number of shares reserved for issuance under the 2010 Plan will also increase for each share subject to an award under our 2001 Stock Option Plan and 1999 Equity Incentive Plan, which are described below, that expires unexercised or otherwise does not result in the issuance of shares subject to the award under those plans.

*Administration of Plan.* The compensation committee of our board of directors administers the 2010 Plan. Subject to the terms of the plan, the compensation committee has the authority to, among other things,

interpret the plan and determine who is 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 has 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 administers 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 was $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 was $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 and all other selling stockholders 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**

In connection with this offering, our board of directors adopted a written statement of policy regarding transactions with related persons, which we refer to as our related person policy. Our related person policy requires 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; (iv) each of those known by us to be beneficial owners of more than 5% of our common stock; and (v) our other stockholders selling shares in this offering. This table lists applicable percentage ownership based on shares of common stock outstanding as of 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 director, officer or 5% stockholder listed in the table is c/o SPS Commerce, Inc., 333 South Seventh Street, Suite 1000, Minneapolis, Minnesota 55402. The 5% stockholders who are selling shares in this offering and the other selling stockholders are parties to a registration rights agreement and voting and co-sale agreement to which we are also a party. See "Certain Relationships and Related Party Transactions."

| | 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) | % | | | % | % |

| Name | Beneficial Ownership Prior to Offering | | Number of Shares Offered | Beneficial Ownership After this Offering | | |
|---|---|---|---|---|---|---|
| | Number | Percent | | Number | Percent (assuming no exercise of over-allotment) | Percent (assuming full exercise of over-allotment) |
| ***Other Selling Stockholders:*** | | | | | | |
| Steven Addis, trustee of the Steven Addis Trust u/d/t 7/28/92 | | % | | | % | % |
| PV Securities Corporation | | % | | | % | % |
| Axiom Venture Partners II Limited Partnership | | % | | | % | % |
| BlueCrest Venture Finance Master Fund Limited | | % | | | % | % |
| Barry M. Bloom | | % | | | % | % |
| Thomas Domencich | | % | | | % | % |
| ML Partners | | % | | | % | % |
| Granite Private Equity II, LLC | | % | | | % | % |
| Pacific Capital Ventures, LLC. | | % | | | % | % |
| Casimir Skrzypczak | | % | | | % | % |
| JAMIT, LLC. | | % | | | % | % |
| Ronald Karlsberg | (12) | % | | | % | % |

* 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 special consultant to 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.

(12) Includes shares held by Ronald Karlsberg as trustee for the benefit of R.P. Karlsberg Cardiovascular Medical Group of Southern California 401K Profit Sharing Plan, dated 1/1/1989.

## 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:

- provide for our board of directors to be divided into three classes with staggered three-year terms, with only one class of directors being elected at each annual meeting of our stockholders and the other classes continuing for the remainder of their respective three-year terms;
- 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 Wells Fargo Shareowner Services.

**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. This number is subject to increase on an annual basis and subject to increase for shares of stock subject to awards under our prior equity plans that expire unexercised or otherwise do not result in the issuance of shares subject to the award. 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.

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, 2008 and 2009 and for each of the three years in the period ended December 31, 2009 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, 2008 and 2009, 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, 2009. 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, 2008 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009 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
February 12, 2010

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

| | December 31, 2008 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 3,715 | $ 5,931 |
| Accounts receivable, less allowance for doubtful accounts of $308 and $226 | 4,564 | 4,766 |
| Deferred costs, current | 4,058 | 4,126 |
| Prepaid expenses and other current assets | 785 | 1,440 |
| Total current assets | 13,122 | 16,263 |
| PROPERTY AND EQUIPMENT | | |
| Computer equipment and purchased software | 7,560 | 8,542 |
| Office equipment and furniture | 1,660 | 1,678 |
| Leasehold improvements | 609 | 609 |
| | 9,829 | 10,829 |
| Less accumulated depreciation and amortization | (7,020) | (8,309) |
| | 2,809 | 2,520 |
| GOODWILL | 1,166 | 1,166 |
| INTANGIBLE ASSETS, net | 446 | 290 |
| OTHER ASSETS | | |
| Deferred costs, net of current portion | 1,587 | 1,617 |
| Other non-current assets | 67 | 63 |
| Total other assets | 1,654 | 1,680 |
| | $ 19,197 | $ 21,919 |
| **LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT** | | |
| CURRENT LIABILITIES | | |
| Current portion of capital lease obligations | $ 441 | $ 338 |
| Equipment and term loans | 1,409 | 499 |
| Line of credit, net of discount | 1,300 | 1,500 |
| Accounts payable | 804 | 1,345 |
| Accrued compensation and benefits | 1,884 | 3,005 |
| Accrued expenses and other current liabilities | 567 | 1,071 |
| Deferred rent | 112 | 123 |
| Current portion of deferred revenue | 2,574 | 3,407 |
| Interest payable | 36 | 2 |
| Total current liabilities | 9,127 | 11,290 |
| Deferred revenue, less current portion | 4,014 | 4,025 |
| Equipment and term loans, less current portion | 732 | 233 |
| Capital lease obligations, less current portion | 553 | 122 |
| Convertible preferred stock warrant liability | 188 | 569 |
| Deferred tax liability | 82 | 110 |
| Other long-term liabilities | 381 | 258 |
| Total liabilities | 15,077 | 16,607 |
| 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 |
| Series B redeemable convertible preferred stock, $0.001 par value, 23,499,362 shares authorized, 21,570,242 and 21,303,838 shares issued and outstanding, aggregate liquidation preference of $21,112 | 20,844 | 20,658 |
| 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 |
| Total redeemable convertible preferred stock | 65,964 | 65,778 |
| STOCKHOLDERS' DEFICIT | | |
| Common stock, $0.001 par value; 50,345,706 shares authorized; 1,240,588 and 1,225,459 shares issued and outstanding | 1 | 1 |
| Additional paid-in capital | 4,969 | 5,185 |
| Accumulated deficit | (66,814) | (65,652) |
| Total stockholders' equity (deficit) | (61,844) | (60,466) |
| | $ 19,197 | $ 21,919 |

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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Revenues | $ 25,198 | $ 30,697 | $ 37,746 |
| Cost of revenues | 6,379 | 9,258 | 11,715 |
| Gross profit | 18,819 | 21,439 | 26,031 |
| Operating expenses | | | |
| Sales and marketing | 11,636 | 12,493 | 13,506 |
| Research and development | 3,546 | 3,640 | 4,305 |
| General and administrative | 5,458 | 6,716 | 6,339 |
| Total operating expenses | 20,640 | 22,849 | 24,150 |
| Income (loss) from operations | (1,821) | (1,410) | 1,881 |
| Other income (expense) | | | |
| Interest expense | (439) | (419) | (270) |
| Other income | 120 | 28 | (358) |
| Total other expense | (319) | (391) | (628) |
| Income tax expense | (16) | (94) | (91) |
| Net income (loss) | $ (2,156) | $ (1,895) | $ 1,162 |
| Net income (loss) per share | | | |
| Basic | $ (3.12) | $ (1.72) | $ 0.94 |
| Fully diluted | $ (3.12) | $ (1.72) | $ 0.03 |
| Weighted average common shares used to compute net income (loss) per share | | | |
| Basic | 692 | 1,101 | 1,232 |
| Fully diluted | 692 | 1,101 | 34,711 |

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, 2007 | 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 | – | – | – | – | – | – | – | – | – | 228 | – | 228 |
| Exercise of stock options | – | – | – | – | – | – | – | 58,580 | – | 2 | – | 2 |
| Repurchase of common and redeemable convertible preferred stock | – | – | (266,406) | (186) | – | – | (186) | (73,679) | – | (14) | – | (14) |
| Net income | – | – | – | – | – | – | – | – | – | – | 1,162 | 1,162 |
| Balances at December 31, 2009 | 4,322,708 | $ 37,676 | 21,303,838 | $ 20,658 | 4,687,500 | $ 7,444 | $ 65,778 | 1,225,459 | $ 1 | $ 5,185 | $ (65,652) | $ (60,466) |

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, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Cash flows from operating activities | | | |
| Net income (loss) | $ (2,156) | $ (1,895) | $ 1,162 |
| Reconciliation of net income (loss) to net cash provided by (used in) operating activities | | | |
| Depreciation and amortization | 1,729 | 1,963 | 1,445 |
| Provision for doubtful accounts | 151 | 396 | 439 |
| Amortization of debt issue costs | 29 | 25 | 10 |
| Stock-based compensation | 46 | 157 | 228 |
| Change in carrying value of preferred stock warrants | 68 | 45 | 381 |
| Non-cash interest expense | 57 | 33 | — |
| Changes in assets and liabilities, excluding effects of business acquisition | | | |
| Accounts receivable | (800) | (811) | (641) |
| Prepaid expenses and other current assets | 54 | 232 | (655) |
| Other assets | (6) | (8) | (6) |
| Deferred costs | (2,885) | (1,659) | (98) |
| Accounts payable | 520 | (319) | 541 |
| Interest payable | (101) | (4) | (34) |
| Deferred revenue | 1,849 | 1,526 | 844 |
| Deferred tax liability | — | 82 | 28 |
| Accrued compensation and benefits | 658 | (510) | 1,121 |
| Deferred rent | (65) | 27 | (112) |
| Accrued expenses and other current liabilities | 49 | (87) | 505 |
| Net cash provided by (used in) operating activities | (803) | (807) | 5,158 |
| Cash flows from investing activities | | | |
| Purchases of property and equipment | (1,123) | (884) | (1,000) |
| Maturities of short-term investments | — | 1,263 | — |
| Purchase of short-term investments | (1,263) | — | — |
| Net cash flows provided by (used in) investing activities | (2,386) | 379 | (1,000) |
| Cash flows from financing activities | | | |
| Borrowings on line of credit | 3,125 | 10,425 | 16,325 |
| Payments on line of credit | (2,875) | (10,125) | (16,125) |
| Proceeds from equipment loans | 756 | 855 | — |
| Payments on equipment loans | (432) | (721) | (730) |
| Payments on term loan | (553) | (621) | (679) |
| Proceeds from exercise of stock options | 45 | 5 | 2 |
| Payments of capital lease obligations | (117) | (529) | (534) |
| Proceeds from preferred stock | 6,152 | — | — |
| Purchase of preferred and common stock | — | — | (201) |
| Net cash flows provided by (used in) financing activities | 6,101 | (711) | (1,942) |
| Net increase (decrease) in cash and cash equivalents | 2,912 | (1,139) | 2,216 |
| Cash and cash equivalents at beginning of period | 1,942 | 4,854 | 3,715 |
| Cash and cash equivalents at end of period | $ 4,854 | $ 3,715 | 5,931 |
| Supplemental disclosures of cash flow information | | | |
| Cash paid for interest | $ 512 | $ 374 | $ 285 |
| Supplemental schedule of non-cash investing and financing activities | | | |
| Capital lease obligations incurred | $ 1,407 | $ 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.

### 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.

### 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.

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

**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 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. Historically, no projects have had material costs beyond the preliminary project stage.

The Company's research and development efforts during 2007, 2008 and 2009, 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 2007, 2008 and 2009.

**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 recurring monthly hosting fees. 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; (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.

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

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Numerator: | | | |
| Net income (loss) | $ (2,156) | $ (1,895) | $ 1,162 |
| Denominator: | | | |
| Weighted average common shares outstanding, basic | 691,700 | 1,100,628 | 1,232,395 |
| Options and warrants to purchase common and preferred stock | — | — | 2,963,650 |
| Redeemable convertible preferred stock | — | — | 30,514,762 |
| Weighted average common shares outstanding, fully diluted | 691,700 | 1,100,628 | 34,710,807 |
| Net income (loss) per share-basic | $ (3.12) | $ (1.72) | $ 0.94 |
| Net income (loss) per share- fully diluted | $ (3.12) | $ (1.72) | $ 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:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2009 |
| Options to purchase common stock | 4,646,144 | 4,448,079 | 71,221 |
| Redeemable convertible preferred stock | 30,580,451 | 30,580,451 | — |
| Preferred and common stock warrants | 356,447 | 256,185 | — |

**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 $46, $157 and $228 at December 31, 2007, 2008 and 2009, respectively. As of December 31, 2008 and 2009, there was $466 and $459, 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 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 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

**SPS Commerce, Inc.**
**NOTES TO FINANCIAL STATEMENTS — (Continued)**
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Company does business because the Company does not have sufficient historical volatility data for its own stock. The expected term of the options is based on evaluations of historical and expected future employee exercise behavior.

**Advertising Costs**

Advertising costs are charged to expense as incurred. Advertising costs were approximately $655, $85 and $56 at December 31, 2007, 2008 and 2009, respectively. 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 unit 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 goodwill 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.

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

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2009 | | |
| | Carrying Amount | Accumulated Amortization | Net | Carrying Amount | Accumulated Amortization | Net |
| Intangible assets: | | | | | | |
| Subscriber relationships | $ 1,930 | $ 1,822 | $ 108 | $ 1,930 | $ 1,930 | $ — |
| Covenants not-to-compete | 580 | 242 | 338 | 580 | 290 | 290 |
| Total | $ 2,510 | $ 2,064 | $ 446 | $ 2,510 | $ 2,220 | $ 290 |

Aggregate amortization expense incurred was $740, $788 and $156 for the years ended December 31, 2007, 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*.

**SPS Commerce, Inc.**
**NOTES TO FINANCIAL STATEMENTS — (Continued)**
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**Fair Value of Financial Instruments**

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, 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.

The table below presents our assets and liabilities measured at fair value on a recurring basis as of December 31, 2009:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash and cash equivalents | $5,931 | $5,931 | $— | $ — |
| Preferred stock warrants | $ 569 | $ — | $— | $569 |

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 | 381 |
| Balance at December 31, 2009 | $ 569 |

**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.

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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.

(In thousands, except share and per share amounts)

**Reclassifications**

Certain reclassifications have been made to the 2007 and 2008 financial statements to conform with the presentation used in 2009. These reclassifications had no effect on net income (loss), stockholders' deficit or net income (loss) per share previously reported.

**NOTE B – FINANCIAL STATEMENT COMPONENTS**

**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, 2008 | December 31, 2009 |
|---|---|---|
| Debt issue costs | $ 114 | $ 119 |
| Accumulated amortization | (106) | (115) |
| | $ 8 | $ 4 |

Amortization expense was $29, $22 and $9 for the years ended December 31, 2007, 2008 and 2009.

**Accounts Payable**

Accounts payable included the following at December 31, 2008 and 2009:

| | December 31, 2008 | December 31, 2009 |
|---|---|---|
| Costs incurred for initial public offering | $ — | $ 318 |
| Other accounts payable | 804 | 1,027 |
| | $ 804 | $ 1,345 |

**Other expenses and other current liabilities**

Other expenses and other current liabilities included the following at December 31, 2008 and 2009:

| | December 31, 2008 | December 31, 2009 |
|---|---|---|
| Costs accrued for initial public offering | $ — | $ 377 |
| Other accrued expenses and other current liabilities | 567 | 694 |
| | $ 567 | $ 1,071 |

(In thousands, except share and per share amounts)

**NOTE C – INCOME TAXES**

The provision for income taxes at December 31, 2007, 2008 and 2009, consist of the following:

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Current | $ 16 | $ 12 | $ 63 |
| Deferred | — | 82 | 28 |
| Total income tax expense | $ 16 | $ 94 | $ 91 |

The tax provision includes estimated federal alternative minimum taxes, state taxes and deferred tax expense related to book and income tax basis differences in goodwill created in the Owens Direct asset acquisition.

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

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Expected federal income tax at statutory rate | $ (728) | $ (612) | $ 420 |
| State income taxes, net of federal tax effect | (68) | (52) | 52 |
| Meals and entertainment | 47 | 16 | 13 |
| Stock compensation expense | 16 | 53 | 67 |
| Stock warrants | 23 | 15 | 129 |
| Change in valuation allowance | 729 | 614 | (805) |
| Change in state deferred rate | — | — | 54 |
| Prior year true-up | — | — | 100 |
| AMT expense | — | — | 36 |
| Other | (3) | 60 | 25 |
| Total income tax expense | $ 16 | $ 94 | $ 91 |

As of December 31, 2009, the Company had net operating loss carryforwards of $53,437 for U.S. federal tax purposes and $32,491 for state 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 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. Due to changes in ownership, some of the Company's net operating loss carryforwards will be limited.

**SPS Commerce, Inc.**
**NOTES TO FINANCIAL STATEMENTS — (Continued)**
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Significant components of the Company's deferred tax assets and liabilities at December 31, 2008 and 2009 are as follows:

| | 2008 | 2009 |
|---|---|---|
| Current: | | |
| Accounts receivable allowances | $ 125 | $ 115 |
| Accrued expenses | 252 | 285 |
| Total current deferred tax assets | 377 | 400 |
| Valuation allowance | (377) | (400) |
| Net current deferred tax assets | $ — | $ — |
| Noncurrent: | | |
| Net operating loss carryforward | $ 19,867 | $ 19,096 |
| Deferred revenue | 530 | 761 |
| Depreciation and amortization | 789 | 527 |
| Total noncurrent deferred tax assets | 21,186 | 20,384 |
| Valuation allowance | (21,268) | (20,494) |
| Net noncurrent deferred tax liability | $ 82 | $ 110 |

The Company's net deferred tax assets have been reduced fully by a valuation allowance, as realization is not considered to be likely based on an assessment of the history of losses and the likelihood of sufficient future taxable income. The deferred tax liability recorded at December 31, 2009 and 2008 relates to goodwill created in the Owens Direct asset acquisition which is deductible for tax purposes.

In the event the Company realizes its deferred tax assets in the future, approximately $29 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.

It is the Company's practice to recognize penalties and/or interest to income tax matters in income tax expenses. As of December 31, 2009, the Company did not have an accrual for interest or penalties related to unrecognized tax benefits. The Company is no longer subject to U.S. federal tax examinations by tax authorities for tax years before 2006. The Company is open to state tax audits until the applicable statutes of limitations expire.

**NOTE D – 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.

**SPS Commerce, Inc.**
**NOTES TO FINANCIAL STATEMENTS — (Continued)**
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On February 3, 2006, the Company entered into a loan and security agreement with the same lender which included a $2,000 term loan, an equipment loan not to exceed an aggregate of $1,250, and a revolving line of credit. The revolving line of credit was limited to the lesser of $1,250 or 85% of eligible domestic accounts receivable plus 70% of eligible foreign accounts receivable less any reserves. On April 8, 2009, the Company agreed to terms for a renewal of the revolving line of credit which provides for available borrowings up to $3,500 based on eligible receivables, and expires on March 31, 2010.

Each loan is collateralized by the assets of the Company and contains certain nonfinancial covenants with which the Company was in compliance at December 31, 2009. The fair value of the preferred stock warrant issued in connection with the loan and security agreement was $160 and was recorded as a debt discount. This debt discount is being amortized to interest expense over the weighted average life of the term loan, equipment loan and the revolving line of credit.

At December 31, 2008 and 2009, the Company's outstanding borrowings under the revolving line of credit were $1,300 and $1,500 with effective interest rates of 9.50% and 9.00%, respectively.

The long-term debt consists of the following:

| | December 31, 2008 | December 31, 2009 |
|---|---|---|
| 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% and 0% at December 31, 2008 and 2009) through December 1, 2009 | $ 697 | $ — |
| 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 | 1,462 | 732 |
| Total debt | $ 2,159 | $ 732 |
| Less: discount | (18) | — |
| Total debt, less discount | 2,141 | 732 |
| Less: current maturities | (1,409) | (499) |
| Total long-term debt | $ 732 | $ 233 |

Future maturities of long-term debt are as follows for the year ended December 31, 2009:

| | |
|---|---|
| 2010 | 499 |
| 2011 | 224 |
| 2012 | 9 |
| | $ 732 |

(In thousands, except share and per share amounts)

**NOTE E – 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, 2008 | December 31, 2009 |
|---|---|---|
| Computer equipment and purchased software | $ 1,664 | $ 1,664 |
| Less: accumulated amortization | (795) | (892) |
| | $ 869 | $ 772 |

Future minimum payments under capital leases are as follows for 2009:

| | |
|---|---|
| 2010 | 366 |
| 2011 | 125 |
| Total minimum lease payments | 491 |
| Less: amount representing interest | (31) |
| Present value of minimum lease payments | 460 |
| Less: current portion | 338 |
| | $ 122 |

**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 $580, $663 and $682 for the years ended December 31, 2007, 2008 and 2009.

Future minimum lease payments are as follows:

| | |
|---|---|
| 2010 | 776 |
| 2011 | 787 |
| 2012 | 666 |
| | $ 2,229 |

**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 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 F – 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 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 entitled 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 into common shares at a conversion ratio which was 1 to 1 at December 31, 2009. The conversion ratio is equal to the conversion value divided by the conversion price. The conversion value and conversion price were initially set in the Company's Fifth Amended and Restated Certificate of Incorporation at $2.31, $0.98 and $1.60 for the Series A, B and C redeemable convertible preferred stock, respectively. The conversion price is subject to adjustment for certain dilutive issuances. The Company has not issued any dilutive instruments which would adjust the conversion price. Therefore, at December 31, 2009, the conversion value and the conversion price have not changed since they were initially set.

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 at the then effective conversion ratio, 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.

(In thousands, except share and per share amounts)

**NOTE G – SHARE-BASED COMPENSATION**

At December 31, 2009, there were 459,572 options available for grant under approved stock option plans. At December 31, 2007, 2008 and 2009 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.

**Stock Options**

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

| | Options Outstanding | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding at January 1, 2007 | 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 | 1,270,364 | 0.76 |
| Exercised | (58,580) | 0.10 |
| Forfeited | (984,739) | 2.10 |
| Outstanding at December 31, 2009 | 4,675,124 | $ 0.40 |

**SPS Commerce, Inc.**
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The following table summarizes our stock option grants from January 1, 2009 through December 31, 2009 and our contemporaneous valuations 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) |
|---|---|---|---|---|---|
| First Quarter – 2009 | 309,000 | $ 0.92 | $ 0.92 | $ 664 | February 10, 2009 |
| Second Quarter – 2009 | 374,000 | $0.65-$0.68 | $0.65-$0.68 | $ 903 | April 1, 2009 and April 22, 2009 |
| Third Quarter – 2009(1) | 893,364 | $ 0.81 | $ 0.81 | $2,019 | July 23, 2009 |
| Fourth Quarter – 2009 | 3,000 | $ 0.99 | $ 0.99 | $ 6 | October 22, 2009 |

(1) On July 23, 2009, 890,364 options were modified to lower the per share exercise price to $0.81.

The following table summarizes information about stock options outstanding at December 31, 2009:

| Exercise price | Options Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Options Exercisable | Weighted-Average Exercise Price |
|---|---|---|---|---|---|
| $0.10 | 2,819,424 | 4.3 | $ 0.10 | 2,796,952 | $ 0.10 |
| $0.11 – $1.99 | 1,784,479 | 7.6 | 0.76 | 825,886 | 0.78 |
| $2.00 – $3.00 | 70,540 | 1.7 | 2.05 | 70,540 | 2.05 |
| $40.00 – $66.00 | 100 | 0.8 | 60.00 | 100 | 60.00 |
| $102.40 – $115.60 | 581 | 0.2 | 102.40 | 581 | 102.40 |
| Total | 4,675,124 | 5.5 | $ 0.40 | 3,694,059 | $ 0.31 |

The intrinsic value of options exercised during the year ended December 31, 2007, 2008, and 2009 was $280, $346, and $101.

The weighted-average fair value of the options granted during 2007, 2008 and 2009 were $0.47, $0.64, and $0.41 respectively. The fair value of each option granted was estimated on the date of grant using the Black-Scholes method with the following assumptions:

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Weighted-average volatility | 52.0% | 53.0% | 49% - 53% |
| Expected dividends | 0.0% | 0.0% | 0.0% |
| Expected life (in years) | 8.0 | 7.0 | 4.0 - 7.0 |
| Weighted-average risk-free interest rate | 4.4% | 4.0% | 2.71% - 4.01% |

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 890,364 stock options granted to 17 employees and one director to reduce the exercise price for all 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 the 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 $228 of stock based compensation recognized in the period ended December 31, 2009, approximately $32 related to the stock-based compensation costs associated with the modified options.

**Common Stock Warrants**

The Company had 750 and 0 warrants outstanding to purchase common stock, with exercise prices ranging from $0.20 to $105.00, at December 31, 2008 and 2009.

**Preferred Stock Warrants**

At December 31, 2008 and 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 $(69), $(45) and $(381) for the years ended December 31, 2007, 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 upon completion of the Company's initial public offering.

**NOTE H – 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 $124, $172 and $219, respectively for the years ended December 31, 2007, 2008 and 2009.

**NOTE I – 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 J – SUBSEQUENT EVENTS**

The Company has evaluated its financial statements as of December 31, 2009 for subsequent events through February 12, 2010 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, 2007 Accounts Receivable Allowance | $241 | $150 | $(193) | $198 |
| Year ended December 31, 2008 Accounts Receivable Allowance | $198 | $396 | $(286) | $308 |
| Year ended December 31, 2009 Accounts Receivable Allowance | $308 | $439 | $(521) | $226 |

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 | * |
| Archie C. Black | common stock | December 22, 2009 | — | 25,000 | $ 2,500.00 |

* 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. 3 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 5th day of March, 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. 3 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) | March 5, 2010 |
| */s/ Kimberly K. Nelson* Kimberly K. Nelson | Executive Vice President and Chief Financial Officer (principal financial and accounting officer) | March 5, 2010 |
| * Steve A. Cobb | Director | March 5, 2010 |
| * Michael B. Gorman | Director | March 5, 2010 |
| * Martin J. Leestma | Director | March 5, 2010 |
| * George H. Spencer, III | Director | March 5, 2010 |
| * Murray R. Wilson | Director | March 5, 2010 |
| * Sven A. Wehrwein | Director | March 5, 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 | Form of At-will Confidentiality Agreement Regarding Certain Terms and Conditions of Employment for Kimberly K. Nelson, James J. Frome, Michael J. Gray and David J. Novak, Jr.** |

| Exhibit No. | Description |
|---|---|
| 10.22 | Warrant to Purchase Stock issued by the Company to Silicon Valley Bank as of May 20, 2004 |
| 10.23 | Warrant issued by the Company to Ritchie Capital Finance, L.L.C. as of February 3, 2006 |
| 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.

**SPS Commerce, Inc.**
**Common Stock**

**Underwriting Agreement**

_____, 2010

Thomas Weisel Partners LLC
As representative of the Underwriters
named in Schedule I hereto,
c/o Thomas Weisel Partners LLC
One Montgomery Street, Suite 3700
San Francisco, CA 94104

Ladies and Gentlemen:

SPS Commerce, Inc., a Delaware corporation (the "**Company**"), proposes, subject to the terms and conditions stated herein, to issue and sell to the Underwriters named in Schedule I hereto (the "**Underwriters**") an aggregate of [_____] shares of Common Stock, $0.001 par value ("**Stock**") of the Company, and, at the election of the Underwriters, up to [_____] additional shares of Stock, and the stockholders of the Company named in Schedule II hereto (the "**Selling Stockholders**") propose, subject to the terms and conditions stated herein, to sell to the Underwriters an aggregate of [_____] shares of Stock, and, at the election of the Underwriters, up to [_____] additional shares of Stock. The aggregate of [_____] shares to be sold by the Company and the Selling Stockholders is herein called the "**Firm Shares**" and the aggregate of [_____] additional shares to be sold by the Company is herein called the "**Optional Shares**". The Firm Shares and the Optional Shares are herein collectively called the "**Shares**".

1. The Company represents and warrants to, and agrees with, each of the Underwriters that:

(a) A registration statement on Form S-1 (File No. 333-_____) (the "**Initial Registration Statement**") in respect of the Shares has been filed with the Securities and Exchange Commission (the "**Commission**"); the Initial Registration Statement and any post-effective amendment thereto, each in the form heretofore delivered to you, have been declared effective by the Commission in such form; other than a registration statement, if any, increasing the size of the offering (a "**Rule 462(b) Registration Statement**"), filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "**Act**"), which became effective upon filing, no other document with respect to the Initial Registration Statement has heretofore been filed with the Commission; and no stop order suspending the effectiveness of the Initial Registration Statement, any post-effective amendment thereto or the Rule 462(b) Registration Statement, if any, has been issued and no proceeding for that purpose, to the best of the knowledge of the Company, has been initiated or threatened by the Commission (any preliminary prospectus included in the Initial Registration Statement or filed with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the Act is hereinafter called a "**Preliminary Prospectus**"; the various parts of the Initial Registration Statement and the Rule 462(b) Registration Statement, if any, including all exhibits thereto and including the information contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 6(a) hereof and deemed by virtue of Rule 430A under the Act to be part of the Initial Registration Statement at the time it was declared effective, each as amended at the time such part of the Initial Registration Statement became effective or such part of the Rule 462(b) Registration Statement, if any, became or hereafter becomes effective, are hereinafter collectively called the "**Registration Statement**"; the Preliminary Prospectus, as amended and supplemented immediately prior to the Applicable Time, including any document incorporated by reference therein is hereinafter called the "**Statutory Prospectus**"; the General Use Free Writing Prospectus(es) (as defined in Section 1(c) hereof) issued at or prior to the Applicable Time (as defined in

Section 1(c) hereof) and the Statutory Prospectus, all considered together are hereinafter called the "**Pricing Prospectus**"; such final prospectus, in the form first filed pursuant to Rule 424(b) under the Act, is hereinafter called the "**Prospectus**"; and any "issuer free writing prospectus" as defined in Rule 433 under the Act, relating to the Shares in the form filed or required to be filed with the Commission or, if not required to be filed, in the form retained in the Company's records pursuant to Rule 433(g) under the Act is hereinafter called an "**Issuer Free Writing Prospectus**"); all references in this Agreement to the Initial Registration Statement, the Rule 462(b) Registration Statement, a Preliminary Prospectus, the Pricing Prospectus and the Prospectus, or any amendments or supplements to the foregoing, shall be deemed to refer to and include any copy thereof filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval System;

(b) No order preventing or suspending the use of any Preliminary Prospectus or any Issuer Free Writing Prospectus has been issued by the Commission, and each Preliminary Prospectus, at the time of filing thereof, conformed in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Thomas Weisel Partners LLC expressly for use therein, it being understood and agreed that the only such information is that described in Section 10(d) hereof;

(c) For the purposes of this Agreement, the "**Applicable Time**" is [___] p.m. (Eastern time) on the date of this Agreement. As of the Applicable Time, and as of each Time of Delivery, as the case may be, neither (i) the Pricing Prospectus nor (ii) any individual Limited Use Free Writing Prospectus (as defined below), when considered together with the Pricing Prospectus, included or will include any untrue statement of a material fact or omitted or will omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and each Issuer Free Writing Prospectus (A) does not conflict with the information contained in the Registration Statement and the Pricing Prospectus, (B) will not conflict with the information contained in the Prospectus, and (C) as supplemented by and taken together with the Pricing Prospectus as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and each broadly available road show, if any, when considered together with the Pricing Prospectus, does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the representations and warranties in this Section 1(c) shall not apply to statements or omissions made in the Pricing Prospectus or an Issuer Free Writing Prospectus in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Thomas Weisel Partners LLC expressly for use therein, it being understood and agreed that the only such information is that described in Section 10(d) hereof. As used in this subsection and elsewhere in this Agreement:

"**Broadly available road show**" means a "bona fide electronic road show" as defined in Rule 433(h)(5) under the Act that has been made available without restriction to any person

"**General Use Free Writing Prospectus**" means any Issuer Free Writing Prospectus that is intended for general distribution to prospective investors, as evidenced by its being so identified on Schedule IV to this Agreement.

"**Limited Use Free Writing Prospectus**" means any Issuer Free Writing Prospectus that is not a General Use Free Writing Prospectus.

(d) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus will conform, in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder and do not and will not, as of the applicable effective date as to the Registration Statement and any amendment thereto and as of the applicable filing date as to the Prospectus and any amendment or supplement thereto, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that the representations and warranties in this Section 1(d) shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Thomas Weisel Partners LLC expressly for use therein, it being understood and agreed that the only such information is that described in Section 10(d) hereof;

(e) The Company has not, directly or indirectly, distributed and will not distribute any offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectus, the Prospectus and other materials, if any, permitted under the Act and consistent with Section 6 below. The Company will file with the Commission all Issuer Free Writing Prospectuses required to be filed in the time and manner required under Rule 433(d) under the Act;

(f) The Company (i) has not sustained since the date of the latest audited financial statements included in the Pricing Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree and (ii) is not in violation of its charter or by-laws or in default (or with the giving notice or lapse of time would be in default) under any existing obligation, agreement, covenant or condition contained in any indenture, loan agreement, mortgage, lease or other agreement or instrument to which it is a party or by which it is bound or to which its properties is subject, in each case otherwise than as set forth or contemplated in the Pricing Prospectus, and in each case except for such loss, interference, default or violation as would not, individually or in the aggregate, have a material adverse effect on the business, prospects, properties, operations, assets, condition (financial or otherwise), stockholders' equity or results of operations of the Company (a "**Material Adverse Effect**"); and, since the respective dates as of which information is given in the Registration Statement and the Pricing Prospectus, there has not been (A) any change in the capital stock or long-term debt of the Company, other than the expiration of or grants of stock options to employees of the Company pursuant to the Company's equity incentive plans in the ordinary course of business and the issuance of shares of Stock upon the exercise of warrants and stock options by existing security holders of the Company in the ordinary course of business, or (B) any material adverse change, or any development reasonably expected to result in a material adverse change, in or affecting the business, prospects, operations, assets, condition (financial or otherwise) or results of operations of the Company, otherwise than as set forth or contemplated in the Pricing Prospectus;

(g) The Company does not own any real property. The Company has good and marketable title to all personal property owned by it, in each case free and clear of all liens, encumbrances and defects except such as are described in the Pricing Prospectus or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company. Any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company;

(h) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with power and authority (corporate and other) to own, lease and operate its properties and conduct its business as described in the Pricing Prospectus, and is duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such

qualification, except where the failure to be so qualified and in good standing in any such jurisdiction would not have, individually or in the aggregate, a Material Adverse Effect;

(i) The Company does not own, and at each Time of Delivery (as defined in Section 4(a) hereof), will not own, directly or indirectly, any shares of stock or any other equity or long-term debt securities of any corporation or have any equity interest in any corporation, firm, partnership, joint venture, association or other entity;

(j) The Company has the authorized, and issued and outstanding capital stock as set forth in the "Description of Capital Stock" section of the Pricing Prospectus; all of the issued shares of capital stock of the Company (i) have been duly authorized and validly issued, (ii) are fully paid and non-assessable, and (iii) were issued in compliance with all applicable state and federal securities laws or an exemption thereto; all of the issued shares of Stock conform to the description of the Stock that is contained in the "Description of Capital Stock" section of the Pricing Prospectus and that will be contained in the "Description of Capital Stock" section of the Prospectus; and none of the holders of capital stock of the Company are entitled to receive any liquidation preference payment solely by virtue of the consummation of the offering contemplated in this Agreement;

(k) The Shares have been duly authorized and, when issued and delivered against payment therefor as provided herein, will be validly issued, fully paid and non-assessable and will conform to the description of the Stock that is contained in the Pricing Prospectus and that will be contained in the Prospectus; and no preemptive or similar rights with respect to (except as have been waived in writing and delivered to Thomas Weisel Partners LLC), or any restrictions (other than under federal and state securities laws) upon the voting or transfer of, any of the Shares or the issue and sale thereof exist or will exist prior to or at any Time of Delivery with respect to such Shares;

(l) The issue and sale of the Shares to be sold by the Company, the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein contemplated will not violate any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its properties, or conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give rise to a right of termination under, or result in the acceleration of any obligation under any statute, indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company is a party or by which the Company is bound or affected or to which any of the property or assets of the Company is subject or affected, except for such breaches or violations as would not, individually or in the aggregate, have a Material Adverse Effect, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By-laws of the Company;

(m) No consent, approval, authorization, order, registration, qualification, permit, license, exemption, filing or notice (each an "**Authorization**") of, from, with or to any court, tribunal, government, governmental or regulatory authority, self-regulatory organization or body is required for the issue and sale of the Shares or the consummation by the Company of the transactions contemplated by this Agreement, except (A) the registration of the Shares under the Act; (B) such Authorizations as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters; (C) the approval of the Financial Industry Regulatory Authority, Inc. ("**FINRA**") of the underwriting terms and arrangements of the offering of the Shares; and (D) such other Authorizations the absence of which would not, individually or in the aggregate, have a Material Adverse Effect; and no event has occurred, nor is any proceeding, to the best of the knowledge of the Company, pending or threatened, that allows or results in, or after notice or lapse of time or both would allow or result in, revocation, suspension, termination or invalidation of any such Authorization or any other impairment of the rights of the holder or maker of any such Authorization;

(n) The Company has full corporate power and authority to enter into this Agreement. This Agreement has been duly authorized, executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with the terms hereof. All actions (including those of stockholders) necessary for the Company to consummate the transactions contemplated in this Agreement have been taken and are in effect;

(o) The Company is not (A) in violation of its Certificate of Incorporation or By-laws or other organizational documents or (B) in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any agreement or instrument to which it is a party or by which it or any of its properties may be bound or affected or any indenture, mortgage, deed of trust, loan agreement, lease or other agreement, except for such violations or defaults that would not, individually or in the aggregate, have a Material Adverse Effect. The Company has in effect controls and procedures for ensuring compliance in all material respects with any agreement or instrument to which it is a party or by which it or any of its properties may be bound or affected or any indenture, mortgage, deed of trust, loan agreement, lease or other agreement, except for such agreements the breach of which would not, individually or in the aggregate, have a Material Adverse Effect;

(p) The statements that are set forth in the Pricing Prospectus, and that will be set forth in the Prospectus, under the caption “Description of Capital Stock”, insofar as they purport to constitute a summary of the terms of the Stock, and under the captions “Material U.S. Federal Tax Considerations for Non-U.S. Holders of Our Common Stock” and “Underwriting”, insofar as they purport to describe the provisions of the laws and documents referred to therein, are (in the case of the Pricing Prospectus) or will be (in the case of the Prospectus), as the case may be, accurate, complete and fair;

(q) Except as is disclosed in the Pricing Prospectus and will be disclosed in the Prospectus, there are no legal or governmental proceedings pending to which the Company is a party or of which any property of the Company is the subject which, if determined adversely to the Company, could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, or would materially and adversely affect the ability of the Company to perform its obligations under this Agreement, or which are otherwise material in the context of the sale of the Shares; and to the best of the Company’s knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(r) Except as is disclosed in the Pricing Prospectus, and will be disclosed in the Prospectus, (i) the Company owns or possesses adequate rights to use all trademarks, trade names, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), licenses, approvals and governmental authorizations to conduct its business as now conducted and none of the foregoing intellectual property rights owned or possessed by the Company which is material to the Company is invalid or unenforceable; to the Company’s knowledge, the Company is not infringing any third party’s patents or patent applications; the Company is not infringing any third party’s trademarks, trade name rights, inventions, copyrights, licenses, trade secrets or other similar rights of others, (iii) the Company is not engaging in any improper use of data obtained by it from customers or other third parties or through its own survey collection efforts, (iv) the Company is not aware of any infringement, misappropriation or violation by others of, or conflict by others with rights of the Company with respect to, any of the foregoing intellectual property rights, where such infringement would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, and (v) there is no claim being made against the Company, or to the best of the Company’s knowledge, any employee of the Company, regarding trademark, trade name, patent, inventions, copyright, license, trade secret or other infringement or improper use of any data obtained by the Company from third parties which would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. The Company has no patents or patent applications;

(s) All current employees, consultants and contractors of the Company have executed written instruments with the Company that assign to the Company all rights, title and interest in and to any and all (i) inventions, improvements, discoveries, writings and other works of authorship, and information relating to the business of the Company or any of the products or services being researched, developed or sold by the Company or that may be used with any such products or services and (ii) any intellectual property and/or proprietary rights related thereto, including but not limited to trademarks, trade names, patents, patent applications, inventions, copyrights and know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures). To our knowledge, all former employees, consultants and contractors of the Company have executed written instruments with the Company that assign to the Company all rights, title and interest in and to any and all (i) inventions, improvements, discoveries, writings and other works of authorship, and information relating to the business of the Company or any of the products or services being researched, developed or sold by the Company or that may be used with any such products or services and (ii) any intellectual property and/or proprietary rights related thereto, including but not limited to trademarks, trade names, patents, patent applications, inventions, copyrights and know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), except to the extent that failure to execute such written instruments would not have a Material Adverse Effect;

(t) Except as is disclosed in the Pricing Prospectus and will be disclosed in the Prospectus, there are no contracts, agreements or understandings between the Company and any person that materially restrict the Company's ability to conduct its business as described in the Pricing Prospectus;

(u) The Company possesses all certificates, certifications, registrations, notifications, orders, licenses, authorizations, approvals and permits (collectively, "**Permits**") issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct its business and such Permits are valid and in full force and effect, except for Permits where the failure to possess, or the invalidity of which, individually or in the aggregate, would not have a Material Adverse Effect. The Company is in compliance in all respects with the terms and conditions of such Permits, except where the failure to comply would not have a Material Adverse Effect. The Company has not received any notice of proceedings relating to the revocation or modification of any such Permit which, individually or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect;

(v) The Company is insured against such losses and risks and in such amounts as the Company reasonably believes are prudent and customary in the business in which it is engaged; and the Company does not have any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect;

(w) The Company (i) is in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("**Environmental Laws**"), (ii) has received all Permits required of it under applicable Environmental Laws to conduct its business and (iii) is in compliance in all respects with any such Permit, except where such noncompliance with Environmental Laws, failure to receive required Permits, or failure to comply with the terms and conditions of such Permits would not have, individually or in the aggregate, a Material Adverse Effect;

(x) There are no costs or liabilities associated with Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any Permit, any related constraints on operating activities and any potential liabilities to third parties) which would, individually or in the aggregate, have a Material Adverse Effect;

(y) The Company has filed all federal, state, local and foreign tax returns which have been required to be filed and has paid or made provision to pay all taxes and assessments received by it to the extent that such taxes or assessments have become due, except where the failure to file such returns or pay, or make provision to pay, all such taxes and assessments would not have a Material Adverse Effect. The Company does not have any tax deficiency which has been or, to the best of the knowledge of the Company, might be asserted or threatened against it which would reasonably be expected to have a Material Adverse Effect;

(z) The Company's liabilities to its customers are as set forth in the Company's standard form of Master Services Agreement and in the Prospectus, except as would not, individually or in the aggregate, have a Material Adverse Effect;

(aa) The Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof, will not be an "investment company", as such term is defined in the Investment Company Act of 1940, as amended;

(bb) At the time of filing the Initial Registration Statement, the Company was not an "ineligible issuer," as defined in Rule 405 under the Act;

(cc) Except as disclosed in the Pricing Prospectus, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company or to require the Company to include such securities with the Shares registered pursuant to the Initial Registration Statement other than as have been waived in writing in connection with the offering contemplated hereby;

(dd) Grant Thornton LLP, who have certified certain financial statements of the Company and its subsidiaries, are independent public accountants as required by the Act and the rules and regulations of the Commission thereunder;

(ee) The financial statements of the Company (including all notes and schedules thereto) included in the Registration Statement, the Pricing Prospectus and Prospectus comply in all material respects with the requirements of the Act and the Securities Exchange Act of 1934, as amended (the "**Exchange Act**") and present fairly the financial position of the Company at the dates indicated and the statement of operations, stockholders' equity and cash flows of the Company for the periods specified are in conformity with generally accepted accounting principles, consistently applied throughout the periods involved; and the summary and selected financial data that are included in the Registration Statement and the Pricing Prospectus and that will be included in the Prospectus, (i) are, in the case of the financial information for the years ended December 31, 2007, December 31, 2008 and December 31, 2009, derived from the consolidated financial statements that are set forth in the Registration Statement and the Pricing Prospectus and that will be set forth in the Prospectus, (ii) are, in the case of financial information for the years ended December 31, 2005 and December 31, 2006, complete and accurate in all respects and fairly present the financial condition of the Company at the respective dates thereof and the results of the Company's operations for the periods then ended and were prepared in accordance with the books and records of the Company in conformity with generally accepted accounting principles, consistently applied during the periods covered thereby except for the omission of footnotes and normal year-end adjustments which are not, individually and in the aggregate, material. All financial statements or schedules of the Company which are required by the Act or the rules and regulations of the Commission thereunder to be included in the Registration Statement, the Preliminary Prospectus or the Prospectus have been or, in the case of the Prospectus, will be so included;

(ff) It is the intention of the Company's management to become fully compliant in all respects with applicable laws, rules and regulations of the Commission regarding internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) on or before the date on which

such laws, rules or regulations become applicable to the Company. Except as is disclosed in the Pricing Prospectus and will be disclosed in the Prospectus, the Company is not aware of any material weaknesses in its internal control over financial reporting;

(gg) Since the date of the latest audited financial statements of the Company included in the Pricing Prospectus, there has been no change in the Company's internal control over financial reporting that has materially diminished, or is reasonably likely to materially diminish, the effectiveness of the Company's internal control over financial reporting (other than as set forth in the Pricing Prospectus);

(hh) The Company maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) that comply with the requirements of the Exchange Act; such disclosure controls and procedures have been designed to ensure that material information relating to the Company is made known to the Company's principal executive officer and principal financial officer by others within the Company; and such disclosure controls and procedures are effective;

(ii) The Company is in compliance with all currently effective provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder that are applicable, or will be applicable to the Company as of each Time of Delivery;

(jj) There are no off-balance sheet arrangements, outstanding guarantees or other contingent obligations of the Company that could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(kk) The Company's Chief Executive Officer and Chief Financial Officer have reviewed and agreed with the selection, application and disclosure of critical accounting policies and have consulted with the Company's independent registered public accounting firm with regard to such disclosure;

(ll) No relationship, direct or indirect, exists between or among the Company, on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company, on the other hand, which is required to be described in the Registration Statement, the Pricing Prospectus and the Prospectus and which is not so described. There are no outstanding loans, advances or guarantees of indebtedness by the Company to or for the benefit of any of the executive officers or directors of the Company;

(mm) To the knowledge of the Company, no person associated with or acting on behalf of the Company, including without limitation any director, officer, agent or employee of the Company has, directly or indirectly, while acting on behalf of the Company (A) used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, (B) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from corporate funds, (C) violated any provision of the Foreign Corrupt Practices Act of 1977, as amended or (D) made any other unlawful payment;

(nn) Except as contemplated by this Agreement and as is disclosed in the Pricing Prospectus and will be disclosed in the Prospectus, no person is entitled to receive from the Company a brokerage commission, finder's fee or other like payment in connection with the transactions contemplated herein;

(oo) The Company does not conduct business with the government of, or with any person located in any country in a manner that violates in any material respect any of the economic sanctions programs or similar sanctions-related measures of the United States as administered by the United States Treasury Department's Office of Foreign Assets Control; and the net proceeds from this offering will not be used to fund any operations in, finance any investments in or make any payments to any country, or to make any payments to

any person, in a manner that violates any of the economic sanctions of the United States administered by the United States Treasury Department's Office of Foreign Assets Control;

(pp) There is no document, contract, permit or instrument of a character required to be described in the Initial Registration Statement, the Pricing Prospectus or the Prospectus or to be filed as an exhibit to the Initial Registration Statement which is not (or, in the case of the Prospectus, will not be) described or filed as required. All such contracts described (or, in the case of the Prospectus, to be described) in the Initial Registration Statement, the Pricing Prospectus or the Prospectus or filed as exhibits to the Initial Registration Statement to which the Company is a party have been duly authorized, executed and delivered by the Company, constitute valid and binding agreements of the Company and are enforceable against and by the Company in accordance with the terms thereof;

(qq) Except for stock issuances disclosed in the Initial Registration Statement, the Company has not sold or issued any shares of Stock during the six-month period preceding the date of the Prospectus, including any sales pursuant to Rule 144A, or Regulations D or S, under the Act, other than any shares of Stock issued upon exercise of warrants and stock options granted pursuant to the Company's equity incentive plans and Stock issued upon conversion of the Company's Series A Convertible Preferred Stock, $0.001 par value per share, Series B Convertible Preferred Stock, $0.001 par value per share, and Series C Convertible Preferred Stock, $0.001 par value per share, (collectively, the "**Preferred Stock**"), which warrants, equity incentive plans and Preferred Stock are described in the Pricing Prospectus and will be described in the Prospectus;

(rr) Statistical, industry-related and market-related data included in the Initial Registration Statement, the Pricing Prospectus and the Prospectus are (or, in the case of the Prospectus, will be) based on or derived from sources which the Company reasonably and in good faith believes are reliable and accurate in all material respects;

(ss) The Company has not distributed and will not distribute prior to the last Time of Delivery and completion of the distribution of the Shares, any offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectuses, the Prospectus, the Registration Statement and Issuer Free Writing Prospectuses listed in Schedule IV hereto;

(tt) Neither the Company nor any of its directors, officers or controlling persons has taken, directly or indirectly, any action designed, or which would reasonably be expected, to cause or result, under the Act or otherwise, in, or which has constituted, stabilization or manipulation of the price of any security of the Company;

(uu) (i) Each employee benefit plan, within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), for which the Company or any member of its "Controlled Group" (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Internal Revenue Code of 1986, as amended (the "**Code**")) would have any liability (each, a "**Plan**") has been maintained in material compliance with its terms and the requirements of any applicable statutes, orders, rules and regulations, including but not limited to ERISA and the Code; (ii) no prohibited transaction, within the meaning of Section 406 of ERISA or Section 4975 of the Code, has occurred with respect to any Plan excluding transactions effected pursuant to a statutory or administrative exemption; (iii) for each Plan that is subject to the funding rules of Section 412 of the Code or Section 302 of ERISA, no material "accumulated funding deficiency" as defined in Section 412 of the Code, whether or not waived, has occurred or is reasonably expected to occur; (iv) the fair market value of the assets of each Plan exceeds the present value of all benefits accrued under such Plan (determined based on those assumptions used to fund such Plan); (v) no "reportable event" (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur; and (vi) neither the Company nor any member of the Controlled Group has incurred, nor reasonably expects to incur, any material liability under Title IV of ERISA (other than contributions to the Plan

or premiums to the PBGC, in the ordinary course and without default) in respect of a Plan (including a "multiemployer plan", within the meaning of Section 4001(a)(3) of ERISA);

(vv) The Company does not do business with the government of Cuba or with any person located in Cuba within the meaning of Section 517.075, Florida Statutes;

(ww) Copies of the minute books of the Company have been furnished to counsel for the Underwriters, and such books (i) contain all minutes and written actions of the board of directors (including each committee thereof) of the Company prepared since the time of its incorporation and (ii) accurately reflect all matters referred to in such minutes;

(xx) The Company has caused each of the parties named in Annex I hereto, including each of the executive officers and directors of the Company and each of the Selling Stockholders, to deliver to Thomas Weisel Partners LLC an agreement (each a "**Lock-Up Agreement**") that restricts transfers of securities of the Company and that is in a form previously provided, or agreed upon, by Thomas Weisel Partners LLC; and

(yy) The Company has no subsidiaries.

2. Each of the Selling Stockholders severally and not jointly represents and warrants to, and agrees with, each of the Underwriters that:

(a) All consents, approvals, authorizations and orders necessary for the execution and delivery by such Selling Stockholder of this Agreement and the Power of Attorney and the Custody Agreement hereinafter referred to, and for the sale and delivery of the Shares to be sold by such Selling Stockholder hereunder, have been obtained; and such Selling Stockholder has full right, power and authority to enter into this Agreement, the Power of Attorney and the Custody Agreement to make the representations, warranties and agreements hereunder and thereunder and to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder hereunder;

(b) The sale of the Shares to be sold by such Selling Stockholder hereunder and the compliance by such Selling Stockholder with all of the provisions of this Agreement, the Power of Attorney and the Custody Agreement and the consummation of the transactions herein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give rise to a right of termination under, or result in the acceleration of any obligations under, any statute, indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which such Selling Stockholder is a party or by which such Selling Stockholder is bound or affected or to which any of the property or assets of such Selling Stockholder is subject or affected, nor will such action result in any violation of the provisions of the Certificate of Incorporation or By laws of such Selling Stockholder if such Selling Stockholder is a corporation, the Partnership Agreement of such Selling Stockholder if such Selling Stockholder is a partnership, or any other organizational and/or governing document of such Selling Stockholder if such Selling Stockholders is not a natural person, or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over such Selling Stockholder or the property of such Selling Stockholder, except for such breaches, defaults or violations that would not have an adverse effect on the ability of such Selling Stockholder to perform its obligations under this Agreement;

(c) Such Selling Stockholder has, and immediately prior to each Time of Delivery (as defined in Section 4(a) hereof) such Selling Stockholder will have, good and valid title to the Shares to be sold by such Selling Stockholder hereunder, free and clear of all liens, encumbrances, equities or claims (other than pursuant to the Custody Agreement); and, upon delivery of such Shares and payment therefor pursuant hereto, good and valid title to such Shares, free and clear of all liens, encumbrances, equities or claims (other than pursuant to the Custody Agreement), will pass to the several Underwriters;

(d) Such Selling Stockholder has not taken and will not take, directly or indirectly, any action which is designed to or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(e) Such Selling Stockholder is not prompted by any material nonpublic information concerning the Company or its subsidiaries which is not set forth in the Pricing Prospectus to sell its Shares pursuant to this Agreement;

(f) To the extent that any statements or omissions made in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto are made in reliance upon and in conformity with written information furnished to the Company by such Selling Stockholder expressly for use therein, such Preliminary Prospectus and the Registration Statement did not, and the Prospectus and any further amendments or supplements to the Registration Statement and the Prospectus, when they become effective or are filed with the Commission, as the case may be, will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading based on the written information furnished to the Company by such Selling Stockholder expressly for use therein. The Company and the Underwriters acknowledge that the information provided by the Selling Stockholders in connection with preparing responses to Items 7 and 11(m) of Form S-1 constitute the only written information furnished to the Company by the Selling Stockholders for use in the Registration Statement, any Preliminary Prospectus, the Prospectus or amendment thereto for purposes of this Agreement;

(g) Each broadly available road show, if any, when considered together with the Pricing Prospectus, does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that the representations and warranties set forth in this Section 2(g) are limited to statements or omissions made in reliance upon and in conformity with written information furnished to the Company by such Selling Stockholder expressly for use in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto as set forth in Section 2(f);

(h) In order to document the Underwriters' compliance with the reporting and withholding provisions of the Tax Equity and Fiscal Responsibility Act of 1982 with respect to the transactions herein contemplated, such Selling Stockholder will deliver to you prior to or at the First Time of Delivery (as defined in Section 4(a) hereof) a properly completed and executed United States Treasury Department Form W-9 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof);

(i) Certificates in negotiable form representing all of the Shares to be sold by such Selling Stockholder hereunder have been placed in custody under a Custody Agreement, in the form heretofore furnished to you (the "**Custody Agreement**"), duly executed and delivered by such Selling Stockholder to the Company, as custodian (the "**Custodian**"), and such Selling Stockholder has duly executed and delivered a Power of Attorney, in the form heretofore furnished to you (the "**Power of Attorney**"), appointing Archie C. Black and Kimberly K. Nelson, and each of them, as such Selling Stockholder's attorneys-in-fact (the "**Attorneys-in-Fact**") with authority to execute and deliver this Agreement on behalf of such Selling Stockholder, to determine the purchase price to be paid by the Underwriters to the Selling Stockholders as provided in Section 3 hereof, to authorize the delivery of the Shares to be sold by such Selling Stockholder hereunder and otherwise to act on behalf of such Selling Stockholder in connection with the transactions contemplated by this Agreement and the Custody Agreement; and

(j) The Shares represented by the certificates held in custody for such Selling Stockholder under the Custody Agreement are for the benefit and coupled with and subject to the interests of the Underwriters, the Custodian, the Attorneys-in-Fact, each other Selling Stockholder and the Company; the

arrangements made by such Selling Stockholder for such custody, and the appointment by such Selling Stockholder of the Attorneys-in-Fact by the Power of Attorney, are to that extent irrevocable; the obligations of the Selling Stockholders hereunder shall not be terminated by operation of law, whether by the death or incapacity of any individual Selling Stockholder or, in the case of an estate or trust, by the death or incapacity of any executor or trustee or the termination of such estate or trust, or in the case of a partnership or corporation, by the dissolution of such partnership or corporation, or by the occurrence of any other event; if any individual Selling Stockholder or any such executor or trustee should die or become incapacitated, or if any such estate or trust should be terminated, or if any such partnership or corporation should be dissolved, or if any other such event should occur, before the delivery of the Shares hereunder, certificates representing the Shares shall be delivered by or on behalf of the Selling Stockholders in accordance with the terms and conditions of this Agreement and of the Custody Agreements; and actions taken by the Attorneys-in-Fact pursuant to the Powers of Attorney shall be as valid as if such death, incapacity, termination, dissolution or other event had not occurred, regardless of whether or not the Custodian, the Attorneys-in-Fact, or any of them, shall have received notice of such death, incapacity, termination, dissolution or other event.

3. Subject to the terms and conditions herein set forth,

(a) The Company and each of the Selling Stockholders agree, severally and not jointly, to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to (i) purchase from the Company and each of the Selling Stockholders, at a purchase price per share of $[___], the number of Firm Shares (to be adjusted by you so as to eliminate fractional shares) determined by multiplying the aggregate number of Firm Shares to be sold by the Company and each of the Selling Stockholders as set forth opposite their respective names in Schedule II hereto by a fraction, the numerator of which is the aggregate number of Firm Shares to be purchased by such Underwriter as set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the aggregate number of Firm Shares to be purchased by all of the Underwriters from the Company and all of the Selling Stockholders hereunder and (ii) in the event and to the extent that the Underwriters shall exercise the election to purchase Optional Shares as provided below, the Company agrees to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company at the purchase price per share set forth in clause (i) of this Section 3(a), that portion of the number of Optional Shares as to which such election shall have been exercised (to be adjusted by you so as to eliminate fractional shares) determined by multiplying such number of Optional Shares by a fraction the numerator of which is the maximum number of Optional Shares which such Underwriter is entitled to purchase as set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the maximum number of Optional Shares that all of the Underwriters are entitled to purchase hereunder.

(b) The Company hereby grants to the Underwriters the right to purchase at their election up to [___] Optional Shares, at the purchase price per share set forth clause (i) of Section 3(a), for the sole purpose of covering sales of shares in excess of the number of Firm Shares. Any such election to purchase Optional Shares may be exercised only by written notice from you to the Company, given within a period of 30 calendar days after the date of this Agreement and setting forth the aggregate number of Optional Shares to be purchased and the date on which such Optional Shares are to be delivered, as determined by you but in no event earlier than the First Time of Delivery (as defined in Section 4 hereof) or, unless you and the Company otherwise agree in writing, earlier than two or later than ten business days after the date of such notice.

4. *Payment and Delivery*.

(a) The Shares to be purchased by each Underwriter hereunder will be represented by one or more definitive global Shares in book-entry form which will be deposited by or on behalf of the Company with the Depository Trust Company ("**DTC**") or its designated custodian. The Company and the Custodian will deliver the Shares to Thomas Weisel Partners LLC, for the account of each Underwriter, against payment by or

on behalf of each such Underwriter of the purchase price therefor by wire transfer of Federal (same-day) funds to the account specified by the Company and each of the Selling Stockholders, as their interests may appear, by causing DTC to credit the Shares to the account of Thomas Weisel Partners LLC at DTC. The time and date of such delivery and payment shall be, with respect to the Firm Shares, [_____] a.m., New York time, on [_____], or such other time and date as Thomas Weisel Partners LLC and the Company may agree upon in writing, and, with respect to the Optional Shares, [_____] a.m., New York time, on the date specified by Thomas Weisel Partners LLC in the written notice given by Thomas Weisel Partners LLC of the Underwriters' election to purchase such Optional Shares, or such other time and date as Thomas Weisel Partners LLC and the Company may agree upon in writing. Such time and date for delivery of the Firm Shares is herein called the "**First Time of Delivery**", each such time and date for delivery of the Optional Shares, if not the First Time of Delivery, is herein called an "**Optional Time of Delivery**", and each such time and date for delivery is herein called a "**Time of Delivery**".

(b) The documents to be delivered at each Time of Delivery by or on behalf of the parties hereto pursuant to Section 9 hereof, including the cross receipt for the Shares and any additional documents requested by the Underwriters pursuant to Section 9(q) hereof, will be delivered at the offices of Goodwin Procter LLP, 53 State Street, Exchange Place, Boston, Massachusetts 02109 (the "**Closing Location**"), and the Shares will be delivered at the office of DTC or its designated custodian, all at such Time of Delivery. A meeting will be held at the Closing Location at [_____] p.m., New York City time, on the New York Business Day next preceding such Time of Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Agreement, "**New York Business Day**" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York City are generally authorized or obligated by law or executive order to close.

5. Each of the Company and the Selling Stockholders acknowledges and agrees that (i) the purchase and sale of the Shares pursuant to this Agreement is an arm's-length commercial transaction between the Company and the Selling Stockholders, on the one hand, and the several Underwriters, on the other, (ii) in connection therewith and with the process leading to such transaction each Underwriter is acting solely as a principal and not the agent or fiduciary of the Company or the Selling Stockholders, (iii) no Underwriter has assumed an advisory or fiduciary responsibility in favor of the Company or the Selling Stockholders with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Company or the Selling Stockholders on other matters) or any other obligation to the Company or the Selling Stockholders except the obligations expressly set forth in this Agreement, (iv) the Underwriters and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company or any Selling Stockholder and have no obligation to disclose or account to the Company or any Selling Stockholder for any of such differing interests and (v) each of the Company and the Selling Stockholders has consulted its own legal and financial advisors to the extent it deemed appropriate. Each of the Company and the Selling Stockholders agrees that it will not claim that the Underwriters, or any of them, has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Company or the Selling Stockholders, in connection with such transaction or the process leading thereto.

6. The Company agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by you and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Act; to make no further amendment or any supplement to the Registration Statement or the Prospectus prior to the last Time of Delivery which shall be disapproved by you promptly after reasonable notice thereof; to advise you, promptly after it receives notice thereof, of the time

when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish you with copies thereof; to advise you, promptly after it receives notice thereof, of the happening of any event during the Prospectus Delivery Period (as defined in Section 6(c)) that in the judgment of the Company makes any statement made in the Registration Statement, the Preliminary Prospectus or the Prospectus untrue or that requires the making of any changes in the Registration Statement, the Preliminary Prospectus or the Prospectus in order to make the statements therein, in the light of the circumstances in which they are made, not misleading; to file promptly all material required to be filed by the Company with the Commission pursuant to Rule 433(d) under the Act; to advise you, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or other prospectus in respect of the Shares or to the best of the knowledge of the Company the initiation or threatening of any proceeding for that purpose, of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, or to the best of the knowledge of the Company the initiation or threatening of any proceeding for that purpose, of the receipt of any notification with respect to the suspension of the Shares for quotation on The NASDAQ Capital Market (**"Nasdaq"**) or to the best of the knowledge of the Company the initiation or threatening of any proceeding for that purpose or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information or any other purpose; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or other prospectus or suspending any such qualification, to promptly use its best efforts to obtain the withdrawal of such order. If the Company has omitted any information from the Registration Statement pursuant to Rule 430A, the Company will comply with the provisions of and make all requisite filings with the Commission pursuant to said Rule 430A and notify Thomas Weisel Partners LLC promptly of all such filings;

(b) To promptly take such action as you may reasonably request to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Shares, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(c) On the second New York Business Day next succeeding the date of this Agreement and from time to time, to furnish the Underwriters with written and electronic copies of the Prospectus in New York City in such quantities as you may reasonably request, and, if the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is required at any time prior to the expiration of nine months after the time of issue of the Prospectus (the "**Prospectus Delivery Period**") in connection with the offering or sale of the Shares and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is delivered, not misleading, or, if for any other reason it shall be necessary during such same period to amend or supplement the Prospectus in order to comply with the Act, to notify you and upon your request prepare and duly file with the Commission an appropriate supplement or amendment to the Prospectus which will correct such statement or omission or effect such compliance and furnish without charge to each Underwriter and to any dealer in securities as many written and electronic copies as you may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus, and in case any Underwriter is required to deliver a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) in connection with sales of any of the Shares at any time nine months or more after the time of issue of the Prospectus, upon your request but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many written and electronic copies as you may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(d) To make generally available to its securityholders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Act), an earning statement of the Company (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations of the Commission thereunder (including Rule 158 of the Act);

(e) During the period beginning from the date hereof and continuing to and including the date 180 days after the date of the Prospectus (the "**Initial Lock-Up Period**"), not to offer, sell, pledge, contract to sell or otherwise dispose of, except as provided hereunder, any securities of the Company that are substantially similar to the Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Stock or any such substantially similar securities (other than pursuant to employee stock option plans existing on, or upon the exercise of warrants or the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of this Agreement), without your prior written consent. Notwithstanding the foregoing, if (1) during the last 17 days of the initial Lock-Up Period, the Company releases earnings results or announces material news or a material event or (2) prior to the expiration of the initial Lock-Up Period, the Company announces that it will release earnings results during the 15-day period following the last day of the initial Lock-Up Period, then in each case the Lock-Up Period will be automatically extended until the expiration of the 18-day period beginning on the date of release of the earnings results or the announcement of the material news or material event, as applicable, unless Thomas Weisel Partners LLC waives, in writing, such extension; the Company will provide Thomas Weisel Partners LLC and each stockholder subject to a Lock-Up Agreement with prior notice of any such announcement that gives rise to an extension of the Lock-Up Period;

(f) Unless otherwise publicly available in electronic format on the website of the Company or the Commission, to furnish to its stockholders as soon as practicable after the end of each fiscal year an annual report (including a balance sheet and statements of income, stockholders' equity and cash flows of the Company certified by independent public accountants) and, as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the effective date of the Registration Statement), to make available to its stockholders consolidated summary financial information of the Company and its subsidiaries for such quarter in reasonable detail;

(g) During a period of five years from the effective date of the Registration Statement, unless otherwise publicly available in electronic format on the website of the Company or the Commission, to furnish to you copies of all reports or other communications (financial or other) furnished to stockholders, and to deliver to you (i) as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Company is listed; and (ii) such additional information concerning the business and financial condition of the Company as you may from time to time reasonably request (such financial statements to be on a consolidated basis to the extent the accounts of the Company are consolidated in reports furnished to its stockholders generally or to the Commission);

(h) To use the net proceeds received by it from the sale of the Shares pursuant to this Agreement in the manner specified in the Pricing Prospectus, and will be specified in the Prospectus, under the caption "Use of Proceeds";

(i) During the Prospectus Delivery Period, the Company shall file, on a timely basis, with the Commission and Nasdaq all reports and documents required to be filed under the Exchange Act. Additionally, the Company shall file with the Commission such information on Form 10-Q or Form 10-K as may be required under Rule 463 of the Act;

(j) If the Company elects to rely upon Rule 462(b), to file a Rule 462(b) Registration Statement with the Commission within the time required by, and otherwise in compliance with, Rule 462(b), and at the time of filing either pay to the Commission the filing fee for the Rule 462(b) Registration Statement or give irrevocable instructions for the payment of such fee pursuant to Rule 111(b) under the Act;

(k) To refrain from taking at any time, directly or indirectly, any action designed or that might reasonably be expected to cause or result in, or that will constitute, stabilization of the price of the shares of any security of the Company;

(l) Except as otherwise required by law (as determined in the reasonable judgment of the Company and its counsel), prior to the last Time of Delivery, to refrain from issuing any press release, directly or indirectly, or holding any press conference, in each case with respect to the Company's financial condition, earnings, business, operations or prospects, or the offering of the Shares, without the prior written consent of Thomas Weisel Partners LLC; and

(m) Upon request of any Underwriter, to furnish, or cause to be furnished, to such Underwriter an electronic version of the Company's trademarks, servicemarks and corporate logo for use on the website, if any, operated by such Underwriter for the purpose of facilitating the on-line offering of the Shares (the "**License**"); provided, however, that the License shall be used solely for the purpose described above, is granted without any fee and may not be assigned or transferred.

7. (a) The Company represents and agrees that, without the prior written consent of Thomas Weisel Partners LLC, it has not made and will not make any offer relating to the Shares that would constitute a "free writing prospectus" as defined in Rule 405 under the Act; each Underwriter represents and agrees that, without the prior consent of the Company and Thomas Weisel Partners LLC, it has not made and will not make any offer relating to the Shares that would constitute a free writing prospectus; any such free writing prospectus the use of which has been consented to by the Company and Thomas Weisel Partners LLC is listed on Schedule IV hereto.

(b) The Company has complied and will comply with the requirements of Rule 433 under the Act applicable to any Issuer Free Writing Prospectus, including timely filing with the Commission or retention where required and legending; and the Company represents that it has satisfied and agrees that it will satisfy the conditions under Rule 433 under the Act to avoid a requirement to file with the Commission any electronic road show.

(c) The Company agrees that if at any time following issuance of an Issuer Free Writing Prospectus any event occurred or occurs as a result of which such Issuer Free Writing Prospectus would conflict with the information in the Registration Statement, the Pricing Prospectus or the Prospectus or would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances then prevailing, not misleading, the Company will give prompt notice thereof to Thomas Weisel Partners LLC and, if requested by Thomas Weisel Partners LLC, will prepare and furnish without charge to each Underwriter an Issuer Free Writing Prospectus or other document which will correct such conflict, statement or omission; provided, however, that this representation and warranty shall not apply to any statements or omissions in an Issuer Free Writing Prospectus made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Thomas Weisel Partners LLC expressly for use therein, it being understood and agreed that the only such information is that described in Section 10(d) hereof.

8. Whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, the Company and each of the Selling Stockholders covenant and agree with one another and with the several Underwriters that (a) the Company and such Selling Stockholder will pay or cause

to be paid a pro rata share (based on the number of Shares to be sold by the Company and such Selling Stockholder hereunder) of the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares under the Act and all other expenses in connection with the preparation, printing, reproduction and filing of the Registration Statement, any Preliminary Prospectus, any Issuer Free Writing Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost, other than the fees of counsel to the Underwriters, of printing or producing this Agreement, the Custody Agreement, the Power of Attorney, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Shares; (iii) all expenses in connection with the qualification of the Shares for offering and sale under state securities laws as provided in Section 6(b) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky survey; (iv) all fees and expenses in connection with listing the Shares on Nasdaq; (v) the filing fees of the Commission and all expenses associated with transmitted documents to the Commission in connection with the offering of the Shares; and (vi) the filing fees incident to, and the fees and disbursements of counsel for the Underwriters in connection with, securing the review by FINRA of the terms of the sale of the Shares; (b) the Company will pay or cause to be paid: (i) the cost of preparing stock certificates; (ii) the cost and charges of the transfer agent or registrar for the Stock and (iii) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section; (c) such Selling Stockholder will pay or cause to be paid all costs and expenses incident to the performance of such Selling Stockholder's obligations hereunder which are not otherwise specifically provided for in this Section, including (i) any fees and expenses of counsel for such Selling Stockholder, the Attorneys-in-Fact and the Custodian, and (ii) all expenses and taxes incident to the sale and delivery of the Shares to be sold by such Selling Stockholder to the Underwriters hereunder; and (d) the Company and the Underwriters shall pay or cause to be paid their own respective expenses incurred for lodging and travel in connection with conducting the road show, however any expenses incurred for chartered travel for the road show taken jointly by Company employees and the Underwriters shall be borne equally by the Company and the Underwriters. In connection with clause (c)(ii) of the preceding sentence, Thomas Weisel Partners LLC agrees to pay New York State stock transfer tax, and each Selling Stockholder agrees to reimburse Thomas Weisel Partners LLC for associated carrying costs if such tax payment is not rebated on the day of payment and for any portion of such tax payment not rebated and to comply with applicable tax laws. The Underwriters may deem the Company to be the primary obligor with respect to all costs, fees and expenses to be paid by the Company and by the Selling Stockholders pursuant to this Section 8. It is understood, however, that the Company shall pay, or reimburse Selling Stockholders for, any fees and expenses otherwise payable under subsection (a) hereof. It is further understood, however, that the Company shall bear, and the Selling Stockholders shall not be required to pay or to reimburse the Company for, the cost of any other matters not directly relating to the sale and purchase of the Shares pursuant to this Agreement, and that, except as provided in this Section, and Sections 10 and 13 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, stock transfer taxes on resale of any of the Shares by them, and any advertising expenses connected with any offers they may make.

9. The obligations of the Underwriters hereunder, as to the Shares to be delivered at each Time of Delivery, shall be subject to the following conditions:

(a) All representations and warranties and other statements of the Company and the Selling Stockholders (for the First Time of Delivery only with respect to the Selling Stockholders) herein are, at and as of such Time of Delivery, true and correct;

(b) The Company and the Selling Stockholders (for the First Time of Delivery only with respect to the Selling Stockholders) shall have performed and complied with all of its and their covenants, agreements and obligations hereunder;

(c) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) under the Act within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 6(a) hereof; all material required to be filed by the Company pursuant to Rule 433(d) under the Act shall have been filed with the Commission within the applicable time period prescribed for such filing by Rule 433; if the Company has elected to rely upon Rule 462(b) under the Act, the Company shall file a Rule 462(b) Registration Statement with the Commission within the time required by, and otherwise in compliance with, Rule 462(b), and the Company shall at the time of filing either pay to the Commission the filing fee for the Rule 462(b) Registration Statement or give irrevocable instructions for the payment of such fee pursuant to Rule 111(b) under the Act; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall, to the best of the knowledge of the Company, have been initiated or threatened by the Commission; no stop order suspending or preventing the use of the Prospectus or any Issuer Free Writing Prospectus shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to your reasonable satisfaction;

(d) Goodwin Procter LLP, counsel for the Underwriters, shall have furnished to you such written opinion or opinions, dated such Time of Delivery, in form and substance reasonably acceptable to you;

(e) Faegre & Benson LLP, counsel for the Company, shall have furnished to you their written opinion and letter, dated such Time of Delivery, in the forms attached as Annex II(a) hereto;

(f) For the First Time of Delivery only, the respective counsel for each of the Selling Stockholders, as indicated in Schedule II hereto, each shall have furnished to you their written opinion with respect to each of the Selling Stockholders for whom they are acting as counsel (a draft of each such opinion is attached as Annex II(b) hereto), dated such First Time of Delivery, in form and substance satisfactory to you;

(g) Concurrently with the execution of this Agreement and also at each Time of Delivery, Grant Thornton LLP shall have furnished to you a letter or letters, dated the respective dates of delivery thereof, in form and substance reasonably satisfactory to you, containing statements and information of the type customarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus and shall use a "cut off" date no more than three business days prior to such Time of Delivery;

(h) (i) The Company has not sustained since the date of the latest audited financial statements included in the Pricing Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Pricing Prospectus, and (ii) since the respective dates as of which information is given in the Pricing Prospectus there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the business, operations, management, assets, condition (financial or otherwise) or results of operations of the Company, otherwise than as set forth or contemplated in the Pricing Prospectus, the effect of which, in any such case described in clause (i) or (ii), is in the judgment of Thomas Weisel Partners LLC so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Pricing Prospectus;

(i) On or after the Applicable Time there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange, the NASDAQ Stock Market or the NYSE Amex or in the over-the-counter market shall have been suspended or minimum or maximum prices or maximum ranges for prices shall have been established on any such exchange or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction,

(ii) a banking moratorium shall have been declared by Federal or state authorities or a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States, (iii) (A) the United States shall have become engaged in hostilities, or the subject of an act of terrorism, there shall have been a material escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (B) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in the United States shall be such) as to make it with respect to either (A) or (B), in the sole judgment of Thomas Weisel Partners LLC, impracticable or inadvisable to proceed with the sale or delivery of the Shares;

(j) The Shares to be sold at such Time of Delivery shall have been duly listed, subject to notice of issuance, on Nasdaq;

(k) The Company shall have (i) obtained and delivered to the Underwriters executed copies of Lock-Up Agreements from each of the parties named on Annex I hereto and (ii) provided to the transfer agent and registrar for the Stock a written order, in a form reasonably acceptable to Thomas Weisel Partners LLC, instructing such transfer agent and registrar not to effect any transfer of stock that would be inconsistent with the terms of a Lock-Up Agreement delivered by any of the parties named on Annex I hereto;

(l) The Company shall have complied with the provisions of Section 6(c) hereof with respect to the furnishing of prospectuses on the New York Business Day next succeeding the date of this Agreement;

(m) The Company shall have furnished or caused to be furnished to you at such Time of Delivery certificates of officers of the Company satisfactory to you certifying as to the accuracy of the representations and warranties of the Company and the Selling Stockholders herein at and as of such Time of Delivery, as to the performance by the Company of all of its respective obligations hereunder to be performed at or prior to such Time of Delivery, and as to such other matters as you may reasonably request;

(n) For the First Time of Delivery Only, each of the Selling Stockholders shall have furnished or caused to be furnished to you at such First Time of Delivery certificates of officers of the Selling Stockholders substantially in the form attached hereto as Annex III;

(o) FINRA shall have raised no objection to the fairness and reasonableness of the underwriting terms and arrangements;

(p) A certificate signed by the Secretary or Assistant Secretary of the Company dated each Time of Delivery certifying: (i) that the By-Laws and Amended and Restated Certificate of Incorporation of the Company are true and complete, have not been modified and are in full force and effect, (ii) that the resolutions relating to the offering contemplated by this Agreement are in full force and effect and have not been modified, (iii) all correspondence between the Company or its counsel and the Commission (attached to the certificate) and (iv) as to the incumbency of the officers of the Company; and

(q) At each Time of Delivery, the Underwriters and counsel for the Underwriters shall have received all such information, documents and opinions as they may reasonably request for the purpose of enabling them to pass upon the issuance and sale of the Shares as contemplated herein or in order to evidence the accuracy of any of the representations and warranties or the satisfaction of any of the conditions or agreements herein contained.

10. (a) The Company will indemnify and hold harmless each Underwriter, and each of their respective directors and officers, and any person who controls or is alleged to control an Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any losses, claims, damages or

liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based in whole or in part upon (i) an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in light of the circumstances under which they are made, or (ii) any inaccuracy in the representations and warranties of the Company contained herein or any failure of the Company to perform its obligations hereunder or under the law in connection with the transactions contemplated by this Agreement, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to any Underwriter to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Thomas Weisel Partners LLC expressly for use therein, it being understood and agreed that the only such information is that described in Section 10(d) hereof and provided, further, that the Company shall not be liable in any such case to any Underwriter with respect to any untrue statement or omission of a material fact if, (i) prior to the Time of Sale the Company shall have notified Thomas Weisel Partners LLC in writing in accordance with Section 14 hereof that the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus contains an untrue statement or alleged untrue statement of material fact or omits or allegedly omits to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) such untrue statement, alleged untrue statement, omission or alleged omission of a material fact was corrected in an amendment or supplement and such amendment or supplement was provided to the Underwriters prior to the Applicable Time, and (iii) the information contained in such corrected disclosure was not conveyed at or prior to the Applicable Time.

(b) Each of the Selling Stockholders set forth on Schedule III hereto (the "**Principal Selling Stockholders**") will, severally and not jointly, indemnify and hold harmless each Underwriter, and each of their respective directors and officers, and any person who controls or is alleged to control an Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based in whole or in part upon (i) an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in light of the circumstances under which they are made, or (ii) any inaccuracy in the representations and warranties of such Principal Selling Stockholder contained herein or any failure of the Principal Selling Stockholder to perform its obligations hereunder or under the law in connection with the transactions contemplated by this Agreement, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the Principal Selling Stockholders shall not be liable in any such case to any Underwriter to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Thomas Weisel Partners LLC expressly for use therein, it being understood and agreed that the only such information is that described in Section 10(d) hereof and provided, further, that a Principal Selling Stockholder shall not be liable in any such case to any Underwriter with respect to any untrue statement or omission of a material fact if, (i) prior to the Time of Sale the Principal Selling Stockholder shall have notified Thomas Weisel Partners LLC in writing in accordance with Section 14 hereof that the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus contains an untrue statement or alleged untrue statement of material fact or omits or allegedly omits to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) such untrue statement, alleged untrue statement, omission or alleged omission of a material fact was corrected in an amendment or supplement and such amendment or supplement was provided to the Company and the Underwriters prior to the Applicable Time, and (iii) the information contained in such corrected disclosure was not conveyed at or prior to the Applicable Time.

(c) Each of the Selling Stockholders who is not a Principal Selling Stockholder will, severally and not jointly, indemnify and hold harmless the Company, each Underwriter and each of their respective directors and officers, and any person who controls or is alleged to

control an Underwriter or the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any losses, claims, damages or liabilities to which the Company or such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based in whole or in part upon (i) an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in light of the circumstances under which they are made, or (ii) any inaccuracy in the representations and warranties of such Selling Stockholder contained herein or any failure of such Selling Stockholder to perform its obligations hereunder or under law in connection with the transactions contemplated by this Agreement, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with information relating to a Selling Stockholder furnished to the Company in writing by such Selling Stockholder or counsel therefor expressly for use therein; and will reimburse the Company and each Underwriter for any legal or other expenses reasonably incurred by the Company or such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred. Notwithstanding the foregoing, a Selling Stockholder shall not be liable in any such case to the Company or any Underwriter with respect to any untrue statement or omission of a material fact if, (i) prior to the Time of Sale the Selling Stockholder shall have notified the Company and Thomas Weisel Partners LLC in writing in accordance with Section 14 hereof that the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus contains an untrue statement or alleged untrue statement of material fact or omits or allegedly omits to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) such untrue statement, alleged untrue statement, omission or alleged omission of a material fact was corrected in an amendment or supplement and such amendment or supplement was provided to the Company and the Underwriters prior to the Applicable Time, and (iii) the information contained in such corrected disclosure was not conveyed at or prior to the Applicable Time.

(d) Each Underwriter will indemnify and hold harmless the Company, each Selling Stockholder and each of their respective directors and officers, and any person who controls or is alleged to control the Company or a Selling Stockholder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any losses, claims, damages or liabilities to which the Company or such Selling Stockholder may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus or the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with written information furnished to the Company by such Underwriter through Thomas Weisel Partners LLC expressly for use therein; and will reimburse the Company and each Selling Stockholder for any legal or other expenses reasonably incurred by the Company or such Selling Stockholder in connection with investigating or defending any such action or claim as such expenses are incurred. The Company and the Selling Stockholders acknowledge that [_____] constitute the only information relating to any Underwriter furnished in writing to the Company by Thomas Weisel Partners LLC on behalf of the Underwriters expressly for inclusion in the Registration Statement, any Preliminary Prospectus, the Prospectus or any Issuer Free Writing Prospectus.

(e) Promptly after receipt by an indemnified party under subsection (a), (b), (c) or (d) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission to so notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation; provided, however that the reasonable fees, disbursements and other charges of counsel will be at the expense of the indemnifying party or parties if (i) the employment of counsel by the indemnified party has been authorized in writing by the indemnifying party, (ii) the indemnified party has reasonably concluded (based on advice of counsel) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, (iii) a conflict or potential conflict exists (based on advice of counsel to the indemnified party) between the indemnified party and the indemnifying party (in which case the indemnifying party will not have the right to direct the defense of such action on behalf of the indemnified party), or (iv) the indemnifying party has not in fact employed counsel reasonably satisfactory to the indemnified party to assume the defense of such action within a reasonable time after receiving notice of the commencement of the actions. It is understood that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements and other charges of more than one separate firm admitted to practice in such jurisdiction at any one time for all such indemnified party or parties. All such fees, disbursements and other charges will be reimbursed by the indemnifying party promptly as they are incurred. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(f) If the indemnification provided for in this Section 10 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a), (b), (c) or (d) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (e) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and the Selling Stockholders on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company and the Selling Stockholders bear to the total underwriting discounts and commissions received by the

Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Selling Stockholders on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, each of the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (f) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (f). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (f) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (f), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (f) to contribute are several in proportion to their respective underwriting obligations and not joint.

(g) The obligations of the Company and the Selling Stockholders under this Section 10 shall be in addition to any liability which the Company and the respective Selling Stockholders may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 10 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company (including any person who, with his or her consent, is named in the Registration Statement as about to become a director of the Company) and to each person, if any, who controls the Company or any Selling Stockholder within the meaning of the Act.

(h) The liability of each Selling Stockholder under the indemnity and contribution provisions of this Section 10 shall be limited to an amount equal to the initial public offering price of the Shares sold by such Selling Stockholder, less the underwriting discount, as set forth on the front cover page of the Prospectus.

11. (a) If any Underwriter shall default in its obligation to purchase the Shares which it has agreed to purchase hereunder at a Time of Delivery, you may in your discretion arrange for you or another party or other parties to purchase such Shares on the terms contained herein. If within thirty-six hours after such default by any Underwriter you do not arrange for the purchase of such Shares, then the Company and the Selling Stockholders shall be entitled to a further period of thirty-six hours within which to procure another party or other parties satisfactory to you to purchase such Shares on such terms. In the event that, within the respective prescribed periods, you notify the Company and the Selling Stockholders that you have so arranged for the purchase of such Shares, or the Company and the Selling Stockholders notify you that they have so arranged for the purchase of such Shares, you or the Company and the Selling Stockholders shall have the right to postpone a Time of Delivery for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments or supplements to the Registration Statement or the Prospectus which in your opinion may thereby be made necessary. The term "**Underwriter**" as used in this Agreement shall include any person substituted under this Section with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company and the Selling Stockholders as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased does not exceed one-eleventh of the aggregate number of all the Shares to be purchased at such Time of Delivery, then the Company and the Selling Stockholders shall have the right to require each non-defaulting Underwriter to purchase the number of Shares which such Underwriter agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company and the Selling Stockholders as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased exceeds one-eleventh of the aggregate number of all of the Shares to be purchased at such Time of Delivery, or if the Company and the Selling Stockholders shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to purchase Shares of a defaulting Underwriter or Underwriters, then this Agreement (or, with respect to an Optional Time of Delivery, the obligations of the Underwriters to purchase and of the Company and the Selling Stockholders to sell the Optional Shares) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter, the Company or the Selling Stockholders, except for the expenses to be borne by the Company, the Selling Stockholders and the Underwriters as provided in Section 8 hereof and the indemnity and contribution agreements in Section 10 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

12. The respective indemnities, agreements, representations, warranties and other statements of the Company, the Selling Stockholders and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Company, or any of the Selling Stockholders, or any officer or director or controlling person of the Company, or any controlling person of any Selling Stockholder, and shall survive delivery of and payment for the Shares.

13. If this Agreement shall be terminated pursuant to Section 11 hereof, neither the Company nor the Selling Stockholders shall then be under any liability to any Underwriter except as provided in Sections 10 and 13 hereof; but, if for any other reason any Shares are not delivered by or on behalf of the Company and the Selling Stockholders as provided herein, the Company will reimburse the Underwriters through you for all out-of-pocket expenses approved in writing by you, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Shares not so delivered, but the Company and the Selling Stockholders shall then be under no further liability to any Underwriter in respect of the Shares not so delivered except as provided in Sections 10 and 13 hereof.

14. In all dealings hereunder, you shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by the Underwriters jointly or by Thomas Weisel Partners LLC. on behalf of the Underwriters as the representative; and in all dealings with any Selling Stockholder hereunder, you and the Company shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of such Selling Stockholder made or given by any or all of the Attorneys-in-Fact for such Selling Stockholder.

All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail, telex or facsimile transmission to you as the representative in

care of Thomas Weisel Partners LLC, One Montgomery Street, Suite 3700, San Francisco, CA 94104, Attention: General Counsel; if to any Selling Stockholder shall be delivered or sent by mail, telex or facsimile transmission to counsel for such Selling Stockholder at its address set forth in Schedule II hereto; and if to the Company shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Secretary; provided, however, that any notice to an Underwriter pursuant to Section 10(e) hereof shall be delivered or sent by mail, telex or facsimile transmission to such Underwriter at its address set forth in its Underwriters' Questionnaire or telex constituting such Questionnaire, which address will be supplied to the Company or the Selling Stockholders by you on request; if to any other signatory to a Lock-Up Agreement referred to in Section 9(k), to the address listed on the signature page thereto. Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

15. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Company and the Selling Stockholders and, to the extent provided in Sections 10 and 12 hereof, the officers and directors of the Company and each person who controls the Company, any Selling Stockholder or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

16. Time shall be of the essence of this Agreement. As used herein, the term "**business day**" shall mean any day when the Commission's office in Washington, D.C. is open for business.

17. **This Agreement shall be governed by and construed in accordance with the laws of the State of New York.**

18. In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. This Agreement constitutes the entire agreement of the parties to this Agreement and supersedes all prior and all contemporaneous agreements (whether written or oral), understandings and negotiations with respect to the subject matter hereof. This Agreement may only be amended or modified in writing, signed by all of the parties hereto, and no condition herein (express or implied) may be waived unless waived in writing by each party whom the condition is meant to benefit.

19. This Agreement may be executed by any one or more of the parties hereto by facsimile or .pdf signature and in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

20. Each of the Company, the Selling Stockholders and the Underwriters hereby waive any right it may have to trial by jury in respect of any claim based upon or arising out of this Agreement or the transactions contemplated hereby.

21. Notwithstanding anything herein to the contrary, the Company and the Selling Stockholders are authorized to disclose to any persons the U.S. federal and state income tax treatment and tax structure of the potential transaction contemplated by this Agreement and all materials of any kind (including tax opinions and other tax analyses) provided to the Company and the Selling Stockholders relating to that treatment and structure, without the Underwriters imposing any limitation of any kind. However, any information relating to the tax treatment and tax structure shall remain confidential (and the foregoing sentence shall not apply) to the extent necessary to enable any person to comply with securities laws. For this purpose, "**tax structure**" is limited to any facts that may be relevant to that treatment.

If the foregoing is in accordance with your understanding, please sign this Agreement and return to us originally executed signature pages for the Company and each of the Selling Stockholders plus one for each

counsel and upon the acceptance hereof by you, on behalf of each of the Underwriters, this letter and such acceptance hereof shall constitute a binding agreement among each of the Underwriters, the Company and each of the Selling Stockholders. It is understood that your acceptance of this letter on behalf of each of the Underwriters is pursuant to the authority set forth in a form of Agreement among Underwriters, the form of which shall be submitted to the Company and the Selling Stockholders for examination, upon request, but without warranty on your part as to the authority of the signers thereof.

Any person executing and delivering this Agreement as Attorney-in-Fact for a Selling Stockholder represents by so doing that he has been duly appointed as Attorney-in-Fact by such Selling Stockholder pursuant to a validly existing and binding Power-of-Attorney which authorizes such Attorney-in-Fact to take such action.

Very truly yours,

**SPS Commerce, Inc.**

By: _____
Name: Kimberly Nelson
Title: Chief Financial Officer

**[Names of Selling Stockholders]**

By: _____
Name:
Title:

Accepted as of the date hereof at San Francisco, California

**Thomas Weisel Partners LLC**

By: _____
Name:
Title:

On behalf of each of the Underwriters

**AMENDED AND RESTATED BYLAWS**
**OF**
**SPS COMMERCE, INC.**
**As of , 2010**

## ARTICLE I
## OFFICES

Section 1.1 REGISTERED OFFICE. The Corporation shall maintain a registered office and registered agent within the State of Delaware at such place within such state as may be designated from time to time by the board of directors of the Corporation.

Section 1.2 OTHER OFFICES. The Corporation may also have offices in such other places, either within or without the State of Delaware, as the board of directors from time to time may designate or the business of the Corporation may from time to time require.

## ARTICLE II
## STOCKHOLDERS

Section 2.1 MEETINGS OF STOCKHOLDERS.

(a) *MEETINGS.* Meetings of the stockholders of the Corporation shall be held on such date and at such time as may be fixed by resolution of the board of directors. At the annual meeting stockholders shall elect directors and transact such other business as properly may be brought before the meeting.

(b) *PLACE OF MEETINGS.* Meetings of the stockholders shall be held at such place, either within or without the State of Delaware, as the board of directors shall determine.

(c) *NOTICE OF MEETING.* Written notice, stating the place, day and hour of the meeting shall be delivered by the Corporation not less than ten days nor more than 60 days before the date of the meeting to each stockholder of record entitled to vote at such meeting. Notice of a special meeting shall also state the purpose or purposes for which the meeting has been called. Without limiting the manner by which notice may otherwise be given, notice may be given by a form of electronic transmission that satisfies the requirements of the Delaware General Corporation Law and has been consented to by the stockholder to whom notice is given. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, addressed to the stockholder at his or her address as it appears in the Corporation's records. Meetings may be held without notice if all stockholders entitled to vote are present, or if notice is waived by those not present in accordance with Article VIII of these Bylaws. Any previously scheduled meeting of the stockholders may be postponed, and any special meeting of the stockholders may be cancelled, by resolution of the board of directors upon public notice given prior to the date previously scheduled for such meeting of stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting (or any supplement thereto).

(d) *CHAIR OF STOCKHOLDER'S MEETING*. The Chair of the Board, or in the Chair's absence, a Vice Chair, or in the absence of any Vice Chair, the Chief Executive Officer, or in the absence of the Chief Executive Officer, the Secretary, or in the absence of the Secretary, a chair chosen by a majority of the directors present, shall act as chair of the meetings of the stockholders.

Section 2.2 QUORUM OF STOCKHOLDERS; ADJOURNMENT; REQUIRED VOTE.

(a) *QUORUM OF STOCKHOLDERS; ADJOURNMENT*. Except as otherwise provided by law, by the Amended and Restated Certificate of Incorporation (the "*Certificate of Incorporation*") or by

these Bylaws, the holders of a majority of the voting power of the outstanding shares of the Corporation entitled to vote generally in the election of directors (the "*Voting Stock*"), present in person or represented by proxy, shall constitute a quorum at a meeting of the stockholders, except that when specified business is to be voted on by a class or series of stock voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum of such class or series for the transaction of such business. The chair of the meeting or a majority of the shares so represented may adjourn the meeting from time to time, whether or not there is such a quorum. No notice of the time and place of adjourned meetings need be given, except that notice of the adjourned meeting shall be required if the adjournment is for more than 30 days or if after the adjournment a new record date is fixed for the adjourned meeting. The stockholders present at a duly called meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

(b) *Required Vote*. The affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the matter shall be the act of the stockholders, except as otherwise provided by express provision of law, the Certificate of Incorporation or these Bylaws requiring a larger or different vote, in which case such express provision shall govern and control the decision of such matter.

Section 2.3 Voting by Stockholders; Procedures for Election of Directors.

(a) *Voting by Stockholders.* Each stockholder of record entitled to vote at any meeting may do so in person or by proxy appointed by instrument in writing or in such other manner prescribed by the Delaware General Corporation Law, subscribed by such stockholder or his or her duly authorized attorney in fact.

(b) *Procedure for Election of Directors.* Election of directors at all meetings of the stockholders at which directors are to be elected shall be by ballot, and, subject to the rights of the holders of any series of Preferred Stock to elect directors under specified circumstances, a plurality of the votes cast thereat shall elect directors.

Section 2.4 Notice of Stockholder Business and Nominations.

(a) *Annual Meetings of Stockholders.*

(1) Nominations of persons for election to the board of directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (A) pursuant to the Corporation's notice of meeting, (B) by or at the direction of the board of directors, or (C) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Bylaw, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (C) of paragraph (a)(1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's

notice as described above. Such stockholder's notice shall set forth (A) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of capital stock of the Corporation which are owned beneficially and of record by such stockholder and any such beneficial owner, as well as a description of all securities or contracts, with a value derived in whole or in part from the value of any shares of the Corporation, held by the stockholder and such beneficial owner or to which either is a party, (iii) a description of all arrangements or understandings between such stockho1der and any such beneficial owner and any other person or persons (including their names) regarding the nomination or other business, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice or to vote on the business proposed to be brought before the meeting, and (v) a description of any other information relating to such stockholder and any such beneficial owner that would be required to be disclosed in a proxy statement or other filing required to be made in connection with the solicitation of proxies pursuant to Regulation 14A under the Exchange Act.

(3) Notwithstanding anything in the second sentence of paragraph (a)(2) of this Bylaw to the contrary, in the event that the number of directors to be elected to the board of directors of the Corporation is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased board of directors at least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(b) *Special Meetings of Stockholders.* The business to be transacted at any special meeting shall be limited to the purposes stated in the notice of such meetings. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the board of directors or (2) provided that the board of directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the board of directors, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (a)(2) of this Bylaw shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees

proposed by the board of directors to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(c) *General*.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the chair of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this Bylaw, "*public announcement*" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights (A) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (B) of the holders of any series of Preferred Stock to elect directors under specified circumstances.

Section 2.5 Inspectors of Elections; Opening and Closing the Polls. The board of directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of stockholders and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act or is able to act at a meeting of stockholders, the chair of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by law. The chair of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at the meeting.

## ARTICLE III
## BOARD OF DIRECTORS

Section 3.1 General Powers. The business and affairs of the Corporation shall be managed under the direction of the board of directors. In addition to the powers and authorities by these Bylaws expressly conferred upon them, the board of directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these Bylaws required to be exercised or done by the stockholders.

Section 3.2 Number, Tenure and Qualifications. Subject to the rights of the holders of any series of Preferred Stock to elect directors under specified circumstances, the number of directors of the Corporation shall be fixed, and may be increased or decreased from time to time, exclusively by the board of directors. The directors shall hold office until their successors are elected and qualified. At each annual meeting of the stockholders of the Corporation, the directors whose term expires at that meeting shall be elected for a term expiring at the next annual meeting of stockholders.

Section 3.3 Regular Meetings. A regular meeting of the board of directors may be held without other notice than this Bylaw immediately after, and at the same place as, the Annual Meeting of Stockholders. The board of directors may, by resolution, provide the time and place for the holding of additional regular meetings without other notice than such resolution.

Section 3.4 Special Meetings. Special meetings of the board of directors may be called at the request of the Chair of the Board, the Chief Executive Officer or the board of directors. The person or persons authorized to call special meetings of the board of directors may fix the place and time of the meetings. Notice of any special meeting shall be given to each director and shall state the time and place for the special meeting.

Section 3.5 Notice. If notice of a board of directors' meeting is required to be given, notice of shall be given to each director at his or her business or residence in writing by hand delivery, first-class or overnight mail or courier service, electronic transmission (including, without limitation, via facsimile transmission or electronic mail), or orally by telephone. If mailed by first-class mail, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, no later than the third business day preceding the date of such meeting. If by overnight mail or courier service, such notice shall be deemed adequately delivered when the notice is delivered to the overnight mail or courier service company at least twenty-four hours before such meeting. If by electronic transmission, such notice shall be deemed adequately delivered when the notice is transmitted at least 12 hours before such meeting. If by telephone or by hand delivery, the notice shall be given at least 12 hours prior to the time set for the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice of such meeting, except for amendments to these Bylaws, as provided under Article IX of these Bylaws. A meeting may be held at any time without notice if all the directors are present or if those not present waive notice of the meeting in accordance with Article VIII of these Bylaws.

Section 3.6 Quorum. Subject to Section 3.9 of these Bylaws, a majority of the board of directors then in office shall constitute a quorum for the transaction of business, but if at any meeting of the board of directors there shall be less than a quorum present, a majority of the directors present may adjourn the meeting from time to time without further notice. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors. The directors present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

Section 3.7 Use of Communications Equipment. Directors may participate in a meeting of the board of directors or any committee thereof by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

Section 3.8 Action by Consent of Board of Directors. Any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee.

Section 3.9 Vacancies. Subject to applicable law and the rights of the holders of any series of Preferred Stock with respect to such series of Preferred Stock, and unless the board of directors otherwise determines, vacancies resulting from death, resignation, retirement, disqualification, removal from office or other cause, and newly created directorships resulting from any increase in the authorized number of directors, may be filled only by the affirmative vote of a majority of the remaining directors, though less than a quorum of the board of directors, or by the sole remaining director, and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders and until such

director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors constituting the board of directors shall shorten the term of any incumbent director.

Section 3.10 Committees. The board of directors may designate one or more committees, each of which shall consist of one or more directors. The board of directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member.

Any committee shall, to the extent provided in a resolution of the board of directors and subject to the limitations contained in the Delaware General Corporation Law, have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the Corporation. Each committee shall keep such records and report to the board of directors in such manner as the board of directors may from time to time determine. Except as the board of directors may otherwise determine, any committee may make rules for the conduct of its business. Unless otherwise provided in a resolution of the board of directors or in rules adopted by the committee, each committee shall conduct its business as nearly as possible in the same manner as provided in these Bylaws for the board of directors.

The board of directors shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee. The term of office of the members of each committee shall be as fixed from time to time by the board of directors; provided, however, that any committee member who ceases to be a member of the board of directors shall automatically cease to be a committee member.

Nothing herein shall be deemed to prevent the board of directors from appointing one or more committees consisting in whole or in part of persons who are not directors of the Corporation; provided, however, that no such committee shall have or may exercise any authority of the board of directors.

## ARTICLE IV
## BOOKS AND RECORDS

The board of directors shall cause to be kept a record containing the minutes of the proceedings of the meetings of the Board and of the stockholders, appropriate stock books and registers and such books of records and accounts as may be necessary for the proper conduct of the business of the Corporation. Unless otherwise required by the laws of Delaware, the books and records of the Corporation may be kept at the principal office of the Corporation, or at any other place or places inside or outside the State of Delaware, as the board of directors from time to time may designate.

## ARTICLE V
## OFFICERS

Section 5.1 Officers; Election or Appointment. The board of directors shall take such action as may be necessary from time to time to ensure that the Corporation has such officers as are necessary, under Section 6.1 of these Bylaws and the Delaware General Corporation Law as currently in effect or as the same may hereafter be amended, to enable it to sign stock certificates. In addition, the board of directors at any time and from time to time may elect (a) one or more Chair of the Board and/or one or more Vice Chairs of the Board from among its members, (b) one or more Chief Executive Officers, one or more Presidents and/or one or more Chief Operating Officers, (c) one or more Vice Presidents, one or more Treasurers and/or one or more Secretaries and/or (d) one or more other officers, in each case if and to the extent the board of directors deems desirable. The board of directors may give any officer such further designations or alternate titles as it considers desirable. In addition, the board of directors at any time and from time to time may authorize the Chair of the Board or the Chief Executive Officer of the Corporation to appoint one or more officers of the kind described in clauses (c) and

(d) above. Any number of offices may be held by the same person and directors may hold any office unless the Certificate of Incorporation or these Bylaws otherwise provide.

Section 5.2 Term of Office; Resignation; Removal; Vacancies. Unless otherwise provided in the resolution of the board of directors electing or authorizing the appointment of any officer, each officer shall hold office until his or her successor is elected or appointed and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the board of directors or to such person or persons as the board of directors may designate. Such resignation shall take effect at the time specified therein, and unless otherwise specified therein no acceptance of such resignation shall be necessary to make it effective. The board of directors may remove any officer with or without cause at any time. The Chair of the Board or the Chief Executive Officer authorized by the board of directors to appoint a person to hold an office of the Corporation may also remove such person from such office with or without cause at any time, unless otherwise provided in the resolution of the Board providing such authorization. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the election or appointment of an officer shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled by the board of directors at any regular or special meeting or by the Chair of the Board or the Chief Executive Officer authorized by the board of directors to appoint a person to hold such office.

Section 5.3 Powers and Duties. The officers of the Corporation shall have such powers and duties in the management of the Corporation as shall be stated in these Bylaws or in a resolution of the board of directors which is not inconsistent with these Bylaws and, to the extent not so stated, as generally pertain to their respective offices, subject to the control of the board of directors. A Secretary or such other officer appointed to do so by the board of directors shall have the duty to record the proceedings of the meetings of the stockholders, the board of directors and any committees in a book to be kept for that purpose.

## ARTICLE VI
## STOCK CERTIFICATES

Section 6.1 Stock Certificates. The board of directors may authorize the issuance of stock either in certificated or in uncertificated form. If shares are issued in uncertificated form, each stockholder shall be entitled upon written request to a stock certificate or certificates duly numbered, certifying the number and class of shares in the Corporation owned by him and otherwise as specified in this Section 6.1. Each certificate for shares of stock shall be in such form as may be prescribed by the board of directors and shall be signed in the name of the Corporation by (a) the Chair of the Board, the Chief Executive Officer or a Vice President, and (b) by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue. Each certificate will include any legends required by law or deemed necessary or advisable by the board of directors.

Section 6.2 Lost Certificates. No certificate for shares of stock in the Corporation shall be issued in place of any certificate alleged to have been lost, destroyed or stolen, except on production of such evidence of such loss, destruction or theft and on delivery to the Corporation of a bond of indemnity in such amount, upon such terms and secured by such surety, as the board of directors or any financial officer of the Corporation may in its or his or her discretion require.

Section 6.3 Transfers of Stock. The shares of the stock of the Corporation shall be transferable on the books of the Corporation by the holder thereof in a person or by his or her attorney upon surrender for cancellation of a certificate or certificates for at least the same number of shares, or

other evidence of ownership if no certificates shall have been issued, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, and with such proof of the validity and authenticity of the signature as the Corporation or its agents may reasonably require.

## ARTICLE VII
## DEPOSITARIES AND CHECKS

Depositaries of the funds of the Corporation shall be designated by the board of directors; and all checks on such funds shall be signed by such officers or other employees of the Corporation as the board of directors from time to time may designate.

## ARTICLE VIII
## WAIVER OF NOTICE

Any notice of a meeting required to be given by law, by the Certificate of Incorporation, or by these Bylaws may be waived by the person entitled thereto, either before or after the time of such meeting stated in such notice. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the stockholders or the board of directors or committee thereof need be specified in any waiver of notice of such meeting.

## ARTICLE IX
## AMENDMENT

These Bylaws may be altered, amended, or repealed at any meeting of the board of directors or of the stockholders, provided notice of the proposed change was given in the notice of the meeting.

## ARTICLE X
## INDEMNIFICATION AND INSURANCE

Section 10.1 Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit, claim or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "*proceeding*"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by the Corporation, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in Section 10.4 of this Article X, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the board of directors.

Section 10.2 Advancement of Expenses. The right to indemnification conferred in this Article X shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the Corporation within 20 days after receipt by the Corporation of a written statement or statements from the claimant requesting such advance or advances; provided, however, that if the Delaware General

Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Article X or otherwise.

Section 10.3 Obtaining Indemnification. To obtain indemnification under this Article X, a claimant shall submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to the claimant and is reasonably necessary to determine whether and to what extent the claimant is entitled to indemnification. Upon written request by a claimant for indemnification pursuant to the first sentence of this Section 10.3, a determination, if required by applicable law, with respect to the claimant's entitlement thereto shall be made as follows: (1) if requested by the claimant, by Independent Counsel (as hereinafter defined), or (2) if no request is made by the claimant for a determination by Independent Counsel, (i) by the board of directors by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (ii) if a quorum of the board of directors consisting of Disinterested Directors is not obtainable or, even if obtainable, such quorum of Disinterested Directors so directs, by Independent Counsel in a written opinion to the board of directors, a copy of which shall be delivered to the claimant, or (iii) if a quorum of Disinterested Directors so directs, by the stockholders of the Corporation. In the event the determination of entitlement to indemnification is to be made by Independent Counsel at the request of the claimant, the Independent Counsel shall be selected by the board of directors unless there shall have occurred within two years prior to the date of the commencement of the action, suit or proceeding for which indemnification is claimed a Change in Control (as defined below), in which case the Independent Counsel shall be selected by the claimant unless the claimant shall request that such selection be made by the board of directors. If it is so determined that the claimant is entitled to indemnification, payment to the claimant shall be made within 30 days after such determination. If a claimant is successful, in whole or in part, in any suit brought against the Corporation to recover the unpaid amount of any written claim to indemnification, the claimant shall be entitled to be paid also the expense of prosecuting such claim.

Section 10.4 Right of Claimant to Bring Suit. If a claim under Section 10.1 of this Article X is not paid in full by the Corporation within thirty days after a written claim pursuant to Section 10.3 of this Article X has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standard of conduct which makes it permissible under the Delaware General Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its board of directors, Independent Counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its board of directors, Independent Counsel or stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Section 10.5 Corporation's Obligation to Indemnify. If a determination shall have been made pursuant to Section 10.3 of this Article X that the claimant is entitled to indemnification, the

Corporation shall be bound by such determination in any judicial proceeding commenced pursuant to Section 10.4 of this Article X.

Section 10.6 Preclusion from Challenging Article X. The Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to Section 10.4 of this Article X that the procedures and presumptions of this Article X are not valid, binding and enforceable and shall stipulate in such proceeding that the Corporation is bound by all the provisions of this Article X.

For purposes of this Article X:

(a) "*Change in Control*" shall be deemed to occur only if a majority of the members of the board of directors shall not be (i) individuals elected as directors of the Corporation for whose election proxies shall have been solicited by the board of directors of the Corporation or (ii) individuals elected or appointed by the board of directors of the Corporation to fill vacancies on the board of directors caused by death or resignation (but not by removal) or to fill newly created directorships.

(b) "*Disinterested Director*" means a director of the Corporation who is not and was not a party to the matter in respect of which indemnification is sought by the claimant.

(c) "*Independent Counsel*" means a law firm, a member of a law firm, or an independent practitioner, that is experienced in matters of corporation law and shall include any person who, under the applicable standards of professional conduct then prevailing, would not have a conflict of interest in representing either the Corporation or the claimant in an action to determine the claimant's rights under this Article X.

Section 10.7 Non-exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article X shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or otherwise. No repeal or modification of this Article X shall in any way diminish or adversely affect the rights of any director, officer, employee or agent of the Corporation hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

Section 10.8 Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law. To the extent that the Corporation maintains any policy or policies providing such insurance, each such director or officer, and each such agent or employee to which rights to indemnification have been granted as provided in Section 10.9 of this Article X, shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage thereunder for any such director, officer, employee or agent.

Section 10.9 Other Employees and Agents. The Corporation may, to the extent authorized from time to time by the board of directors, grant rights to indemnification, and rights to be paid by the Corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any employee or agent or class of employees or agents of the Corporation (including the heirs, executors, administrators or estate of each such person) to the fullest extent of the provisions of this Article X with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

Section 10.10 Validity of Article X. If any provision or provisions of this Article X shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Article X (including, without limitation, each portion of any paragraph of this Article X containing any such provision held to be invalid, illegal or unenforceable,

that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Article X (including, without limitation, each such portion of any paragraph of this Article X containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

## ARTICLE XI
## MISCELLANEOUS PROVISIONS

Section 11.1 Fiscal Year. The fiscal year of the Corporation shall be as fixed by the board of directors.

Section 11.2 Dividends. The board of directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and the Certificate of Incorporation.


DE
THIS CERTIFICATE IS TRANSFERABLE IN SOUTH SAINT PAUL, MN.
SPS commerce
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE
SEE REVERSE SIDE FOR CERTAIN DEFINITIONS
CUSIP 78463M 10 7
THIS CERTIFIES THAT
is the owner of
FULLY PAID AND NON-ASSESSABLE COMMON SHARES, $0.001 PAR VALUE, OF
SPS COMMERCE, INC.
transferable on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this certificate properly endorsed. This certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.
IN WITNESS WHEREOF, the said Corporation has caused this certificate to be signed by facsimile signatures of its duly authorized officers.
Dated:
SIG TO COME
TITLE
SIG TO COME
TITLE
COUNTERSIGNED AND REGISTERED:
WELLS FARGO BANK, N.A.
BY
AUTHORIZED SIGNATURE
TRANSFER AGENT AND REGISTRAR
SPECIMEN COPY
AMERICAN FINANCIAL PRINTING INCORPORATED – MINNEAPOLIS

EXHIBIT 4.1

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM – as tenants in common

TEN ENT – as tenants by entireties

JT TEN – as joint tenants with right of survivorship and not as tenants in common

UTMA – _____ Custodian _____
(Cust) (Minor)
under Uniform Transfers to Minors
Act _____
(State)

Additional abbreviations may also be used though not in above list.

*For value received ____ hereby sell, assign, and transfer unto*

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

_____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING ZIP CODE OF ASSIGNEE)

_____

_____

_____ *Shares of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint* _____ _____ *Attorney to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.*

*Dated* _____

X _____

X _____

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

SIGNATURE GUARANTEED

ALL GUARANTEES MUST BE MADE BY A FINANCIAL INSTITUTION (SUCH AS A BANK OR BROKER) WHICH IS A PARTICIPANT IN THE SECURITIES TRANSFER AGENTS MEDALLION PROGRAM ("STAMP"), THE NEW YORK STOCK EXCHANGE, INC. MEDALLION SIGNATURE PROGRAM ("MSP"), OR THE STOCK EXCHANGES MEDALLION PROGRAM ("SEMP") AND MUST NOT BE DATED. GUARANTEES BY A NOTARY PUBLIC ARE NOT ACCEPTABLE.

**SPS COMMERCE, INC.**
**2010 EQUITY INCENTIVE PLAN**

**1. Purpose.** The purpose of the SPS Commerce, Inc. 2010 Equity Incentive Plan (the "*Plan*") is to attract and retain the best available personnel for positions of responsibility with the Company, to provide additional incentives to them and align their interests with those of the Company's stockholders, and to thereby promote the Company's long-term business success.

**2. Definitions.** In this Plan, the following definitions will apply.

(a) "*Affiliate*" means any corporation that is a Subsidiary or Parent of the Company.

(b) "*Agreement*" means the written or electronic agreement containing the terms and conditions applicable to each Award granted under the Plan. An Agreement is subject to the terms and conditions of the Plan.

(c) "*Award*" means a grant made under the Plan in the form of Options, Stock Appreciation Rights, Restricted Stock, Stock Units, or Other Stock-Based Award.

(d) "*Board*" means the Board of Directors of the Company.

(e) "*Cause*" means what the term is expressly defined to mean in a then-effective written agreement (including an Agreement) between a Participant and the Company or any Affiliate, or in the absence of any such then-effective agreement or definition, a Participant's (i) incompetence or failure or refusal to perform satisfactorily the duties reasonably required of the Participant by the Company (other than by reason of Disability); (ii) material violation of any law, rule, regulation, court order or regulatory directive (other than traffic violations, misdemeanors or other minor offenses); (iii) material breach of any fiduciary duty or nondisclosure, non-solicitation, non-competition or similar obligation owed to the Company or any Affiliate; (iv) engaging in any act or practice that involves personal dishonesty on the part of the Participant or demonstrates a willful and continuing disregard for the best interests of the Company and its Affiliates; or (v) engaging in dishonorable or disruptive behavior, practices or acts which would be reasonably expected to harm or bring disrepute to the Company or any of its Affiliates, their business or any of their customers, employees or vendors.

(f) "*Change in Control*" means, unless otherwise provided in an Agreement, one of the following:

(1) Any individual, entity or Group (a "*Person*"), other than (i) one or more Subsidiaries, or (ii) any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate, becomes the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of equity securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors ("*voting securities*"), except that (A) any acquisition of Company equity securities by a Person directly from the Company for the purpose of providing financing to the Company, any formation of a Group consisting solely of beneficial owners of the Company's voting securities as of the effective date of this Plan, or any repurchase or other acquisition by the Company of its equity securities that causes any Person to become the beneficial owner of more than 50% of the Company's voting securities, will not be considered a Change in Control unless and until, in either case, such Person acquires beneficial ownership of additional Company voting securities after the Person initially became the beneficial owner of more than 50% of the Company's voting securities by one of the means described in this clause (A); and (B) a Change in Control will occur if a Person becomes the beneficial owner of more than 50% of the Company's voting securities as the result of a Corporate Transaction only if the Corporate Transaction is itself a Change in Control pursuant to subsection 2(f)(3);

(2) Individuals who are Continuing Directors cease for any reason to constitute a majority of the members of the Board; or

(3) The consummation of a Corporate Transaction unless, immediately following such Corporate Transaction, all or substantially all of the Persons who were the beneficial owners of Company voting securities immediately prior to such Corporate Transaction beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities (or comparable equity interests) of the surviving or acquiring entity (or its Parent) resulting from such Corporate Transaction in substantially the same proportions as their ownership of Company voting securities immediately prior to such Corporate Transaction.

Notwithstanding the foregoing, to the extent that any Award constitutes a deferral of compensation subject to Code Section 409A, and if that Award provides for a change in the time or form of payment upon a Change in Control, then no Change in Control shall be deemed to have occurred upon an event described in Section 2(f) unless the event would also constitute a change in ownership or effective control of, or a change in the ownership of a substantial portion of the assets of, the Company under Code Section 409A.

(g) "*Code*" means the Internal Revenue Code of 1986, as amended and in effect from time to time, and the regulations promulgated thereunder.

(h) "*Committee*" means two or more Non-Employee Directors designated by the Board to administer the Plan under Section 3, each member of which shall be (i) an independent director within the meaning of the rules and regulations of the Nasdaq Stock Market, (ii) a non-employee director within the meaning of Exchange Act Rule 16b-3, and (iii) an outside director for purposes of Code Section 162(m).

(i) "*Company*" means SPS Commerce, Inc., a Delaware corporation, or any successor thereto.

(j) "*Continuing Director*" means an individual (A) who is, as of the effective date of the Plan, a director of the Company, (B) who is elected as a director of the Company subsequent to the effective date hereof pursuant to a nomination or board representation right of preferred stockholders of the Company, or (C) who becomes a director of the Company after the effective date hereof and whose initial election, or nomination for election by the Company's stockholders, was approved by at least a majority of the then Continuing Directors.

(k) "*Corporate Transaction*" means (i) a sale or other disposition of all or substantially all of the assets of the Company, or (ii) a merger, consolidation, share exchange or similar transaction involving the Company, regardless of whether the Company is the surviving corporation.

(l) "*Disability*" means (A) any permanent and total disability under any long-term disability plan or policy of the Company or its Affiliates that covers the Participant, or (B) if there is no such long-term disability plan or policy, "total and permanent disability" within the meaning Code Section 22(e)(3).

(m) "*Employee*" means an employee of the Company or an Affiliate.

(o) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended and in effect from time to time.

(p) "*Exchange Program*" means a program under which (i) outstanding Options or SARs are surrendered or cancelled in exchange for Options or SARs of the same type (which may have lower or higher exercise prices and different terms), Awards of a different type and/or cash, and/or (ii) the exercise price of an outstanding Option or SAR is reduced.

(q) "*Fair Market Value*" means the fair market value of a Share determined as follows:

(1) If the Shares are readily tradable on an established securities market (as determined under Code Section 409A), then Fair Market Value will be the closing sales price for a Share on the principal securities market on which it trades on the date for which it is being determined, or if no

sale of Shares occurred on that date, on the next preceding date on which a sale of Shares occurred, as reported in *The Wall Street Journal* or such other source as the Committee deems reliable; or

(2) If the Shares are not then readily tradable on an established securities market (as determined under Code Section 409A), then Fair Market Value will be determined by the Committee as the result of a reasonable application of a reasonable valuation method that satisfies the requirements of Code Section 409A.

(r) "*Full Value Award*" means an Award other than an Option or Stock Appreciation Right.

(s) "*Grant Date*" means the date on which the Committee approves the grant of an Award under the Plan, or such later date as may be specified by the Committee on the date the Committee approves the Award.

(t) "*Group*" means two or more persons acting as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding or disposing of securities of the Company.

(u) "*Non-Employee Director*" means a member of the Board who is not an Employee.

(v) "*Option*" means a right granted under the Plan to purchase a specified number of Shares at a specified price. An "*Incentive Stock Option*" or "*ISO*" means any Option designated as such and granted in accordance with the requirements of Code Section 422. A "*Non-Statutory Stock Option*" means an Option other than an Incentive Stock Option.

(w) "*Other Stock-Based Award*" means an Award described in Section 11 of this Plan.

(x) "*Parent*" means a "parent corporation," as defined in Code Section 424(e).

(y) "*Participant*" means a person to whom an Award is or has been made in accordance with the Plan.

(z) "*Performance-Based Compensation*" means an Award to a person who is, or is determined by the Committee to likely become, a "covered employee" (as defined in Section 162(m)(3) of the Code) and that is intended to constitute "performance-based compensation" within the meaning of Section 162(m)(4)(C) of the Code.

(aa) "*Plan*" means this SPS Commerce, Inc. 2010 Equity Incentive Plan, as amended and in effect from time to time.

(bb) "*Prior Plans*" means the Company's 1999 Equity Incentive Plan and 2001 Stock Option Plan.

(cc) "*Restricted Stock*" means Shares issued to a Participant that are subject to such restrictions on transfer, forfeiture conditions and other restrictions or limitations as may be set forth in this Plan and the applicable Agreement.

(dd) "*Service*" means the provision of services by a Participant to the Company or any Affiliate in any Service Provider capacity. A Service Provider's Service shall be deemed to have terminated either upon an actual cessation of providing services or upon the entity for which the Service Provider provides services ceasing to be an Affiliate. Except as otherwise provided in this Plan or any Agreement, Service shall not be deemed terminated in the case of (i) any approved leave of absence; (ii) transfers among the Company and any Affiliates in any Service Provider capacity; or (iii) any change in status so long as the individual remains in the service of the Company or any Affiliate in any Service Provider capacity.

(ee) "*Service Provider*" means an Employee, a Non-Employee Director, or any consultant or advisor who is a natural person and who provides services (other than in connection with (i) a capital-raising transaction or (ii) promoting or maintaining a market in Company securities) to the Company or any Affiliate.

(ff) "*Share*" means a share of Stock.

(gg) "*Stock*" means the common stock, $0.001 par value, of the Company.

(hh) "*Stock Appreciation Right*" or "*SAR*" means the right to receive, in cash and/or Shares as determined by the Committee, an amount equal to the appreciation in value of a specified number of Shares between the Grant Date of the SAR and its exercise date.

(ii) "*Stock Unit*" means a right to receive, in cash and/or Shares as determined by the Committee, the Fair Market Value of a Share, subject to such restrictions on transfer, forfeiture conditions and other restrictions or limitations as may be set forth in this Plan and the applicable Agreement.

(jj) "*Subsidiary*" means a "subsidiary corporation," as defined in Code Section 424(f), of the Company.

(kk) "*Substitute Award*" means an Award granted upon the assumption of, or in substitution or exchange for, outstanding awards granted by a company or other entity acquired by the Company or any Affiliate or with which the Company or any Affiliate combines.

**3. Administration of the Plan.**

(a) Administration. The authority to control and manage the operations and administration of the Plan shall be vested in the Committee in accordance with this Section 3.

(b) Scope of Authority. Subject to the terms of the Plan, the Committee shall have the authority, in its discretion, to take such actions as it deems necessary or advisable to administer the Plan, including:

(1) determining the Service Providers to whom Awards will be granted, the timing of each such Award, the types of Awards and the number of Shares covered by each Award, the terms, conditions, performance criteria, restrictions and other provisions of Awards, and the manner in which Awards are paid or settled;

(2) cancelling or suspending an Award, accelerating the vesting or extending the exercise period of an Award, or otherwise amending the terms and conditions of any outstanding Award, subject to the requirements of Section 15(d);

(3) establishing, amending or rescinding rules to administer the Plan, interpreting the Plan and any Award or Agreement made under the Plan, and making all other determinations necessary or desirable for the administration of the Plan; and

(4) instituting an Exchange Program.

The terms and conditions of any Exchange Program shall be determined by the Committee in its sole discretion. Notwithstanding the foregoing provisions of this Section 3(b), the Board shall perform the duties and have the responsibilities of the Committee with respect to Awards made to Non-Employee Directors.

(c) Acts of the Committee; Delegation. A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee, and any act of a majority of the members present at any meeting at which a quorum is present or any act unanimously approved in writing by all members of the Committee shall be the act of the Committee. To the extent not inconsistent with applicable law or stock exchange rules, the Committee may delegate all or any portion of its authority under the Plan to determine and administer Awards that are made to Participants who are neither Non-Employee Directors nor executive officers of the Company to one or more persons who are either Non-Employee Directors or executive officers of the Company.

(d) Finality of Decisions. The Committee's interpretation of the Plan and of any Award or Agreement made under the Plan and all related decisions or resolutions of the Board or Committee shall be final and binding on all parties with an interest therein.

(e) Indemnification. Each person who is or has been a member of the Committee or of the Board, and any other person to whom the Committee delegates authority under the Plan, shall be indemnified by the Company, to the maximum extent permitted by law, against liabilities and expenses imposed upon or reasonably incurred by such person in connection with or resulting from any claims against such person by reason of the performance of the individual's duties under the Plan. This right to indemnification is conditioned upon such person providing the Company an opportunity, at the Company's expense, to handle and defend the claims before such person undertakes to handle and defend them on such person's own behalf. The Company will not be required to indemnify any person for any amount paid in settlement of a claim unless the Company has first consented in writing to the settlement. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person or persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise.

**4. Shares Available Under the Plan.**

(a) Shares Available. Subject to Sections 4(b) and (c) and to adjustment as provided in Section 12(a), the number of Shares that may be the subject of Awards and issued under the Plan will be 2,600,000, plus any Shares remaining available for future grants under the Prior Plans on the effective date of this Plan. Shares issued under the Plan may come from authorized and unissued shares or treasury shares. In determining the number of Shares to be counted against this share reserve in connection with any Award, the following rules shall apply:

(1) Where the number of Shares subject to an Award is variable on the Grant Date, the number of Shares to be counted against the share reserve prior to the settlement of the Award shall be the maximum number of Shares that could be received under that particular Award.

(2) Where two or more types of Awards are granted to a Participant in tandem with each other, such that the exercise of one type of Award with respect to a number of Shares cancels at least an equal number of Shares of the other, the number of Shares to be counted against the share reserve shall be the largest number of Shares that would be counted against the share reserve under either of the Awards.

(3) Substitute Awards shall not be counted against the share reserve, nor shall they reduce the Shares authorized for grant to a Participant in any calendar year.

(b) Automatic Share Reserve Increase. The share reserve specified in Section 4(a) will be increased on January 1 of each year commencing in 2011 and ending on (and including) January 1, 2020 in an amount equal to the lesser of: (i) 6% of the total number of Shares outstanding as of December 31 of the immediately preceding calendar year or (ii) such number of Shares determined by the Board.

(c) Effect of Forfeitures and Other Actions. Any Shares subject to an Award, or to an award granted under one of the Prior Plans that is outstanding on the effective date of this Plan (a "Prior Plan Award"), that is forfeited, expires, is settled for cash, is surrendered pursuant to an Exchange Program, or otherwise does not result in the issuance of all or a portion of the Shares subject to such Award or Prior Plan Award (including a payment in Shares on the exercise of a Stock Appreciation Right) shall, to the extent of such forfeiture, expiration, cash settlement, surrender or non-issuance, again become available for Awards under this Plan and correspondingly increase the total number of Shares available for grant and issuance under Section 4(a). In the event that (i) any Award or Prior Plan Award is exercised through the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company in payment of the applicable exercise price, or (ii) any tax withholding obligations arising from such Award or Prior Plan Award are satisfied by the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, then the Shares so tendered or withheld shall again become available for Awards under this Plan and correspondingly increase the total number of Shares available for grant and issuance under Section 4(a).

(d) Effect of Plans Operated by Acquired Companies. If a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for grant under the Plan. Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Non-Employee Directors prior to such acquisition or combination.

(e) No Fractional Shares. Unless otherwise determined by the Committee, the number of Shares subject to an Award shall always be a whole number. No fractional Shares may be issued under the Plan, but the Committee may, in its discretion, pay cash in lieu of any fractional Share in settlement of an Award.

(f) Individual Option and SAR Limit. Subject to adjustment as provided in Section 12(a), the aggregate number of Shares subject to Options and/or Stock Appreciation Rights granted during any calendar year to any one Participant shall not exceed 1,500,000 Shares.

**5. Eligibility.** Participation in the Plan is limited to Service Providers. Incentive Stock Options may only be granted to Employees.

**6. General Terms of Awards.**

(a) Award Agreement. Each Award shall be evidenced by an Agreement setting forth the number of Shares subject to the Award together with such other terms and conditions applicable to the Award (and not inconsistent with the Plan) as determined by the Committee. An Award to a Participant may be made singly or in combination with any form of Award. Two types of Awards may be made in tandem with each other such that the exercise of one type of Award with respect to a number of Shares reduces the number of Shares subject to the related Award by at least an equal amount.

(b) Vesting and Term. Each Agreement shall set forth the period until the applicable Award is scheduled to expire (which shall not be more than ten years from the Grant Date), and any applicable performance period.

(c) Transferability. Except as provided in this Section 6(c), (i) during the lifetime of a Participant, only the Participant or the Participant's guardian or legal representative may exercise an Option or SAR, or receive payment with respect to any other Award; and (ii) no Award may be sold, assigned, transferred, exchanged or encumbered other than by will or the laws of descent and distribution. Any attempted transfer in violation of this Section 6(c) shall be of no effect. The Committee may, however, provide in an Agreement or otherwise that an Award (other than an Incentive Stock Option) may be transferred pursuant to a qualified domestic relations order or may be transferable by gift to any "family member" (as defined in General Instruction A(5) to Form S-8 under the Securities Act of 1933) of the Participant. Any Award held by a transferee shall continue to be subject to the same terms and conditions that were applicable to that Award immediately before the transfer thereof. For purposes of any provision of the Plan relating to notice to a Participant or to acceleration or termination of an Award upon the death or termination of employment of a Participant, the references to "*Participant*" shall mean the original grantee of an Award and not any transferee.

(d) Designation of Beneficiary. Each Participant may designate a beneficiary or beneficiaries to exercise any Award or receive a payment under any Award payable on or after the Participant's death. Any such designation shall be on a form approved by the Committee and shall be effective upon its receipt by the Company.

(e) Termination of Service. Unless otherwise provided in an Agreement, and subject to Section 12 of this Plan, if a Participant's Service with the Company and all of its Affiliates terminates, the following provisions shall apply (in all cases subject to the scheduled expiration of an Option or Stock Appreciation Right, as applicable):

(1) Upon termination of Service for Cause, all unexercised Options and SARs and all unvested portions of any other outstanding Awards shall be immediately forfeited without consideration.

(2) Upon termination of Service for any other reason, all unvested and unexercisable portions of any outstanding Awards shall be immediately forfeited without consideration.

(3) Upon termination of Service for any reason other than Cause, death or Disability, the currently vested and exercisable portions of Options and SARs may be exercised for a period of three months after the date of such termination. However, if a Participant thereafter dies during such three-month period, the vested and exercisable portions of the Options and SARs may be exercised for a period of one year after the date of such termination.

(4) Upon termination of Service due to death or Disability, the currently vested and exercisable portions of Options and SARs may be exercised for a period of one year after the date of such termination.

(f) Rights as Stockholder. No Participant shall have any rights as a stockholder with respect to any securities covered by an Award unless and until the date the Participant becomes the holder of record of the Shares, if any, to which the Award relates.

(g) Performance-Based Awards. Any Award may be granted as a performance-based Award if the Committee establishes one or more measures of corporate, business unit or individual performance which must be attained, and the performance period over which the specified performance is to be attained, as a condition to the vesting, exercisability, lapse of restrictions and/or settlement in cash or Shares of such Award. In connection with any such Award, the Committee shall determine the extent to which performance measures have been attained and other applicable terms and conditions have been satisfied, and the degree to which vesting, exercisability, lapse of restrictions and/or settlement in cash or Shares of such Award has been earned. Any performance-based Award that is intended by the Committee to qualify as Performance-Based Compensation shall additionally be subject to the requirements of Section 17 of this Plan. Except as provided in Section 17 with respect to Performance-Based Compensation, the Committee shall also have the authority to provide, in an Agreement or otherwise, for the modification of a performance period and/or an adjustment or waiver of the achievement of performance measures upon the occurrence of certain events, which may include a Change of Control, a Corporate Transaction, a recapitalization, a change in the accounting practices of the Company, or the Participant's death or Disability.

**7. Stock Option Awards.**

(a) Type and Exercise Price. The Agreement pursuant to which an Option is granted shall specify whether the Option is an Incentive Stock Option or a Non-Statutory Stock Option. The exercise price at which each Share subject to an Option may be purchased shall be determined by the Committee and set forth in the Agreement, and shall not be less than the Fair Market Value of a Share on the Grant Date, except in the case of Substitute Awards.

(b) Payment of Exercise Price. The purchase price of the Shares with respect to which an Option is exercised shall be payable in full at the time of exercise, which may include, to the extent permitted by the Committee, payment under a broker-assisted sale and remittance program acceptable to the Committee. The purchase price may be paid in cash or in such other manner as the Committee may permit, including by withholding Shares otherwise issuable to the Participant upon exercise of the Option or by delivery to the Company of Shares (by actual delivery or attestation) already owned by the Participant (in

each case, such Shares having a Fair Market Value as of the date the Option is exercised equal to the purchase price of the Shares being purchased).

(c) Exercisability and Expiration. Each Option shall be exercisable in whole or in part on the terms provided in the Agreement. No Option shall be exercisable at any time after its scheduled expiration. When an Option is no longer exercisable, it shall be deemed to have terminated.

(d) Incentive Stock Options.

(1) An Option will constitute an Incentive Stock Option only if the Participant receiving the Option is an Employee, and only to the extent that (i) it is so designated in the applicable Agreement and (ii) the aggregate Fair Market Value (determined as of the Option's Grant Date) of the Shares with respect to which Incentive Stock Options held by the Participant first become exercisable in any calendar year (under the Plan and all other plans of the Company and its Affiliates) does not exceed $100,000. To the extent an Option granted to a Participant exceeds this limit, the Option shall be treated as a Non-Statutory Stock Option. The maximum number of Shares that may be issued upon the exercise of Incentive Stock Options shall equal 4,500,000. No Incentive Stock Option may be granted after the tenth anniversary of the effective date of the Plan.

(2) No Participant may receive an Incentive Stock Option under the Plan if, immediately after the grant of such Award, the Participant would own (after application of the rules contained in Code Section 424(d)) Shares possessing more than 10% of the total combined voting power of all classes of stock of the Company or an Affiliate, unless (i) the option price for that Incentive Stock Option is at least 110% of the Fair Market Value of the Shares subject to that Incentive Stock Option on the Grant Date and (ii) that Option will expire no later than five years after its Grant Date.

(3) For purposes of continued Service by a Participant who has been granted an Incentive Stock Option, no approved leave of absence may exceed three months unless reemployment upon expiration of such leave is provided by statute or contract. If reemployment is not so provided, then on the date six months following the first day of such leave, any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Non-Statutory Stock Option.

(4) If an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Code Section 422, such Option shall thereafter be treated as a Non-Statutory Stock Option.

(5) The Agreement covering an Incentive Stock Option shall contain such other terms and provisions that the Committee determines necessary to qualify the Option as an Incentive Stock Option.

**8. Stock Appreciation Rights.**

(a) Nature of Award. An Award of Stock Appreciation Rights shall be subject to such terms and conditions determined by the Committee, to receive upon exercise of the Stock Appreciation Right all or a portion of the excess of (i) the Fair Market Value of a specified number of Shares as of the date of exercise of the Stock Appreciation Right over (ii) a specified exercise price that shall not be less than 100% of the Fair Market Value of such Shares on the Grant Date of the Stock Appreciation Right, except in the case of Substitute Awards.

(b) Exercise of SAR. Each Stock Appreciation Right may be exercisable in whole or in part at the times, on the terms and in the manner provided in the Agreement. No Stock Appreciation Right shall be exercisable at any time after its scheduled expiration. When a Stock Appreciation Right is no longer exercisable, it shall be deemed to have terminated. Upon exercise of a Stock Appreciation Right, payment to the Participant shall be made at such time or times as shall be provided in the Agreement in the form of cash, Shares or a combination of cash and Shares as determined by the Committee. The

Agreement may provide for a limitation upon the amount or percentage of the total appreciation on which payment (whether in cash and/or Shares) may be made in the event of the exercise of a Stock Appreciation Right.

**9. Restricted Stock Awards.**

(a) Vesting and Consideration. Shares subject to a Restricted Stock Award shall be subject to vesting conditions, and the corresponding lapse or waiver of forfeiture conditions and other restrictions, based on such factors and occurring over such period of time as the Committee may determine in its discretion. The Committee may provide whether any consideration other than Services must be received by the Company or any Affiliate as a condition precedent to the grant of a Restricted Stock Award.

(b) Shares Subject to Restricted Stock Awards. Unvested Shares subject to a Restricted Stock Award shall be evidenced by a book-entry in the name of the Participant with the Company's transfer agent or by one or more Stock certificates issued in the name of the Participant. Any such Stock certificate shall be deposited with the Company or its designee, together with an assignment separate from the certificate, in blank, signed by the Participant, and bear an appropriate legend referring to the restricted nature of the Restricted Stock evidenced thereby. Any book-entry shall be subject to transfer restrictions and accompanied by a similar legend. Upon the vesting of Shares of Restricted Stock and the corresponding lapse of the restrictions and forfeiture conditions, the corresponding transfer restrictions and restrictive legend will be removed from the book-entry evidencing such Shares or the certificate evidencing such Shares, and such certificate shall be delivered to the Participant. Such vested Shares may, however, remain subject to additional restrictions as provided in Section 18(c).

(c) Dividends and Distributions. Except as otherwise provided in this Plan and the applicable Agreement, a Participant with a Restricted Stock Award shall have all the other rights of a stockholder, including the right to receive dividends and the right to vote the Shares of Restricted Stock. Except as otherwise provided in the applicable Agreement, any Shares or property other than regular cash dividends distributed with respect to unvested Shares subject to a Restricted Stock Award shall be subject to the same conditions and restrictions as the underlying Shares.

**10. Stock Unit Awards.**

(a) Vesting and Consideration. A Stock Unit Award shall be subject to vesting conditions, and the corresponding lapse or waiver of forfeiture conditions and other restrictions, based on such factors and occurring over such period of time as the Committee may determine in its discretion. The Committee may provide whether any consideration other than Services must be received by the Company or any Affiliate as a condition precedent to the settlement of a Stock Unit Award.

(b) Payment of Award. Following the vesting of a Stock Unit Award, settlement of the Award and payment to the Participant shall be made at such time or times in the form of cash, Shares (which may themselves be considered Restricted Stock under the Plan subject to restrictions on transfer and forfeiture conditions) or a combination of cash and Shares as determined by the Committee. If the Stock Unit Award is not by its terms exempt from the requirements of Code Section 409A, then the applicable Agreement shall contain terms and conditions necessary to avoid adverse tax consequences specified in Code Section 409A.

(c) Dividend Equivalents. A Stock Unit Award may, if so determined by the Committee, provide the Participant with the right to receive dividend equivalent payments with respect to Shares subject to the Award (both before and after the Shares are earned or vested), which payments may be either made currently, credited to an account for the Participant, or deemed to have been reinvested in additional Shares which shall thereafter be deemed to be part of and subject to the underlying Award, including the same vesting, performance and settlement conditions.

**11. Other Stock-Based Awards.** The Committee may from time to time grant Stock and other Awards that are valued by reference to and/or payable in whole or in part in Shares under the Plan. The Committee, in its sole discretion, shall determine the terms and conditions of such Awards, which shall be consistent with the terms and purposes of the Plan. The Committee may, in its sole discretion, direct the Company to issue Shares subject to restrictive legends and/or stop transfer instructions that are consistent with the terms and conditions of the Award to which the Shares relate.

**12. Changes in Capitalization, Corporate Transactions, Change in Control.**

(a) Adjustments for Changes in Capitalization. In the event of any equity restructuring (within the meaning of FASB ASC Topic 718 — Stock Compensation) that causes the per share value of Shares to change, such as a stock dividend, stock split, spinoff, rights offering or recapitalization through an extraordinary dividend, the Committee shall make such adjustments as it deems equitable and appropriate to (i) the aggregate number and kind of Shares or other securities issued or reserved for issuance under the Plan, (ii) the number and kind of Shares or other securities subject to outstanding Awards, (iii) the exercise price of outstanding Options and SARs, and (iv) any maximum limitations prescribed by the Plan with respect to certain types of Awards or the grants to individuals of certain types of Awards. In the event of any other change in corporate capitalization, including a merger, consolidation, reorganization, or partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights of Participants. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. No adjustment shall be made pursuant to this Section 12(a) in connection with the conversion of any convertible securities of the Company, or in a manner that would cause Incentive Stock Options to violate Section 422(b) of the Code or cause an Award to be subject to adverse tax consequences under Section 409A of the Code.

(b) Corporate Transactions. Unless otherwise provided in an applicable Agreement, the following provisions shall apply to outstanding Awards in the event of a Change in Control that involves a Corporate Transaction.

(1) *Continuation, Assumption or Replacement of Awards*. In the event of a Corporate Transaction, then the surviving or successor entity (or its Parent) may continue, assume or replace Awards outstanding as of the date of the Corporate Transaction (with such adjustments as may be required or permitted by Section 12(a)), and such Awards or replacements therefor shall remain outstanding and be governed by their respective terms. A surviving or successor entity may elect to continue, assume or replace only some Awards or portions of Awards. For purposes of this Section 12(b)(1), an Award shall be considered assumed or replaced if, in connection with the Corporate Transaction and in a manner consistent with Code Sections 409A and 424, either (i) the contractual obligations represented by the Award are expressly assumed by the surviving or successor entity (or its Parent) with appropriate adjustments to the number and type of securities subject to the Award and the exercise price thereof that preserves the intrinsic value of the Award existing at the time of the Corporate Transaction, or (ii) the Participant has received a comparable equity-based award that preserves the intrinsic value of the Award existing at the time of the Corporate Transaction and provides for a vesting or exercisability schedule that is the same as or more favorable to the Participant.

(2) *Acceleration*. If and to the extent that outstanding Awards under the Plan are not continued, assumed or replaced in connection with a Corporate Transaction, then the Committee may provide that (i) some or all outstanding Options and SARs shall become fully exercisable for such period of time prior to the effective time of the Corporate Transaction as is deemed fair and equitable by the Committee, and shall terminate at the effective time of the Corporate Transaction, and (ii) some or all outstanding Full Value Awards shall fully vest immediately prior to the effective time of the Corporate Transaction. The Committee will not be required to treat all Awards similarly for purposes of this Section 12(b)(2). The Committee shall provide written notice of the period of accelerated exercisability of

Options and SARs to all affected Participants. The exercise of any Option or SAR whose exercisability is accelerated as provided in this Section 12(b)(2) shall be conditioned upon the consummation of the Corporate Transaction and shall be effective only immediately before such consummation.

(3) *Payment for Awards*. If and to the extent that outstanding Awards under the Plan are not continued, assumed or replaced in connection with a Corporate Transaction, then the Committee may provide that holders of some or all of such outstanding Awards must surrender the Awards at or immediately prior to the effective time of the Corporate Transaction in exchange for payments to the holders as provided in this Section 12(b)(3). The Committee will not be required to treat all Awards similarly for purposes of this Section 12(b)(3). The payment for any Award surrendered shall be in an amount equal to the difference, if any, between (i) the fair market value (as determined in good faith by the Committee) of the consideration that would otherwise be received in the Corporate Transaction for the number of Shares subject to the Award, and (ii) the aggregate exercise price (if any) for the Shares subject to such Award. Payment shall be made in such form, on such terms and subject to such conditions as the Committee determines in its discretion, which may or may not be the same as the form, terms and conditions applicable to payments to the Company's stockholders in connection with the Corporate Transaction, and may include subjecting such payments to vesting conditions comparable to those of the Award surrendered, or to escrow or holdback terms comparable to those imposed upon the Company's stockholders under the Corporate Transaction.

(c) Change in Control. In connection with a Change in Control that does not involve a Corporate Transaction, the Committee may provide (in the applicable Agreement or otherwise) for one or more of the following: (i) that any Award shall become vested and exercisable, in whole or in part, upon the occurrence of the Change in Control or upon the involuntary termination of the Participant without Cause within a specified period of time of the Change in Control, (ii) that any Option or SAR shall remain exercisable during all or some specified portion of its remaining term, or (iii) that Awards shall be surrendered in exchange for payments in a manner similar to that provided in Section 12(b)(3). The Committee will not be required to treat all Awards similarly in such circumstances.

(d) Dissolution or Liquidation. Unless otherwise provided in an applicable Agreement, in the event of a proposed dissolution or liquidation of the Company, the Committee will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. An Award will terminate immediately prior to the consummation of such proposed action.

**13. Plan Participation and Service Provider Status.** Status as a Service Provider shall not be construed as a commitment that any Award will be made under the Plan to that Service Provider or to eligible Service Providers generally. Nothing in the Plan or in any Agreement or related documents shall confer upon any Service Provider or Participant any right to continued Service with the Company or any Affiliate, nor shall it interfere with or limit in any way any right of the Company or any Affiliate to terminate the person's Service at any time with or without Cause or change such person's compensation, other benefits, job responsibilities or title.

**14. Tax Withholding.** The Company or any Affiliate, as applicable, shall have the right to (i) withhold from any cash payment under the Plan or any other compensation owed to a Participant an amount sufficient to cover any required withholding taxes related to the grant, vesting, exercise or settlement of an Award, and (ii) require a Participant or other person receiving Shares under the Plan to pay a cash amount sufficient to cover any required withholding taxes before actual receipt of those Shares. In lieu of all or any part of a cash payment from a person receiving Shares under the Plan, the Committee (in its sole discretion) may permit the individual to cover all or any part of the required withholdings (up to the Participant's minimum required tax withholding rate) through a reduction in the number of Shares delivered or a delivery or tender to the Company of Shares held by the Participant or other person, in each case valued in the same manner as used in computing the withholding taxes under applicable laws.

**15. Effective Date, Duration, Amendment and Termination of the Plan.**

(a) Effective Date. The Plan shall become effective on the date it is approved by the requisite vote of the Board, subject to approval by the Company's stockholders. If the stockholders fail to approve the Plan within 12 months of its adoption by the Board, any Awards already made will be null and void and no additional Awards shall be made.

(b) Duration of the Plan. The Plan shall remain in effect until all Shares subject to it shall be distributed, all Awards have expired or terminated or the Plan is terminated pursuant to Section 15(c), whichever occurs first (the "*Termination Date*"). Awards made before the Termination Date may be exercised, vested or otherwise effectuated beyond the Termination Date unless limited in the Agreement or otherwise.

(c) Amendment and Termination of the Plan. The Board may at any time terminate, suspend or amend the Plan. The Company shall submit any amendment of the Plan to its stockholders for approval only to the extent required by applicable laws or regulations or the rules of any securities exchange on which the Shares may then be listed. No termination, suspension, or amendment of the Plan may materially impair the rights of any Participant under a previously granted Award without the Participant's consent, unless such action is necessary to comply with applicable law, stock exchange rules or accounting rules.

(d) Amendment of Awards. The Committee may unilaterally amend the terms of any Agreement previously granted, except that no such amendment may materially impair the rights of any Participant under the applicable Award without the Participant's consent, unless such amendment is necessary to comply with applicable law, stock exchange rules or accounting rules.

**16. Substitute Awards.** The Committee may also grant Awards under the Plan in substitution for, or in connection with the assumption of, existing awards granted or issued by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation to which the Company or an Affiliate is a party. The terms and conditions of the Substitute Awards may vary from the terms and conditions set forth in the Plan to the extent that the Board at the time of the grant may deem appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.

**17. Performance-Based Compensation.**

(a) Designation of Awards. If the Committee determines at the time a Full Value Award is granted to a Participant that such Participant is, or is likely to be, a "covered employee" for purposes of Code Section 162(m) as of the end of the tax year in which the Company would ordinarily claim a tax deduction in connection with such Award, then the Committee may provide that this Section 17 will be applicable to such Award, which shall be considered Performance-Based Compensation.

(b) Performance Measures. If an Award is subject to this Section 17, then the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more of the performance measures specified in Section 17(d) over the applicable performance period. The Committee shall specify the manner of calculating the performance measures it selects to use in any performance period, which may include adjustments to such measures as otherwise defined under U.S. Generally Accepted Accounting Principles. The Committee may also adjust performance measures for a performance period to the extent permitted by Code Section 162(m) in connection with an event described in Section 12(a) to prevent the dilution or enlargement of a Participant's rights with respect to Performance-Based Compensation. The Committee will determine the applicable performance measures for any performance period and any amount payable in connection with an Award subject to this Section 17 within the time periods prescribed by and consistent with the other requirements of Code Section 162(m). The Committee may adjust downward, but not upward, any

amount determined to be otherwise payable in connection with such an Award. The Committee may also provide, in an Agreement or otherwise, that the achievement of specified performance measures in connection with an Award subject to this section 17 may be waived upon the death or Disability of the Participant or under any other circumstance with respect to which the existence of such possible waiver will not cause the Award to fail to qualify as "performance-based compensation" under Code Section 162(m).

(c) Limitations. Subject to adjustment as provided in Section 12(a), the maximum number of Shares that may be the subject of Full Value Awards of Performance-Based Compensation granted to any Participant during any calendar year shall not exceed 1,500,000 Shares.

(d) For purposes of any Full Value Award considered Performance-Based Compensation subject to this Section 17, the performance measures to be utilized shall be limited to one or a combination of two or more of the following performance criteria: revenues; gross profit; income from operations; net income; earnings before income taxes; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings before interest, taxes, depreciation, amortization and share-based compensation expense; net income per share (basic or diluted); profitability as measured by return ratios (including, but not limited to, return on assets, return on equity, return on investment and return on revenues or gross profit) or by the degree to which any of the foregoing earnings measures exceed a percentage of revenues or gross profit; cash flow; market share; margins (including, but not limited to, one or more of gross, operating and net earnings margins); stock price; total stockholder return; asset quality; non-performing assets; revenue growth; cash flow per share; operating assets; balance of cash, cash equivalents and marketable securities; improvement in or attainment of expense levels or cost savings; economic value added; improvement in or attainment of working capital levels; employee retention; customer satisfaction; and implementation or completion of critical projects. Any performance measure utilized may be expressed in absolute amounts, on a per share basis, as a growth rate or change from preceding periods, or as a comparison to the performance of specified companies or other external measures, and may relate to one or any combination of corporate, group, unit, division, Affiliate or individual performance.

**18. Other Provisions.**

(a) Unfunded Plan. The Plan shall be unfunded and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan. Neither the Company, its Affiliates, the Committee, nor the Board shall be deemed to be a trustee of any amounts to be paid under the Plan nor shall anything contained in the Plan or any action taken pursuant to its provisions create or be construed to create a fiduciary relationship between the Company and/or its Affiliates, and a Participant. To the extent any person has or acquires a right to receive a payment in connection with an Award under the Plan, this right shall be no greater than the right of an unsecured general creditor of the Company.

(b) Limits of Liability. Except as may be required by law, neither the Company nor any member of the Board or of the Committee, nor any other person participating (including participation pursuant to a delegation of authority under Section 3(c) of the Plan) in any determination of any question under the Plan, or in the interpretation, administration or application of the Plan, shall have any liability to any party for any action taken, or not taken, in good faith under the Plan.

(c) Compliance with Applicable Legal Requirements. No Shares distributable pursuant to the Plan shall be issued and delivered unless the issuance of the Shares complies with all applicable legal requirements, including compliance with the provisions of applicable state and federal securities laws, and the requirements of any securities exchanges on which the Company's Shares may, at the time, be listed. During any period in which the offering and issuance of Shares under the Plan is not registered under federal or state securities laws, Participants shall acknowledge that they are acquiring Shares under the Plan for investment purposes and not for resale, and that Shares may not be transferred except

pursuant to an effective registration statement under, or an exemption from the registration requirements of, such securities laws. Stock certificates evidencing Shares issued under the Plan that are subject to such securities law restrictions shall bear an appropriate restrictive legend.

(d) Other Benefit and Compensation Programs. Payments and other benefits received by a Participant under an Award made pursuant to the Plan shall not be deemed a part of a Participant's regular, recurring compensation for purposes of the termination, indemnity or severance pay laws of any country and shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan, contract or similar arrangement provided by the Company or an Affiliate unless expressly so provided by such other plan, contract or arrangement, or unless the Committee expressly determines that an Award or portion of an Award should be included to accurately reflect competitive compensation practices or to recognize that an Award has been made in lieu of a portion of competitive cash compensation.

(e) Requirements of Law.

(1) To the extent that federal laws do not otherwise control, the Plan and all determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of Delaware without regard to its conflicts-of-law principles and shall be construed accordingly.

(2) If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

(3) It is intended that (i) all Awards of Options, SARs and Restricted Stock under the Plan will not provide for the deferral of compensation within the meaning of Code Section 409A and thereby be exempt from Code Section 409A, and (ii) all other Awards under the Plan will either not provide for the deferral of compensation within the meaning of Code Section 409A, or will comply with the requirements of Code Section 409A, and Awards shall be structured and the Plan administered in accordance with this intent. The Plan and any Agreement may be unilaterally amended by the Company in any manner deemed necessary or advisable by the Committee or Board in order to maintain such exemption from or compliance with Code Section 409A, and any such amendment shall conclusively be presumed to be necessary to comply with applicable law.

(4) It is intended that the Plan and all Awards granted pursuant to it shall be administered by the Committee so as to permit the Plan and Awards to comply with Exchange Act Rule 16b-3. If any provision of the Plan or of any Award would otherwise frustrate or conflict with the intent expressed in this Section 18(e)(4), that provision to the extent possible shall be interpreted and deemed amended in the manner determined by the Committee so as to avoid the conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed void as applied to Participants subject to Section 16 of the Exchange Act to the extent permitted by law and in the manner deemed advisable by the Committee.

**SPS COMMERCE, INC.**

**Incentive Stock Option Agreement**
**Under the 2010 Equity Incentive Plan**

SPS Commerce, Inc. (the "Company"), pursuant to its 2010 Equity Incentive Plan (the "Plan"), hereby grants an Option to purchase shares of the Company's common stock to you, the Optionee named below. The terms and conditions of the Option Award are set forth in this Agreement, consisting of this cover page and the Option Terms and Conditions on the following pages, and in the Plan document which is attached.

Name of Optionee:

No. of Shares Covered: Date of Grant: , 20

Exercise Price Per Share: $ Expiration Date: , 20

Vesting and Exercise Schedule:

| Dates | Portion of Covered Shares as to Which Option Becomes Vested and Exercisable |
|---|---|

By signing below, you agree to all of the terms and conditions contained in this Agreement and in the Plan document, a copy of which is attached. You acknowledge that you have reviewed these documents and that they set forth the entire agreement between you and the Company regarding your right to purchase shares of the Company's common stock pursuant to this Option.

OPTIONEE:

SPS COMMERCE, INC.

By: _____
Title: _____

**SPS Commerce, Inc.**
**2010 Equity Incentive Plan**
**Incentive Stock Option Agreement**

**Option Terms and Conditions***

1. **Incentive Stock Option**. This Option is intended to be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code (the "Code") and will be interpreted accordingly. To the extent that, for any reason, the Option does not qualify as an incentive stock option under Code Section 422, the Option will be treated as a non-statutory stock option, subject to the tax consequences applicable to such options.

2. **Vesting and Exercise Schedule**. This Option will vest and become exercisable as to the number of Shares and on the dates specified in the Vesting and Exercise Schedule on the cover page to this Agreement, so long as your Service to the Company does not end. The Vesting and Exercise Schedule is cumulative, meaning that to the extent the Option has not already been exercised and has not expired, terminated or been cancelled, you or the person otherwise entitled to exercise the Option as provided in this Agreement may at any time purchase all or any portion of the Shares that may then be purchased under that Schedule.

   **[Notwithstanding the foregoing, if and to the extent this Option is continued, assumed or replaced in connection with a Change in Control that constitutes a Corporate Transaction, and if within one year after the Corporate Transaction you experience an involuntary termination of Service for reasons other than Cause, then this Option shall immediately become exercisable in full and shall remain exercisable for one year following your termination of Service.]

   In addition, vesting and exercisability of this Option may be accelerated during the term of the Option under the circumstances described in Section 12(c) of the Plan, and at the discretion of the Committee in accordance with Section 3(b)(2) of the Plan.

3. **Expiration**. This Option will expire and will no longer be exercisable at 5:00 p.m. Central Time on the earliest of:

   (a) The expiration date specified on the cover page of this Agreement;

   (b) Upon your termination of Service for Cause;

   (c) Upon the expiration of any applicable period specified in Section 6(e) of the Plan or Section 2 of this Agreement during which this Option may be exercised after your termination of Service; or

   (d) The date (if any) fixed for termination or surrender of this Option pursuant to Sections 12(b)(3), (c) or (d) of the Plan.

4. **Service Requirement**. Except as otherwise provided in Section 6(e) of the Plan or Section 2 of this Agreement, this Option may be exercised only while you continue to provide Service to the Company or any Affiliate, and only if you have continuously provided such Service since the date this Option was granted.

* 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.

5. **Exercise of Option**. Subject to Section 4, the vested and exercisable portion of this Option may be exercised at any time during the Option term by delivering a written notice of exercise to the Company at its principal executive office, and by providing for payment of the exercise price of the Shares being acquired and any related withholding taxes. The notice of exercise, in the form attached to this Agreement, shall be provided to the Company's Chief Financial Officer. The notice shall state the number of Shares to be purchased, and shall be signed by the person exercising the Option. If you are not the person exercising the Option, the person submitting the notice also must submit appropriate proof of his/her right to exercise the Option.

6. **Payment of Exercise Price**. When you submit your notice of exercise, you must include payment of the exercise price of the Shares being purchased through one or a combination of the following methods:

   (a) Cash (including personal check, cashier's check or money order);

   (b) To the extent permitted by the Committee, by means of a broker-assisted cashless exercise in which you irrevocably instruct your broker to deliver proceeds of a sale of all or a portion of the Shares to be issued pursuant to the exercise to the Company in payment of the exercise price of such Shares; or

   (c) By delivery to the Company of Shares (by actual delivery or attestation of ownership in a form approved by the Company) already owned by you that are not subject to any security interest and that have an aggregate Fair Market Value on the date of exercise equal to the exercise price of the Shares being purchased.

   However, if the Committee determines, in any given circumstance, that payment of the exercise price with Shares is undesirable for any reason, you will not be permitted to pay any portion of the exercise price in that manner.

7. **Tax Consequences**. You hereby acknowledge 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 this 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 you pursuant to an "incentive stock option" as defined in the Code. You agree to promptly agree to notify the Company if you sell any Shares received upon the exercise of this Option within the time periods specified in the previous sentence. The Company shall not be liable to you if this Option for any reason is deemed not to be an "incentive stock option" within the meaning of the Code.

8. **Delivery of Shares.** As soon as practicable after the Company receives the notice and exercise price provided for above, and has determined that all conditions to exercise, including Sections 7 and 9 of this Agreement, have been satisfied, it shall deliver to the person exercising the Option, in the name of such person, the Shares being purchased, as evidenced by issuance of a stock certificate or certificates, electronic delivery of such Shares to a brokerage account designated by such person, or book-entry registration of such Shares with the Company's transfer agent. 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.

9. **Compliance with Laws**. This Option may be exercised only if the issuance of Shares upon such exercise complies with all applicable legal requirements, including compliance with the provisions of applicable federal and state securities laws.

10. **Transfer of Option**. During your lifetime, only you (or your guardian or legal representative in the event of legal incapacity) may exercise this Option. You may not assign or transfer this Option except for a transfer upon your death in accordance with your will, by the laws of descent and distribution or pursuant to a beneficiary designation submitted in accordance with Section 6(d) of the Plan. The Option held by any such transferee will continue to be subject to the same terms and conditions that were applicable to the Option immediately prior to its transfer and may be exercised by such transferee as and to the extent that the Option has become exercisable and has not terminated in accordance with the provisions of the Plan and this Agreement.

11. **No Stockholder Rights Before Exercise**. Neither you nor any permitted transferee of this Option will have any of the rights of a stockholder of the Company with respect to any Shares subject to this Option until a certificate evidencing such Shares has been issued, electronic delivery of such Shares has been made to your designated brokerage account, or an appropriate book entry in the Company's stock register has been made. No adjustments shall be made for dividends or other rights if the applicable record date occurs before your stock certificate has been issued, electronic delivery of your Shares has been made to your designated brokerage account, or an appropriate book entry in the Company's stock register has been made, except as otherwise described in the Plan.

12. **Governing Plan Document**. This Agreement and Option are subject to all the provisions of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Committee pursuant to the Plan. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.

13. **Choice of Law**. This Agreement will be interpreted and enforced under the laws of the state of Delaware (without regard to its conflicts or choice of law principles).

14. **Binding Effect**. This Agreement will be binding in all respects on your heirs, representatives, successors and assigns , and on the successors and assigns of the Company.

15. **Other Agreements.** You agree that in connection with the exercise of this Option, you will execute such documents as may be necessary to become a party to any stockholder, voting or similar agreements as the Company may require.

16. **Restrictive Legends.** The Company may place a legend or legends on any certificate representing Shares issued upon the exercise of this Option summarizing transfer and other restrictions to which the Shares may be subject under applicable securities laws, other provisions of this Agreement, or other agreements contemplated by Section 15 of this Agreement. You agree that in order to ensure compliance with the restrictions referred to in this Agreement, the Company may issue appropriate "stop transfer" instructions to its transfer agent.

***By signing the cover page of this Agreement, you agree to all the terms and conditions described above and in the Plan document.***

**NOTICE OF EXERCISE**
**Incentive Stock Option**

_____, 20___

SPS Commerce, Inc.
333 South Seventh Street, Suite 1000
Minneapolis, Minnesota 55402
Attention: Chief Financial Officer

Ladies and Gentlemen:

I hereby exercise the following option (the "Option") granted to me under the SPS Commerce, Inc. 2010 Equity Incentive Plan (as amended from time to time, the "Plan") with respect to the number of shares of common stock 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 Notice is a check, cashier's check or money order in the amount of the Total Exercise Price.
- o Enclosed with this Notice is a copy of my irrevocable instruction to my broker, _____, to deliver to the Company proceeds of the sale of some or all of the Shares being acquired in an amount equal to the Total Exercise Price.
- o Enclosed with this Notice 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 or an affidavit of ownership (in the form of Exhibit A attached hereto) attesting to my ownership of unencumbered Shares having an aggregate Fair Market Value (as defined in the Plan) equal to or in excess of the Total Exercise Price.

In connection with this exercise, I represent, warrant and acknowledge that I am the owner of all Shares delivered with this Notice or attested to on the attached affidavit of ownership, free and clear of all liens, security interests and other restrictions or encumbrances.

Please issue the number of Shares with respect to which the Option is being exercised in the manner indicated below:

- o Issue a certificate (the "Certificate") for the Shares in the name of the person(s) indicated below and deliver the Certificate to the address indicated:

  **Name(s) in Which to Issue Certificate:** _____

  **Address to Which Certificate Should be Delivered:** _____

  **Principal Mailing Address for Holder of the Certificate (if different from above):** _____

- o Electronic delivery of the Shares to my brokerage account as indicated below:

  **Name of Brokerage Firm:** _____

  **My Account Number:** _____

  **Brokerage Firm DWAC Participant Number:** _____

- o Create a book-entry registration of the Shares in the name of the person(s) indicated below:

  **Name(s) in Which to Create Book-Entry Registration:** _____

  **Mailing Address for Book-Entry Holders:** _____

Very truly yours,

Signature

Name, please print

Social Security Number

**Exhibit A**

**Affidavit of Ownership of**
**SPS Commerce, Inc. Common Stock**

Pursuant to the Notice of Exercise that I have submitted to SPS Commerce, Inc. (the "*Company*"), I am electing to pay the Total Exercise Price for the option shares by attesting to ownership of the shares listed below and hereby tender for accounting purposes such shares in payment thereof. I hereby certify that:

1. I beneficially own _____ shares of Company common stock (the "*Swap Shares*") as of the date hereof. These Swap Shares are:
   - o Held in my name individually and a photocopy of the stock certificate evidencing my ownership is attached.
   - o Held in my name and _____ as joint tenants and a photocopy of the stock certificate evidencing ownership is attached.
   - o Held in a brokerage account in the name of _____. A photocopy of a brokerage statement of account, dated within the preceding two months and showing evidence of ownership of Company stock, is attached. (The option holder may block out information not relevant to Company stock ownership on the account statement.)
2. The Swap Shares are held by me as described above and are not held for my benefit by a Trustee or custodian in the SPS Commerce, Inc. 401(k) Retirement Savings Plan, in an IRA account or in any other type of employee benefit or tax deferral plan.

_____ _____

Date Signature

**SPS COMMERCE, INC.**

**Non-Statutory Stock Option Agreement**
**Under the 2010 Equity Incentive Plan (Employee)**

SPS Commerce, Inc. (the "Company"), pursuant to its 2010 Equity Incentive Plan (the "Plan"), hereby grants an Option to purchase shares of the Company's common stock to you, the Optionee named below. The terms and conditions of the Option Award are set forth in this Agreement, consisting of this cover page and the Option Terms and Conditions on the following pages, and in the Plan document which is attached.

Name of Optionee:

| | | | |
|---|---|---|---|
| No. of Shares Covered: | | Date of Grant: | , 20 |
| Exercise Price Per Share: | $ | Expiration Date: | , 20 |

Vesting and Exercise Schedule:

| Dates | Portion of Shares as to Which Option Becomes Vested and Exercisable |
|---|---|

By signing below, you agree to all of the terms and conditions contained in this Agreement and in the Plan document, a copy of which is attached. You acknowledge that you have reviewed these documents and that they set forth the entire agreement between you and the Company regarding your right to purchase shares of the Company's common stock pursuant to this Option.

OPTIONEE:

_____

SPS COMMERCE, INC.

By: _____

Title: _____

**SPS Commerce, Inc.**
**2010 Equity Incentive Plan**
**Non-Statutory Stock Option Agreement**

**Option Terms and Conditions***

1. **Non-Qualified Stock Option**. This Option is not intended to be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code and will be interpreted accordingly.

2. **Vesting and Exercise Schedule**. This Option will vest and become exercisable as to the number of Shares and on the dates specified in the Vesting and Exercise Schedule on the cover page to this Agreement, so long as your Service to the Company does not end. The Vesting and Exercise Schedule is cumulative, meaning that to the extent the Option has not already been exercised and has not expired, terminated or been cancelled, you or the person otherwise entitled to exercise the Option as provided in this Agreement may at any time purchase all or any portion of the Shares that may then be purchased under that Schedule.

   ** [***For Executive Officers:*** Notwithstanding the foregoing, if and to the extent this Option is continued, assumed or replaced in connection with a Change in Control that constitutes a Corporate Transaction, and if within one year after such Corporate Transaction you experience an involuntary termination of Service for reasons other than Cause, then this Option shall immediately become exercisable in full and shall remain exercisable for one year following your termination of Service.]

   In addition, vesting and exercisability of this Option may be accelerated during the term of the Option under the circumstances described in Section 12(c) of the Plan, and at the discretion of the Committee in accordance with Section 3(b)(2) of the Plan.

3. **Expiration**. This Option will expire and will no longer be exercisable at 5:00 p.m. Central Time on the earliest of:

   (a) The expiration date specified on the cover page of this Agreement;

   (b) Upon your termination of Service for Cause;

   (c) Upon the expiration of any applicable period specified in Section 6(e) of the Plan or Section 2 of this Agreement during which this Option may be exercised after your termination of Service; or

   (d) The date (if any) fixed for termination or surrender of this Option pursuant to Sections 12(b)(3), (c) or (d) of the Plan.

4. **Service Requirement.** Except as otherwise provided in Section 6(e) of the Plan or Section 2 of this Agreement, this Option may be exercised only while you continue to provide Service to the Company or any Affiliate, and only if you have continuously provided such Service since the date this Option was granted.

5. **Exercise of Option**. Subject to Section 4, the vested and exercisable portion of this Option may be exercised at any time during the Option term by delivering a written notice of exercise to the Company at its principal executive office, and by providing for payment of the exercise price of the

* 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.

Shares being acquired and any related withholding taxes. The notice of exercise, in the form attached to this Agreement, shall be provided to the Company's Chief Financial Officer. The notice shall state the number of Shares to be purchased, and shall be signed by the person exercising the Option. If you are not the person exercising the Option, the person submitting the notice also must submit appropriate proof of his/her right to exercise the Option.

6. **Payment of Exercise Price**. When you submit your notice of exercise, you must include payment of the exercise price of the Shares being purchased through one or a combination of the following methods:

   (a) Cash (including personal check, cashier's check or money order);

   (b) To the extent permitted by the Committee, by means of a broker-assisted cashless exercise in which you irrevocably instruct your broker to deliver proceeds of a sale of all or a portion of the Shares to be issued pursuant to the exercise to the Company in payment of the exercise price of such Shares; or

   (c) By delivery to the Company of Shares (by actual delivery or attestation of ownership in a form approved by the Company) already owned by you that are not subject to any security interest and that have an aggregate Fair Market Value on the date of exercise equal to the exercise price of the Shares being purchased; or

   (d) By authorizing the Company to retain, from the total number of Shares as to which the Option is being 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 being exercised.

   However, if the Committee determines, in any given circumstance, that payment of the exercise price with Shares or by authorizing the Company to retain Shares is undesirable for any reason, you will not be permitted to pay any portion of the exercise price in that manner.

7. **Withholding Taxes**. You may not exercise this Option in whole or in part unless you make arrangements acceptable to the Company for payment of any federal, state, local or foreign withholding taxes that may be due as a result of the exercise of this Option. You hereby authorize the Company (or any Affiliate) to withhold from payroll or other amounts payable to you any sums required to satisfy such withholding tax obligations, and otherwise agree to satisfy such obligations in accordance with the provisions of Section 14 of the Plan. If you wish to satisfy some or all of such withholding tax obligations by delivering Shares you already own or by having the Company retain a portion of the Shares being acquired upon exercise of the Option, you must make such a request which shall be subject to approval by the Company. Delivery of Shares upon exercise of this Option is subject to the satisfaction of applicable withholding tax obligations.

8. **Delivery of Shares.** As soon as practicable after the Company receives the notice and exercise price provided for above, and has determined that all conditions to exercise, including Sections 7 and 9 of this Agreement, have been satisfied, it shall deliver to the person exercising the Option, in the name of such person, the Shares being purchased, as evidenced by issuance of a stock certificate or certificates, electronic delivery of such Shares to a brokerage account designated by such person, or book-entry registration of such Shares with the Company's transfer agent. 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.

9. **Compliance with Laws**. This Option may be exercised only if the issuance of Shares upon such exercise complies with all applicable legal requirements, including compliance with the provisions of applicable federal and state securities laws.

10. **Transfer of Option**. During your lifetime, only you (or your guardian or legal representative in the event of legal incapacity) may exercise this Option except in the case of a transfer described below. You may not assign or transfer this Option except (i) for a transfer upon your death in accordance with your will, by the laws of descent and distribution or pursuant to a beneficiary designation submitted in accordance with Section 6(d) of the Plan, (ii) pursuant to a qualified domestic relations order, or (iii) with the prior written approval of the Company, by gift, in a form accepted by the Company, to a permitted transferred under General Instruction A(5) to Form S-8 under the Securities Act. The Option held by any such transferee will continue to be subject to the same terms and conditions that were applicable to the Option immediately prior to its transfer and may be exercised by such transferee as and to the extent that the Option has become exercisable and has not terminated in accordance with the provisions of the Plan and this Agreement.

11. **No Stockholder Rights Before Exercise**. Neither you nor any permitted transferee of this Option will have any of the rights of a stockholder of the Company with respect to any Shares subject to this Option until a certificate evidencing such Shares has been issued, electronic delivery of such Shares has been made to your designated brokerage account, or an appropriate book entry in the Company's stock register has been made. No adjustments shall be made for dividends or other rights if the applicable record date occurs before your stock certificate has been issued, electronic delivery of your Shares has been made to your designated brokerage account, or an appropriate book entry in the Company's stock register has been made, except as otherwise described in the Plan.

12. **Governing Plan Document**. This Agreement and Option are subject to all the provisions of the Plan, and to all interpretations, rules and regulations which may, from time to time, be adopted and promulgated by the Committee pursuant to the Plan. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.

13. **Choice of Law**. This Agreement will be interpreted and enforced under the laws of the state of Delaware (without regard to its conflicts or choice of law principles).

14. **Binding Effect**. This Agreement will be binding in all respects on your heirs, representatives, successors and assigns , and on the successors and assigns of the Company.

15. **Other Agreements.** You agree that in connection with the exercise of this Option, you will execute such documents as may be necessary to become a party to any stockholder, voting or similar agreements as the Company may require.

16. **Restrictive Legends.** The Company may place a legend or legends on any certificate representing Shares issued upon the exercise of this Option summarizing transfer and other restrictions to which the Shares may be subject under applicable securities laws, other provisions of this Agreement, or other agreements contemplated by Section 15 of this Agreement. You agree that in order to ensure compliance with the restrictions referred to in this Agreement, the Company may issue appropriate "stop transfer" instructions to its transfer agent.

***By signing the cover page of this Agreement, you agree to all the terms and conditions described above and in the Plan document.***

**NOTICE OF EXERCISE**
**Non-Statutory Stock Option**

_____, 20___

SPS Commerce, Inc.
333 South Seventh Street, Suite 1000
Minneapolis, Minnesota 55402
Attention: Chief Financial Officer

Ladies and Gentlemen:

I hereby exercise the following option (the "Option") granted to me under the SPS Commerce, Inc. 2010 Equity Incentive Plan (as amended from time to time, the "Plan") with respect to the number of shares of common stock 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 Notice is a check, cashier's check or money order in the amount of the Total Exercise Price.

o Enclosed with this Notice is a copy of my irrevocable instruction to my broker, _____, to deliver to the Company proceeds of the sale of some or all of the Shares being acquired in an amount equal to the Total Exercise Price.

o Enclosed with this Notice 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 or an affidavit of ownership in the form of Exhibit A attached hereto attesting to my ownership of unencumbered Shares 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 to be delivered to me upon this exercise of the Option.

In connection with this exercise, I represent, warrant and acknowledge as follows:

- I will provide for the payment to the Company, in a manner agreed to by the Company, of the amount of any required withholding taxes in connection with this exercise as provided in Section 14 of the Plan.
- I am the owner of all Shares delivered with this Notice or attested to on the attached affidavit of ownership, free and clear of all liens, security interests and other restrictions or encumbrances.

Please issue the number of Shares with respect to which the Option is being exercised (or the net number of Shares if the Total Exercise Price and/or applicable withholding taxes are being paid through a reduction in the number of Shares to be delivered to me) in the manner indicated below:

o Issue a certificate (the "Certificate") for the Shares in the name of the person(s) indicated below and deliver the Certificate to the address indicated:

**Name(s) in Which to Issue Certificate:** _____

**Address to Which Certificate Should be Delivered:** _____

_____

_____

_____

**Principal Mailing Address for Holder of the Certificate (if different from above):** _____

_____

_____

_____

o Electronic delivery of the Shares to my brokerage account as indicated below:

**Name of Brokerage Firm:** _____

**My Account Number:** _____

**Brokerage Firm DWAC Participant Number:** _____

o Create a book-entry registration of the Shares in the name of the person(s) indicated below:

**Name(s) in Which to Create Book-Entry Registration:** _____

**Mailing Address for Book-Entry Holders:** _____

_____

_____

_____

Very truly yours,

Signature

Name, please print

Social Security Number

**Exhibit A**

**Affidavit of Ownership of**
**SPS Commerce, Inc. Common Stock**

Pursuant to the Notice of Exercise that I have submitted to SPS Commerce, Inc. (the "*Company*"), I am electing to pay (select one or both)

o the Total Exercise Price for the option shares

o federal income tax withholding in excess of the minimum required withholding amount

by attesting to ownership of the shares listed below and hereby tender for accounting purposes such shares in payment thereof. I hereby certify that:

1. I beneficially own _____ shares of Company common stock (the "*Swap Shares*") as of the date hereof. These Swap Shares are:

   [ ] Held in my name individually and a photocopy of the stock certificate evidencing my ownership is attached.

   [ ] Held in my name and _____ as joint tenants and a photocopy of the stock certificate evidencing ownership is attached.

   [ ] Held in a brokerage account in the name of _____. A photocopy of a brokerage statement of account, dated within the preceding two months and showing evidence of ownership of Company stock, is attached. (The option holder may block out information not relevant to Company stock ownership on the account statement.)

2. The Swap Shares are held by me as described above and are not held for my benefit by a Trustee or custodian in the SPS Commerce, Inc. 401(k) Retirement Savings Plan, in an IRA account or in any other type of employee benefit or tax deferral plan.

_____ _____

Date Signature

**SPS COMMERCE, INC.**

**EMPLOYMENT, NONCOMPETITION AND NONDISCLOSURE AGREEMENT**

This Amended and Restated Employment, Noncompetition, and Nondisclosure Agreement (the "*Agreement*"), dated as of October 31, 2008 (the "*Effective Date*"), is entered into by and between SPS Commerce, Inc., a Delaware corporation, and any successor company or corporation thereto (the "*Company*"), and Archie C. Black, a Minnesota resident (the "*Employee*").

WITNESSETH

WHEREAS, the Employee has certain skills, experience, and abilities that are critical to the success of the Company's operations and future profitability;

WHEREAS, the Employee and the Company previously entered into that certain Employment, Noncompetition and Nondisclosure Agreement dated January 1, 2002, the "*Prior Agreement*");

WHEREAS, the Company desires to continue to employ and retain the services of the Employee, and the Employee desires to continue to work for and be employed by the Company;

WHEREAS, the Company and the Employee desire to set forth the terms and conditions pursuant to which the Employee will continue to be employed by the Company; and

WHEREAS, Employer and Employee agree that it is in their mutual best interest to amend, modify, and restate the Prior Agreement to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "*Code*"), so as to avoid additional taxes and penalties under Code Section 409A(a)(1).

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual covenants and undertakings contained herein, and for such other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement hereby agree as follows:

ARTICLE I — DUTIES AND COMPENSATION

1.01 (A) Initial Term of Employment and Duties. The Company and the Employee hereby agree that for the period commencing on the Effective Date and continuing until December 31, 2009 (the "*Initial Term*"), at which point the period will automatically be extended for additional one-year terms (each an "*Additional Term*" and together with the Initial Term, the "*Term*") unless and until terminated by either party pursuant to Article II, the Company shall employ the Employee and the Employee shall perform services for the Company as its Chief Executive Officer under the terms and conditions set forth herein. In such capacity, the Employee shall be entitled to exercise all rights and powers and shall have all the privileges and authorities commensurate with his office, as established by the Board of Directors of the Company (the "*Board*").

(B) Compensation. During the first period of this Agreement beginning with the Effective Date through December 31, 2008, the Employee's annual gross base salary shall be $270,000, payable in bi-monthly installments (prorated for any portion of a year), in accordance with the regular payroll policies and practices of the Company. Employee's annual gross base salary for services rendered during the second year of this Agreement (i.e. January 1, 2009 through December 31, 2009) will be reviewed in January 2009, as part of Employee's annual performance review and shall be increased or maintained, but not decreased, as the Compensation Committee of the Board (the "*Compensation Committee*"), in its sole discretion, shall determine. In the event this Agreement is extended beyond December 2009, Employee's annual gross base salary will be reviewed in January each year, as part of Employee's annual performance review (each such annual performance review, a "*Review*") and shall be increased or maintained, but not decreased, as the Compensation Committee, in its sole discretion, shall determine.

(C) Discretionary Bonuses. During the period the Employee is employed by the Company (the "*Employment Period*"), the Employee shall be eligible for annual bonuses as the Compensation Committee, in its sole discretion, shall determine.

(D) Expenses. During the Employment Period, the Employee shall be entitled to receive reimbursement, in accordance with the Company's usual and customary practices, for all reasonable and necessary out-of-pocket business expenses incurred by Employee in performing services hereunder, including all expenses of travel and living expenses while away from home on Company business or at the request and in the service of the Company, provided that such expenses are incurred and accounted for in accordance with the policies and procedures established by the Company.

(E) Insurance. During the Employment Period, the Employee and his dependents shall be entitled to participate in hospitalization/medical insurance coverage maintained by the Company for its employees in accordance with the terms of that coverage, as to scope and eligibility of participants.

(F) Other Benefits; Options.

(i) Employee Benefits. The Employee shall be entitled to participate in, or receive benefits under, any employee benefit plan or arrangement generally made available by the Company to its Employees and key management employees on the date hereof or, upon approval of the Compensation Committee, in the future, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements. Unless the Employee hereafter agrees, nothing paid to the Employee under any such plan or arrangement shall be deemed to be in lieu of the salary payable to the Employee pursuant to paragraph (B) of this Section (except as to any deferred compensation plan in which the Employee elects to participate, which shall be in lieu of the salary payable to the Employee to the extent of the amount deferred).

(ii) Options. Prior to the Effective Date, Employee has been granted options to acquire shares of the capital stock of the Company. All such options, as well as any

such options granted in the future, shall be governed by the terms set forth in the respective option agreements related to such grants.

(iii) Vacation. Employee shall be entitled to 4 weeks paid vacation each year.

ARTICLE II — RIGHTS ON TERMINATION OF EMPLOYMENT

2.01 Termination. The Employee's employment hereunder may be terminated only under the following circumstances:

(A) Death. The Employee's employment hereunder shall terminate upon his death.

(B) Permanent Disability. If the Employee, due to a Permanent Disability (as hereinafter defined) is, for a period of 180 consecutive days, unable to perform his work-related duties and obligations to the Company, the Company may terminate the Employee's employment hereunder within 10 days after written notice of termination is given to the Employee by the Company. A disability shall be a "*Permanent Disability*" if it is so characterized under applicable employee benefit plans of the Company in effect at that time. If no plan defining "Permanent Disability" is in effect and the Company and the Employee are unable to agree as to whether the Employee has suffered a Permanent Disability, the question of Permanent Disability shall be submitted to a physician expert in the complaint, disease or injury from which the Employee suffers and in disability matters generally appointed by the Board, and his or her decision shall be final and binding. Upon termination under this subparagraph, the Employee shall receive payment for any unused vacation time remaining for the year in which said termination occurred, which shall be paid to the Employee at his per diem salary rate then in effect.

(C) Cause. The Company may terminate Employee's employment hereunder for Cause (as hereinafter defined). For purposes of this Agreement, the Company shall have "*Cause*" to terminate the Employee's employment hereunder upon (i) conviction of Employee for commission of any felony; (ii) dishonesty or gross misconduct by Employee in the performance of his duties under this Agreement or action by him in the course of the performance of his duties hereunder with intent to cause or that results in substantial harm to Company; or (iii) material breach by Employee of his duties, responsibilities or agreements hereunder (other than by reason of Permanent Disability), which breach is not cured as promptly as practicable but in any event within 30 days after written notice thereof containing the specifics of such material breach from the Board to Employee; provided, however, that the Employee shall not be permitted to cure any such breach if it is the second breach.

(D) Without Cause. The Company may terminate the Employment Period and Employee's employment hereunder without Cause by notice to Employee.

(E) Termination by Employee. The Employee may terminate his employment hereunder for Good Reason (as hereinafter defined). For purposes of this Agreement, "*Good Reason*" shall mean (i) a Change in Control (as hereinafter defined) of the Company, (ii) a failure by the Company to comply with any material provision of this Agreement which has not

been cured within 30 days after written notice of such noncompliance has been given by the Employee to the Board, or (iii) Employee providing the Board with written notice of intent to terminate within 10 days of a Review. For purposes of this Agreement, a "*Change in Control*" shall mean: (aa) the Board fails to appoint the Employee as its Chief Executive Officer, (bb) the Board removes the Employee as its Chief Executive Officer, (cc) the Board fails to vest the Employee with the powers and authority of the Chief Executive Officer, or (dd) the occurrence of any transaction or event (including, without limitation, any sale, transfer, or issuance or related series of sales, transfers, and/or issuances of shares of capital stock by the Company or any holder thereof) which results in the holders of the Company's outstanding capital stock immediately prior to such transaction or event (or series of such transactions or events) ceasing to hold shares of capital stock of the Company possessing the voting power (under normal circumstances) to elect a majority of the Board or otherwise control the Company following such transaction or event.

(F) Notice of Termination. Any termination of the Employee's employment by the Company or by the Employee other than termination pursuant to subsection (A) above shall be communicated by written notice of termination to the other party hereto. A notice of termination tendered by the Employee pursuant to subsection (E) above shall be delivered to the Board not less than 45 days prior to the Date of Termination.

(G) Date of Termination. "*Date of Termination*" shall mean (i) if the Employee's employment is terminated by his death, the date of his death, (ii) if the Employee's employment is terminated pursuant to subsection (B) above, 10 days after Notice of Termination is given, (iii) if the Employee's employment is terminated pursuant to subsection (C) or (D) above, the date specified in the notice of termination, and (iv) if the Employee's employment is terminated pursuant to subsection (E) above, the date stated in the notice of termination provided under subsection (F) above, which date shall be at least 45 days following the date on which such notice of termination is given to the Board. For purposes of Article III of this Agreement only, with respect to the timing of payments thereunder, Date of Termination shall mean the date on which a "separation from service" has occurred for purposes of Section 409A of the Code and the regulations and guidance thereunder.

ARTICLE III — COMPENSATION UPON TERMINATION OR DURING DISABILITY

3.01 Termination or Disability.

(A) During any period that the Employee fails to perform his duties hereunder as a result of incapacity due to the impairment of his physical and/or mental condition ("*Disability Period*"), Employee shall continue to receive his full salary at the rate then in effect for such period, until his employment is terminated.

(B) If the Employee's employment is terminated by his death, the Company shall pay to the Employee's spouse, or if he leaves no spouse, his estate or such other beneficiaries as he shall designate any amount due and owing to the Employee through the date of his death.

(C) If the Employee's employment shall be terminated for Cause, the Company shall pay the Employee his full salary through the Date of Termination at the rate in effect at the time notice of termination is given and the Company shall have no further obligations to the Employee under this Agreement; provided, however, that if the termination is attributable to dishonesty, fraud, embezzlement or other defalcation, the Company may exercise such legal rights as it may have to set off any damages or losses it has suffered as a result of the Employee's conduct against the amount owed to the Employee and pursue any other legal remedies available to the Company.

(D) If (i) the Company shall terminate the Employee's employment without Cause or (ii) the Employee shall terminate his employment for Good Reason, then, subject to the conditions set forth in Section 3.01 (G):

(a) the Company shall pay the Employee his base salary for a period of time equal to 12 months (payable in bi-monthly installments commencing on the first regular payroll date of the Company to occur following the Date of Termination) and any unused vacation accrued as of the Date of Termination, in accordance with the provisions of Sections 1.01(B) and (F), provided, however, that if the Company determines Employee is a "specified employee" as of the Termination Date (within the meaning of Code § 409A(a)(2)(B)(i) and determined in accordance with Treas. Reg. § 1.409A-1(i) and the Company's specified employee identification policy, if any, in effect on the Date of Termination), the bi-monthly installments of base salary shall commence on the first regular payroll date of the Company to occur following the date that is six (6) months after the Date of Termination; and

(b) the Company shall also provide health care benefits to Employee and his family, on the same terms as they were provided on the Date of Termination, commencing on the Date of Termination and continuing for 12 months thereafter.

(E) Except as provided in Section 3.01(F), if the Employee shall terminate his employment for any reason other than Good Reason, the Company shall pay the Employee his full salary through the Date of Termination at the rate in effect at the time notice of termination is given and the Company shall have no further obligations to the Employee under this Agreement.

(F) If the Employee's employment is terminated due to Permanent Disability, the Company shall maintain in full force and effect, for the continued benefit of the Employee and on the same terms, all employee health benefit plans in which the Employee was entitled to participate immediately prior to the Date of Termination, provided that the Employee's continued participation is possible under the general terms of such plans and programs, commencing on the Date of Termination and continuing for 12 months thereafter.

(G) The Employee shall not be required to mitigate the amount of any payment provided for in this Article III by seeking other employment or otherwise, nor shall any compensation from any other such employment reduce any amounts payable hereunder, except

that the continued health care coverage provided under subsection 3.01(D)(b) and Section 3.01(F) shall end on the date Employee (and his covered dependents) is provided comparable coverage by a subsequent employer or the date Employee would no longer otherwise be entitled to continuation of coverage under Code Section 4980B (COBRA), if such date occurs prior to expiration of the 12-month period. Employee and the Company intend the continued health care coverage provided by subsection 3.01(D)(b) and Section 3.01(F) to be excluded from deferred compensation as a reimbursement of medical benefits under Treas. Reg. § 1.409A-1(b)(9)(v).

ARTICLE IV — COMPETITIVE PROTECTIONS/CONFIDENTIALITY

4.01 Confidentiality; Nondisclosure; Competitive Disparagement. Other than is required in discharging his obligations under this Agreement in the ordinary course of business, the Employee hereby agrees that he will not, either during the term of this Agreement or at any time following the termination hereof for any reason, do or cause to have done any of the following: (i) use for his own purposes or disclose to any person, other than pursuant to a final judicial order, any Confidential Information (as hereinafter defined) of the Company; or (ii) disparage the Company, any officer or employee of the Company, or any business practice employed by the company or any officer or employee thereof. For purposes of this Agreement, "*Confidential Information*" shall mean all information relating to or arising out of the business of the Company or any of its affiliates, including without limitation, inventions, trademarks, designs, copyrightable works, source codes, all sales and marketing information, customer lists and data, personnel records, pricing information, financial information, and all other information that would be considered a trade secret under the Trade Secret Act by or furnished, disclosed, or disseminated, to the Company, or any of its affiliates or obtained, assembled, or complied by it, and all physical embodiments of the foregoing, all of which are hereby agreed to be confidential, but the Employee shall not be required to treat as Confidential Information any of the foregoing to the extent such information is or becomes publicly known through no fault or breach of this Agreement or other by the Employee. Employee acknowledges that all Confidential Information is the exclusive property of the Company. Employee agrees that, upon the termination of this Agreement for any reason, Employee will not disclose, take with him or retain, without express, written consent of an officer of the Company other than Employee, any Confidential Information in original or reproduced form, belonging to the Company or otherwise pertaining to the business or financial condition of the Company.

4.02 Invention by Employee. All ideas, inventions, trademarks, designs, copyrightable work and other developments or improvements conceived by Employee, alone or with others, during the term of his employment, whether or not during working hours, that are within the scope of the Company's business operations or that relate to any Company work or projects, are the exclusive property of the Company. Employee agrees to assist the Company, at its expense, to obtain patents or to apply for registration of copyrights or trademarks on any such patentable ideas, inventions, trademarks, designs, copyrightable works and other developments, and agrees to execute all documents necessary to obtain such patents or to apply for such registrations in the name of the Company. Any and all patentable or copyrightable material, or other intellectual property, developed by Employee as described in the preceding paragraph, shall be considered work for hire and shall be solely the property of the Company.

4.03 Reasonableness of Covenants. The Employee hereby agrees that the covenants and restrictions of this Article IV are reasonable in their terms and do not impose any undue hardship on the Employee's current or future employment prospects. The Employee further agrees that if the laws of the State of Minnesota applicable to the provisions set forth in this Article IV should change, or if any court of competent jurisdiction should hold any term or provision of this Article IV invalid or unenforceable, then the Employee agrees that there shall be substituted in the place of such changed, invalid, or unenforceable term or provision a new term or provision that most nearly fulfills or promotes the purpose and intention of this Article IV and is consistent with such law or judicial decision.

ARTICLE V — MISCELLANEOUS

5.01 Further Assurances. Each party hereto agrees to perform any further acts and to execute and deliver any further documents that may be reasonably necessary to carry out the provisions of this Agreement.

5.02 Severability. In the event that any of the provisions, or portions thereof, of this Agreement are held to be unenforceable or invalid by any court of competent jurisdiction, the validity and enforceability of the remaining provisions, or portions thereof, shall not be affected thereby.

5.03 Construction. Whenever used herein, the singular number shall include the plural, and the plural number shall include the singular.

5.04 Gender. Any references herein to the masculine gender, or to the masculine form of any noun, adjective, or possessive, shall be construed to include the feminine or neuter gender and form, vice versa.

5.05 Headings. The headings contained in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning of any of the provisions contained herein.

5.06 Facsimile Signature and Counterparts. This Agreement may be executed by facsimile signature and in multiple counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

5.07 Governing Law and Choice of Forum. This agreement has been executed in and shall be governed by the laws of the State of Minnesota. The parties hereto submit themselves to the state courts of Hennepin County, Minnesota for resolution of any dispute hereunder.

5.08 Legal Remedies; Specific Performance. The parties to this Agreement understand and agree that it will be impossible to measure in money the damages that may accrue to a party to this Agreement or to his or its heirs, personal representatives, or assigns by reason of a failure to perform any of the obligations under this Agreement, and that any such money damages would be an insufficient remedy for such failure of performance. Therefore, each party hereto hereby consents to be subject to the remedy of specific performance of any provision of this Agreement if such party shall have been found to be in violation of such provision by any court of competent jurisdiction. If any party or his or its heirs, personal representatives, or assigns

institute any action or proceeding to specifically enforce the provisions of this Agreement, any person against whom such action or proceeding is brought hereby waives the claim or defense in such action or proceeding that such party has an adequate remedy at law, and such person shall not urge in any such action or proceeding a claim or defense that such remedy at law exists.

5.09 Inurement. Subject to the restrictions against transfer or assignment as herein contained, the provisions of this Agreement shall inure to the benefit of, and shall be binding on, the assigns, successors in interest, personal representatives, estates, heirs, and legatees of each of the parties hereto.

5.10 Waivers. No waiver of any provision or condition of this Agreement shall be valid unless executed in writing and signed by the party to be bound thereby, and then only to the extent specified in such waiver. No waiver of any provision or condition of this Agreement shall be construed as a waiver of any other provision or condition of this Agreement, and no present waiver of any provision or condition of this Agreement shall be construed as a future waiver of such provision or condition. Any waiver by the Company shall not be effective unless signed by an officer of the Company other then the Employee at the direction of the Board.

5.11 Amendment. This Agreement may be amended only by the written consent of the parties hereto. Any amendment shall not be effective unless signed by an officer of the Company other than the Employee at the direction of the Board.

5.12 Entire Agreement. This Agreement and any stock option agreement between Employee and the Company, including without limitation the Amendment to Option Agreements and Covenant Regarding Future Options between the parties dated January 1, 2002, contain the entire understanding between the parties hereto concerning the subject matter contained herein. There are no representations, agreements, arrangements, or understandings, oral or written, between or among the parties hereto relating to the subject matter of this Agreement that are not fully expressed herein. Without limiting the foregoing, this Agreement supercedes and replaces the Prior Agreement.

5.13 Construction of Agreement. Each party and its counsel have participated fully in the review and revision of this Agreement. Any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in the interpretation of this Agreement.

5.14 Execution. Each party to this Agreement hereby represents and warrants to the other parties hereto that such party has full power and capacity to execute, deliver, and perform this Agreement, which has been duly executed and delivered by, and which evidences the valid and binding obligation of, such party enforceable in accordance with its terms subject to applicable liquidation, conservatorship, bankruptcy, insolvency, reorganization moratorium, or similar laws affecting the enforcement of creditor's rights from time to time in effect and to general principles of equity.

5.15 Notification. All notification to the Employee shall be by certified mail to: Archie C. Black, 924 Adeline Lane North, Golden Valley, Minnesota 55422 or to such other address as the Employee may direct by written notification to the Company. All notification to

the Company shall be by certified mail to: SPS Commerce, Inc., 333 South Seventh St., Suite 1000, Minneapolis, MN 55402, Attention: Board of Directors, with copies to each member of the Board (at the address on the books of the Company) or to such other address as the Board may direct by written notification to the Employee.

5.16 No Assignment. The Employee may not assign his rights or delegate his obligations under this Agreement to any other party.

5.17 Section 409A. This Agreement is intended to satisfy, or be exempt from, the requirements of Section 409A(a)(2)(3) and (4) of the Code, including current and future guidance and regulations interpreting such provisions, and should be interpreted accordingly.

5.18 Taxes. The Company may withhold from any amounts payable under this Agreement such federal, state and local income and employment taxes as the Company shall determine are required to be withheld pursuant to any applicable law or regulation. Employee shall be solely responsible for the payment of all taxes due and owing with respect to wages, benefits, and other compensation provided to him hereunder.

5.19 Survival. The provisions of Articles IV and V shall survive the termination of this Agreement or the termination of Employee's employment for any reason.

IN WITNESS WHEREOF, the parties to this Agreement have set their respective hands hereto as of the date first written above.

**SPS COMMERCE, INC.**

**EMPLOYEE**

**EMPLOYER**

**By: /s/ Archie C. Black**

**By: /s/ Kimberly K. Nelson**

**Its: Chief Financial Officer**

**Date: November 4, 2008**

**Date: November 4, 2008**

**AT-WILL CONFIDENTIALITY AGREEMENT**
**REGARDING**
**CERTAIN TERMS AND CONDITIONS**
**OF EMPLOYMENT**
**AT SPS COMMERCE, INC.**

**THIS AMENDED AND RESTATED AGREEMENT** (the "*Agreement*") dated as of , 2008 (the "*Effective Date*") is made between , , , MN (hereinafter referred to as "*Employee*") and SPS Commerce, Inc., a Delaware corporation, with offices at 333 South Seventh Street, Suite 1000, Minneapolis, Minnesota 55402 (hereinafter referred to as "*Employer*");

**WHEREAS,** Employer is engaged in the business of developing, marketing and distributing computer software products and services;

**WHEREAS,** Employee has knowledge and experience in the above-designated business;

**WHEREAS,** Employee and Employer are parties to an At-Will Confidentiality Agreement Regarding Certain Terms and Conditions of Employment at SPS Commerce, Inc., dated _____ (the "*Prior Agreement*"), which the parties desire to amend and restate in its entirety with this Agreement;

**WHEREAS,** Employer and Employee desire to amend, modify, and restate the Prior Agreement to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "*Code*"), and with the intent to exclude amounts payable as severance from deferred compensation under Code Section 409A(a)(1); and

**WHEREAS**, Employee acknowledges the receipt of good and valuable consideration from Employer in support of the Prior Agreement, and Employee further acknowledges and agrees that such consideration shall, together with the benefits hereunder, support the restatement of his/her obligations in this Agreement.

For the reasons set forth above, and in consideration of the mutual promises and agreements hereinafter set forth, Employer and Employee agree as follows:

**1. EMPLOYMENT**. Employee shall serve as , subject to the general supervision and pursuant to the order, advice, and direction of Employer. Employee shall perform such duties as are customarily performed by one holding such position in other, same, or similar businesses or enterprises as that engaged in by Employer, and shall also additionally render such other and unrelated services and duties as may reasonably be assigned to him/her from time to time by Employer.

**2. BEST EFFORTS OF EMPLOYEE**. Employee agrees that he/she will at all times faithfully, industriously, and to the best of his/her ability, experience and talents, perform all of the duties that may be required of and from his/her pursuant to the express and implicit terms hereof, to the reasonable satisfaction of Employer.

**3. OTHER EMPLOYMENT**. Employee shall devote all of his/her time, attention, knowledge, and skills solely to the business and interest of Employer.

**4. CONFIDENTIALITY AND TRADE SECRETS**. Employee will not disclose, use, reveal, disseminate or transfer any confidential information acquired by Employee to any outside party, except as directly required in the performance of Employee's duties for Employer or as required by law. Confidential information includes, but is not limited to, information regarding Employer's products, processes, services, research, development, inventions, computer media, operations, manufacture, purchasing, accounting, financial data, engineering, sales, marketing, merchandising, selling, payroll, customer lists, credit classification, record, statistics, contracts and suppliers which was obtained by Employee while employed by Employer or as a consequence of such employment with Employer and not generally known. The foregoing is all deemed as confidential information and/or a trade secret, whether or not such information is clearly marked as "Confidential" or as a "Trade Secret", the parties hereto stipulating that as between them the same are important, material, confidential and constitute trade secrets, and as such gravely affect the effective and successful conduct of Employer's business and goodwill. Confidential information also includes similar information belonging to Employer's customers which Employee may gain access to in rendering services to any such customer on behalf of Employer.

**5. DISCLOSURE AND ASSIGNMENT**. Employee agrees that all trade secrets, all inventions and patents, except those excluded from any obligation to assign to Employer as a matter of law by any applicable state statute existing at the time such invention was made, all works of authorship (including, but not limited to, illustrations, writing, mask works, software and computer programs, and other programming documentation) and all other business or technical information created, prepared or conceived by Employee, either alone or with others, while employed by Employer and related to the existing or contemplated business or research of Employer, or resulting from Employee's work with Employer or from Employee's knowledge of any proprietary, technical or business information possessed or owned by Employer under paragraph 4 above, belongs to Employer. All such works of authorship shall be works made for hire. Until proven otherwise, any invention shall be presumed to have been conceived during such employment if, within one (1) year after termination of such employment, it is disclosed to others, completed, or it has a copyright notice affixed thereto or a patent application filed thereon.

Employee will promptly disclose to Employer all trade secrets, inventions, works of authorship, and information which belong to Employer as set forth herein; and Employee will assign to Employer, or to others as directed by Employer, all of Employee's interest in such inventions and works of authorship, and will execute any papers and do any acts which Employer may consider necessary to secure to it any and all rights relating to such inventions and works of authorship, including all patents and copyrights (and renewals thereof) in any country.

Pursuant to Minnesota Statute 181.78, Subd. 1, the assignment provisions of this paragraph shall not apply to any ideas, discoveries, inventions or improvement for which no equipment, supplies, facility or trade secret information of the Employer was used, and which was developed entirely on Employee's own time, and (1) which does not relate (a) directly to the

business of the Employer or (b) to the Employer's actual or demonstrably anticipated research or development; or (2) which does not result from any work performed by Employee for the Employer.

**6. ASSISTANCE TO EMPLOYER**. Employee shall give Employer, at Employer's expense, all assistance Employer reasonably requires to perfect, protect, and exercise the rights to all ideas, discoveries, inventions or improvements acquired by Employer pursuant to the assignment provisions of paragraph 5 of this Agreement.

**7. RETURN OF DOCUMENTS.** All documents or other property relating in any way to the business of Employer which are conceived or generated by Employee or come into Employee's possession during Employee's employment shall be and remain Employer's exclusive property. Employee will, upon termination of employment, leave with or deliver to Employer's possession all copies of documents, records, notes, books, directories, telephone and/or address listings, computer media, and similar repositories containing any confidential information whether prepared or maintained by Employee or another.

**8. NON-COMPETITION AND NON-SOLICITATION**. During the term of employment with Employer and for one (1) year thereafter, Employee will not act as a Competing Person or Organization, act as an employee, owner, partner, consultant, or agent of any Competing Person or Organization or render any services, directly or indirectly, to any Competing Person or Organization.

"Competing Person or Organization" includes any person or organization engaged in, or about to become engaged in, research, development, production, marketing or selling of any product, process or service in which the Employee was involved in any capacity, or about which Employee obtained confidential information while employed by Employer. Competing Person or Organization does not include:

(A) A person or organization involved solely in a business substantially different from those in which Employee was engaged, and about which Employee obtained no confidential information while employed by Employer; or

(B) A person or organization involved in a business similar to that in which Employee was engaged while employed by Employer but which markets and sells exclusively to persons or organizations: (i) which have not purchased any product, process or service from Employer within two (2) years prior to Employee's separation from employment; and (ii) about which Employee obtained no confidential information while employed by Employer.

During the term of employment with Employer and for one (1) year thereafter, Employee will not, individually or in combination with any Competing Person or Organization, market, produce, solicit orders, sell, deliver, create or provide any product, process, or service which resembles or competes with a product, process or service with which Employee was involved in any capacity while employed by Employer to any person or organization that was a customer or identified prospect of Employer within the two (2) year period prior to the date of Employee's

separation from employment or was contacted by the Employee within two (2) years prior to the date of Employee's separation from employment.

Employee further agrees that during the term of employment and for one (1) year thereafter, Employee shall not directly or indirectly in any manner solicit, assist, or encourage (or assist any other person or entity in soliciting or encouraging) any other officer or employee of Employer to work or otherwise provide services to Employee or to any entity in which Employee participates in the ownership, management, operation, or control of, or is connected with in any manner as an independent contractor, consultant, or otherwise.

**9. REASONABLENESS OF TERMS**. Employee acknowledges that compliance with the covenants contained herein upon separation from employment with Employer shall not impair Employee's ability to earn a livelihood. Employee further acknowledges that the time and area restrictions contained herein are reasonable and not unduly burdensome.

**10. AT-WILL EMPLOYMENT; TERMINATION**. Employee understands that Employer is an at-will employment employer. This means the employment relationship may be terminated by either party at any time and for any reason. This Agreement is not a contract for employment for any specific length of time. Notwithstanding the foregoing, if either Employee or Employer desire to terminate the employment of Employee, each such party shall give at least 30 days notice to the other party prior to the effective date of such termination (except in the case of a termination by Employer for Cause (as defined in paragraph 11(c) below), in which case Employer shall be permitted to terminate Employee's employment immediately upon notice thereof).

**11. SEVERANCE**.

**a. Involuntary Termination without Cause**. In the event that Employer terminates Employee's employment without Cause, and provided that such termination of employment does not occur upon or within twelve (12) months after a Change in Control, Employer shall pay Employee severance equal to six (6) months of Employee's then current base salary, provided that such severance shall not exceed two times the lesser of (a) the Code § 401(a)(17) compensation limit for the year in which the Termination Date occurs, or (b) Employee's annualized compensation based upon the annual rate of pay for services to Employer for the calendar year prior to the calendar year in which the Termination Date occurs (adjusted for any increase during that year that was expected to continue indefinitely if the Employee had not separated from service). Payment of such severance will be conditioned on Employee's execution (and non-rescission) of a standard release of claims in the form provided by Employer at the time of such termination. Severance will be paid to Employee over the six (6) month severance period commencing from and after the Termination Date, in accordance with Employer's normal payroll schedule. Severance payments shall be subject to normal payroll withholdings. The Employer and Employee intend the severance payments under this paragraph 11(a) to be a "separation pay plan due to involuntary separation from service" under Treas. Reg. § 1.409A-1(b)(9)(iii).

**b. Involuntary Termination After Change in Control**. In the event that Employer terminates Employee's employment without Cause upon or within twelve (12) months

after a Change in Control, or in the event that Employee quits for Good Reason upon or within twelve (12) months after a Change in Control, Employer shall pay Employee severance equal to twelve months of Employee's then current base salary, as follows:

(i) Limitation on Payment Amount. Such severance shall not exceed a maximum amount of two times the lesser of (x) the Code § 401(a)(17) compensation limit for the year in which the Termination Date occurs, or (y) Employee's annualized compensation based upon the annual rate of pay for services to the Service Recipient for the calendar year prior to the calendar year in which the Termination Date occurs (adjusted for any increase during that year that was expected to continue indefinitely if the Employee had not separated from service). Severance will be paid to Employee over the twelve-month severance period commencing from and after the Termination Date, in accordance with Employer's normal payroll schedule. Employer and Employee intend the severance payments under this paragraph 11(b)(i) to be a "separation pay plan due to involuntary separation from service" under Treas. Reg. § 1.409A-1(b)(9)(iii).

(ii) Alternative Form of Payment. If the severance otherwise payable to Employee is reduced to zero (0) by application of the maximum limitation under paragraph 11(b)(i)(y), then Employer shall in the alternative pay Employee severance equal to twelve months of Employee's then-current base salary commencing from and after the Termination Date, in accordance with the normal payroll schedule of Employer, except that any amounts that remain payable as of the Short-Term Deferral Deadline shall be paid in a lump sum no later than the Short-Term Deferral Deadline. Employer and Employee intend the severance payments under this paragraph 11(b)(ii) to constitute a short-term deferral under Treas. Reg. § 1.409A-1(b)(4).

(iii) Other Conditions. Payment of such severance under this paragraph 11(b) will be conditioned on Employee's execution (and non-rescission) of a standard release of claims in the form provided by Employer at the time of such termination. If Employee's employment is terminated without Cause under conditions such that he/she is entitled to severance payments under this paragraph 11(b), then Employee shall be entitled to severance payments only under this paragraph 11(b) and shall not be entitled to any severance payments under paragraph 11(a) of this Agreement. Severance payments shall be subject to normal payroll withholdings.

**c. Definitions**. For purposes of this Agreement, the following terms shall have the following meanings:

(i) "*Cause*" and "*Change in Control*" shall have the meanings ascribed to those terms as set forth in the SPS Commerce, Inc. 2001 Stock Option Plan (the "Stock Option Plan"), as amended.

(ii) "*Employer*" shall include any current or future successor, parent, subsidiary, affiliate or other joint venture partner to which any right or obligation has been assigned or delegated by SPS Commerce, Inc. or by operation of law.

(iii) "*Good Reason*" shall mean a material reduction in Employee's then-current base salary at the time of the Change in Control or a material reduction in Employee's employment responsibilities following such Change in Control, in each case without Employee's consent, provided that Employee first gives notice of the material reduction giving rise to Good Reason to the Employer within ninety (90) days of the first occurrence of the reduction, and provided further that upon giving notice Employee provides Employer 30 days in which to remedy the reduction and not be required to pay the severance amount set forth in paragraph 11(b). Notwithstanding anything to the contrary in this paragraph 11(c), Employee shall not be deemed to have quit for Good Reason, and Employee shall not be entitled to payments upon his/her resignation under this Agreement, unless Employee's Termination Date following his/her resignation for Good Reason occurs within two (2) years following the first occurrence of the reduction.

(iv) "*Service Recipient*" shall have the meaning set forth in Treas. Reg. § 1.409A-1(g).

(v) "*Short-Term Deferral Deadline*" shall mean the date that is the 15th day of the third month following the end of the later of the calendar year, or the Service Recipient's taxable year, in which the Termination Date occurs.

(vi) "*Termination Date*" shall mean the date upon which Employee's termination of employment with Employer is effective. For purposes of paragraph 11 of this Agreement only, the Termination Date shall mean the date on which a "separation from service" has occurred for purposes of Section 409A of the Code and the regulations and guidance thereunder.

**12. SURVIVAL OF OBLIGATIONS**. All provisions of this Agreement relating to discoveries, confidential information, trade secrets, competitive activities, and ownership of proprietary property, shall survive termination of the employment relationship between Employee and Employer.

**13. MODIFICATION OF AGREEMENT**. No waiver or modification of this Agreement or of any covenant, condition, or limitation herein contained shall be valid unless in writing and duly executed by both parties.

**14. CHOICE OF LAW, JURISDICTION, AND VENUE**. The validity, construction and performance of this Agreement shall be governed by, and construed in accordance with, the laws of the State of Minnesota, without reference to any choice of laws provisions thereof. The parties further agree that any litigation or proceeding arising out of, or relating to, this Agreement (whether the same sounds in tort or contract or both) shall be commenced and maintained in a federal or state court located in Hennepin County, Minnesota, and for such purpose the parties consent to any such court's exercise of personal jurisdiction over them.

**15. INJUNCTIVE RELIEF — ATTORNEY'S FEES**. In recognition of the irreparable harm that violation of this Agreement could cause Employer, Employee agrees that, in addition to any relief afforded by law, an injunction against such violation or violations may

be issued against Employee, it being understood by the parties that both damages and an injunction shall be proper modes of relief and not considered alternative remedies. In the event of any such violation(s), Employee agrees to pay the reasonable attorneys' fees incurred by Employer in the enforcement of any of its rights with respect to said violation(s), in addition to the actual damages sustained by Employer as a result thereof.

**16. ASSIGNMENTS**. This Agreement is personal in nature and cannot be assigned by Employee. The terms, conditions, covenants, and representations herein shall inure to and be binding upon the heirs and representatives of Employee and shall inure to the benefit of and shall be binding upon the successors and assigns of Employer.

**17. SEVERABILITY**. Agreements and covenants contained herein are severable, and in the event any of them shall be held to be invalid by any competent court, this Agreement shall be interpreted as if such invalid agreement or covenants were not contained herein.

**18. INTERPRETATION**. This Agreement is intended to satisfy, or be exempt from, the requirements of Section 409A(a)(2), (3), and (4) of the Code, including current and future guidance and regulations interpreting such provisions, and should be interpreted accordingly.

**19. TAXES**. Employer may withhold from any amounts payable under this Agreement such federal, state and local income and employment taxes as Employer shall determine are required to be withheld pursuant to any applicable law or regulation. Employee shall be solely responsible for the payment of all taxes due and owing with respect to wages, benefits, and other compensation provided to him/her hereunder.

**20. COMPLETE AGREEMENT**. This Agreement and any stock option agreements between Employer and Employee contain the complete agreement concerning the terms and conditions of the employment arrangement between the parties and shall, as of the effective date hereof, supersede all other agreements between the parties, including without limitation the Prior Agreement. The parties stipulate that neither of them has made any representation with respect to the subject matter of this Agreement or any representations including the execution and delivery hereof except such representations as are specifically set forth herein and the parties hereto acknowledge that they have relied on their own judgment in entering into this Agreement.

| | |
|---|---|
| | **SPS COMMERCE, INC.** |
| **EMPLOYEE** | **EMPLOYER** |
| **By:** _____ | **By:** _____ |
| | **Its:** _____ |
| **Date:** _____ | **Date:** _____ |

SUBJECT TO SECTION 5.3 HEREOF, THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED EXCEPT (i) PURSUANT TO REGISTRATION UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR APPLICABLE EXEMPTIONS THEREFROM OR (ii) IF, IN THE OPINION OF COUNSEL REASONABLY ACCEPTABLE TO THE COMPANY, THE PROPOSED TRANSFER MAY BE EFFECTED IN COMPLIANCE WITH APPLICABLE FEDERAL AND STATE SECURITIES LAWS WITHOUT REGISTRATION.

**WARRANT TO PURCHASE STOCK**

| | |
|---|---|
| Corporation: | SPS COMMERCE, INC., a Delaware corporation |
| Initial Number of Shares: | 20,435 |
| Class of Stock: | Series B Convertible Preferred Stock, par value $0.001 per share (the "Series B Preferred Stock") |
| Initial Exercise Price: | $0.97875 per share |
| Issue Date: | As of May 20, 2004 |
| Expiration Date: | May 20, 2011 |

THIS WARRANT CERTIFIES THAT, for the agreed upon value of $1.00 and for other good and valuable consideration, SILICON VALLEY BANK ("Holder") is entitled to purchase the number of fully paid and nonassessable shares of the class of securities (the "Shares") of the corporation (the "Company") at the initial exercise price per Share (the "Warrant Price") all as set forth above and as adjusted pursuant to Article 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant.

For background information only, the Initial Number of Shares was determined from the quotient (rounded up to the nearest whole number) resulting from dividing $20,000 by the Warrant Price. Holder and the Company hereby acknowledge and agree that this Warrant is issued by the Company to Holder in exchange for that certain Amended and Restated Warrant to Purchase Stock, issued by the Company to Holder on May 16, 2003 for the purchase of 400,044 shares of the Company's Series A Convertible Preferred Stock at an initial exercise price of $0.30 per share (the "Prior Warrant"). Promptly (and in any event within 2 business days) following Holder's receipt of this Warrant duly issued by the Company, Holder will return the original of the Prior Warrant to the Company for physical cancellation; provided, however, that Holder and the Company hereby agree that, effective from and after the concurrent delivery to Holder of this Warrant duly issued by the Company, then for all purposes the Prior Warrant shall be deemed cancelled and of no further force and effect.

ARTICLE 1. EXERCISE.

1.1 Method of Exercise. Holder may exercise this Warrant by delivering a duly executed Notice of Exercise in substantially the form attached as Appendix 1 to the principal office of the Company. Unless Holder is exercising the conversion right set forth in Section 1.2, Holder shall also deliver to the Company a check for the aggregate Warrant Price for the Shares being purchased.

1.2 Conversion Right. In lieu of exercising this Warrant as specified in Section 1.1, Holder may from time to time convert this Warrant, in whole or in part, into a number of Shares determined by dividing (a) the aggregate fair market value of the Shares or other securities otherwise issuable upon exercise of this Warrant minus the aggregate Warrant Price of such Shares by (b) the fair market value of one Share. The fair market value of the Shares shall be determined pursuant to Section 1.3.

1.3 Fair Market Value. If the Shares (or the Company's stock into which the Shares are convertible) are traded in a public market, the fair market value of the Shares shall be the closing price of the Shares (or the closing price of the Company's stock into which the Shares are convertible) reported for the business day immediately before Holder delivers its Notice of Exercise to the Company. If neither the Shares nor the Company's stock into which the Shares are convertible is traded in a public market, the Board of Directors of the Company shall determine fair market value in its reasonable good faith judgment.

1.4 Delivery of Certificate and New Warrant. Promptly after Holder exercises or converts this Warrant, the Company shall deliver to Holder certificates for the Shares acquired and, if this Warrant has not been fully exercised or converted and has not expired, a new Warrant representing the Shares not so acquired under Section 1.1 or not so converted under Section 1.2.

1.5 Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor.

1.6 Assumption on Sale, Merger. or Consolidation of the Company.

1.6.1 "Acquisition". For the purpose of this Warrant, "Acquisition" means any sale, license, or other disposition of all or substantially all of the assets of the Company, or any reorganization, consolidation, or merger of the Company where the holders of the Company's securities before the transaction beneficially own less than 50% of the · outstanding voting securities of the surviving entity after the transaction.

1.6.2 Assumption of Warrant. Upon the closing of any Acquisition, the successor entity shall assume the obligations of this Warrant, and this Warrant shall be exercisable for the same securities, cash, and property as would be payable for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on the record date for the Acquisition and subsequent closing. The Warrant Price and/or number of Shares (as applicable) shall be adjusted accordingly.

ARTICLE 2. ADJUSTMENTS TO THE SHARES. During the term of this Warrant, this Article 2 applies, as of any date of determination, solely to the remaining Shares issuable (but not already issued) upon exercise of this Warrant under Section 1.1 or conversion of this Warrant under Section 1.2; it being understood and agreed that, with respect to any Shares already issued upon exercise or conversion of this Warrant, those issued Shares are entitled to adjustment from time to time in the manner set forth in the Company's Certificate of Incorporation then in effect (but not further adjustment under this Section 2) but not entitled to any further adjustment pursuant to this Article 2.

2.1 Stock Dividends, Stock Splits, Etc. If the Company declares or pays a dividend on its Series B Preferred Stock payable in Series B Preferred Stock, or other securities, or subdivides the outstanding Series B Preferred Stock into a greater amount of Series B Preferred Stock, then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without cost to Holder, the total number and kind of securities to which Holder would have been entitled had Holder owned the Shares of record as of the date the dividend or subdivision occurred. If the outstanding shares of Series B Preferred Stock are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price then in effect shall be proportionately increased and the number of Shares issuable upon exercise or conversion of this Warrant shall be proportionately reduced.

2.2 Reclassification, Exchange, Combinations or Substitution. Upon any reclassification, exchange, substitution, or other event (excluding an adjustment event covered by Section 2.1) that results in a change of the number and/or class of the securities issuable upon exercise or conversion of this Warrant, Holder shall be entitled to receive, upon exercise or conversion of this Warrant, the number and kind of securities and property that Holder would have received for the Shares if this Warrant had been exercised immediately before such reclassification, exchange, substitution, or other event. Such an event shall include any automatic conversion of the outstanding or issuable securities of the Company of the same class or series as the Shares to the Company's common stock, par value $0.001 per share (the "Common Stock") pursuant to the terms of the Company's Certificate of Incorporation, as then in effect, upon the closing of a registered public offering of the Common Stock. The Company or its successor shall promptly issue to Holder a new Warrant for such new securities or other property. The new Warrant shall provide for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article 2 including, without limitation, adjustments to the Warrant Price

then in effect and to the number of securities or property issuable upon exercise of the new Warrant. The provisions of this Section 2.2 shall similarly apply to successive reclassifications, exchanges, substitutions, or other events.

2.3 Adjustments for Diluting Issuances. The number of shares of common stock of Borrower issuable upon conversion of the Shares under this Warrant shall be subject to adjustment, from time to time, in the manner set forth in the Company's Certificate of Incorporation. The provisions set forth in the Company's Certificate of Incorporation as of the Issue Date relating to the above, as applied to the number of shares of common stock issuable upon conversion of the Shares under this Warrant, may not be amended, modified or waived, without the prior written consent of Holder, unless such amendment, modification or waiver affects the rights associated with all other shares of the same series and class as the Shares that may be purchased by the Holder under this Warrant.

2.4 No Impairment. The Company shall not, by amendment of its Certificate of Incorporation, as then in effect, or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Warrant by the Company, but shall at all times in good faith assist in carrying out of all the provisions of this Article 2 and in taking all such action as may be necessary or appropriate to protect Holder's rights under this Article against impairment.

2.5 Fractional Shares. No fractional Shares shall be issuable upon exercise or conversion of the Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional share interest arises upon any exercise or conversion of the Warrant, the Company shall eliminate such fractional share interest by paying Holder the amount computed by multiplying the fractional interest by the fair market value of a full Share.

2.6 Certificate as to Adjustments. Upon each adjustment of the Warrant Price, the Company shall promptly notify Holder in writing, and, at the Company's expense, promptly compute such adjustment, and furnish Holder with a certificate of its chief financial officer or its chief executive officer setting forth such adjustment and the facts upon which such adjustment is based. The Company shall, upon written request, furnish Holder a certificate setting forth the Warrant Price in effect upon the date thereof and the series of adjustments leading to such Warrant Price.

ARTICLE 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company represents and warrants to Holder as follows:

(a) The initial Warrant Price referenced on the first page of this Warrant is less than or equal to the price per share (after taking into account adjustments resulting from the Company's 1-for-20 share consolidation effective July 15, 2003) at which shares of the Series B Preferred Stock of the Company were previously issued (and if they were issued at more than one price, the lowest of such prices)).

(b) All Shares which may be issued upon the exercise of the purchase right represented by this Warrant, and all securities, if any, issuable upon conversion of the Shares, shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws, and except for any liens or encumbrances incurred by Holder.

(c) The Capitalization Table dated as of December 31, 2003 previously provided to Holder remains true and complete as of the Issue Date.

3.2 Notice of Certain Events. If the Company proposes at any time (a) to declare any dividend or distribution upon the Common Stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend; (b) to offer for subscription pro rata to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights; (c) to effect any reclassification or recapitalization of the Common Stock; (d) to merge or consolidate with or into any other corporation, or sell, lease, license, or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; or (e) offer holders of registration rights the opportunity to participate in an underwritten public offering of the company's securities for cash, then, in connection with each such event, the Company shall give Holder (1) at least 10 days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of the Common Stock will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to above; (2) in the case of the matters referred to above, at least 10 days prior written notice of the date when the same will take place (and specifying the date on which the holders of the Common Stock will be entitled to exchange their shares of the Common Stock for securities or other property deliverable upon the occurrence of such event); and (3) in the case of the matter referred to in (e) above, the same notice as is given to the holders of such registration rights.

3.3 [Reserved]

ARTICLE 4. REPRESENTATIONS, WARRANTIES OF HOLDER. Holder represents and warrants to the Company as follows:

4.1 Purchase for Own Account. Except for transfers to Holder's Affiliates, this Warrant and the Shares to be issued upon exercise or conversion of this Warrant by Holder and any Common Stock that may be issued upon conversion of such issued Shares will be acquired

for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Securities Act of 1933, as amended (the "1933 Act"), and Holder has no present intention of selling, granting any participation in, or otherwise distributing the same. Holder also represents that Holder has not been formed for the specific purpose of acquiring this Warrant or the Shares. As used in this Warrant, the term "Affiliate" shall have the meaning ascribed to such term set forth in Rule 144 promulgated under the Securities Exchange Act of 1934, as amended.

4.2 Disclosure of Information. Holder has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3 Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder: (i) has experience as an investor in securities of companies in the development stage and acknowledges that Holder is able to fend for itself, can bear the economic risk of Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or (ii) has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an "accredited investor" within the meaning of Regulation D promulgated under the 1933 Act.

4.5 No Public Market. Holder further understands that at the time it wishes to sell this Warrant (or its underlying securities) there might not be a public market through which it could make such a sale, and that even if a public market exists at such time, the current public information requirements of Rule 144 might not be satisfied at such time. In that event, Holder might be precluded from selling this Warrant (or its underlying securities) under Rule 144 even if the one-year minimum holding period has been satisfied.

ARTICLE 5. MISCELLANEOUS.

5.1 Term: This Warrant is exercisable in whole or in part at any time and from time to time on or before the Expiration Date.

5.2 Legends. The Shares (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) shall be imprinted with a legend in substantially the following form:

SUBJECT TO SECTION 5.3 OF THAT CERTAIN WARRANT TO PURCHASE STOCK, ISSUED APRIL 30, 2004, BY THE COMPANY TO HOLDER, THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED EXCEPT (i) PURSUANT TO REGISTRATION UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR APPLICABLE EXEMPTIONS THEREFROM OR (ii) IF, IN THE OPINION OF COUNSEL REASONABLY ACCEPTABLE TO THE COMPANY, THE PROPOSED TRANSFER MAY BE EFFECTED IN COMPLIANCE WITH APPLICABLE FEDERAL AND STATE SECURITIES LAWS WITHOUT REGISTRATION.

5.3 Compliance with Securities Laws on Transfer. This Warrant and the Shares issuable upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company).

The Company shall not require Holder to provide an opinion of counsel: (a) if the transfer is to an Affiliate of Holder and the Company receives a copy of the assignment document in substantially the form attached as Appendix 2 hereto, executed by both the transferor and the transferee; or (b) if there is no material question as to the availability of current information as referenced in Rule 144(c), Holder represents in reasonable detail that it has complied with Rule 144(d) and (e), the selling broker represents in reasonable detail that it has complied with Rule 144(f), and the Company is provided with a copy of Holder's notice of proposed sale.

5.4 Transfer Procedure. Subject to the provisions of Section 5.3, upon receipt by Holder of the executed Warrant, Holder will transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the securities issuable, directly or indirectly, upon conversion of the Shares, if any) to Silicon Valley Bancshares, Holder's parent company, pursuant to an assignment document in substantially the form attached as Appendix 2 hereto. Subject to the provisions of Section 5.3, Holder or Silicon Valley Bancshares (if applicable) may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the securities issuable, directly or indirectly, upon conversion of the Shares, if any) to The Silicon Valley Bank Foundation, or to any Affiliate of Holder, or to any other transferee, by giving the Company written notice of the portion of the Warrant, Shares, or securities being transferred

with the name, address and taxpayer identification number of the transferee and surrendering this Warrant or the certificate or certificates evidencing such Shares or securities to the Company (together with duly executed assignment documents) for reissuance to the transferee(s) (and Holder if applicable). The Company may refuse to transfer this Warrant or the Shares (or the securities issuable, directly or indirectly, upon conversion of the Shares, if any) to any person who directly competes with the Company unless the Company's stock is publicly traded.

5.5 Notices. All notices and other communications from the Company to Holder, or vice versa, shall be deemed delivered and effective when given personally or mailed by first-class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or Holder from time to time. All notices to Holder shall be addressed as follows:

Silicon Valley Bank
Attn: Treasury Department
3003 Tasman Drive, HG 110
Santa Clara, CA 95054

All notices to the Company shall be addressed as follows:

SPS Commerce, Inc.
Attention: Chief Executive Officer
1450 Energy Park Drive, Suite 127
St. Paul, MN 55108

with a non-mandatory copy to:

Faegre & Benson LLP
Attention: Andrew G. Humphrey
2200 Wells Fargo Center
90 South Seventh Street
Minneapolis. MN 55402

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorney's Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable

5.8 Automatic Conversion upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above is greater than the Exercise Price in effect on

such date, then this Warrant shall automatically be deemed on and as of such date to be converted pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised or converted, and the Company shall promptly deliver a certificate representing the Shares (or such other securities) issued upon such conversion to Holder.

5.9 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its principles regarding conflicts of law.

[remainder of page intentionally left blank; signature page follows]

This Warrant to Purchase Stock has been executed and delivered as of the date first written above.

**“COMPANY”**

SPS COMMERCE INC.

By: /s/ Thomas C. Velin
Name: Thomas C. Velin
Title: CEO

**“HOLDER”**

SILICON VALLEY BANK

By: /s/ Patrick McCarthy
Name: Patrick McCarthy
Title: Senior Vice President

**Exhibit 10.23**

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SUCH ACT AND APPLICABLE LAWS.

Warrant to Purchase 235,000 Shares of Series B Convertible Preferred Stock (subject to adjustment)

**WARRANT TO PURCHASE SERIES B CONVERTIBLE PREFERRED STOCK**
**OF**
**SPS COMMERCE, INC.**
**Void after *February 3, 2016**

This certifies that, for value received, Ritchie Capital Finance, L.L.C., a Delaware limited liability company ("Ritchie"), or its assigns ("Holder") is entitled, subject to the terms set forth below, to purchase from SPS Commerce, Inc. (the "Company"), a Delaware corporation, 235,000 shares of the Series B Convertible Preferred Stock of the Company, as constituted on the date hereof (the "Warrant Issue Date"), upon surrender hereof, at the principal office of the Company referred to below, with the subscription form attached hereto duly executed, and simultaneous payment therefor in lawful money of the United States or otherwise as hereinafter provided, at the Exercise Price as set forth in Section 2 below. The number, character and Exercise Price of such shares of Series B Convertible Preferred Stock are subject to adjustment as provided below. The term "Warrant" as used herein shall include this Warrant, and any warrants delivered in substitution or exchange therefor as provided herein. This Warrant is issued in connection with the Loan and Security Agreement (the "Loan Agreement"), made as of *February 3, 2006 by and between Ritchie and the Company.

1. Term of Warrant. Subject to the terms and conditions set forth herein, this Warrant shall be exercisable, in whole or in part, at any time, or from time to time, during the term commencing on the Warrant Issue Date and ending at 5:00 p.m., New York City time, on *February 3, 2016, and shall be void thereafter.

2. Exercise Price. The exercise price at which this Warrant may be exercised shall be $.97875 per share of Series B Convertible Preferred Stock ("Exercise Price"), as adjusted from time to time pursuant to Section 12 hereof.

3. Exercise of Warrant.

(a) The purchase rights represented by this Warrant are exercisable by the Holder in whole or in part, at any time, or from time to time, during the term hereof as described in Section 1 above, by the surrender of this Warrant and the Notice of Exercise, annexed hereto

as Annex A, duly completed and executed on behalf of the Holder, at the principal office of the Company (or such other office or agency of the Company as it may designate by notice in writing to the Holder at the address of the Holder appearing on the books of the Company), upon payment (i) in cash or by check acceptable to the Company, (ii) by cancellation by the Holder of indebtedness or other obligations of the Company to the Holder, or (iii) by a combination of (i) and (ii), of the purchase price of the shares to be purchased.

(b) This Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above, and the person entitled to receive the shares of Series B Convertible Preferred Stock issuable upon such exercise shall be treated for all purposes as the holder of record of such shares as of the close of business on such date. As promptly as practicable on or after such date and in any event within ten days thereafter, the Company at its expense shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for the number of shares issuable upon such exercise. In the event that this Warrant is exercised in part, the Company at its expense will execute and deliver a new warrant of like tenor exercisable for the number of shares for which this Warrant may then be exercised.

(c) Net Issue Exercise. Notwithstanding any provisions herein to the contrary, if the fair market value of one share of Series B Convertible Preferred Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the Holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Notice of Exercise and notice of such election in which event the Company shall issue to the Holder a number of shares of Series B Convertible Preferred Stock computed using the following formula:

$$X = \frac{Y * (A - B)}{A}$$

X = the number of shares of Series B Convertible Preferred Stock to be issued to the Holder

Y = the number of shares of Series B Convertible Preferred Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)

A = the fair market value of one share of the Company's Series B Convertible Preferred Stock (at the date of such calculation)

B = Exercise Price (as adjusted to the date of such calculation)

For purposes of the above calculation, fair market value of one share of Series B Convertible Preferred Stock shall be determined by the Company's Board of Directors in good faith; provided, however, that where there exists a public market for the Company's Common Stock at the time of such exercise, the fair market value per share shall be the product of (i) the average of

the closing bid and asked prices of the Common Stock quoted in the Over-The-Counter Market Summary or the last reported sale price of the Common Stock or the closing price quoted on the Nasdaq National Market or on any exchange on which the Common Stock is listed, whichever is applicable, as published in the Western Edition of The Wall Street Journal for the five (5) trading days prior to the date of determination of fair market value and (ii) the number of shares of Common Stock into which each share of Series B Convertible Preferred Stock is convertible at the time of such exercise. Notwithstanding the foregoing, in the event the Warrant is exercised in connection with the Company's initial public offering of Common Stock, the fair market value per share shall be the product of (i) the per share offering price to the public of the Company's initial public offering, and (ii) the number of shares of Common Stock into which each share of Series B Convertible Preferred Stock is convertible at the time of such exercise.

4. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. In lieu of any fractional share to which the Holder would otherwise be entitled, the Company shall make a cash payment equal to the Exercise Price multiplied by such fraction.

5. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and substance to the Company or, in the case of mutilation, on surrender and cancellation of this Warrant, the Company at its expense shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor and amount.

6. Rights of Stockholders. Subject to Sections 10, 12 and 14 of this Warrant, the Holder shall not be entitled to vote or receive dividends or be deemed the holder of Series B Convertible Preferred Stock or any other securities of the Company that may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the Holder, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action (whether upon any recapitalization, issuance of stock, reclassification of stock, change of par value, or change of stock to no par value, consolidation, merger, conveyance, or otherwise) or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until the Warrant shall have been exercised as provided herein.

7. Transfer of Warrant.

(a) Warrant Register. The Company will maintain a register (the "Warrant Register") containing the names and addresses of the Holder or Holders. Any Holder of this Warrant or any portion thereof may change his or her address as shown on the Warrant Register by written notice to the Company requesting such change. Any notice or written communication required or permitted to be given to the Holder may be delivered or given by mail to such Holder as shown on the Warrant Register and at the address shown on the Warrant Register. Until this Warrant is transferred on the Warrant Register of the Company, the Company may treat the Holder as shown on the Warrant Register as the absolute owner of this Warrant for all purposes, notwithstanding any notice to the contrary.

(b) Warrant Agent. The Company may, by written notice to the Holder, appoint an agent for the purpose of maintaining the Warrant Register referred to in Section 7(a) above, issuing the Series B Convertible Preferred Stock or other securities then issuable upon the exercise of this Warrant, exchanging this Warrant, replacing this Warrant, or any or all of the foregoing. Thereafter, any such registration, issuance, exchange, or replacement, as the case may be, shall be made at the office of such agent.

(c) Transferability and Nonnegotiability of Warrant. This Warrant may not be transferred or assigned in whole or in part without compliance with all applicable federal and state securities laws by the transferor and the transferee (including the delivery of investment representation letters reasonably satisfactory to the Company, if such are requested by the Company). Subject to the provisions of this Warrant with respect to compliance with the Securities Act of 1933, as amended (the "Act"), title to this Warrant may be transferred by endorsement (by the Holder executing the Assignment Form, annexed hereto as Annex B) and delivery in the same manner as a negotiable instrument transferable by endorsement and delivery.

(d) Exchange of Warrant Upon a Transfer. On surrender of this Warrant for exchange, properly endorsed on the Assignment Form and subject to the provisions of this Warrant with respect to compliance with the Act and with the limitations on assignments and transfers contained in this Section 7, the Company at its expense shall issue to or on the order of the Holder a new warrant or warrants of like tenor, in the name of the Holder or as the Holder (on payment by the Holder of any applicable transfer taxes) may direct, for the number of shares issuable upon exercise hereof.

(e) Compliance with Securities Laws.

(i) The Holder of this Warrant, by acceptance hereof, acknowledges that this Warrant and the shares of Series B Convertible Preferred Stock or Common Stock to be issued upon exercise hereof or conversion thereof are being acquired solely for the Holder's own account and not as a nominee for any other party, and for investment, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any shares of Series B Convertible Preferred Stock or Common Stock to be issued upon exercise hereof or conversion thereof except under circumstances that will not result in a violation of the Act or any state securities laws. Upon exercise of this Warrant, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of Series B Convertible Preferred Stock or Common Stock so purchased are being acquired solely for the Holder's own account and not as a nominee for any other party, for investment; and not with a view toward distribution or resale in violation of the Act.

(ii) The Holder of this Warrant, by acceptance hereof, represents and warrants to the Company that such Holder is an "accredited investor" as that term is defined in Regulation D promulgated under the Act and, either alone or with such advisers as it may select, has such knowledge and experience in financial and business matters that it is capable of evaluating the

merits and risks of its investment in this Warrant and the shares of Series B Convertible Preferred Stock or Common Stock to be issued upon exercise hereof or conversion thereof.

(iii) The Company did not offer this Warrant and the shares of Series B Convertible Preferred Stock or Common Stock to be issued upon exercise hereof or conversion thereof to the Holder by any form of general solicitation or general advertising, including, but not limited to, any advertisement, article, notice or similar media or broadcast over television or radio, or any seminar or meeting whose attendees were invited by any general solicitation or general advertising.

(iv) The Holder acknowledges, and upon exercise of this Warrant, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that it has received a copy of that certain Information Statement of the Company dated *[February 3, 2006] and reviewed and discussed the Company's business, affairs and current prospects with such officers and others (including its purchaser representative, if applicable) as it has deemed appropriate or desirable in connection with the transactions contemplated hereby. The Holder further acknowledges, and upon exercise of this Warrant, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that it has requested, received and reviewed such information, undertaken such investigation and made such further inquiries of officers of the Company and others as it has deemed appropriate or desirable in connection with such transactions.

(v) The Holder understands, and upon exercise of this Warrant, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that it understands, that it must bear the economic risk of its investment for an indefinite period of time because the Series B Convertible Preferred Stock and Common Stock are not, and will not be, registered under the Act or any applicable state securities laws, except as may be otherwise be determined by the Company or in connection with the Fourth Amended and Restated Registration Rights Agreement, dated as of May 16, 2003, by and among the Company and the parties who have executed the counterpart signature pages thereto or are otherwise bound thereby, as such agreement may be amended and/or restated from time to time (the "Registration Rights Agreement"), and such shares may not be resold unless subsequently registered under the Act and such other federal or state securities laws or unless an exemption from such registration is available. The Holder understands, and upon exercise of this Warrant, the Holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that it understands, that, except as may be otherwise be determined by the Company or pursuant to the Registration Rights Agreement, it is not contemplated that any registration will be made under the Act or any state securities laws.

(vi) This Warrant and all shares of Series B Convertible Preferred Stock or Common Stock issued upon exercise hereof or conversion thereof shall be stamped or imprinted with a legend in substantially the following form (in addition to any legend required by state securities laws):

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED EXCEPT (i) PURSUANT TO REGISTRATION UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR (ii) IF, IN THE OPINION OF COUNSEL REASONABLY ACCEPTABLE TO THE COMPANY, THE PROPOSED SALE OR TRANSFER MAY BE EFFECTED IN COMPLIANCE WITH APPLICABLE FEDERAL AND STATE SECURITIES LAWS WITHOUT REGISTRATION.

8. Representations and Warranties of Company. In connection with the transactions provided for herein, the Company hereby represents and warrants to the Holder that:

(a) Organization, Good Standing, and Qualification. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as now conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its business or properties, taken as a whole.

(b) Authorization. The Company has all necessary corporate power and authority to execute, deliver and perform its obligations under this Warrant. All corporate action has been taken on the part of the Company, its officers, directors, and stockholders necessary for the due authorization, execution and delivery of this Warrant by the Company and the performance by the Company of its obligations hereunder. This Warrant has been duly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization or similar laws relating to or affecting the enforcement of creditors' rights. The shares of Series B Convertible Preferred Stock issuable upon exercise of this Warrant and the shares of Common Stock of the Company issuable upon conversion of such shares of Series B Convertible Preferred Stock have been duly and validly authorized and reserved for issuance by the Company.

(c) Compliance with Other Instruments. The authorization, execution and delivery of this Warrant by the Company, the consummation of the transactions contemplated hereby and the performance by the Company of its obligations hereunder will not (i) violate any judgment, order, decree, injunction, law or regulation applicable to the Company; (ii) violate any term or provision of the Certificate of Incorporation, as amended (the "Certificate") or bylaws of the Company; (iii) violate, or result in a breach or default under, any other agreement or instrument to which the Company is a party or by which it is bound or to which its properties or

assets are subject, except for such violations, breaches or defaults which, individually or in the aggregate, will not result in a material adverse effect upon the business operations, properties, assets, results of operations or condition (financial or otherwise) of the Company, taken as a whole, the enforceability of any material provision of this Warrant or the ability of the Holder to enforce its rights and remedies under this Warrant; or (iv) result in the creation of any lien, claim or other encumbrance on any of the property or other assets of the Company.

(d) Valid Issuance of Preferred and Common Stock. The shares of Series B Convertible Preferred Stock, when issued, sold, and delivered in accordance with the terms of this Warrant for the consideration expressed herein, will be duly and validly issued, fully paid and nonassessable and will be issued in compliance with all applicable federal and state securities laws, and none of such shares will be in violation of any preemptive rights of any person granted by the Company. The issuance and delivery of the shares of Common Stock of the Company that are issuable upon conversion of the Series B Convertible Preferred Stock, if any, when issued and delivered upon such conversion in accordance with the terms of Series B Convertible Preferred Stock, will be duly and validly issued, fully paid and nonassessable and will be issued in compliance with all applicable federal and state securities laws, and none of such shares of Common Stock will be in violation of any preemptive rights of any person granted by the Company.

9. Reservation of Stock. The Company covenants that during the term this Warrant is exercisable, the Company will reserve from its authorized and unissued Series B Convertible Preferred Stock a sufficient number of shares to provide for the issuance of Series B Convertible Preferred Stock upon the exercise of this Warrant (and shares of its Common Stock for issuance on conversion of such Series B Convertible Preferred Stock) and, from time to time, will take all steps necessary to amend its Certificate to provide sufficient reserves of shares of Series B Convertible Preferred Stock issuable upon exercise of this Warrant (and shares of its Common Stock for issuance on conversion of such Series B Convertible Preferred Stock). The Company further covenants that all shares that may be issued upon the exercise of rights represented by this Warrant and payment of the Exercise Price, all as set forth herein, will be free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously or otherwise specified herein). The Company agrees that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Series B Convertible Preferred Stock upon the exercise of this Warrant.

10. Notices.

(a) Whenever the Exercise Price or number of shares purchasable hereunder shall be adjusted pursuant to Section 12 hereof, the Company shall issue a certificate signed by an authorized officer setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Exercise Price and number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first-class mail, postage prepaid) to the Holder of this Warrant.

(b) In case:

(i) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time receivable upon the exercise of this Warrant) for the purpose of entitling them to receive any dividend or other distribution, or any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right, or

(ii) of any capital reorganization of the Company, any reclassification of the capital stock of the Company, any consolidation or merger of the Company with or into another corporation, or any conveyance of all or substantially all of the assets of the Company to another corporation, or

(iii) of any voluntary dissolution, liquidation or winding-up of the Company,

then, and in each such case, the Company will mail or cause to be mailed to the Holder or Holders a notice specifying, as the case may be, (A) the date on which a record is to be taken for the purpose of such dividend, distribution or right, and stating the amount and character of such dividend, distribution or right, or (B) the date on which such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Series B Convertible Preferred Stock or Common Stock (or such stock or securities at the time receivable upon the exercise of this Warrant) shall be entitled to exchange their shares of Series B Convertible Preferred Stock or Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, conveyance, dissolution, liquidation or winding-up. Such notice shall be personally delivered, or mailed by overnight delivery, at least ten days prior to the date therein specified.

(c) All such notices, advices and communications shall be deemed to have been received (i) in the case of personal delivery, on the date of such delivery and (ii) in the case of mailing, on the next business day following the date of such mailing by overnight delivery.

11. Amendments.

(a) Any term of this Warrant may be amended with the written consent of the Company and the Holder.

(b) No waivers of, or exceptions to, any term, condition or provision of this Warrant, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such term, condition or provision.

12. Adjustments. The Exercise Price and the number of shares purchasable hereunder are subject to adjustment from time to time as follows:

12.1 Conversion or Redemption of Series B Convertible Preferred Stock. Should all of the Company's Series B Convertible Preferred Stock be, or if outstanding would be, at any time prior to the expiration of this Warrant or any portion thereof, redeemed or converted into shares of the Company's Common Stock in accordance with Section 4.3.4(b) of the Certificate, then this Warrant shall become immediately exercisable for that number of shares

of the Company's Common Stock equal to the number of shares of the Common Stock that would have been received if this Warrant had been exercised in full and the Series B Convertible Preferred Stock received thereupon had been simultaneously converted immediately prior to such event, and the Exercise Price (per share of such Common Stock) shall immediately be adjusted to equal the quotient obtained by dividing (x) the aggregate Exercise Price of the maximum number of shares of Series B Convertible Preferred Stock for which this Warrant was exercisable immediately prior to such conversion or redemption, by (y) the number of shares of Common Stock for which this Warrant is exercisable immediately after such conversion or redemption. For purposes of the foregoing Section 12.1, the "Certificate" shall mean the Certificate of Incorporation of the Company as amended and/or restated and effective immediately prior to the redemption or conversion of all of the Company's Series B Convertible Preferred Stock.

12.2 Merger, Sale of Assets, etc. If at any time while this Warrant, or any portion hereof, is outstanding and unexpired there shall be (i) a reorganization (other than a combination, reclassification, exchange or subdivision of shares otherwise provided for herein), (ii) a merger or consolidation of the Company with or into another corporation in which the Company is not the surviving entity, or a reverse triangular merger in which the Company is the surviving entity but the shares of the Company's capital stock outstanding immediately prior to the merger are converted by virtue of the merger into other property, whether in the form of securities, cash, or otherwise, or (iii) a sale or transfer of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as a part of such reorganization, merger, consolidation, sale or transfer, lawful provision shall be made so that the Holder of this Warrant shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the Exercise Price then in effect, and in lieu of the number of shares of Series B Convertible Preferred Stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, the number of shares of stock, securities or assets as would be issuable or payable with respect to or in exchange for the number of shares that a holder of the shares deliverable upon exercise of this Warrant would have been entitled to receive if this Warrant had been exercised immediately before such reorganization, merger, consolidation, sale or transfer, all subject to further adjustment as provided in this Section 12. The foregoing provisions of this Section 12.2 shall similarly apply to successive reorganizations, consolidations, mergers, sales and transfers and to the stock or securities of any other corporation that are at the time receivable upon the exercise of this Warrant. If the per-share consideration payable to the holder hereof for shares in connection with any such transaction is in a form other than cash or marketable securities, then the value of such consideration shall be determined in good faith by the Company's or any successor's Board of Directors. In all events, appropriate adjustment (as determined in good faith by the Company's or any successor's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after the transaction, to the end that the provisions of this Warrant shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of this Warrant.

12.3 Reclassification, etc. If the Company, at any time while this Warrant, or any portion hereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall

thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section 12. No adjustment shall be made pursuant to this Section 12.3, upon any conversion or redemption of the Series B Convertible Preferred Stock which is the subject of Section 12.1.

12.4 Split, Subdivision or Combination of Shares. If the Company at any time while this Warrant, or any portion hereof, remains outstanding and unexpired shall split, subdivide or combine the securities as to which purchase rights under this Warrant exist, into a different number of securities of the same class, the Exercise Price for such securities shall be proportionately decreased in the case of a split or subdivision or proportionately increased in the case of a combination.

12.5 Adjustments for Dividends in Stock or Other Securities or Property. If while this Warrant, or any portion hereof, remains outstanding and unexpired, then all holders of the securities as to which purchase rights under this Warrant exist at the time shall have received, or, on or after the record date fixed for the determination of eligible stockholders, shall have become entitled to receive, without payment therefor, other or additional stock or other securities or property (other than cash) of the Company by way of dividend, then and in each case, this Warrant shall represent the right to acquire, in addition to the number of shares of the security receivable upon exercise of this Warrant, and without payment of any additional consideration therefor, the amount of such other or additional stock or other securities or property (other than cash) of the Company that such holder would hold on the date of such exercise had it been the holder of record of the security receivable upon exercise of this Warrant on the date hereof and had thereafter, during the period from the date hereof to and including the date of such exercise, retained such shares and/or all other additional stock available by it as aforesaid during such period, giving effect to all adjustments called for during such period by the provisions of this Section 12.

12.6 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment pursuant to this Section 12, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder of this Warrant a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request, at any time, of any such Holder, furnish or cause to be furnished to such Holder a like certificate setting forth: (i) such adjustments and readjustments; (ii) the Exercise Price at the time in effect; and (iii) the number of shares and the amount, if any, of other property that at the time would be received upon the exercise of the Warrant.

12.7 No Impairment. The Company will not, by any voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Section 12 and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder of this Warrant against impairment.

13. Registration Rights and Voting and Co-Sale Agreements. Upon exercise of this Warrant, and as a condition precedent to the Company issuing any shares of Series B Convertible Preferred Stock to the Holder in connection therewith, the Holder shall duly complete, execute and deliver the Notices of Adoption, annexed hereto as Annex C and Annex D, by which the Holder shall become a party to the Registration Rights Agreement and to the Fourth Amended and Restated Voting and Co-Sale Agreement, dated as of May 16, 2003, by and among the Company and the parties who have executed the counterpart signature pages thereto or are otherwise bound thereby, as such agreement may be amended and/or restated from time to time.

14. Information. So long as the Holder holds the Warrant and/or shares of Preferred Stock or Common Stock, the Company shall deliver to the Holder, promptly after mailing (i) the fiscal year end unqualified audited financial statements of the Company, prepared in accordance with generally accepted accounting principles, consistently applied (which shall not contain any "going concern" exception) no later than 180 days after the related fiscal year end, and (ii) copies of all notices, reports, financial statements, proxies or other written communication delivered or mailed to all holders of the Series B Convertible Preferred Stock or otherwise to all holders of the same class of stock held by the Holder.

15. Descriptive Headings and Governing Law. The description headings of the several sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of Delaware without regard to conflicts of law provisions.

[The Remainder Of This Page Is Intentionally Left Blank.]

IN WITNESS WHEREOF, the parties have executed this Warrant as of the date set forth below.

Dated: February 3, 2006

**RITCHIE CAPITAL FINANCE, L.L.C.**

By: /s/ Mary J. Caulfield
Name: Mary J. Caulfield
Title: President

**SPS COMMERCE, INC.**

By: /s/ Thomas C. Velin
Name: Thomas C. Velin
Title: Chief Financial Officer

**ANNEX A**

**NOTICE OF EXERCISE**

To: SPS COMMERCE, INC.

(1) The undersigned hereby (A) elects to purchase ___shares of Series B Convertible Preferred Stock of SPS Commerce, Inc., pursuant to the provisions of Section 3(a) of the attached Warrant, and tenders herewith payment of the purchase price for such shares in full, or (B) elects to exercise this Warrant for the purchase of___shares of Series B Convertible Preferred Stock, pursuant to the provisions of Section 3(c) of the attached Warrant.

(2) In exercising this Warrant, the undersigned hereby confirms and acknowledges that the shares of Series B Convertible Preferred Stock or the Common Stock to be issued upon conversion thereof are being acquired solely for the account of the undersigned and not as a nominee for any other party, and for investment, and that the undersigned will not offer, sell or otherwise dispose of any such shares of Series B Convertible Preferred Stock or Common Stock except under circumstances that will not result in a violation of the Securities Act of 1933, as amended, or any applicable state securities laws.

(3) The undersigned represents and warrants to the Company that the undersigned is an "accredited investor" as that term is defined in Regulation D promulgated under the Securities Act of 1933, as amended (the "Act") and, either alone or with such advisers as it may select, has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its investment in the shares of Series B Convertible Preferred Stock or Common Stock to be issued upon exercise hereby or conversion thereof.

(4) In exercising this Warrant, the undersigned hereby confirms and acknowledges that the Company did not offer the shares of Series B Convertible Preferred Stock or Common Stock to be issued upon exercise hereby or conversion thereof to the Holder by any form of general solicitation or general advertising, including, but not limited to, any advertisement, article, notice or similar media or broadcast over television or radio, or any seminar or meeting whose attendees were invited by any general solicitation or general advertising.

(5) In exercising this Warrant, the undersigned hereby confirms and acknowledges that it has received a copy of that certain Information Statement of the Company dated *[January ___, 2006] and reviewed and discussed the Company's business, affairs and current prospects with such officers and others (including its purchaser representative, if applicable) as it has deemed appropriate or desirable in connection with the transactions contemplated hereby. In exercising this Warrant, the undersigned hereby confirms and acknowledges that it has requested, received and reviewed such information, undertaken such investigation and made such further inquiries of officers of the Company and others as it has deemed appropriate or desirable in connection with such transactions.

(6) In exercising this Warrant, the undersigned understands that it must bear the economic risk of its investment for an indefinite period of time because the Series B Convertible Preferred Stock and Common Stock are not, and will not be, registered under the Act or any applicable state securities laws, except as may be otherwise be determined by the Company or in connection with the Fourth Amended and Restated Registration Rights Agreement, dated as of May 16, 2003, by and among the Company and the parties who have executed the counterpart signature pages thereto or are otherwise bound thereby, as such agreement may be amended and/or restated from time to time (the "Registration Rights Agreement"), and such shares may not be resold unless subsequently registered under the Act and such other federal or state securities laws or unless an exemption from such registration is available. The undersigned further understands that, except as may be otherwise be determined by the Company or pursuant to the Registration Rights Agreement, it is not contemplated that any registration will be made under the Act or any state securities laws.

(7) Please issue a certificate or certificates representing said shares of Series B Convertible Preferred Stock in the name of the undersigned or in such other name as is specified below:

_____

(Name)

(8) Please issue a new Warrant for the unexercised portion of the attached Warrant in the name of the undersigned or in such other name as is specified below:

_____

Name:
Date:

**ANNEX B**

**ASSIGNMENT FORM**

FOR VALUE RECEIVED, the undersigned registered owner of this Warrant hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under the within Warrant, with respect to the number of shares of Series B Convertible Preferred Stock (or Common Stock) set forth below:

| Name of Assignee | Address | No. of Shares |
|---|---|---|

and does hereby irrevocably constitute and appoint _____ Attorney to make such transfer on the books of SPS Commerce, Inc., maintained for the purpose, with full power of substitution in the premises.

The undersigned also represents that, by assignment hereof, the Assignee acknowledges that this Warrant and the shares of stock to be issued upon exercise hereof or conversion thereof are being acquired for investment and that the Assignee will not offer, sell or otherwise dispose of this Warrant or any shares of stock to be issued upon exercise hereof or conversion thereof except under circumstances which will not result in a violation of the Securities Act of 1933, as amended, or any state securities laws. Further, the Assignee has acknowledged that upon exercise of this Warrant, the Assignee shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of stock so purchased are being acquired for investment and not with a view toward distribution or resale.

The undersigned, by assignment hereof, agrees to be bound by the terms and conditions of this Warrant as the Holder of this Warrant.

Name: _____
Dated:

**ANNEX C**

**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 Fourth Amended and Restated Registration Rights Agreement dated as of May 16, 2003, 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

**ANNEX D**

**NOTICE OF ADOPTION**
**(Voting and Co-Sale Agreement)**

This Notice of Adoption ("*Adoption Notice*") is executed by the undersigned (the "*Adopting Party*") pursuant to the terms of that certain Fourth Amended and Restated Voting and Co-Sale Agreement dated as of May 16, 2003, 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

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our report dated February 12, 2010, with respect to the financial statements and schedule of SPS Commerce, Inc. contained in Amendment No. 3 to the Registration Statement and Prospectus. We consent to the use of the aforementioned report in Amendment No. 3 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
March 5, 2010

JONATHAN R. ZIMMERMAN
JZimmerman@faegre.com
(612) 766-8419

March 5, 2010

**VIA EDGAR AND FEDERAL EXPRESS**

United States Securities and Exchange Commission
Division of Corporate Finance
100 F Street, NE
Washington, DC 20549-3561
Attention: H. Christopher Owings, Assistant Director

Re: SPS Commerce, Inc. — Registration Statement on Form S-1 (File No. 333-163476) (the "Registration Statement")

Ladies and Gentlemen:

On behalf of SPS Commerce, Inc. (the "Company"), we are transmitting the following responses of the Company to the comments of the Commission's staff (the "Staff") as set forth in the letter of H. Christopher Owings, Assistant Director, dated March 3, 2010 (the "Comment Letter"). We have enclosed for your reference two courtesy copies of Amendment No. 3 to the Registration Statement (the "Amendment") in a clean version and two copies of the Amendment in a version marked to show changes from Amendment No. 2 to the Registration Statement.

The responses herein were provided to this firm by the Company. In this letter, we have recited the comment from the Staff in italicized, bold type and have followed the comment with the Company's response in regular type. References in this letter to we, our or us mean the Company or its advisors, as the context may require. The page number references correspond to the page numbers in the Amendment.

Prospectus Summary, page 1

1. ***We note your response to comment 2 in our letter dated February 2, 2010. We also note that you continue to have repetitive information, such an overview that is then expanded within the summary. You also provide revenue information that is again repeated further in this section. Please revise.***

   **Company Response:**

   In response to the Staff's comment, the Company further revised the prospectus summary.

Risk Factors, page 9

"We have incurred operation losses in the past ...", page 11

2. ***Please reconcile the amount you are presenting here for your accumulated deficit as of December 31, 2009 to the amount seen in your audited financial statements.***

**Company Response:**

The Company revised the amount presented on page 10 to conform to the corresponding amount shown in the audited financial statements.

"Our ability to use U.S. net operating loss carryforwards ...", page 14

3. ***It appears that the first sentence under this risk factor should be revised to refer to December 31, 2009. Please revise or advise.***

**Company Response:**

The Company revised the first sentence of this risk factor to refer to December 31, 2009.

Capitalization, page 22

4. ***Please reconcile the number of common stock shares issued and outstanding as of December 31, 2009 with the number shown in your audited financial statements.***

**Company Response:**

The Company revised the number of common stock shares issued and outstanding presented on page 21 to conform to the corresponding amount shown in the audited financial statements.

5. ***We note you have included equity account balances under the Pro Forma column. We have reviewed your response to prior comment 6 in our letter dated February 2, 2010; however, it remains unclear to us how you calculated the balances for pro forma common stock par value and pro forma additional paid-in capital. Specifically, your disclosure in Note F to your financial statements indicates that each share of Series A, B and C redeemable convertible preferred stock is convertible into common stock at a conversion price of $2.31, $0.98 and $1.60, respectively. It is unclear from your response how you considered the conversion rates disclosed in your financial statements when calculating these pro forma amounts. Please explain this to us in more detail.***

**Company Response:**

In response to the Staff's comment, the Amendment deletes the sentence in Note F that previously read "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." In its place, the Company added the following language on page F-19:

"Each share of Series A, B, and C redeemable convertible preferred stock, at the option of the holder, is convertible into common shares at a conversion ratio that was 1 to 1 at December 31, 2009. The conversion ratio is equal to the conversion value divided by the conversion price. The conversion value and conversion price were initially set in the Company's Fifth Amended and Restated Certificate of Incorporation at $2.31, $0.98 and $1.60 for the Series A, B and C redeemable convertible preferred stock, respectively. The conversion price is subject to adjustment for certain dilutive issuances. The Company has not issued any dilutive instruments which would adjust the conversion price. Therefore, at December 31, 2009, the conversion value and the conversion price have not changed since they were initially set."

In addition, the closing of the proposed public offering will result in the automatic conversion of the Series A, B and C redeemable convertible preferred stock to common stock at the then effective conversion ratio.

Selected Financial Data, page 26

Operating Data, page 27

6. ***Please tell us why the number of historical recurring revenue customers, presented here and throughout your document, changed from your last amendment.***

**Company Response:**

The Company respectfully advises the Staff that the Company refined its method of counting recurring revenue customers after filing Amendment No. 1 to the Registration Statement. Historically, the Company counted each business unit within an organization as a separate recurring revenue customer since these business units requested separate invoices and typically the sales were made through different points of contact within the larger organization. The Company's refined method counts all of these business units that share a common address as one customer.

The application of this refined method to past dates slightly reduced the historical numbers of recurring revenue customers.

Financial Statements, page F-l

Balance Sheets, page F-3

7. ***We note your presentation of pro forma equity account balances on the face of your balance sheet and related pro forma earnings per share amounts on the face of your statements of operations. Based on the information presented, it appears that the conversion of your redeemable convertible preferred stock into common stock upon consummation of your offering will result in a material increase in your permanent equity. While we would not object to your presentation of this change in capitalization within separate pro forma financial statements, we believe it is appropriate to present such pro forma information on the face of your historical financial statements only if it results in a material reduction of your permanent equity. Please revise your presentation of pro forma equity and earnings per share accordingly.***

**Company Response:**

In response to the Staff's comment, the Company removed the pro forma equity account balances on the face of the balance sheet on page F-3 and the pro forma earnings per share amounts on the face of the statement of operations on page F-4. The Company also removed the corresponding footnote on page F-7 of Amendment No. 2 to the Registration Statement.

Notes to Financial Statements, page F-7

Note C — Income Taxes, page F-15

8. ***It appears that the first sentence in the last paragraph on this page should refer to December 31, 2009 instead of December 31, 2008. Please revise.***

The Company revised the first sentence in this paragraph to refer to December 31, 2009.

Please do not hesitate to call me at 612-766-8419 if you have any questions or comments regarding the foregoing or if we can be of service in facilitating your review of this filing.

Sincerely,

/s/ Jonathan R. Zimmerman
Jonathan R. Zimmerman

Enclosures

cc: Scott M. Anderegg, Staff Attorney, Securities and Exchange Commission (w/out encl.)
Archie C. Black, Chief Executive Officer, SPS Commerce, Inc. (w/out encl.)
Kimberley K. Nelson, Chief Financial Officer, SPS Commerce, Inc. (w/out encl.)
Kenneth J. Gordon, Partner, Goodwin Procter LLP (w/out encl.)