UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended: December 31, 2014

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from to

Commission file number 001-34702

SPS COMMERCE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**41-2015127**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

333 South Seventh Street, Suite 1000, Minneapolis, MN 55402
(Address of Principal Executive Offices, Including Zip Code)

(612) 435-9400
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Common stock, par value $0.001 per share	The Nasdaq Stock Market LLC (Nasdaq Global Market)
(Title of each class)	*(Name of each exchange on which registered)*

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒	Accelerated Filer ☐	Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of shares of the registrant's common stock held by non-affiliates of the registrant (based upon the closing sale price of $63.19 per share on the Nasdaq Global Market on such date) was approximately $1.02 billion.

The number of shares of the registrant's common stock, par value $0.001 per share, outstanding as of February 5, 2015 was 16,349,054 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2015 (the "2015 Proxy Statement"), which is expected to be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, are incorporated by reference in Part III of this Annual Report on Form 10-K.

SPS COMMERCE, INC.

ANNUAL REPORT ON FORM 10-K

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements regarding us, our business prospects and our results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described under the heading *"Risk Factors"* included in this Annual Report on Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. In some cases, you can identify forward-looking statements by the following words: "anticipate," "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. We expressly disclaim any intent or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission that advise interested parties of the risks and factors that may affect our business.

PART I

Item 1. *Business*

Overview

We are a leading provider of cloud-based supply chain management solutions, providing network-proven integrations and comprehensive retail performance analytics to thousands of customers worldwide. We provide our solutions through the SPS Commerce platform, a cloud-based product suite that improves the way suppliers, retailers, distributors and other customers place, manage and fulfill orders. Implementing and maintaining supply chain management capabilities is resource intensive and not a core competency for most businesses. The SPS Commerce platform eliminates the need for on-premise software and support staff, which enables our supplier customers to focus their resources on their core business. The SPS Commerce platform enables retailers and suppliers to shorten supply cycle times, optimize inventory levels and sell-through, reduce costs and ensure suppliers satisfy exacting retailer requirements.

As of December 31, 2014, we had approximately 22,000 customers with contracts to pay us monthly fees, which we refer to as recurring revenue customers. We have also generated revenues by providing our cloud-based supply chain management solutions to an additional 38,000 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.

As a provider of cloud services, we enable 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 functionality, integration, analytics and reliability with less cost and risk than traditional solutions.

For 2014, 2013 and 2012, we generated revenues of $127.9 million, $104.4 million and $77.1 million, respectively. Our fiscal quarter ended December 31, 2014 represented our 56th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 90%, 89% and 88% of our total revenues for 2014, 2013 and 2012, respectively. Our revenues are not concentrated with any customer, as our largest customer represented 2% or less of total revenues for 2014, 2013 and 2012.

Our Industry

Today's Retail Landscape

One of the driving factors in the retail industry today is the rising influence of e-commerce and the mobile shopping experience. The retail industry is in the midst of a transformation, as retailers, suppliers and the many companies that facilitate transactions in the industry reshape how they do business and adapt to omnichannel retailing — defined as providing a shopper with a consistent experience regardless of where they might engage a retailer (or increasingly a supplier), whether bricks-and-mortar, website, or mobile experience.

Supply Chain Management Industry Background

The supply chain management industry enables thousands of retailers around the world to transact and grow their relationships with 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 about the goods themselves, data related to the exchange of goods among these trading partners, and information about the many thousands of companies who are members of the supply chain community. 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.

The industry initially focused on automating and streamlining the processing of fulfillment transactions between retailers and suppliers, and others in the supply chain, ensuring orders were placed accurately and quickly, and that goods were delivered on time and meeting the retailer's requirements. As the pace of change in retailing has accelerated with the emergence of e-commerce, today's supply chain solutions need to also encompass a growing set of valuable capabilities that draw on this foundational transaction information, and add value beyond the supply chain management function within retailers and suppliers. In today's rapidly changing omnichannel retail market, where retailers and suppliers are increasingly focused on electronic commerce and brick-and-mortar commerce as a continuum, supply chain information has a role across the entire enterprise. Demand planning and forecasting groups need visibility from the front of the store all the way back to the factory to ensure supply meets demand. Sourcing operations require access to thousands of new items to drive their e-commerce growth and ensure physical stores have the items consumers will find compelling and engaging.

As familiarity and acceptance of cloud-based services continues to accelerate, we believe companies, both large and small, will continue to turn to cloud-based services similar to ours for their supply chain integration needs, as opposed to traditional on-premise software deployment.

The Omnichannel Foundation — Fulfillment Automation Between Retailers and Suppliers

Retailers impose specific work-flow rules and standards on their trading partners for electronically communicating their 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 automation solutions.

Traditional Supply Chain Management Solutions

Traditional supply chain management solutions, which range from non-automated paper or fax solutions to electronic solutions, implemented using on-premise licensed software, tend to focus primarily on fulfillment automation. 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 (EDI) 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.

Additionally, the traditional approach to supply chain automation involves a system architecture made up of many point-to-point connections between retailers and their suppliers. These collections of connections are inherently error prone and can be difficult to adapt to changing requirements and market circumstances. For instance, if there is a broad trend in the market (such as the growing popularity of mobile commerce) that many members of a retailing segment would like to adapt to, a supplier would be faced with a series of enhancements, on a one-by-one basis, to the collection of connections they have with their retailers. Traditional approaches do not have the inherent, or architectural, capabilities to enable the flexibility and adaptability to embrace the ongoing change that omnichannel retailing requires.

Moving Beyond Transactions — Insight and Data Analysis Powering Intelligent Decision Making

Fulfillment automation is a first step toward addressing the complexities in the supply chain ecosystem, but is only the necessary first step in providing omnichannel retail success. As the number and geographic dispersion of trading partners has grown, it has never been more important for retailers and suppliers to have precise, timely insight into demand and supply, by item and by location. As a result, trading partners need a solution that effectively consolidates, distills and provides sell-through 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.

Cloud Services Provide Flexibility, Adaptability and a Key Source of Information Across the Supply Chain

Cloud services are well suited for providing supply chain management solutions because they inherently enable rapid provisioning of capabilities and offer robust and reliable integration with retailer and supplier systems. Cloud services are able to continue utilizing standard connectivity protocols, such as EDI, but also are able to support the growing use of standard internet protocols that retailers require, such as XML, in addition to enabling API-based integration. These cloud services 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.

Cloud services enable an organization to connect across the supply chain ecosystem, addressing increased retailer demands, globalization and increased complexity affecting the supply chain. In addition, cloud services can integrate supply chain management applications with organizations' existing enterprise resource planning systems.

Cloud services and API-based service integration provide retailers and suppliers with access to new and powerful capabilities quickly, often integrated with analytics to enable rapid service innovation and responsiveness as the retailing landscape continues to respond to omnichannel advancements.

Our Platform

We operate one of the largest retail trading partner networks through a cloud-based services suite that improves the way suppliers, retailers, distributors and other trading partners manage and fulfill orders, manage sell-through performance and source new items. Approximately 60,000 customers across more than 60 countries have used our platform to improve the performance of their trading relationships. Our platform 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 our platform enables an organization to connect seamlessly to the entire SPS Commerce network of trading partners.

From that single connection, a member of our network can make use of the full suite of our solutions, from fulfillment automation, to the analysis and optimization of item sell-through performance, to sourcing new items, new retailing relationships or providers of logistics and other services. This represents a fundamental change to fulfillment automation and enables inherent adaptability and flexibility not possible with traditional supply chain management system architectures.

Our platform is comprised of a set of coupled cloud services that deliver value as stand-alone offerings, but also provide additional value when used collectively. Our fulfillment product combines integrations that comply with numerous rule books for retailers and distributors with whom we and our customers have done business. By maintaining current integrations with retailers, our platform obviates the need for suppliers to continually stay up-to-date with the rule book changes required by retailers. Moreover, by utilizing a cloud services 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 transaction hub for trading partners, we also are able to provide increased performance 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.

The following solutions are enabled through the SPS Commerce cloud services platform:

- *Trading Partner Fulfillment.* Our Trading Partner Fulfillment solution provides fulfillment automation and replaces or augments an organization's existing trading partner electronic communication infrastructure, enabling suppliers to comply with retailers' rule books and enabling the electronic exchange of information among numerous trading partners through various protocols.
- *Trading Partner Assortment.* Today's retail marketplace requires the management of tens and even hundreds of individual attributes associated with each item a retailer or supplier sells today. This information can include digital images/video, customer facing descriptions and measurements, and warehouse information. Our Assortment product provides robust, extensible management of this information, enabling accurate orders and rapid fulfillment.
- *Trading Partner Analytics.* Our Trading Partner Analytics solution consists of data analytics applications that enable our customers to improve their visibility across, and analysis of, their supply chains. When focused on point-of-sale data, for example, retailers and suppliers can ensure inventory is located where demand is highest. Retailers improve their visibility into supplier performance and their understanding of product sell-through.
- *Trading Partner Sourcing*. Through Retail Universe, our social network for the retail industry, retailers can source providers of new items, suppliers can connect with new retailers, and the broader retailing community can make connections to expand their business networks and grow.
- *Trading Partner Enablement.* Our Trading Partner Enablement solution provides communications programs based on our best practices, enabling organizations, from large to small retailers and suppliers to emerging providers of value-added products and services, to establish trading partner relationships with new trading partners to expand their businesses.
- *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 Customer and Sales Sources

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

"Network Effect"

Once connected to our network, trading partners can exchange electronic supply chain information with each other. Through our platform, we have helped approximately 60,000 customers to improve the performance of their trading partner relationships. 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 enables that new customer to communicate with our existing customers and enables our existing customers to do business with the new customer. Additionally, through Retail Universe, our community now has a social network focused on facilitating connections and business interactions among retailers and suppliers. 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. As retailers and suppliers reshape how they do business in an omnichannel landscape, they need to bring new capabilities and services to their trading partner networks. For instance, a supplier may wish to collaborate with their retailers around point-of-sale analytics data, or a retailer may decide to change the workflow or protocol by which it interacts with its suppliers. In each case, the supplier and retailer may engage us to work with its trading partner base to enable the new capability. Performing these programs on behalf of retailers and suppliers often generates supplier sales leads for us.

Referrals from Our Customers. We also receive sales leads from our customers 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.

Channel Partners. In addition to the customer acquisition sources identified above, we market and sell our solutions through a variety of channel partners including software providers, resellers, system integrators and logistics partners. For example, software partners such as Microsoft, NetSuite, Oracle or SAP and their business partner communities generate sales for us as part of broader enterprise resource planning, warehouse management system and/or transportation management system sales efforts. Our logistics partners also drive new sales both by providing leads and by embedding our solutions as part of their service offerings. For example, we have a contractual relationship with a leading global logistics provider where we private label our solutions, which are in turn sold as that company's branded solution.

Our Sales Force

We also sell our solutions through a global sales force which is organized as follows:

- *Retailer Sales.* We employ a team of sales professionals who focus on selling our cloud services suite to retailers and distributors.
- *Supplier Sales.* We employ a team of supplier sales representatives focused on selling our cloud services suite to suppliers.
- *Business Development Efforts.* Our business development organization is tasked with finding new sources of revenue and development of new business opportunities through channel partners and other areas that present opportunity for growth.

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 underpenetrated and, as the retail industry continues to respond to the changing requirements of the omnichannel marketplace, 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.
- *Increase Revenues from Our Customer Base.* We believe our overall customer satisfaction is strong and will lead our customers to further expand their use of the solutions they have currently purchased as well as purchase additional services to continue improving the performance of their trading partner relationships, 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 sales representatives to gain new customers. We also believe there are valuable opportunities to promote and sell our solutions through collaboration with other providers.
- *Expand Our International Presence.* We believe our presence in Asia Pacific, as well as Europe, represents a significant competitive advantage. We plan to increase our international sales efforts to obtain new supplier and retailer customers around the world. 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, from time to time, developing new solutions and applications.
- *Selectively Pursue Strategic Acquisitions.* The fragmented nature of our market provides opportunity for selective acquisitions. In 2014, we purchased substantially all of the assets of Leadtec Systems Australia Pty Ltd ("Leadtec") and its affiliates, a privately-held provider of cloud-based integration solutions in Australia and New Zealand. This acquisition expanded our base of recurring revenue customers and added suppliers to our network. In 2012, we purchased substantially all of the assets of Edifice Information Management Systems, Inc., a privately-held information services company specializing in the collection, analysis and distribution of point-of-sale data used by retailers and suppliers to improve their supply chain efficiencies. This acquisition increased our point-of-sale analytic offerings, expanded our base of recurring revenue customers and added suppliers to our network. To complement and accelerate our internal growth, we may pursue acquisitions of other supply chain management companies to add customers. We plan to evaluate potential acquisitions of other supply chain management companies primarily based on the number of customers and revenue the acquisition would provide relative to the purchase price. We also may pursue acquisitions that allow us to expand into regions where we do not have a significant presence or to offer new functionalities we do not currently provide. We plan to evaluate potential acquisitions to expand into new regions 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.

Technology, Development and Operations

Technology

We were an early provider of cloud services to the retail 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.

Our cloud platform treats all customers as logically separate tenants in a common infrastructure. 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 maintaining our existing solutions and, from time to time, improving and enhancing our existing solutions, as well as developing new solutions and applications. Our multi-tenant platform serves all of our customers, which allows us to maintain relatively low research and development expenses and release more frequently compared to traditional on-premise licensed software solutions that support multiple versions. Our development efforts take place at our locations in Minnesota and New Jersey, as well as in Ukraine (where we relocated our office from Kharkiv to Kiev during fiscal 2014).

Operations

We operate infrastructure in third-party data centers located in Minnesota and New Jersey, as well as provision services in public cloud providers. In all cases, infrastructure and services on which our platform runs is managed by us.

We have internal and third party monitoring software that continually checks our platform and key underlying components for continuous availability and performance, ensuring our platform is available and providing adequate service levels. We have a technology operations team that provides system provisioning, management, maintenance, monitoring and back-up.

To facilitate high availability, we operate a multi-tiered system configuration with load-balanced web server pools, replicated database servers and fault-tolerant storage devices. Our databases are replicated between locations insuring a quick recovery point objective.

Our Customers

As of December 31, 2014, we had approximately 22,000 recurring revenue customers and approximately 60,000 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, distributors, third-party logistics providers and other trading partners. Our revenues are not concentrated with any customer, as our largest customer represented 2% or less of total revenues in 2014, 2013 and 2012.

Competition

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

The market for cloud-based supply chain management solutions is fragmented and rapidly evolving. Cloud 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 cloud service vendor in the supply chain management industry;
- price;
- specialization in a customer market segment;
- speed and quality with which the cloud service vendor can integrate its customers to their trading partners;
- functionality of the cloud service solution, such as the ability to integrate the solution with a customer's business systems;
- breadth of complementary supply chain management solutions the cloud 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 cloud service vendors could create a direct competitor that is able to compete with us more effectively than the numerous, smaller vendors currently offering cloud service supply chain management solutions. Increased competition from cloud service vendors could reduce our market share, revenues and operating margins or otherwise adversely affect our business.

Cloud 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 IBM-Sterling Commerce and OpenText-GXS. 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 cloud service solutions that allow multiple customers to share information maps with a retailer.

Managed service providers focused on the supply chain management market include IBM-Sterling Commerce and OpenText-GXS. 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 cloud service solution. Cloud service supply chain management solutions also are at a relatively early stage of development compared to traditional on-premise software and managed service providers. Cloud service vendors compete with these better established solutions based on total cost of ownership and flexibility. If suppliers do not perceive the benefits of cloud 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 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 Retail Universe, SPS and SPS Commerce in the United States of America. Additional trademark applications are pending in the United States of America and certain foreign countries. We do not have any patents but we have pending patent applications. Our trade secrets consist primarily of the software we have developed for our SPS Commerce platform. Our software is also protected under copyright law, but we do not have any registered copyrights.

Employees

As of December 31, 2014, we had 943 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.

Company 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 on our website does not constitute part of this Annual Report on Form 10-K or any other report we file or furnish with the

Securities and Exchange Commission ("SEC"). We provide free access to various reports that we file with or furnish to the SEC through our website as soon as reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports. Our SEC reports can be accessed through the investor relations section of our website or through the SEC's website at *www.sec.gov*. Stockholders may also request copies of these documents from:

SPS Commerce, Inc.
Attention: Investor Relations
333 South Seventh Street
Suite 1000
Minneapolis, MN 55402

Executive Officers

Set forth below are the names, ages and titles of the persons serving as our executive officers.

Name	Age	Position
Archie C. Black	52	Chief Executive Officer and President
Kimberly K. Nelson	47	Executive Vice President and Chief Financial Officer
James J. Frome	50	Executive Vice President and Chief Operating Officer

Archie C. Black has served as our President and Chief Executive Officer and a director since 2001. Previously, Mr. Black served as our Senior Vice President and Chief Financial Officer from 1998 to 2001. Prior to joining us, Mr. Black was a Senior Vice President and Chief Financial Officer at Investment Advisors, Inc. in Minneapolis, Minnesota and also 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, and as the Finance Director, Worldwide Application for Amazon.com's Technology group, from April 2003 until June 2005. 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 Operating Officer since August 2012. Previously, Mr. Frome served as our Executive Vice President and Chief Strategy Officer, from March 2001 to August 2012, and our Vice President of Marketing, from July 2000 to March 2001. Prior to joining us, Mr. Frome served as a Divisional Vice President of Marketing at Sterling Software, Inc., from 1999 to 2000, and as a Senior Product Manager and Director of Product Management at Information Advantage, Inc., from 1993 to 1999.

Item 1A. Risk Factors

Set forth below and elsewhere in this Annual Report on Form 10-K, and in other documents we file with the Securities and Exchange Commission, are risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this Annual Report on Form 10-K and in other written and oral communications from time to time. 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. In assessing these risks, you should also refer to the other information contained in this Annual Report on Form 10-K, including our financial statements and related notes.

The market for cloud-based 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 cloud-based supply chain management solutions to suppliers. The market for cloud-based 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 cloud-based supply chain management solutions as an alternative to traditional licensed hardware and software solutions.

Some suppliers may be reluctant or unwilling to use our cloud-based 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 cloud-based supply chain management solutions.

Other factors that may limit market acceptance of our cloud-based 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 cloud-based 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 most of 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.

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 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 sales personnel, developing strategic relationships with resellers, including resellers that incorporate our applications in their offerings, and increasing our marketing activities. 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. 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 more recent offerings such as our Trading Partner Analytics 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:

- 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 our expenses, including stock-based compensation and expenditures related to expanding our operations, supporting new customers, performing 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 Annual Report on Form 10-K, you should not rely on 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, 2014, we had an accumulated deficit of $44.1 million. We expect our operating expenses to continue to increase in the future as we expand our operations. If our revenues do not continue to grow to offset these increased expenses, we may not be profitable. We cannot assure you that we will be able to 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. Existing products can become obsolete and unmarketable when vendors introduce products utilizing new technologies or new industry standards emerge, and as a result, it is difficult for us to estimate the life cycles of our products. 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. 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, we could experience delays or lost revenues, diversion of software engineering resources, material non-monetary concessions, negative media attention or increased service costs as a result of performance claims 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 cloud-based 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 third-party data centers, located in Minnesota and New Jersey, to conduct our operations. All of our solutions reside on infrastructure that we own 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, denial of service attacks, 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 cloud-based 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 and access to our customers' information systems 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. The collection and use of this information sometimes requires our direct access to our customers' information systems. We cannot assure you that our efforts to protect this confidential information and access will be successful. Our security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise and result in someone obtaining unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information, or our IT systems. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data or IT systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Malicious third-parties may also conduct attacks designed to temporarily deny customers access to our services.

If any compromise of this information security were to occur, or if we fail to detect and appropriately respond to a significant data security breach, 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 impact 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 cloud-based 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.

Privacy concerns and laws, evolving regulation of cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations may limit the use and adoption of our solutions and adversely affect our business.

Regulation related to the provision of services on the Internet is increasing, as federal, state and foreign governments continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information. In some cases foreign data privacy laws and regulations, such as the European Union's Data Protection Directive, and the country-specific regulations that implement that directive, also govern the processing of personal information. Further, laws are increasingly aimed at the use of personal information for marketing purposes, such as the European Union's e-Privacy Directive, and the country-specific regulations that implement that directive. Such laws and regulations are subject to differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our solutions or restrict our ability to store and process data or, in some cases, impact our ability to offer our services and solutions in certain locations.

In addition to government activity, privacy advocacy and other industry groups have established or may establish new self-regulatory standards that may place additional burdens on us. Our customers may expect us to meet voluntary certification or other standards established by third parties. If we are unable to maintain these certifications or meet these standards, it could adversely affect our ability to provide our solutions to certain customers and could harm our business.

The costs of compliance with and other burdens imposed by laws, regulations and standards may limit the use and adoption of our service and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance.

Furthermore, concerns regarding data privacy may cause our customers' customers to resist providing the data necessary to allow our customers to use our service effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products or services, and could limit adoption of our cloud-based solutions.

Industry-specific regulation is evolving and unfavorable industry-specific laws, regulations or interpretive positions could harm our business.

Our customers and potential customers do business in a variety of industries. Regulators in certain industries have adopted and may in the future adopt regulations or interpretive positions regarding the use of cloud computing and other outsourced services. The costs of compliance with, and other burdens imposed by, industry-specific laws, regulations and interpretive positions may limit customers' use and adoption of our services and reduce overall demand for our services. In addition, an inability to satisfy the standards of certain voluntary third-party certification bodies that our customers may expect may have an adverse impact on our business. If in the future we are unable to achieve or maintain these industry-specific certifications or other requirements or standards relevant to our customers, it may harm our business.

In some cases, industry-specific laws, regulations or interpretive positions may also apply directly to us as a service provider. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on 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 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 of America. 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 infrastructure, software and services that could take a significant time to replace or upgrade.

We rely on infrastructure, software and services licensed from third parties to offer our cloud-based supply chain management solutions. This infrastructure, software and services, as well as maintenance rights for this infrastructure, software and services, 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 infrastructure, software and services that we currently license. Any such alternatives could be more difficult or costly to replace than the third-party infrastructure, software and services 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 new products and changes to existing products could fail to attract or retain users or generate revenue.

Our ability to retain, increase and engage our customers and to increase our revenues will depend heavily on our ability to create successful new products. We may introduce significant changes to our existing products or develop and introduce new and unproven products which include or use technologies with which we have little or no prior development or operating experience. If new or enhanced products fail to engage customers, we may fail to attract or retain customers or to generate sufficient revenues, operating margin, or other value to justify our investments and our business may be adversely affected. In the future, we may invest in new products and initiatives to generate revenue, but there is no guarantee these approaches will be successful. If we are not successful with new approaches to monetization, we may not be able to maintain or grow our revenues as anticipated or recover any associated development costs, and our financial results could be adversely affected.

Our business is dependent on our ability to maintain and scale our technical infrastructure, and any significant disruption in our service could damage our reputation, result in a potential loss of users and engagement, and adversely affect our financial results.

Our reputation and ability to attract, retain and serve our customers is dependent upon the reliable performance of our platform and our underlying technical infrastructure. As our user base and the amount and types of information shared on our platform continue to grow, we will need an increasing amount of technical infrastructure, including network capacity and computing power, to continue to satisfy the needs of our users. It is possible that we may fail to effectively scale and grow our technical infrastructure to accommodate these increased demands.

Our software is highly technical, and if it contains undetected errors, our business could be adversely affected.

Our products incorporate software that is highly technical and complex. Our software has contained, and may now or in the future contain, undetected errors, bugs or vulnerabilities. Some errors in our software code may only be discovered after the code has been released. Any defects or errors discovered in our code after release could result in damage to our reputation, loss of customers, loss of revenue or liability for damages, any of which could adversely affect our business and financial results.

Our industry is a prime target for those that seek to steal confidential information and computer malware, viruses, hacking and phishing attacks, and spamming could harm our business and cause us to lose the confidence of our users, which could significantly impact our business and results of operations.

As demonstrated by recent material and high-profile data security breaches within the retail industry, computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in our industry, have occurred on our systems in the past, and may occur on our systems in the future. Furthermore, given the interconnected nature of the retail supply chain and our significant presence in the retail industry, we believe that we are a particularly attractive target for such attacks. In addition, our connection to the retail industry could present the opportunity for an attack on our system to serve as a way to obtain access into our user's systems, which could have a material adverse effect on our financial condition and growth prospectus. Businesses in our industry have experienced material sales declines after discovering data breaches, and our business could be similarly impacted. Reputational value is based in large part on perceptions of subjective qualities. While reputations may take decades to build, any negative incidents can quickly erode trust and confidence, particularly if they result in adverse mainstream and social media publicity, governmental investigations or litigation. Though it is difficult to determine what, if any, harm may directly result from any specific interruption or attack, any failure to maintain performance, reliability, security and availability of our products and technical infrastructure to the satisfaction of our users may harm our reputation, impair our ability to retain existing customers and attract new customers and expose us to legal claims and government action, each of which could have a material adverse impact on our financial condition, results of operations and growth prospects.

The use of open source software in our products may expose us to additional risks and harm our intellectual property.

Some of our products use or incorporate software that is subject to one or more open source licenses. Open source software is typically freely accessible, usable and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on unfavorable terms or at no cost. This can subject previously proprietary software to open source license terms.

While we monitor the use of all open source software in our products, processes and technology and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product or solution, such use could inadvertently occur. Additionally, if a third-party software provider has incorporated certain types of open source software into software we license from such third party for our products and solutions, we could, under certain circumstances, be required to disclose the source code to our products and solutions. This could harm our intellectual property position and have a material adverse effect on our business, results of operations, cash flow and financial condition.

If the open source community expands into enterprise application and supply chain software, our license fee revenues may decline.

The open source community is comprised of many different formal and informal groups of software developers and individuals who have created a wide variety of software and have made that software available for use, distribution and modification, often free of charge. Open source software, such as the Linux operating system, has been gaining in popularity among business users. If developers contribute enterprise and supply chain application software to the open source community, and that software has competitive features and scale to support business users in our markets, we may need to change our product pricing and distribution strategy to compete successfully.

We may pursue acquisitions and our potential inability to successfully integrate newly acquired companies or businesses could adversely affect our financial results.

We may pursue acquisitions of other companies or their businesses in the future. 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, including our recent acquisitions of Leadtec and Edifice, 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 our U.S. net operating loss carryforwards might be limited.

As of December 31, 2014, we had net operating loss carryforwards of $69.8 million for U.S. federal tax purposes. We also had $28.3 million of various state net operating loss carryforwards. The loss carryforwards for federal tax purposes will expire between 2019 and 2034 if not utilized. The loss carryforwards for state tax purposes will expire between 2015 and 2034 if not utilized. 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. We have performed a Section 382 analysis for the time period from our inception through December 8, 2010. During this time period it was determined that we had six separate ownership changes under Section 382. We have not updated the Section 382 analysis subsequent to December 8, 2010; however, we believe there have not been any events subsequent to that date that would materially impact the analysis. We believe that approximately $17.6 million of federal losses will expire unused due to Section 382 limitations. The maximum annual limitation of federal net operating losses under Section 382 is approximately $990,000. This limitation could be further restricted if any ownership changes occur in future years. To the extent our use of net operating loss carryforwards is significantly limited, our taxable 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:

- Cloud 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 our existing competitors will continue to 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. 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.

Ensuring that we have internal financial and accounting controls and procedures adequate to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we are required to perform annual system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Furthermore, implementing any appropriate future changes to our internal control over financial reporting may entail substantial costs in order to modify our existing accounting systems, may take a significant period of time to complete and may distract our officers, directors and employees from the operation of our business. If we are not able to comply with the requirements of Section 404 in the future, or if material weaknesses are identified, the market price of our common stock could decline.

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 of America, 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 3% of our revenues for 2014 and 2% of our revenues for each of 2013 and 2012. In 2014, we purchased substantially all of the assets of Leadtec, a privately-held provider of cloud-based integration solutions in Australia and New Zealand. We also undertake software development activities in the Ukraine. 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 of America, 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 (including the current hostilities in Ukraine), 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.

In addition, we operate in parts of the world, such as Ukraine, that are recognized as having governmental corruption problems to some degree and where local customs and practices may not foster strict compliance with anti-corruption laws. Our continued operation and potential expansion outside the United States could increase the risk of such violations in the future. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures will protect us from unauthorized reckless or criminal acts committed by our employees or agents. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the U.S. Foreign Corrupt Practices Act, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in severe criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, business, results of operations or financial condition.

Our operations may be adversely affected by ongoing developments in Ukraine.

Ukraine has been undergoing heightened political turmoil since the removal of President Yanukovych from power by the Ukrainian parliament in late February 2014, which was followed by reports of Russian military activity in the Crimean region. The situation in Ukraine is rapidly developing, and we cannot predict the outcome of developments there or the reaction to such developments by U.S., European, U.N. or other international authorities.

We currently engage in software development activities in the Ukraine and have an office in Kiev with 51 employees. We recently relocated our office to Kiev from Kharkiv due, in part, to the hostilities. We continue to monitor the situation closely. We have no way to predict the progress or outcome of the situation, as the political and civil unrest and reported military activities are fluid and beyond our control. Prolonged or expanded unrest, military activities, or broad-based sanctions, should they be implemented, could have a material adverse effect on our operations.

Our stock price may be volatile.

Shares of our common stock were sold in our April 2010 initial public offering at a price of $12.00 per share and, through December 31, 2014, our common stock has traded as high as $79.98 per share and as low as $8.45 per share. An active, liquid and orderly market for our common stock may not develop or be sustained, which could depress the trading price of our common stock. Some of the factors that may cause the market price of our common stock to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- fluctuations in our recorded revenue, even during periods of significant sales order activity;

- changes in estimates of our financial results or recommendations by securities analysts;
- failure of any of our solutions to achieve or maintain market acceptance;
- changes in market valuations of similar companies;
- success of competitive products or services;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant solutions, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States of America, foreign countries or both;
- litigation involving our company, our general industry or both;
- additions or departures of key personnel;
- investors’ general perception of us; and
- changes in general economic, industry and market conditions.

In addition, if the market for software stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

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. As of December 31, 2014, we had approximately 2.6 million shares of our common stock issuable under approved equity compensation plans which are covered by effective registration statements.

Our charter documents and Delaware law may inhibit a takeover that stockholders consider favorable.

Provisions of our certificate of incorporation and 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 5,000,000 shares of preferred stock, with any rights, preferences and privileges as our board may designate, including the right to approve an acquisition or other change in our control;
- provide that the authorized number of directors may be changed by resolution of the board of directors;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder’s notice; and
- do not provide for cumulative voting rights.

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

We do not intend to declare dividends on our stock in the foreseeable future.

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. 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.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our corporate headquarters, including our principal administrative, marketing, sales, technical support and research and development facilities, are located in Minneapolis, MN where we lease approximately 142,000 square feet under an agreement that expires on April 30, 2020. Our current lease agreement includes a right of first offer to lease certain additional space, which we exercised, and two options to extend the term of the lease for three years at a market rate determined in accordance with the lease.

We also have operations in Parsippany, New Jersey, where we lease approximately 23,000 square feet under an agreement that expires on January 31, 2016.

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.

Item 3. *Legal Proceedings*

We are not currently subject to any material legal proceedings. From time to time, we may be named as a defendant in legal actions or otherwise be subject to claims arising from our normal business activities. We believe that we have obtained adequate insurance coverage or rights to indemnification in connection with potential legal proceedings that may arise.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information. Our common stock has traded on the Nasdaq Global Market under the symbol "SPSC" since April 22, 2010, the date of our initial public offering. The following table sets forth, for the periods indicated, the high and low sales prices for our common stock as reported on the Nasdaq Global Market.

	High	Low
Fiscal 2013		
First Quarter	$42.84	$36.50
Second Quarter	$57.34	$39.16
Third Quarter	$73.53	$54.03
Fourth Quarter	$79.98	$60.37
Fiscal 2014		
First Quarter	$71.82	$58.37
Second Quarter	$64.10	$43.84
Third Quarter	$64.99	$48.97
Fourth Quarter	$64.00	$49.44

Stockholders of Record. As of February 5, 2015, we had 84 stockholders of record of our common stock, excluding holders whose stock is held either in nominee name and/or street name brokerage accounts.

Dividends. We have not historically paid dividends on our common stock. We intend to retain our future earnings, if any, to finance the expansion and growth of our business, and we do not expect to pay cash dividends on our common stock in the foreseeable future. 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.

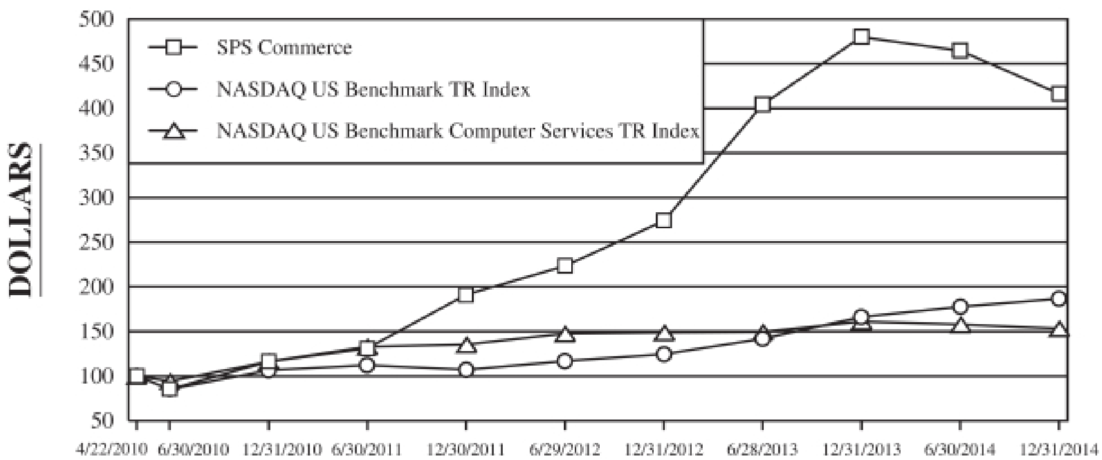
Stock Performance Graph and Cumulative Total Return

Notwithstanding any statement to the contrary in any of our previous or future filings with the Securities and Exchange Commission, or SEC, the following information relating to the price performance of our common stock shall not be deemed to be "filed" with the SEC or to be "soliciting material" under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and it shall not be deemed to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act, except to the extent we specifically incorporate it by reference into such filing.

The graph below compares the cumulative total stockholder return of our common stock with that of the NASDAQ US Benchmark TR Index and the NASDAQ US Benchmark Computer Services TR Index from April 22, 2010 (the date on which our common stock commenced trading on the Nasdaq Global Market) through December 31, 2014. The graph assumes that $100 was invested in shares of our common stock, the NASDAQ US Benchmark TR Index and the NASDAQ US Benchmark Computer Services TR Index at the close of market on April 22, 2010, and that dividends, if any, were reinvested. The comparisons in this graph are based on historical data and are not intended to forecast or be indicative of future performance of our common stock.

Comparison of Cumulative Total Returns of SPS Commerce, Inc., NASDAQ US Benchmark TR Index and NASDAQ US Benchmark Computer Services TR Index

	SPS Commerce	NASDAQ US Benchmark TR Index	NASDAQ US Benchmark Computer Services TR Index
4/22/2010	100.0	100.0	100.0
6/30/2010	85.4	85.5	94.4
12/31/2010	116.2	106.5	115.9
6/30/2011	130.8	112.0	132.6
12/30/2011	190.8	106.8	135.2
6/29/2012	223.4	116.9	147.4
12/31/2012	274.0	124.3	148.9
6/28/2013	404.4	141.9	149.7
12/31/2013	480.1	166.0	160.8
6/30/2014	464.6	177.5	157.9
12/31/2014	416.4	186.6	153.1



Unregistered Sales of Equity Securities

On October 12, 2014, we completed an asset purchase agreement with Leadtec and its affiliates, Advanced Barcode Solutions Pty Ltd, Scott Needham and Leading Technology Group Pty Ltd. Pursuant to the asset purchase agreement, on October 12, 2014, we issued an aggregate of 43,595 shares of our common stock to Leadtec in an unregistered transaction. We did so in reliance upon the exemption contained in Section 4(2) of the Securities Act of 1933, as amended, as a transaction not involving a public offering, and Rule 506 promulgated thereunder, in view of the absence of a general solicitation, the limited number of offerees and purchasers, and the representations and agreements of Leadtec in the asset purchase agreement.

Use of Proceeds from Sales of Registered Securities

Not applicable.

Stock Repurchases

None.

Item 6. ***Selected Financial Data***

The following selected financial data should be read together with our audited financial statements and the related notes and with *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* which are included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of results to be expected for any future period.

The statements of income data for each of the years ended December 31, 2014, 2013, and 2012; the balance sheet data as of December 31, 2014 and 2013; and the operating data relating to Adjusted EBITDA and non-GAAP income per diluted share for each of the years ended December 31, 2014, 2013 and 2012 have been derived from our audited annual consolidated financial statements which are included in this Annual Report on Form 10-K.

The statements of income data for the years ended December 31, 2011 and 2010; the balance sheet data as of December 31, 2012, 2011 and 2010; and the operating data relating to Adjusted EBITDA and non-GAAP income per diluted share for each of the years ended December 31, 2011 and 2010 have been derived from our audited annual consolidated financial statements which are not included in this Annual Report on Form 10-K.

Adjusted EBITDA and non-GAAP income per diluted share are non-GAAP financial measures. We believe that these non-GAAP measures provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare the company's performance to that of prior periods for trend analyses and planning purposes. Adjusted EBITDA is also used for purposes of determining executive and senior management incentive compensation. These measures are also presented to our board of directors.

These non-GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with generally accepted accounting principles in the United States of America. These non-GAAP financial measures exclude significant expenses and income that are required by GAAP to be recorded in the company's financial statements and are subject to inherent limitations. Investors should review the reconciliations of these non-GAAP financial measures to the comparable GAAP financial measures that are included below.

The operating data relating to recurring revenue customers for all periods presented is unaudited and has been derived from our internal records of our operations.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share data)				
Statements of Income Data					
Revenues	$127,947	$104,391	$77,106	$57,969	$44,597
Cost of revenues(1)	39,991	31,781	22,040	15,366	12,626
Gross profit	87,956	72,610	55,066	42,603	31,971
Operating expenses					
Sales and marketing(1)	46,990	39,621	30,037	23,836	16,601
Research and development(1)	13,494	10,870	8,166	5,838	4,349
General and administrative(1)	20,233	17,189	13,524	11,151	7,985
Amortization of intangible assets(2)	2,856	3,158	1,767	643	—
Total operating expenses	83,573	70,838	53,494	41,468	28,935
Income from operations	4,383	1,772	1,572	1,135	3,036
Other income (expense)					
Interest income, net	187	112	19	89	84
Other expense(3)	(458)	(147)	(248)	(140)	(144)
Total other expense, net	(271)	(35)	(229)	(51)	(60)
Income before income taxes	4,112	1,737	1,343	1,084	2,976
Income tax (expense) benefit(4)	(1,408)	(686)	(121)	12,619	(92)
Net income	$ 2,704	$ 1,051	$ 1,222	$13,703	$ 2,884
Net income per share					
Basic	$ 0.17	$ 0.07	$ 0.09	$ 1.15	$ 0.36
Diluted	$ 0.16	$ 0.07	$ 0.09	$ 1.08	$ 0.25
Weighted average common shares outstanding					
Basic	16,236	15,201	13,056	11,960	8,036
Diluted	16,814	15,931	13,910	12,744	11,596

	As of December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Balance Sheet Data					
Cash and cash equivalents	$130,795	$131,294	$ 66,050	$31,985	$40,473
Working capital	137,634	137,160	77,040	36,773	42,552
Total assets	243,775	223,330	159,201	77,618	57,880
Long-term liabilities	14,124	11,642	9,913	6,599	5,283
Total debt(5)	—	—	—	—	122
Total stockholders' equity	205,091	192,773	134,817	59,553	43,508

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Unaudited, adjusted EBITDA in thousands)				
Operating Data					
Adjusted EBITDA(6)	$18,160	$13,774	$ 8,997	$ 5,410	$ 5,175
Non-GAAP income per diluted share(7)	$ 0.65	$ 0.53	$ 0.41	$ 0.26	$ 0.31
Recurring revenue customers(8)	21,983	19,690	17,977	16,129	12,399

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

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Cost of revenues	$ 614	$ 475	$ 382	$ 255	$103
Sales and marketing	1,933	1,481	895	471	211
Research and development	444	266	140	56	20
General and administrative	2,405	1,981	1,338	986	416
Total	$5,396	$4,203	$2,755	$1,768	$750

(2) For 2013, amortization of intangible assets included $290,000 for the impairment of a certain non-competition agreement.

(3) For 2014, other expense included $338,000 for a one-time Australian stamp duty tax related to the Leadtec acquisition.

(4) In 2011, we determined it was more-likely-than-not that we would be able to realize a substantial portion of our deferred tax assets and, therefore, we recorded an income tax benefit of $12.8 million for the reversal of the valuation allowance on these deferred tax assets.

(5) Total debt for 2011 consisted of current capital lease obligations.

(6) Adjusted EBITDA consists of net income plus depreciation and amortization, interest expense, interest income, income tax expense (benefit), stock-based compensation expense and other adjustments as necessary for a fair presentation. Other adjustments included the impact of a one-time Australian stamp duty tax related to the Leadtec acquisition in 2014, as well as the impact of use tax refunds in 2014 and 2013 related to items previously expensed. 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 to Adjusted EBITDA (in thousands):

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Net income	$ 2,704	$ 1,051	$1,222	$ 13,703	$2,884
Depreciation and amortization	8,570	8,051	4,918	2,647	1,533
Interest income, net	(187)	(112)	(19)	(89)	(84)
Income tax expense (benefit)	1,408	686	121	(12,619)	92
Other	269	(105)	—	—	—
EBITDA	12,764	9,571	6,242	3,642	4,425
Stock-based compensation expense	5,396	4,203	2,755	1,768	750
Adjusted EBITDA	$18,160	$13,774	$8,997	$ 5,410	$5,175

(7) Non-GAAP income per share consists of net income plus stock-based compensation expense and amortization expense related to intangible assets minus the deferred tax asset valuation allowance reversal divided by the weighted average number of shares of common stock outstanding during each period. We believe non-GAAP income per share is useful to an investor because it is widely used to measure a company's operating performance. The following table provides a reconciliation of net income to non-GAAP income per share (in thousands, except per share amounts):

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Net income	$ 2,704	$ 1,051	$ 1,222	$ 13,703	$ 2,884
Deferred tax asset valuation allowance reversal	—	—	—	(12,802)	—
Stock-based compensation expense	5,396	4,203	2,755	1,768	750
Amortization of intangible assets	2,856	3,158	1,767	643	—
Non-GAAP income	$10,956	$ 8,412	$ 5,744	$ 3,312	$ 3,634
Non-GAAP income per share					
Basic	$ 0.67	$ 0.55	$ 0.44	$ 0.28	$ 0.45
Diluted	$ 0.65	$ 0.53	$ 0.41	$ 0.26	$ 0.31
Shares used to compute non-GAAP income per share					
Basic	16,236	15,201	13,056	11,960	8,036
Diluted	16,814	15,931	13,910	12,744	11,596

(8) 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.

Item 7. *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 together with the section titled "Selected Financial Data" and our audited financial statements and related notes which are included elsewhere in this Annual Report on Form 10-K. 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" included elsewhere in this Annual Report on Form 10-K.

Overview

We are a leading provider of cloud-based supply chain management solutions, providing network-proven integrations and comprehensive retail performance analytics to thousands of customers worldwide. We provide our solutions through the SPS Commerce platform, a cloud-based product suite that improves the way suppliers, retailers, distributors and other customers manage and fulfill orders. We derive the majority of our revenues from thousands of monthly recurring subscriptions from businesses that utilize our solutions.

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

For 2014, 2013 and 2012, we generated revenues of $127.9 million, $104.4 million and $77.1 million, respectively. Our fiscal quarter ended December 31, 2014 represented our 56th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 90%, 89% and 88% of our total revenues for 2014, 2013 and 2012, respectively. Our revenues are not concentrated with any customer, as our largest customer represented 2% or less of total revenues in 2014, 2013 and 2012.

Key Financial Terms and Metrics

Sources of Revenues

Trading Partner Fulfillment. Our revenues primarily consist of monthly revenues from our customers for our Trading Partner Fulfillment solution. This solution consists of a monthly subscription fee and a transaction-based fee. We also receive set-up fees for initial integration services we provide to our customers. Most of our customers have contracts with us that may be terminated by the customer by providing 30 days prior notice.

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 Analytics. Our Trading Partner Analytics solution consists of data analytics applications which allow our 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 consist primarily of personnel costs for our 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.

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 expand our business, we will continue to add resources to our sales and marketing efforts over time.

Research and Development Expenses. Research and development expenses consist primarily of personnel costs for development and maintenance of existing solutions. Our research and development group is also 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.

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.

Other Metrics

Recurring Revenue Customers. As of December 31, 2014, we had approximately 22,000 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 small portion of our recurring revenue customers consist 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, which we also refer to as wallet share, by dividing the recurring revenues from recurring revenue customers for the period by the average of the beginning and ending number of recurring revenue customers for the period. For interim periods, we annualize this number by multiplying the quotient calculated above by the quotient of 12 divided by the number of months in the period. We anticipate that average recurring revenues per recurring revenue customer will continue to increase as we increase the number of solutions we offer and increase the penetration of those solutions across our customer base.

Non-GAAP Financial Measures. To supplement our financial statements, we also provide investors with Adjusted EBITDA and non-GAAP income per share, both of which are non-GAAP financial measures. We believe that these non-GAAP measures provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare the company's performance to that of prior periods for trend analyses and planning purposes. Adjusted EBITDA is also used for purposes of determining executive and senior management incentive compensation. These measures are also presented to our board of directors.

These non-GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with generally accepted accounting principles in the United States of America. These non-GAAP financial measures exclude significant expenses and income that are required by GAAP to be recorded in the company's financial statements and are subject to inherent limitations. Investors should review the reconciliations of non-GAAP financial measures to the comparable GAAP financial measures that are included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Critical Accounting Policies and Estimates

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 of America, 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 Fulfillment, Trading Partner Enablement and Trading Partner Analytics. Our cloud-based solutions allow our customers to meet their supply chain management requirements.

Fees related to our Trading Partner Fulfillment, Trading Partner Enablement and Trading Partner Analytics solutions consist of two revenue sources: set-up fees and recurring monthly fees. Set-up fees are specific for each connection a customer has with a trading partner and most of our customers have connections with numerous trading partners. Set-up fees are nonrefundable upfront fees that do not have standalone value to our customer and are not separable from the recurring monthly fees. All set-up fees and related costs are deferred and recognized ratably over the average life of the connection between the customer and the trading partner, which is approximately two years. We begin recognizing set-up fee revenue once the connection is established. Set-up fees for which connections have not yet been established are classified as long-term. We continue to evaluate the length of the amortization period as more experience is gained with cancellations and technology changes requested by our customers. It is possible that, in the future, the period over which such subscription set-up fees and costs are amortized may be adjusted. Any change in our estimate of the average connection life 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 the overall composition of our accounts receivable aging, our prior history of accounts receivable writeoffs, the type of customers and our experience with specific customers. 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 accounts receivable 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 using the 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 basis 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 when it is not “more likely than not” that the deferred tax asset will be utilized.

We assess our ability to realize our deferred tax assets at the end of each reporting period. Realization of our deferred tax assets is contingent upon future taxable earnings. Accordingly, this assessment requires significant estimates and judgment. If the estimates of future taxable income vary from actual results, our assessment regarding the realization of these deferred tax assets could change. Future changes in the estimated amount of deferred taxes expected to be realized will be reflected in our consolidated financial statements in the period the estimate is changed, with a corresponding adjustment to our operating results.

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

Stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized ratably as an expense over the vesting period of the award. Determining the appropriate fair value model and calculating the fair value of stock-based payment awards require the use of subjective assumptions, including the expected life of the stock-based payment awards and stock price volatility. We use the Black-Scholes option pricing model to value our award 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. We expect to continue to grant stock-based awards in the future, and to the extent that we do, our actual stock-based compensation expense recognized in future periods will likely increase.

Prior to becoming a public entity in 2010, historical volatility was not available for our common stock. As a result, we do not have sufficient data to rely solely on the historical volatility of our common stock. Therefore, we have estimated volatility based partially on the historical volatilities of the publicly traded shares of a selected peer group, and partially on the historical volatility of our common stock, which collectively provided a reasonable basis for estimating volatility. Beginning in 2015, we anticipate that we will be able to rely solely on the historical volatility of our common stock.

Valuation of Goodwill and Purchased Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in a business combination. Assets acquired may include identifiable intangible assets, such as subscriber relationships, which are recognized separately from goodwill.

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 the carrying value of the reporting unit. Fair value is determined using the direct market observation of market price and outstanding equity of the reporting unit at December 31. If the carrying value of the goodwill were to exceed the fair value of the reporting unit, the goodwill may be impaired. If this were to occur, the fair value would then be allocated to assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the goodwill. This implied fair value would then be compared to the carrying amount of the goodwill and, if it were less, an impairment loss would be recognized.

Results of Operations

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

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

	Year Ended December 31,				Change	
	2014		2013			
		% of revenue		% of revenue	$	%
Revenues	$127,947	100.0%	$104,391	100.0%	$23,556	22.6%
Cost of revenues	39,991	31.3	31,781	30.4	8,210	25.8
Gross profit	87,956	68.7	72,610	69.6	15,346	21.1
Operating expenses						
Sales and marketing	46,990	36.7	39,621	38.0	7,369	18.6
Research and development	13,494	10.5	10,870	10.4	2,624	24.1
General and administrative	20,233	15.8	17,189	16.5	3,044	17.7
Amortization of intangible assets	2,856	2.2	3,158	3.0	(302)	(9.6)
Total operating expenses	83,573	65.3	70,838	67.9	12,735	18.0
Income from operations	4,383	3.4	1,772	1.7	2,611	147.3
Other income (expense)						
Interest income, net	187	0.1	112	0.1	75	67.0
Other expense	(458)	(0.4)	(147)	(0.1)	(311)	211.6
Total other expense, net	(271)	(0.2)	(35)	—	(236)	674.3
Income before income taxes	4,112	3.2	1,737	1.7	2,375	136.7
Income tax expense	(1,408)	(1.1)	(686)	(0.7)	(722)	105.2
Net income	$ 2,704	2.1	$ 1,051	1.0	1,653	157.3

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

Revenues. Revenues for 2014 increased $23.6 million, or 23%, to $127.9 million from $104.4 million for 2013. The increase in revenues resulted from two primary factors: the increase in recurring revenue customers and the increase in average recurring revenues per recurring revenue customer, which we also refer to as wallet share.

- The number of recurring revenue customers increased 12% to 21,983 at December 31, 2014 from 19,690 at December 31, 2013.
- Average recurring revenues per recurring revenue customer, or wallet share, increased 12% to $5,524 for 2014 from $4,920 for 2013. This increase in wallet share was primarily attributable to increased fees resulting from increased usage of our solutions by our recurring revenue customers and growth in larger customers.

Recurring revenues from recurring revenue customers increased 24% in 2014, as compared to 2013, and accounted for 90% of our total revenues for 2014 and 89% for 2013. We anticipate that the number of recurring revenue customers and wallet share will continue to increase as we increase the number of solutions we offer and increase the penetration of those solutions across our customer base.

Cost of Revenues. Cost of revenues for 2014 increased $8.2 million, or 26%, to $40.0 million from $31.8 million for 2013. This increase was primarily due to increased headcount in 2014 which resulted in higher personnel costs. We also incurred higher expenses for software subscriptions in 2014 as compared to 2013. As a percentage of revenues, cost of revenues was 31% for 2014 compared to 30% for 2013. Going forward, we anticipate that cost of revenues will increase in absolute dollars as we continue to expand our business.

Sales and Marketing Expenses. Sales and marketing expenses for 2014 increased $7.4 million, or 19%, to $47.0 million from $39.6 million for 2013. This increase was primarily due to increased headcount in 2014, which resulted in higher personnel costs, and increased commissions earned by sales personnel from new business. We also had increased promotional, occupancy, depreciation and stock-based compensation expenses in 2014 as compared to 2013. As a percentage of revenues, sales and marketing expenses were 37% for 2014 compared to 38% for 2013. As we expand our business, we will continue to add resources to our sales and marketing efforts over time, and we expect that these expenses will continue to increase in absolute dollars.

Research and Development Expenses. Research and development expenses for 2014 increased $2.6 million, or 24%, to $13.5 million from $10.9 million for 2013. This increase was primarily due to increased headcount in 2014 which resulted in higher personnel costs. Also contributing to the increase were higher expenses for depreciation, stock-based compensation and occupancy in 2014 as compared to 2013. As a percentage of revenues, research and development expenses were 11% for 2014, compared to 10% for 2013. As we enhance and expand our solutions and applications, we expect that research and development expenses will continue to increase in absolute dollars.

General and Administrative Expenses. General and administrative expenses for 2014 increased $3.0 million, or 18%, to $20.2 million from $17.2 million for 2013. This increase was due to increased legal costs, including costs related to the Leadtec acquisition, and increased costs for personnel, stock-based compensation and computer software and hardware maintenance in 2014 as compared to 2013. As a percentage of revenues, general and administrative expenses were 16% for 2014, compared to 17% for 2013. Going forward, we expect that general and administrative expenses will continue to increase in absolute dollars as we expand our business.

Amortization of Intangible Assets. Amortization of intangible assets for 2014 decreased $302,000 from 2013. Amortization expense for 2013 included $290,000 for the impairment of a certain non-competition agreement.

Other Expense. Other expense for 2014 included $338,000 for a one-time Australian stamp duty tax related to the Leadtec acquisition in October 2014.

Income Tax Expense. Our 2014 provision for income taxes was $1.4 million and included current federal, state and foreign income taxes as well as deferred federal and state income taxes. Our 2013 provision for income taxes was $686,000 and included current state and foreign income taxes as well as deferred federal and state income taxes. It also included a one-time tax benefit for the retroactive benefit of the 2012 federal R&D credit. If this one-time tax benefit were excluded, our 2013 provision for income taxes would have been $803,000. For 2015, we expect that our annual effective income tax rate will be approximately 40%. See Note K to our consolidated financial statements, included in this Annual Report on Form 10-K, for additional information regarding our income taxes.

Adjusted EBITDA. Adjusted EBITDA, which is a non-GAAP measure of financial performance, consists of net income plus depreciation and amortization, interest expense, interest income, income tax expense, stock-based compensation expense and other adjustments as necessary for a fair presentation. Other adjustments included the impact of a one-time Australian stamp duty tax related to the Leadtec acquisition in 2014, as well as the impact of use tax refunds in 2014 and 2013 related to items previously expensed. The following table provides a reconciliation of net income to Adjusted EBITDA (in thousands):

	Year Ended December 31,	
	2014	2013
Net income	$ 2,704	$ 1,051
Depreciation and amortization	8,570	8,051
Interest income, net	(187)	(112)
Income tax expense	1,408	686
Other	269	(105)
EBITDA	12,764	9,571
Stock-based compensation expense	5,396	4,203
Adjusted EBITDA	$18,160	$13,774

Non-GAAP Income per Share. Non-GAAP income per share, which is also a non-GAAP measure of financial performance, consists of net income plus stock-based compensation expense and amortization expense related to intangible assets divided by the weighted average number of shares of common stock outstanding during each period. The following table provides a reconciliation of net income to non-GAAP income per share (in thousands, except per share amounts):

	Year Ended December 31,	
	2014	2013
Net income	$ 2,704	$ 1,051
Stock-based compensation expense	5,396	4,203
Amortization of intangible assets	2,856	3,158
Non-GAAP income	$10,956	$ 8,412
Non-GAAP income per share		
Basic	$ 0.67	$ 0.55
Diluted	$ 0.65	$ 0.53
Shares used to compute non-GAAP income per share		
Basic	16,236	15,201
Diluted	16,814	15,931

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

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

	Year Ended December 31,				Change	
	2013		2012			
		% of revenue		% of revenue	$	%
Revenues	$104,391	100.0%	$77,106	100.0%	$27,285	35.4%
Cost of revenues	31,781	30.4	22,040	28.6	9,741	44.2
Gross profit	72,610	69.6	55,066	71.4	17,544	31.9
Operating expenses						
Sales and marketing	39,621	38.0	30,037	39.0	9,584	31.9
Research and development	10,870	10.4	8,166	10.6	2,704	33.1
General and administrative	17,189	16.5	13,524	17.5	3,665	27.1
Amortization of intangible assets	3,158	3.0	1,767	2.3	1,391	78.7
Total operating expenses	70,838	67.9	53,494	69.4	17,344	32.4
Income from operations	1,772	1.7	1,572	2.0	200	12.7
Other income (expense)						
Interest income, net	112	0.1	19	—	93	489.5
Other expense	(147)	(0.1)	(248)	(0.3)	101	(40.7)
Total other expense, net	(35)	—	(229)	(0.3)	194	(84.7)
Income before income taxes	1,737	1.7	1,343	1.7	394	29.3
Income tax expense	(686)	(0.7)	(121)	(0.2)	(565)	466.9
Net income	$ 1,051	1.0	$ 1,222	1.6	(171)	(14.0)

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

Revenues. Revenues for 2013 increased $27.3 million, or 35%, to $104.4 million from $77.1 million for 2012. The increase in revenues resulted from two primary factors: the increase in recurring revenue customers and the increase in average recurring revenues per recurring revenue customer, which we also refer to as wallet share.

- The number of recurring revenue customers increased 10% to 19,690 at December 31, 2013 from 17,977 at December 31, 2012.
- Average recurring revenues per recurring revenue customer, or wallet share, increased 24% to $4,920 for 2013 from $3,964 for 2012. This increase in wallet share was primarily attributable to increased fees resulting from increased usage of our solutions by our recurring revenue customers and growth in larger customers, including those acquired from Edifice in 2012.

Recurring revenues from recurring revenue customers accounted for 89% of our total revenues for 2013, compared to 88% for 2012.

Cost of Revenues. Cost of revenues for 2013 were $31.8 million, an increase of $9.7 million, or 44%, from $22.0 million for 2012. This increase was primarily due to increased headcount in 2013 which resulted in higher personnel costs. We also incurred higher expenses for depreciation, occupancy and network services in 2013 as compared to 2012. As a percentage of revenues, cost of revenues was 30% for 2013 compared to 29% for 2012.

Sales and Marketing Expenses. Sales and marketing expenses for 2013 increased $9.6 million, or 32%, to $39.6 million from $30.0 million for 2012. This increase was primarily due to increased headcount in 2013, which resulted in higher personnel costs, as well as increased commissions earned by sales personnel from new business. We also incurred increased expenses for depreciation, stock-based compensation and occupancy in 2013 as compared to 2012. As a percentage of revenues, sales and marketing expenses were 38% for 2013 compared to 39% for 2012.

Research and Development Expenses. Research and development expenses for 2013 were $10.9 million, an increase of $2.7 million, or 33%, from $8.2 million for 2012. This increase was primarily due to increased headcount in 2013 which resulted in higher personnel costs. Also contributing to the increase were higher expenses for depreciation, software subscriptions, stock-based compensation and occupancy in 2013 as compared to 2012. As a percentage of revenues, research and development expenses were 10% for 2013 and 11% for 2012.

General and Administrative Expenses. General and administrative expenses for 2013 increased $3.7 million, or 27%, to $17.2 million from $13.5 million for 2012. This increase was due to increased headcount in 2013, which resulted in higher personnel costs, as well as increased stock-based compensation, depreciation and software maintenance and subscription expenses compared to 2012. In addition, legal expenses in 2013 decreased slightly as compared to 2012. As a percentage of revenues, general and administrative expenses were 17% for 2013, compared to 18% for 2012.

Amortization of Intangible Assets. Amortization expense for the year ended December 31, 2013 included $290,000 for the impairment of a certain non-competition agreement.

Income Tax Expense. Our 2013 provision for income taxes was $686,000 and included current state and foreign income taxes as well as deferred federal and state income taxes. It also included a one-time tax benefit for the retroactive benefit of the 2012 federal R&D credit. The American Taxpayer Relief Act of 2012 was enacted on January 2, 2013 and extended the federal R&D credit from January 1, 2012 through December 31, 2013. If this one-time tax benefit were excluded, our 2013 provision for income taxes would have been $803,000.

Our 2012 provision for income taxes was $121,000 and included current state and foreign income taxes as well as deferred federal and state income taxes. It also included one-time tax benefits related to true-up adjustments for prior years and increased state effective tax rates. If these one-time benefits were excluded, our 2012 provision for income taxes would have been $418,000. See Note K to our consolidated financial statements, included in this Annual Report on Form 10-K, for additional information regarding our income taxes.

Adjusted EBITDA. Adjusted EBITDA, which is a non-GAAP measure of financial performance, consists of net income plus depreciation and amortization, interest expense, interest income, income tax expense, stock-based compensation expense and other adjustments as necessary for a fair presentation. In 2013, other adjustments included the impact of a use tax refund related to items previously expensed. The following table provides a reconciliation of net income to Adjusted EBITDA (in thousands):

	Year Ended December 31,	
	2013	**2012**
Net income	$ 1,051	$1,222
Depreciation and amortization	8,051	4,918
Interest income, net	(112)	(19)
Income tax expense	686	121
Other	(105)	—
EBITDA	9,571	6,242
Stock-based compensation expense	4,203	2,755
Adjusted EBITDA	$13,774	$8,997

Non-GAAP Income per Share. Non-GAAP income per share, which is also a non-GAAP measure of financial performance, consists of net income plus stock-based compensation expense and amortization expense related to intangible assets divided by the weighted average number of shares of common stock outstanding during each period. The following table provides a reconciliation of net income to non-GAAP income per share (in thousands, except per share amounts):

	Year Ended December 31,	
	2013	2012
Net income	$ 1,051	$ 1,222
Stock-based compensation expense	4,203	2,755
Amortization of intangible assets	3,158	1,767
Non-GAAP income	$ 8,412	$ 5,744
Non-GAAP income per share		
Basic	$ 0.55	$ 0.44
Diluted	$ 0.53	$ 0.41
Shares used to compute non-GAAP income per share		
Basic	15,201	13,056
Diluted	15,931	13,910

Liquidity and Capital Resources

At December 31, 2014, our principal sources of liquidity were cash and cash equivalents totaling $130.8 million and accounts receivable, net of allowance for doubtful accounts of $15.4 million compared to cash and cash equivalents of $131.3 million and accounts receivable, net of allowance for doubtful accounts of $11.6 million at December 31, 2013. Our working capital at December 31, 2014 was $137.6 million compared to working capital of $137.2 million at December 31, 2013.

The slight increase in working capital from December 31, 2013 to December 31, 2014 resulted primarily from the following:

- $499,000 decrease in cash and cash equivalents, due primarily to the $16.8 million of cash provided by operations and $3.5 million of cash received from the exercise of stock options and net proceeds from our employee stock purchase plan, all reduced by the $12.6 million of cash used for the Leadtec acquisition, the $7.6 million of cash used for capital expenditures and the impact of changes in foreign currency exchange rates;
- $3.8 million increase in net accounts receivable, as new accounts exceeded collections of outstanding balances in 2014 due to growth in our business;
- $3.0 million increase in deferred costs for expenses related to increased implementation resources and commission payments for new business;
- $1.2 million decrease in deferred income taxes primarily related to the decrease in the amount of federal net operating loss carryforwards that we expect to utilize in 2015 as compared to 2014;
- $996,000 increase in other current assets, primarily due to prepaid service contracts;
- $2.2 million increase in accounts payable, primarily due to timing of payments and growth in our business;
- $1.9 million increase in accrued compensation, due to increased headcount and payroll timing;
- $367,000 increase in accrued expenses and deferred rent due primarily to office expansion, and
- $1.2 million increase in deferred revenue due to new business in 2014.

Net Cash Flows from Operating Activities

Net cash provided by operating activities was $16.8 million for 2014 compared to $18.2 million for 2013. The increase in net income, the changes in non-cash expenses, including increased depreciation and stock-based compensation, and the changes in our working capital accounts, including those discussed above, resulted in the overall decrease in net cash provided by operations.

Net cash provided by operating activities was $18.2 million for 2013 compared to $6.8 million for 2012. The slight decrease in net income, the changes in non-cash expenses, including increased depreciation, amortization and stock-based compensation, and the changes in our working capital accounts, including those discussed above, resulted in the overall increase in net cash provided by operations.

Net Cash Flows from Investing Activities

Net cash used in investing activities was $20.2 million for 2014, including $12.6 million for the acquisition of Leadtec and $7.6 million for capital expenditures. In general, our capital expenditures are for supporting our business growth and existing customer base, as well as for our internal use such as equipment for our employees.

Net cash used in investing activities was $5.7 million for 2013, all for capital expenditures.

For 2012, net cash used in investing activities was $32.2 million, including $26.3 million for the acquisition of Edifice and $6.0 million for capital expenditures.

Net Cash Flows from Financing Activities

Net cash provided by financing activities was $3.5 million for 2014, all related to the exercise of stock options and proceeds from our employee stock purchase plan.

Net cash provided by financing activities was $52.7 million for 2013, and primarily represented $47.6 million of net proceeds from our common stock offering in November 2013 and $5.1 million related to the exercise of stock options and proceeds from our employee stock purchase plan.

Net cash provided by financing activities was $59.5 million for 2012, and primarily represented $57.8 million of net proceeds from our common stock offering in September 2012 and $2.0 million of cash received from the exercise of employee stock options and net proceeds from our employee stock purchase plan.

Credit Facility

We have a revolving credit agreement with JPMorgan Chase Bank, N.A. which provides for a $20 million revolving credit facility that we may draw upon from time to time, subject to certain terms and conditions, and will mature on September 30, 2016. Proceeds from the credit facility are anticipated to be used for acquisitions and our capital needs.

Interest on amounts borrowed under the credit facility is based on (i) an Adjusted LIBO Rate (as defined in the revolving credit agreement) plus an applicable margin of 175 to 225 basis points based on our net working capital, or (ii) JPMorgan's prime rate (provided it is not less than the Adjusted One Month LIBO Rate (as defined in the revolving credit agreement)) plus an applicable margin of -25 to 25 basis points based on our net working capital. Interest is payable monthly in arrears. Availability under the credit facility is subject to a borrowing base equal to the sum of 250% of our eligible monthly recurring revenue (as defined in the revolving credit agreement) and all borrowings are due in full no later than the maturity date of the agreement.

The revolving credit agreement contains customary representations, warranties, covenants and events of default, including, but not limited to financial covenants requiring us to maintain a fixed charge coverage ratio of not less than 1.20 to 1.00, cash and cash equivalents of not less than $10 million and a minimum number of recurring revenue customers. If an event of default occurs, among other things, the applicable interest rate is subject to an increase of 200 basis points and all outstanding obligations may become immediately due and payable.

There were no borrowings under the revolving credit agreement in 2014 or 2013. In connection with the acquisition of Edifice in 2012, we borrowed $11.0 million under our line of credit to fund a portion of the cash paid for the acquisition. On September 11, 2012, this debt was repaid in full with a portion of the proceeds received from our public offering of common stock on that date.

As of December 31, 2014 and 2013, there were no borrowings outstanding, approximately $20.0 million was available for borrowings, and we were in compliance with all covenants under the revolving credit agreement.

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 of America 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 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, 2014 are summarized below:

	Payments Due By Period				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(In thousands)		
Operating lease obligations	$16,608	$ 3,667	$ 5,983	$ 5,410	$ 1,548

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.

Recent Accounting Pronouncements

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

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Sensitivity Risk. The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss. The recorded carrying amounts of cash and cash equivalents approximate fair value due to their short maturities. We did not have any outstanding debt as of December 31, 2014 and 2013. We therefore do not have any material risk to interest rate fluctuations unless we borrow under our credit facility.

Foreign Currency Exchange Risk. We have revenue, expenses, assets and liabilities that are denominated in currencies other than the U.S. dollar, primarily the Australian dollar. As we expand internationally, our results of operations and cash flows may be impacted by changes in foreign currency exchange rates, and would be adversely impacted when the U.S. dollar depreciates relative to other foreign currencies. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk, although we may do so in the future.

Item 8. ***Financial Statements and Supplementary Data***

SPS Commerce, Inc. Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
SPS Commerce, Inc.:

We have audited the accompanying consolidated balance sheets of SPS Commerce, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the years then ended. We also have audited SPS Commerce, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. SPS Commerce, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included 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, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SPS Commerce, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also in our opinion, SPS Commerce, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

SPS Commerce, Inc. acquired the net assets of Leadtec Systems Australia Pty Ltd and its affiliates (collectively "Leadtec") during the fourth quarter of 2014, and management excluded from its assessment of the effectiveness of internal control over financial reporting as of December 31, 2014, Leadtec's internal control over financial reporting associated with approximately two percent of total assets and one percent of revenues in the consolidated financial statements of SPS Commerce, Inc. as of and for the year ended December 31, 2014. Our audit of internal control over financial reporting of SPS Commerce, Inc. also excluded an evaluation of the internal control over financial reporting of Leadtec.

/s/ KPMG LLP

Minneapolis, Minnesota
February 20, 2015

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
SPS Commerce, Inc.

We have audited the accompanying consolidated statements of comprehensive income, stockholders' equity, and cash flows of SPS Commerce, Inc. (a Delaware corporation) and subsidiaries (the "Company") for the year ended December 31, 2012. 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 audit.

We conducted our audit 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of SPS Commerce, Inc. and subsidiaries for the year ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Minneapolis, Minnesota
March 6, 2013

SPS COMMERCE, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	December 31, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 130,795	$ 131,294
Accounts receivable, net	15,422	11,611
Deferred costs	12,055	9,048
Deferred income taxes	76	1,272
Other current assets	3,846	2,850
Total current assets	162,194	156,075
PROPERTY AND EQUIPMENT, net	11,361	9,922
GOODWILL	34,854	25,487
INTANGIBLE ASSETS, net	18,851	17,082
OTHER ASSETS		
Deferred costs, non-current	5,267	3,684
Deferred income taxes, non-current	11,035	10,870
Other non-current assets	213	210
Total assets	$ 243,775	$ 223,330
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 3,961	$ 1,798
Accrued compensation	9,926	7,981
Accrued expenses	2,470	2,413
Deferred revenue	7,505	6,335
Deferred rent	698	388
Total current liabilities	24,560	18,915
OTHER LIABILITIES		
Deferred revenue, non-current	10,653	8,785
Deferred rent, non-current	3,471	2,857
Total liabilities	38,684	30,557
COMMITMENTS and CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, $0.001 par value; 55,000,000 shares authorized; 16,348,747 and 16,092,121 shares issued and outstanding, respectively	16	16
Additional paid-in capital	250,633	239,549
Accumulated deficit	(44,088)	(46,792)
Foreign currency translation adjustments	(1,470)	—
Total stockholders' equity	205,091	192,773
Total liabilities and stockholders' equity	$ 243,775	$ 223,330

See accompanying notes to these consolidated financial statements.

SPS COMMERCE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Revenues	$ 127,947	$ 104,391	$ 77,106
Cost of revenues	39,991	31,781	22,040
Gross profit	87,956	72,610	55,066
Operating expenses			
Sales and marketing	46,990	39,621	30,037
Research and development	13,494	10,870	8,166
General and administrative	20,233	17,189	13,524
Amortization of intangible assets	2,856	3,158	1,767
Total operating expenses	83,573	70,838	53,494
Income from operations	4,383	1,772	1,572
Other income (expense)			
Interest income, net	187	112	19
Other expense	(458)	(147)	(248)
Total other expense, net	(271)	(35)	(229)
Income before income taxes	4,112	1,737	1,343
Income tax expense	(1,408)	(686)	(121)
Net income	$ 2,704	$ 1,051	$ 1,222
Net income per share			
Basic	$ 0.17	$ 0.07	$ 0.09
Diluted	$ 0.16	$ 0.07	$ 0.09
Weighted average common shares used to compute net income per share			
Basic	16,236	15,201	13,056
Diluted	16,814	15,931	13,910
Other comprehensive income (loss)			
Foreign currency translation adjustments	(1,470)	—	—
Comprehensive income	$ 1,234	$ 1,051	$ 1,222

See accompanying notes to these consolidated financial statements.

SPS COMMERCE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balances, January 1, 2012	12,138,858	$ 12	$108,606	$ (49,065)	$ —	$ 59,553
Stock-based compensation	—	—	2,755	—	—	2,755
Exercise of stock options	468,717	1	1,563	—	—	1,564
Excess tax benefit of stock options exercised	—	—	72	—	—	72
Employee stock purchase plan	17,332	—	448	—	—	448
Stock issued for acquisition	347,852	—	11,395	—	—	11,395
Stock offering, net of costs	1,840,000	2	57,806	—	—	57,808
Net income	—	—	—	1,222	—	1,222
Balances, December 31, 2012	14,812,759	15	182,645	(47,843)	—	134,817
Stock-based compensation	—	—	4,203	—	—	4,203
Exercise of stock options and issuance of restricted stock	497,248	—	3,735	—	—	3,735
Excess tax benefit of stock options exercised	—	—	156	—	—	156
Employee stock purchase plan	32,114	—	1,242	—	—	1,242
Stock offering, net of costs	750,000	1	47,568	—	—	47,569
Net income	—	—	—	1,051	—	1,051
Balances, December 31, 2013	16,092,121	16	239,549	(46,792)	—	192,773
Stock-based compensation	—	—	5,396	—	—	5,396
Exercise of stock options and issuance of restricted stock	186,678	—	1,886	—	—	1,886
Excess tax benefit of stock options exercised	—	—	261	—	—	261
Employee stock purchase plan	26,353	—	1,338	—	—	1,338
Stock issued for acquisition	43,595	—	2,203	—	—	2,203
Net income	—	—	—	2,704	—	2,704
Foreign currency translation adjustments	—	—	—	—	(1,470)	(1,470)
Balances, December 31, 2014	16,348,747	$ 16	$250,633	$ (44,088)	$ (1,470)	$ 205,091

See accompanying notes to these consolidated financial statements.

SPS COMMERCE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31, 2014	2013	2012
Cash flows from operating activities			
Net income	$ 2,704	$ 1,051	$ 1,222
Reconciliation of net income to net cash provided by operating activities			
Deferred income taxes	1,031	443	(15)
Depreciation and amortization of property and equipment	5,714	4,893	3,151
Amortization of intangible assets	2,856	3,158	1,767
Provision for doubtful accounts	717	479	383
Stock-based compensation	5,396	4,203	2,755
Changes in assets and liabilities, net of effects of acquisitions			
Accounts receivable	(3,890)	(1,150)	(2,067)
Deferred costs	(4,590)	(2,184)	(2,290)
Other current assets	(719)	2,593	(3,534)
Other non-current assets	—	28	(42)
Accounts payable	1,271	(59)	446
Accrued compensation	1,568	1,943	920
Accrued expenses	1,365	(108)	101
Deferred revenue	2,440	1,309	2,551
Deferred rent	925	1,644	1,481
Net cash provided by operating activities	16,788	18,243	6,829
Cash flows from investing activities			
Business acquisitions, net of cash acquired	(12,595)	—	(26,262)
Purchases of property and equipment	(7,582)	(5,701)	(5,983)
Net cash used in investing activities	(20,177)	(5,701)	(32,245)
Cash flows from financing activities			
Payments of capital lease obligations	—	—	(410)
Borrowings on line of credit	—	—	11,000
Payments on line of credit	—	—	(11,000)
Net proceeds from stock offerings	—	47,738	57,940
Stock offering costs	—	(169)	(132)
Net proceeds from exercise of options to purchase common stock	1,886	3,735	1,563
Excess tax benefit from exercise of options to purchase common stock	261	156	72
Net proceeds from employee stock purchase plan	1,338	1,242	448
Net cash provided by financing activities	3,485	52,702	59,481
Effect of foreign currency exchange rate changes	(595)	—	—
Net increase (decrease) in cash and cash equivalents	(499)	65,244	34,065
Cash and cash equivalents at beginning of period	131,294	66,050	31,985
Cash and cash equivalents at end of period	$ 130,795	$ 131,294	$ 66,050
Supplemental disclosure of cash flow information			
Cash paid for interest	$ —	$ —	$ 27
Cash paid for income taxes	113	55	47
Non-cash financing activities:			
Common stock issued for business acquisitions	2,203	—	11,396

See accompanying notes to these consolidated financial statements.

SPS COMMERCE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – General

Business Description

We are a leading provider of cloud-based supply chain management solutions, providing network-proven integrations and comprehensive retail performance analytics to thousands of customers worldwide. We provide our solutions through the SPS Commerce platform, a cloud-based product suite that improves the way suppliers, retailers, distributors and other customers manage and fulfill orders. We derive the majority of our revenues from thousands of monthly recurring subscriptions from businesses that utilize our solutions.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of SPS Commerce, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Foreign Currency Translation

Assets and liabilities denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the exchange rates in effect at the balance sheet date, with the resulting translation adjustments recorded as a separate component of accumulated other comprehensive income (loss). Income and expense accounts are translated at the average exchange rates during the year. Foreign currency transaction gains and losses, if any, are included in net income.

Use of Estimates

Preparing financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Business Combinations

We recognize separately from goodwill the fair value of the assets acquired and the liabilities assumed at the acquisition date. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date amounts of the assets acquired and the liabilities assumed. Assets acquired include tangible and intangible assets. We use estimates and assumptions that we believe are reasonable as a part of determining the value and useful lives of purchased intangible assets and the purchase price allocation process. While we believe these estimates and assumptions are reasonable, they are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the fair value of the assets acquired and the liabilities assumed. Any such adjustments would be recorded as an offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair values, whichever comes first, any subsequent adjustments would be recorded in our consolidated statements of comprehensive income.

Segment Information

We operate in and report on one segment, which is supply chain management solutions.

Risk and Uncertainties

We rely on hardware and software licensed from third parties to offer our on-demand solutions. Our management believes alternate sources are available; however, disruption or termination of these relationships could adversely affect our operating results in the near term.

Fair Value of Financial Instruments

The carrying amounts of our financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable and other accrued expenses, approximates fair value due to their short maturities.

Concentration of Credit Risk

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

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable are initially recorded upon the sale of solutions 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 certain customers to make the required payments. When determining the allowances for doubtful accounts, we take several factors into consideration including the overall composition of the accounts receivable aging, our prior history of accounts receivable write-offs, the type of customers and our experience with specific customers. We write off accounts receivable when they are determined to be uncollectible. Changes in the allowances for doubtful accounts are recorded as bad debt expense and are included in general and administrative expense in our consolidated statements of comprehensive income.

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 estimated useful lives when placed in service, which are:

Computer equipment and purchased software: 2 to 3 years

Office equipment and furniture: 5 to 7 years

Leasehold improvements: the shorter of the useful life of the asset or the remaining term of the lease

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 are adjusted for asset retirements and disposals with the resulting gain or loss included in our consolidated statements of comprehensive income.

Research and Development

Research and development costs primarily include maintenance and data conversion activities related to our cloud-based supply chain management solutions and are expensed as incurred.

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 the carrying value of the reporting unit. Fair value is determined using the direct market observation of market price and outstanding equity of the reporting unit at December 31. If the carrying value of the goodwill exceeds the fair value of the reporting unit, 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.

Intangible Assets

Assets acquired in business combinations may include identifiable intangible assets such as subscriber relationships and non-competition agreements. We recognize separately from goodwill the fair value of the identifiable intangible assets acquired. We have determined the fair value and useful lives of our purchased intangible assets using certain estimates and assumptions that we believe are reasonable.

The purchased intangible assets are being amortized on a straight-line basis over their estimated useful lives, which are three to nine years for subscriber relationships, two to five years for non-competition agreements and two and one-half years for technology and other.

Impairment of Long-Lived Assets

We review our 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 the carrying amount of an asset group exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets 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.

Revenue Recognition

We generate revenues by providing a number of solutions to our customers. These solutions include Trading Partner Fulfillment, Trading Partner Enablement and Trading Partner Analytics. Our cloud-based solutions allow customers to meet their supply chain management requirements. Sales taxes are presented on a net basis within revenue.

Revenues are recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the fee is fixed or determinable, and (4) collectability is probable. If collection is not considered probable, revenues are recognized when the fees are collected.

Fees related to our Trading Partner Fulfillment, Trading Partner Enablement and Trading Partner Analytics solutions consist of two revenue sources: set-up fees and recurring monthly fees. Set-up fees are specific for each connection a customer has with a trading partner and most of our customers have connections with numerous trading partners. Set-up fees are nonrefundable upfront fees that do not have standalone value to our customer and are not separable from the recurring monthly fees. All set-up fees and related costs are deferred and recognized ratably over the average life of the connection between the customer and the trading partner, which is approximately two years. We begin recognizing set-up fee revenue once the connection is established. Set-up fees for which connections have not yet been established are classified as long-term. We continue to evaluate the length of the amortization period as more experience is gained with cancellations and technology changes requested by our customers. It is possible that, in the future, the period over which such subscription set-up fees and costs are amortized may be adjusted. Any change in our estimate of the average connection life will affect our future results of operations. The recurring monthly fees are comprised of both fixed and transaction-based fees that are recognized as earned.

Stock-Based Compensation

We recognize the cost of all share-based payments to employees, including grants of employee stock options, in the financial statements based on the grant date fair value of those awards. This cost is recognized over the period for which an employee is required to provide service in exchange for the award. Benefits associated with tax deductions in excess of recognized compensation expense are reported as a cash flow from financing activities.

We estimate the fair value of options granted using the Black-Scholes option pricing model. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as an adjustment in the period estimates are revised. In valuing share-based awards, 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 is partially based on the historical volatilities of the publicly traded shares of a selected peer group, and partially based on the historical volatility of our common stock. This is because we do not have sufficient historical volatility data to rely solely on the historical volatility of our common stock. Beginning in 2015, we anticipate that we will be able to rely solely on the historical volatility of our common stock. The expected term of the options is based on the simplified method which does not consider historical or expected employee exercise behavior.

Advertising Costs

Advertising costs are charged to expense as incurred. Advertising costs were approximately $23,000, $61,000 and $150,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Advertising costs are included in sales and marketing expenses in our consolidated statements of comprehensive income.

Income Taxes

We account for income taxes using the 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 consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis 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 when it is not “more likely than not” that the deferred tax asset will be utilized.

We assess our ability to realize our deferred tax assets at the end of each reporting period. Realization of our deferred tax assets is contingent upon future taxable earnings. Accordingly, this assessment requires significant estimates and judgment. If the estimates of future taxable income vary from actual results, our assessment regarding the realization of these deferred tax assets could change. Future changes in the estimated amount of deferred taxes expected to be realized will be reflected in our consolidated financial statements in the period the estimate is changed, with a corresponding adjustment to our operating results.

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.

Net Income Per Share

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

Recent Accounting Pronouncements

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

NOTE B – Business Acquisitions

Leadtec

On October 12, 2014, we entered into and completed an asset purchase agreement with Leadtec Systems Australia Pty Ltd (“Leadtec”), and its affiliates, Advanced Barcode Solutions Pty Ltd, Scott Needham and Leading Technology Group Pty Ltd. Leadtec is in the business of cloud-based integration solutions. Pursuant to the asset purchase agreement, we purchased and acquired from Leadtec substantially all of the assets used in Leadtec’s business and assumed certain liabilities of Leadtec, all of which were recorded in Australian dollars. We paid $12.6 million in cash and issued 43,595 shares of our common stock for this acquisition, which expanded our base of recurring revenue customers and added suppliers to our network.

Purchase Price Allocation

We accounted for the acquisition as a business combination. We allocated the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. Goodwill is attributed to buyer-specific value resulting from expected synergies, including long-term cost savings, as well as a trained workforce which are not included in the fair values of assets. Goodwill will not be amortized; however the value is deductible for tax purposes.

The purchase price consisted of the following (in thousands):

Cash	$12,595
SPS Commerce, Inc. common stock	2,203
	$14,798

The number of shares of our common stock issued for the acquisition was 43,595 shares as calculated according to the terms of the purchase agreement. The fair value of the shares issued was approximately $2.2 million and was determined using the closing price of our common stock on October 10, 2014.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Current and other assets	$ 659
Property and equipment	143
Goodwill	9,954
Intangible assets	4,891
Current liabilities	(849)
	$14,798

Purchased Intangible Assets

The following table summarizes the estimated fair value of the purchased intangible assets and their estimated useful lives:

Purchased Intangible Assets	Estimated Fair Value (in thousands)	Estimated Life (in years)
Subscriber relationships	$ 3,778	9
Non-competition agreements	148	5
Technology and other	965	2.5
Total	$ 4,891	

The purchased intangible assets are being amortized on a straight-line basis over their estimated useful lives. Amortization expense related to these intangible assets was $168,000 for the year ended December 31, 2014.

Acquisition-Related Costs and Post-Acquisition Operating Results

Acquisition-related costs were $690,000, including $338,000 for a one-time Australian stamp duty tax, and are included in our consolidated statements of comprehensive income for the year ended December 31, 2014. The operating results of Leadtec have been included in our consolidated financial statements from October 12, 2014, the closing date of the acquisition. For the period from October 12, 2014 through December 31, 2014, revenues of approximately $1.2 million and an operating loss of approximately $280,000 were attributable to Leadtec.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below presents the combined operating results of SPS Commerce and Leadtec as if the acquisition had occurred on January 1, 2013. The unaudited pro forma information includes the historical operating results of each company and pro forma adjustments for annual amortization expense related to purchased intangible assets and the expected tax impact considering our current tax elections and representations.

(in thousands, except per share data)	Year Ended December 31, 2014	Year Ended December 31, 2013
Pro forma total revenue	$132,818	$110,759
Pro forma net income	2,973	1,236
Pro forma net income per share		
Basic	0.18	0.08
Diluted	0.18	0.08

The unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have actually been reported had the acquisition occurred on January 1, 2013, nor is it necessarily indicative of our results of operations for any future periods.

Edifice

On August 6, 2012, we entered into an asset purchase agreement with Edifice Information Management Systems, Inc. (“Edifice”), a privately-held information services company specializing in the collection, analysis and distribution of point-of-sale data used by retailers and suppliers to improve their supply chain efficiencies. We completed the asset purchase on August 7, 2012. Under the asset purchase agreement, we purchased and acquired substantially all of the assets of Edifice for $26.3 million in cash and 347,852 shares of our common stock. We also assumed certain liabilities of Edifice. This acquisition increased our point-of-sale analytic offerings, expanded our base of recurring revenue customers and added suppliers to our network.

Purchase Price Allocation

We accounted for the acquisition as a business combination. We allocated the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. Goodwill is attributed to a trained workforce and other buyer-specific value resulting from expected synergies, including long-term cost savings, which are not included in the fair values of assets. Goodwill will not be amortized; however it is deductible for tax purposes.

During the fourth quarter of 2012, we completed our evaluation of the purchase price allocation and there were no adjustments to the purchase price or net assets acquired.

The purchase price consisted of the following (in thousands):

Cash	$26,275
SPS Commerce, Inc. common stock	11,396
	$37,671

We borrowed $11.0 million under our existing line of credit to fund a portion of the cash paid for the acquisition. The number of shares of our common stock issued for the acquisition was 347,852 shares as calculated according to the terms of the purchase agreement. The fair value of the shares issued was determined using the closing price of our common stock on August 6, 2012.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Current assets	$ 1,457
Property and equipment	1,456
Goodwill	19,634
Intangible assets	16,240
Other assets	116
Current liabilities	(1,232)
	$37,671

Purchased Intangible Assets

The following table summarizes the estimated fair value of the purchased intangible assets and their estimated useful lives:

Purchased Intangible Assets	Estimated Fair Value (in thousands)	Estimated Life (in years)
Subscriber relationships	$ 15,980	9
Non-competition agreements	260	5
Total	$ 16,240	

The purchased intangible assets are being amortized on a straight-line basis over their estimated useful lives. Amortization expense related to these intangible assets was $1.8 million for each of the years ended December 31, 2014 and 2013 and $727,000 for the period from August 7, 2012 through December 31, 2012.

Acquisition-Related Costs and Post-Acquisition Operating Results

Acquisition-related costs were $212,000 and are included in our consolidated statements of comprehensive income for the year ended December 31, 2012. The operating results of Edifice have been included in our consolidated financial statements from August 7, 2012, the closing date of the acquisition. For the period from August 7, 2012 through December 31, 2012, approximately $5.0 million of our revenues were derived from Edifice customers. The amount of operating income or loss from Edifice was not separately identifiable due to our integration.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below presents the combined operating results of SPS Commerce and Edifice as if the acquisition had occurred on January 1, 2011. The unaudited pro forma information includes the historical operating results of each company and pro forma adjustments for the approximate $1.8 million of annual amortization expense related to purchased intangible assets and the additional impact on the provision or benefit for income taxes, resulting from the combined income and intangible amortization expense, using our statutory blended income tax rate of 36.5%.

(in thousands, except per share data)	Year Ended December 31, 2012
Pro forma total revenue	$ 83,478
Pro forma net income	1,055
Pro forma net income per share	
Basic	0.08
Diluted	0.07

The unaudited pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have actually been reported had the acquisition occurred on January 1, 2011, nor is it necessarily indicative of our results of operations for any future periods.

NOTE C – Allowance for Doubtful Accounts

The allowance for doubtful accounts activity, included in accounts receivable, net, was as follows (in thousands):

	2014	2013	2012
Balances, January 1	$ 237	$ 227	$ 222
Provision for doubtful accounts	717	479	383
Write-offs	(750)	(504)	(426)
Recoveries	75	35	48
Balances, December 31	$ 279	$ 237	$ 227

NOTE D – Property and Equipment, net

Property and equipment, net included the following (in thousands):

	December 31, 2014	December 31, 2013
Computer equipment and purchased software	$ 22,766	$ 18,368
Office equipment and furniture	5,015	3,828
Leasehold improvements	4,039	2,682
	31,820	24,878
Less: accumulated depreciation and amortization	(20,459)	(14,956)
	$ 11,361	$ 9,922

At December 31, 2014 and 2013, property and equipment, net included approximately $680,000 and $71,000, respectively, of assets held at subsidiary and office locations outside of the United States of America.

NOTE E – Goodwill and Intangible Assets, net

The change in goodwill for the year ended December 31, 2014 was due to the $10.0 million of goodwill from the acquisition of Leadtec (see Note B), partially offset by the effect of foreign currency translation.

Intangible assets, net included the following (in thousands):

	December 31,					
	2014			2013		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Subscriber relationships	$26,724	$ (8,992)	$17,732	$23,160	$ (6,376)	$16,784
Non-competition agreements	1,849	(1,581)	268	1,710	(1,412)	298
Technology and other	922	(71)	851	—	—	—
	$29,495	$ (10,644)	$18,851	$24,870	$ (7,788)	$17,082

Amortization expense for the year ended December 31, 2013 included $290,000 for the impairment of a certain non-competition agreement.

At December 31, 2014, future amortization expense for intangible assets was as follows (in thousands):

2015	$ 3,368
2016	3,368
2017	3,097
2018	2,485
2019	2,193
Thereafter	4,340
	$18,851

NOTE F – Line of Credit

We have a revolving credit agreement with JPMorgan Chase Bank, N.A. which provides for a $20 million revolving credit facility that we may draw upon from time to time, subject to certain terms and conditions, and will mature on September 30, 2016.

Interest on amounts borrowed under the credit facility is based on (i) an Adjusted LIBO Rate (as defined in the revolving credit agreement) plus an applicable margin of 175 to 225 basis points based on our net working capital, or (ii) JPMorgan's prime rate (provided it is not less than the Adjusted One Month LIBO Rate (as defined in the revolving credit agreement)) plus an applicable margin of -25 to 25 basis points based on our net working capital. Interest is payable monthly in arrears. Availability under the credit facility is subject to a borrowing base equal to the sum of 250% of our eligible monthly recurring revenue (as defined in the revolving credit agreement) and all borrowings are due in full no later than the maturity date of the agreement.

The revolving credit agreement contains customary representations, warranties, covenants and events of default, including, but not limited to financial covenants requiring us to maintain a fixed charge coverage ratio of not less than 1.20 to 1.00, cash and cash equivalents of not less than $10 million and a minimum number of recurring revenue customers. If an event of default occurs, among other things, the applicable interest rate is subject to an increase of 200 basis points and all outstanding obligations may become immediately due and payable.

There were no borrowings under the revolving credit agreement in 2014 or 2013. In connection with the acquisition of Edifice in 2012 (see Note B), we borrowed $11.0 million under our line of credit to fund a portion of the cash paid for the acquisition. On September 11, 2012, this debt was repaid in full with a portion of the proceeds received from our public offering of common stock on that date (see Note I).

As of December 31, 2014 and 2013, there were no borrowings outstanding, approximately $20.0 million was available for borrowings, and we were in compliance with all covenants under the revolving credit agreement.

NOTE G – Accrued Expenses

In the second quarter of 2013, we entered into an agreement to purchase software licenses. At December 31, 2013, our future payments under this agreement, which are included in accrued expenses in our consolidated balance sheets, were approximately $1.4 million. These obligations were fully repaid in the second quarter of 2014.

NOTE H – Commitments and Contingencies

Capital Leases

In connection with the acquisition of Edifice (see Note B), we assumed certain capital lease obligations for computer equipment and purchased software. As of September 30, 2012, these leases were fully repaid.

Operating Leases

We are obligated under non-cancellable operating leases primarily for office space. Rent expense charged to operations was $3.7 million, $2.8 million and $1.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

On February 14, 2012, we executed a new lease agreement for our current headquarters location which commenced on November 1, 2012 and expires on April 30, 2020. The lease includes additional square footage upon commencement, an automatic expansion of space on or about September 1, 2013, a right of first offer to lease certain additional space, which we exercised, and two options to extend the term of the lease for three years at a market rate determined in accordance with the lease. There was also a rent holiday from November 2012 to October 2013 which has been incorporated into our deferred rent calculation.

At December 31, 2014, our future minimum payments under operating leases were as follows (in thousands):

2015	$ 3,667
2016	3,132
2017	2,851
2018	2,703
2019	2,707
Thereafter	1,548
	$16,608

Other Contingencies

We may be involved in various claims and legal actions in the normal course of business. Our management believes that the outcome of any such claims and legal actions will not have a significant adverse effect on our financial position, results of operations or cash flows.

NOTE I – Stockholders' Equity

Common Stock Issued

On October 12, 2014, in connection with the acquisition of Leadtec (see Note B), we issued 43,595 shares of our common stock. The fair value of the shares we issued, approximately $2.2 million, was determined using the closing price of our common stock on October 10, 2014.

On November 25, 2013, we completed a public stock offering where we issued and sold 750,000 shares of our common stock at a price to the public of $67.00 per share. We received net proceeds of approximately $47.6 million from this offering after payment of approximately $2.7 million of underwriting discounts and commissions and legal, accounting and other fees incurred in connection with the offering.

On September 11, 2012, we completed a public stock offering where we issued and sold 1,840,000 shares of our common stock, including 240,000 shares sold pursuant to the exercise in full of the underwriters' over-allotment option, at a price to the public of $33.50 per share. We received net proceeds of approximately $57.8 million from this offering after payment of approximately $3.8 million of underwriting discounts and commissions and legal, accounting and other fees incurred in connection with the offering.

On August 7, 2012, in connection with the acquisition of Edifice (see Note B), we issued 347,852 shares of our common stock. The fair value of the shares issued was determined using the closing price of our common stock on August 6, 2012.

NOTE J – Stock-Based Compensation

Our equity compensation plans provide for the grant of incentive and nonqualified stock options, as well as other stock-based awards including restricted stock and restricted stock units, to employees, non-employee directors and other consultants who provide services to us. Restricted stock awards result in the issuance of new shares when granted. For other stock-based awards, new shares are issued when the award is exercised, vested or released according to the terms of the agreement. In January 2014, 965,527 additional shares were reserved for future issuance under our 2010 Equity Incentive Plan. At December 31, 2014, there were approximately 2.6 million shares available for grant under approved equity compensation plans.

We recorded stock-based compensation expense of $5.4 million, $4.2 million and $2.8 million for the years ended December 31, 2014, 2013 and 2012, respectively. This expense was allocated as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Cost of revenues	$ 614	$ 475	$ 382
Operating expenses			
Sales and marketing	1,933	1,481	895
Research and development	444	266	140
General and administrative	2,405	1,981	1,338
Total stock-based compensation expense	$5,396	$4,203	$2,755

As of December 31, 2014, there was approximately $8.8 million of unrecognized stock-based compensation expense under our equity compensation plans, which is expected to be recognized on a straight line basis over a weighted average period of 2.5 years.

Stock Options

Stock options generally vest over four years and have a contractual term of seven to ten years from the date of grant. Our stock option activity was as follows:

	Options (#)	Weighted Average Exercise Price ($/share)
Outstanding at January 1, 2012	1,669,409	$ 8.14
Granted	240,831	26.38
Exercised	(468,717)	3.35
Forfeited	(71,382)	19.25
Outstanding at December 31, 2012	1,370,141	12.41
Granted	225,439	40.64
Exercised	(469,225)	7.96
Forfeited	(29,132)	30.93
Outstanding at December 31, 2013	1,097,223	19.62
Granted	153,770	62.86
Exercised	(153,196)	12.27
Forfeited	(12,334)	41.38
Outstanding at December 31, 2014	1,085,463	26.53

Of the total outstanding options at December 31, 2014, 758,578 were exercisable with a weighted average exercise price of $18.30 per share. The total outstanding options had a weighted average remaining contractual life of 5.2 years.

The fair value of options that vested during the years ended December 31, 2014, 2013 and 2012 was $2.9 million, $2.6 million and $2.3 million, respectively.

The intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012 was $7.4 million, $20.7 million and $12.1 million, respectively. The intrinsic value of outstanding options at December 31, 2014, 2013 and 2012 was $33.8 million, $50.1 million and $34.1 million, respectively.

The weighted-average fair values per share of options granted during 2014, 2013 and 2012 were $24.36, $14.60 and $10.43, respectively. The fair values of the options granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2014	2013	2012
Volatility	42%	41%	46%
Dividend yield	—	—	—
Life (in years)	4.17	4.75	4.75
Risk-free interest rate	1.44%	0.86%	0.79%

Prior to becoming a public entity in 2010, historical volatility was not available for our common stock. As a result, we do not have sufficient data to rely solely on the historical volatility of our common stock. Therefore, we have estimated volatility based partially on the historical volatilities of the publicly traded shares of a selected peer group, and partially on the historical volatility of our common stock, which collectively provided a reasonable basis for estimating volatility. Beginning in 2015, we anticipate that we will be able to rely solely on the historical volatility of our common stock.

We have not issued dividends on our common stock and do not expect to do so in the foreseeable future. The expected term of the options is based on the simplified method which does not consider historical or expected 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.

Restricted Stock Units and Awards

Restricted stock units vest over four years and, upon vesting, the holder is entitled to receive shares of our common stock. With restricted stock awards, shares of our common stock are issued when the award is granted and the restrictions lapse over one year.

Our restricted stock units activity was as follows:

	Restricted Stock Units (#)	Weighted Average Grant Date Fair Value ($/share)
Outstanding at January 1, 2012	—	$ —
Granted	75,873	26.25
Vested and common stock issued	—	—
Forfeited	(7,632)	25.32
Outstanding at December 31, 2012	68,241	26.35
Granted	59,695	40.06
Vested and common stock issued	(17,060)	26.09
Forfeited	(8,232)	33.85
Outstanding at December 31, 2013	102,644	33.77
Granted	42,001	64.89
Vested and common stock issued	(28,367)	32.92
Forfeited	(1,145)	35.42
Outstanding at December 31, 2014	115,133	45.25

The number of restricted stock units outstanding at December 31, 2014 included 23,193 units that have vested but for which shares of common stock have not yet been issued pursuant to the terms of the agreement.

Our restricted stock awards activity was as follows:

	Restricted Stock Awards (#)	Weighted Average Grant Date Fair Value ($/share)
Outstanding at January 1, 2012	—	$ —
Restricted common stock issued	6,330	27.55
Restrictions lapsed	—	—
Forfeited	(1,055)	27.55
Outstanding at December 31, 2012	5,275	27.55
Restricted common stock issued	5,688	48.66
Restrictions lapsed	(9,541)	36.99
Forfeited	—	—
Outstanding at December 31, 2013	1,422	48.66
Restricted common stock issued	5,352	51.74
Restrictions lapsed	(5,199)	51.04
Forfeited	(237)	48.66
Outstanding at December 31, 2014	1,338	51.74

Employee Stock Purchase Plan

Effective July 1, 2012, we adopted an employee stock purchase plan which allows participating employees to purchase shares of our common stock at a discount through payroll deductions. The plan is available to all employees subject to certain eligibility requirements. Participating employees may purchase common stock, on a voluntary after tax basis, at a price that is the lower of 85% of the fair market value of one share of common stock at the beginning or end of each stock purchase period. The plan consists of two six-month offering periods, beginning on January 1 and July 1 of each calendar year. A total of 1.2 million shares of common stock are reserved for issuance under the plan.

For the offering periods in 2014, we withheld approximately $1.3 million from employees participating in the plan and we purchased 26,353 shares on their behalf. For the offering periods in 2013, we withheld approximately $1.2 million from employees participating in the plan and we purchased 32,114 shares on their behalf. For the offering period in 2012, we withheld approximately $448,000 from employees participating in the plan and we purchased 17,332 shares on their behalf.

For the years ended December 31, 2014, 2013 and 2012, we recorded approximately $473,000, $402,000 and $148,000 of stock-based compensation expense associated with the employee stock purchase plan. The fair value was estimated based on the market price of our common stock at the beginning of each offering period and using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2014	2013	2012
Volatility	45%	46%	46%
Dividend yield	—	—	—
Life (in years)	0.50	0.50	0.50
Risk-free interest rate	0.08%	0.10%	0.15%

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NOTE K – Income Taxes

The provision for income taxes was as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Current			
Federal	$ 43	$ —	$ —
State	254	192	74
Foreign	80	51	63
Deferred			
Federal	1,183	450	188
State	(152)	(7)	(204)
	$1,408	$686	$ 121

A reconciliation of the expected federal income tax at the statutory rate to the provision for income taxes was as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Expected federal income tax at statutory rate	$1,398	$ 593	$ 459
State income taxes, net of federal tax effect	124	78	31
Tax impact of foreign activity	37	44	(8)
Permanent book/tax differences	173	106	23
Change in valuation allowance	(88)	17	(88)
Change in state deferred rate	(9)	53	(162)
Prior year true up	(43)	4	(135)
Research and development credit	(178)	(202)	—
Other	(6)	(7)	1
Total provision for income taxes	$1,408	$ 686	$ 121

The significant components of our deferred tax assets (liabilities) were as follows (in thousands):

	December 31, 2014		2013	
Current				
Current net operating loss and credit carryforwards	$ 376		$1,258	
Accounts receivable allowance	172		157	
Stock-based compensation expense	406		229	
Accrued expenses	940		790	
Total current deferred tax asset		1,894		2,434
Foreign operations	—		(53)	
Deferred operations	(1,662)		(985)	
Total current deferred tax liability		(1,662)		(1,038)
Valuation allowance		(156)		(124)
Net current deferred tax asset		$ 76		$ 1,272
Non-current				
Net operating loss and credit carryforwards	$ 4,662		$6,145	
Deferred operations	3,485		3,029	
Stock-based compensation expense	2,315		1,561	
Depreciation and amortization	1,567		1,159	
Other	40		34	
Total non-current deferred tax asset		12,069		11,928
Foreign operations	(41)		—	
Total non-current deferred tax liability		(41)		—
Valuation allowance		(993)		(1,058)
Net non-current deferred tax asset		$11,035		$10,870

As of December 31, 2014, we had net operating loss carryforwards of $69.8 million for U.S. federal tax purposes. We also had $28.3 million of various state net operating loss carryforwards. The loss carryforwards for federal tax purposes will expire between 2019 and 2034 if not utilized. The loss carryforwards for state tax purposes will expire between 2015 and 2034 if not utilized.

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. We have performed a Section 382 analysis for the time period from our inception through December 8, 2010. During this time period it was determined that we had six separate ownership changes under Section 382. We have not updated the Section 382 analysis subsequent to December 8, 2010; however, we believe there have not been any events subsequent to that date that would materially impact the analysis. We believe that approximately $17.6 million of federal losses will expire unused due to Section 382 limitations. The maximum annual limitation of federal net operating losses under Section 382 is approximately $990,000. This limitation could be further restricted if any ownership changes occur in future years.

Our federal and state net operating losses at December 31, 2014 included $43.3 million and $9.0 million, respectively, of income tax deductions in excess of previously recorded tax benefits. Although these additional tax deductions are included in the net operating losses referenced above, the related tax benefit will not be recognized until the deductions reduce our income taxes payable. The tax benefit of these excess deductions will be reflected as a credit to additional paid in capital when recognized. Accordingly, our deferred tax assets are reported net of the excess tax deductions for stock compensation and Section 382 limitations.

As of December 31, 2014 we had federal research and development credit carryforwards, net of Section 383 limitations, of $532,000, which, if not utilized, will begin to expire in 2030. We had state research and development credit carryforwards of $171,000, which, if not utilized, will begin to expire in 2025.

As of December 31, 2014, we had a valuation allowance against our deferred tax assets of $1.1 million. The valuation allowance is established for various state net operating loss and credit carryforwards that we do not expect to utilize based on our current expectations of future state taxable income.

As of December 31, 2014 and 2013, we had income tax receivables of $31,000 and $26,000, respectively, which were included in other current assets on the consolidated balance sheets.

We are subject to income taxes in the U.S. federal and various state and international jurisdictions. We are generally subject to U.S. federal and state tax examinations for all prior tax years due to our net operating loss carryforwards and the utilization of the carryforwards in years still open under statute. As of December 31, 2014, we are not under any income tax audits by tax authorities.

As of December 31, 2014, we do not have any unrecognized tax benefits. It is our practice to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. We do not expect any material changes in our unrecognized tax positions over the next 12 months.

NOTE L – Net Income Per Share

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

	Year Ended December 31,		
	2014	2013	2012
Numerator			
Net income	$ 2,704	$ 1,051	$ 1,222
Denominator			
Weighted average common shares outstanding, basic	16,236	15,201	13,056
Options to purchase common stock	535	676	826
Restricted stock units	42	51	26
Employee stock purchase plan	1	3	2
Weighted average common shares outstanding, diluted	16,814	15,931	13,910
Net income per share			
Basic	$ 0.17	$ 0.07	$ 0.09
Diluted	$ 0.16	$ 0.07	$ 0.09

For the years ended December 31, 2014 and 2013, the effect of approximately 126,000 and 1,000 outstanding potential common shares, respectively, were excluded from the calculation of diluted net income per share because they were anti-dilutive. For the year ended December 31, 2012, the effect of all outstanding potential common shares was included in the calculation of diluted net income per share.

NOTE M – Retirement Savings Plan

We sponsor a 401(k) retirement savings plan for our employees. Employees can contribute up to 100% of their compensation, subject to the limits established by law. The company will match 25% of the employee’s contribution up to the first 6% of pre-tax annual compensation. Our matching contributions to the plan, which vest immediately, were $733,000, $522,000 and $372,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

NOTE N – Selected Quarterly Financial Data (Unaudited)

The following table presents our selected unaudited quarterly statements of comprehensive income data (in thousands, except per share amounts):

	For the Three Months Ended			
2014	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Revenues	$28,939	$31,100	$32,506	$35,402
Gross profit	19,684	21,473	22,536	24,263
Income from operations	598	1,014	1,354	1,417
Net income	373	639	838	854
Diluted earnings per share	0.02	0.04	0.05	0.05

	For the Three Months Ended			
2013	**Mar 31**	**Jun 30**	**Sep 30**	**Dec 31**
Revenues	$23,752	$25,658	$27,008	$27,973
Gross profit	16,686	17,715	18,759	19,450
Income from operations	194	483	371	724
Net income	199	288	270	294
Diluted earnings per share	0.01	0.02	0.02	0.02

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014, the end of the period covered by this Annual Report on Form 10-K. This evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Disclosure controls and procedures means controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission ("SEC"). Disclosure controls and procedures include, without limitation, controls and procedures designed such that information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our CEO and CFO have concluded that as of December 31, 2014, our disclosure controls and procedures were effective.

In the fourth quarter of 2014, we acquired the net assets of Leadtec Systems Australia Pty Ltd ("Leadtec"), and its affiliates, Advanced Barcode Solutions Pty Ltd, Scott Needham and Leading Technology Group Pty Ltd. Leadtec represented approximately 2% of our total consolidated assets and 1% of our consolidated revenues as of and for the year ended December 31, 2014. As the acquisition occurred in the fourth quarter of 2014, the scope of our assessment of the effectiveness of internal control over financial reporting does not include Leadtec. This exclusion is in accordance with the SEC's general guidance that an assessment of a recently acquired business may be omitted from our scope in the year of acquisition.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our principal executive and financial officers, we assessed our internal control over financial reporting as of December 31, 2014, based on criteria for effective internal control over financial reporting established in *Internal Control — Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that we maintained effective internal control over financial reporting as of December 31, 2014 based on the specified criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by KPMG LLP, our independent registered public accounting firm, as stated in their report, which is included under Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item with respect to executive officers is contained in Item 1 of this Annual Report on Form 10-K under the heading "Executive Officers" and with respect to other information relating to our directors and executive officers will be set forth in our 2015 Proxy Statement under the caption "Item 1 — Election of Directors," which will be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference.

The information required by this item under Item 405 of Regulation S-K is incorporated herein by reference to the section titled "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2015 Proxy Statement, which will be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

The information required by this item under Item 407(d)(4) and (d)(5) of Regulation S-K is incorporated herein by reference to the section titled "Information Regarding the Board of Directors and Corporate Governance — Board Committees — Audit Committee" of our 2015 Proxy Statement, which will be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

We have adopted a code of business conduct applicable to our directors, officers (including our principal executive officer and principal financial officer) and employees. The Code of Business Conduct is available on our website at *www.spscommerce.com* under the Investor Relations section. We plan to post on our website at the address described above any future amendments or waivers of our Code of Conduct.

Item 11. *Executive Compensation*

The information required by this item is incorporated herein by reference to the sections titled "Executive Compensation," and "Certain Relationships and Related Transactions — Compensation Committee Interlocks and Insider Participation" of our 2015 Proxy Statement, which will be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information related to security ownership required by this item is incorporated herein by reference to the section titled "Security Ownership" of our 2015 Proxy Statement, which will be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

The information related to our equity compensation plans required by this item is incorporated herein by reference to the section titled "Executive Compensation — Outstanding Equity Awards" of our 2015 Proxy Statement, which will be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this item is incorporated herein by reference to the sections titled "Certain Relationships and Related Transactions," and "Information Regarding the Board of Directors and Corporate Governance — Director Independence" of our 2015 Proxy Statement, which will be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 14. ***Principal Accounting Fees and Services***

The information required by this item is incorporated herein by reference to the section titled "Audit Committee Report and Payment of Fees to Our Independent Auditor" of our 2015 Proxy Statement, which will be filed no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

The following documents are filed as a part of this Annual Report on Form 10-K:

(a) Financial Statements: The financial statements filed as a part of this report are listed in Part II, Item 8.

(b) Financial Statement Schedules: The schedules are either not applicable or the required information is presented in the consolidated financial statements or notes thereto.

(c) Exhibits: The exhibits incorporated by reference or filed as a part of this Annual Report on Form 10-K are listed in the Exhibit Index immediately following the signatures to this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 20, 2015

SPS COMMERCE, INC.

By: /s/ ARCHIE C. BLACK
Archie C. Black
President and Chief Executive Officer

Each of the undersigned hereby appoints Archie C. Black and Kimberly K. Nelson, and each of them (with full power to act alone), as attorneys and agents for the undersigned, with full power of substitution, for and in the name, place and stead of the undersigned, to sign and file with the Securities and Exchange Commission under the Securities Act of 1934, any and all amendments and exhibits to this annual report on Form 10-K and any and all applications, instruments, and other documents to be filed with the Securities and Exchange Commission pertaining to this annual report on Form 10-K or any amendments thereto, with full power and authority to do and perform any and all acts and things whatsoever requisite and necessary or desirable. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 20, 2015.

Name and Signature	Title
/s/ ARCHIE C. BLACK Archie C. Black	*Chief Executive Officer, President and Director (principal executive officer)*
/s/ KIMBERLY K. NELSON Kimberly K. Nelson	*Executive Vice President and Chief Financial Officer (principal financial and accounting officer)*
/s/ MICHAEL B. GORMAN Michael B. Gorman	*Director*
/s/ MARTIN J. LEESTMA Martin J. Leestma	*Director*
James B. Ramsey	*Director*
/s/ MICHAEL A. SMERKLO Michael A. Smerklo	*Director*
/s/ PHILIP E. SORAN Philip E. Soran	*Director*
/s/ SVEN A. WEHRWEIN Sven A. Wehrwein	*Director*

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated By Reference Form	File Number	Date of First Filing	Exhibit Number	Filed Herewith
2.1	Asset Purchase Agreement, dated as of May 17, 2011, by and between Direct EDI LLC and the registrant	8-K	001-34702	05/23/2011	2.1	
2.2	Asset Purchase Agreement, dated as of August 6, 2012, by and between Edifice Information Management Systems, Inc. and the registrant	8-K	001-34702	08/07/2012	2.1	
2.3	Asset Purchase Agreement, dated as of October 12, 2014, by and between Leadtec Systems Australia Pty Ltd, Advanced Barcode Solutions Pty Ltd, Scott Needham, Leading Technology Group Pty Ltd, SPS Commerce Australia Pty Ltd and SPS Commerce, Inc.	8-K	001-34702	10/14/2014	2.1	
3.1	Amended and Restated Certificate of Incorporation	S-3	333-182097	06/13/2012	4.1	
3.2	Amended and Restated Bylaws	S-1/A	333-163476	03/05/2010	3.2	
10.1	1999 Equity Incentive Plan**	S-1/A	333-163476	01/11/2010	10.1	
10.2	Form of Option Agreement under 1999 Equity Incentive Plan**	S-1/A	333-163476	01/11/2010	10.2	
10.3	2001 Stock Option Plan**	S-1/A	333-163476	01/11/2010	10.3	
10.4	Form of Incentive Stock Option Agreement under 2001 Stock Option Plan**	S-1/A	333-163476	01/11/2010	10.4	
10.5	Form of Non-Statutory Stock Option Agreement (Director) under 2001 Stock Option Plan**	S-1/A	333-163476	01/11/2010	10.5	
10.6	2010 Equity Incentive Plan, as amended effective October 29, 2014**					X
10.7	Form of Incentive Stock Option Agreement under 2010 Equity Incentive Plan**	8-K	001-34702	02/17/2012	10.2	
10.8	Form of Non-Statutory Stock Option Agreement (Employee) under 2010 Equity Incentive Plan**	8-K	001-34702	02/17/2012	10.3	
10.9	Form of Non-Statutory Stock Option Agreement (Director) under 2010 Equity Incentive Plan**	8-K	001-34702	02/17/2012	10.4	
10.10	Form of Restricted Stock Unit Award Agreement under 2010 Equity Incentive Plan**	8-K	001-34702	02/17/2012	10.5	
10.11	2002 Management Incentive Agreement between the Company and Archie C. Black**	S-1/A	333-163476	01/11/2010	10.14	

Exhibit Number	Exhibit Description	Incorporated By Reference				Filed Herewith
		Form	File Number	Date of First Filing	Exhibit Number	
10.12	2002 Management Incentive Agreement between the Company and James J. Frome**	S-1/A	333-163476	01/11/2010	10.15	
10.13	Non-Employee Director Compensation Policy**	10-K	001-34702	02/20/2014	10.13	
10.14	Form of Indemnification Agreement for Steve A. Cobb, Michael B. Gorman, and George H. Spencer, III	S-1/A	333-163476	01/11/2010	10.17	
10.15	Form of Indemnification Agreement for Independent Directors	S-1/A	333-163476	01/11/2010	10.18	
10.16	Form of Indemnification Agreement for Archie C. Black**	S-1/A	333-163476	01/11/2010	10.19	
10.17	Employment Agreement between the Company and Archie C. Black**	S-1/A	333-163476	03/05/2010	10.20	
10.18	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.**	S-1/A	333-163476	03/05/2010	10.21	
10.19	Revolving Credit Agreement, dated as of September 30, 2011, by and between the registrant and JPMorgan Chase Bank, N.A.	8-K	001-34702	10/03/2011	10.1	
10.20	Standard Form Office Lease, dated as of February 14, 2012, by and between the registrant and CSDV-MN Limited Partnership	8-K	001-34702	02/17/2012	10.1	
10.21	Form of Restricted Stock Award Agreement under 2010 Equity Incentive Plan**	10-Q	001-34702	05/08/2012	10.6	
10.22	Separation Agreement between SPS Commerce, Inc. and Michael J. Gray dated November 19, 2012**	8-K	001-34702	11/23/2012	10	
21.1	Subsidiaries of the registrant					X
23.1	Consent of KPMG LLP					X
23.2	Consent of Grant Thornton LLP					X
24.1	Power of Attorney (included on signature page)					X
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended					X

Exhibit Number	Exhibit Description	Incorporated By Reference Form	File Number	Date of First Filing	Exhibit Number	Filed Herewith
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) under the Securities Exchange Act of 1934, as amended					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T					X

** Indicates management contract or compensatory plan or arrangement.

Exhibit 10.6

SPS COMMERCE, INC.
2010 EQUITY INCENTIVE PLAN
(As amended effective October 29, 2014)

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.

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

(o) "*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.

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

(q) "*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.

(r) "*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.

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

(t) "*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.

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

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

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

(x) "*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.

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

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

(aa) "*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.

(bb) "*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.

(cc) "*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.

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

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

(ff) "*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.

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

(hh) "*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 Sections 15(d) and 15(e); and

(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.

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 cancelled, forfeited or expires or is settled for cash shall, to the extent of such cancellation, forfeiture, expiration or cash settlement, 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). The following Shares shall not, however, again become available for Awards or increase the share reserve under Section 4(a): (i) Shares tendered (either actually or by attestation) by a Participant or withheld by the Company in payment of the purchase price of a stock option issued under this Plan or a Prior Plan, (ii) Shares tendered (either actually or by attestation) by a Participant or withheld by the Company to satisfy any tax withholding obligation with respect to the exercise of a stock option or stock appreciation right award under this Plan or a Prior Plan, (iii) Shares repurchased by the Company with proceeds received from the exercise of a stock option issued under this Plan or a Prior Plan, and (iv) Shares subject to a stock appreciation right award issued under this Plan or a Prior Plan that are not issued in connection with the stock settlement of that award upon its exercise.

(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.

(3) 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.

(4) 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.

(5) 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.

(6) 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. Subject to Section 15(e), 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.

(e) No Option or SAR Repricing. Except as provided in Section 12(a), no Option or Stock Appreciation Right Award granted under the Plan may be (i) amended to decrease the exercise price thereof, (ii) cancelled in conjunction with the grant of any new Option or Stock Appreciation Right Award with a lower exercise price, (iii) cancelled in exchange for cash, other property or the grant of any Full Value Award at a time when the per share exercise price of the Option or Stock Appreciation Right Award is greater than the current Fair Market Value of a Share, or (iv) otherwise subject to any action that would be treated under accounting rules as a "repricing" of such Option or Stock Appreciation Right Award, unless such action is first approved by the Company's stockholders.

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.

Exhibit 21.1

List of SPS Commerce, Inc. Subsidiaries

Name of Company	State or Other Jurisdiction of Incorporation/Organization
SPS Commerce Australia Pty Ltd	Australia
SPS Commerce Hong Kong Limited	Hong Kong
SPS International, Inc.	Delaware
SPS Europe Limited	England and Wales
Edifice Japan G.K.	Japan
SPS Ukraine LLC	Ukraine

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
SPS Commerce, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-3 (Nos. 333-192392, 333-182097and 333-174026) and on Form S-8 (Nos. 333-201673, 333-193544, 333-185972, 333-182007, 333-179236, 333-172073, 333-167315 and 333-167314) of SPS Commerce, Inc. of our report dated February 20, 2015, with respect to the consolidated balance sheets of SPS Commerce, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the years then ended, and the effectiveness of internal control over financial reporting as of December 31, 2014, which report appears in the December 31, 2014 annual report on Form 10-K of SPS Commerce, Inc.

Our report dated February 20, 2015 on internal control over financial reporting as of December 31, 2014, contains an explanatory paragraph that states management excluded from its assessment of the effectiveness of internal control over financial reporting as of December 31, 2014, Leadtec's internal control over financial reporting associated with approximately two percent of total assets and one percent of revenues in the consolidated financial statements of SPS Commerce, Inc. as of and for the year ended December 31, 2014. Our audit of internal control over financial reporting of SPS Commerce, Inc. also excluded an evaluation of the internal control over financial reporting of Leadtec.

/s/ KPMG LLP

Minneapolis, Minnesota
February 20, 2015

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We have issued our report dated March 6, 2013, with respect to the consolidated financial statements included in the Annual Report of SPS Commerce, Inc. on Form 10-K for the year ended December 31, 2014. We hereby consent to the incorporation by reference of said report in the Registration Statements of SPS Commerce, Inc. on Forms S-3 (File No. 333-192392, File No. 333-182097and File No. 333-174026) and on Forms S-8 (File No. 333-201673, File No. 333-193544, File No. 333-185972, File No. 333-182007, File No. 333-179236, File No. 333-172073, File No. 333-167315 and File No. 333-167314).

/s/Grant Thornton LLP

Minneapolis, Minnesota
February 20, 2015

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Archie C. Black, certify that:

1. I have reviewed this Annual Report on Form 10-K of SPS Commerce, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ ARCHIE C. BLACK
Archie C. Black
President and Chief Executive Officer
(principal executive officer)
February 20, 2015

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Kimberly K. Nelson, certify that:

1. I have reviewed this Annual Report on Form 10-K of SPS Commerce, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

/s/ KIMBERLY K. NELSON
Kimberly K. Nelson
Executive Vice President and Chief Financial Officer
(principal financial and accounting officer)
February 20, 2015

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of SPS Commerce, Inc. (the “Company”) for the period ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Executive Officer and the Chief Financial Officer of the Company, hereby certify, pursuant to and for purposes of 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ARCHIE C. BLACK
Archie C. Black
President and Chief Executive Officer

/s/ KIMBERLY K. NELSON
Kimberly K. Nelson
Executive Vice President and Chief Financial Officer

February 20, 2015