SPS COMMERCE INC
Form S-1
November 12, 2010

Table of Contents

As filed with the Securities and Exchange Commission on November 12, 2010

Registration No. 333-

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

Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SPS COMMERCE, INC.
(Exact name of registrant as specified in its charter)

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

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

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

Copies to:

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

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

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

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

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

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ

(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common stock, par value $0.001 per share	3,301,926	$ 13.45	$ 44,410,904.70	$ 3,166.50

(1) Includes 430,686 shares that the underwriters have an option to purchase to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act of 1933, as amended, based on the average of the high and low trading prices for the common stock as reported by the Nasdaq Global Market on November 5, 2010.

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

Table of Contents

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

SUBJECT TO COMPLETION, DATED NOVEMBER 12, 2010

PRELIMINARY PROSPECTUS

2,871,240 Shares

Common Stock

$ per share

SPS Commerce, Inc. is selling 100,000 shares of our common stock and the selling stockholders identified in this prospectus are selling an additional 2,771,240 shares. We will not receive any of the proceeds from the sale of the shares sold by selling stockholders. We and the selling stockholders have granted the underwriters a 30-day option to purchase up to an additional 430,686 shares to cover over-allotments, if any.

On November 8, 2010, the last reported sale price of our common stock on the Nasdaq Global Market was $14.11 per share. Our common stock is traded on the Nasdaq Global Market under the symbol SPSC.

Investing in our common stock involves risks. See Risk Factors beginning on page 8.

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

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

Stifel Nicolaus Weisel

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

Canaccord Genuity

Craig-Hallum Capital Group

The date of this prospectus is , 2010.

Table of Contents

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Risk Factors	8
Special Note Regarding Forward-Looking Statements	20
Use of Proceeds	21
Price Range of Common Stock	21
Dividend Policy	21
Capitalization	22
Selected Financial Data	23
Management s Discussion and Analysis of Financial Condition and Results of Operations	27
Business	53
Management	64
Certain Relationships and Related Party Transactions	86
Principal and Selling Stockholders	88
Description of Capital Stock	92
Shares Eligible for Future Sale	96
Material U.S. Federal Tax Considerations for Non-U.S. Holders of Our Common Stock	98
Underwriting	101
Legal Matters	104
Experts	104
Where You Can Find More Information	104
Index to Financial Statements	F-1

EX-1.1
EX-5.1
EX-23.1

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

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

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

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

Table of Contents

PROSPECTUS SUMMARY

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

Our Business

Overview

We are a leading provider of on-demand supply chain management solutions, providing integration, collaboration, connectivity, visibility and data analytics to thousands of customers worldwide. We provide our solutions through SPSCommerce.net, a hosted software suite that uses pre-built integrations to enable our supplier customers to shorten supply cycle times, optimize inventory levels, reduce costs and satisfy retailer requirements. As of September 30, 2010, we had over 12,100 customers with contracts to pay us monthly fees, which we refer to as recurring revenue customers. We have also generated revenues by providing supply chain management solutions to an additional 26,000 organizations that, together with our recurring revenue customers, we refer to as our customers. Once connected to our platform, our customers often require integrations to new organizations that allow us to expand our platform and generate additional revenues.

We deliver our solutions to our customers over the Internet using a Software-as-a-Service model. Our delivery model enables us to offer greater functionality, integration and reliability with less cost and risk than traditional solutions. Our platform features pre-built integrations with 3,000 order management models and over 100 accounting, warehouse management, enterprise resource planning, and packing and shipping applications. Our delivery model leverages our existing integrations across current and new customers. As a result, each integration that we add to SPSCommerce.net makes our platform more appealing to potential customers by increasing the number of pre-built integrations we offer.

For 2007, 2008, 2009, and the nine months ended September 30, 2010, we generated revenues of $25.2 million, $30.7 million, $37.7 million and $32.7 million. Our fiscal quarter ended September 30, 2010 represented our 39th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 83%, 84%, 80% and 83% of our total revenues for 2007, 2008, 2009 and the nine months ended September 30, 2010. No customer represented over 2% of our revenues for 2007, 2008 or 2009 or the nine months ended September 30, 2010.

Our Industry

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

Our target market, supply chain integration solutions delivered on a Software-as-a-Service platform, is one of many which comprise the global Software-as-a-Service market. International Data Corporation, or IDC, estimated in June 2010 that the global Software-as-a-Service market reached $13.1 billion in 2009 and expects it to increase to $40.5 billion in 2014, a compound annual growth rate of 25.3%. As familiarity and acceptance of on-demand

Table of Contents

solutions continues to accelerate, we believe companies will continue to turn to on-demand delivery methods like ours for their supply chain integration needs.

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

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

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

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

SPSCommerce.net: Our Platform

We operate one of the largest trading partner integration centers through SPSCommerce.net. More than 38,000 customers across more than 40 countries have used our platform to enhance their trading relationships. A single integration to SPSCommerce.net allows an organization to connect seamlessly to the entire SPSCommerce.net network of trading partners. By maintaining current integrations with retailers such as Wal-Mart, Target, Macy s and Safeway, SPSCommerce.net eliminates the need for suppliers to continually stay up-to-date with the rule book changes required by large retailers.

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

Our platform delivers suppliers and retailers the following solutions:

- *Trading Partner Integration.* Our Trading Partner Integration solution enables suppliers to comply with retailers rule books and allows for the electronic exchange of information among numerous trading partners through various protocols.

Table of Contents

Trading Partner Enablement. Our Trading Partner Enablement solution helps organizations, typically large retailers, implement new integrations with trading partners, typically suppliers, to drive automation and electronic communication across their supply chains.

Trading Partner Intelligence. In 2009, we introduced our Trading Partner Intelligence solution, which consists of six data analytics applications and allows our supplier customers to improve their visibility across, and analysis of, their supply chains. Retailers improve their visibility into supplier performance and their understanding of product sell-through.

Other Trading Partner Solutions. We provide a number of peripheral solutions such as barcode labeling and our scan and pack application, which helps trading partners process information to streamline the picking and packaging process.

Our Go-to-Market Approach

We enable trading partner relationships among our retailer, supplier and fulfillment customers that naturally lead to new customer acquisition opportunities. The addition of each new customer to our platform allows the customer to communicate with our existing customers and allows our existing customers to route orders to the new customer. This network effect of adding customers to our platform creates opportunities for existing customers to make incremental sales by working with new trading partners and vice versa.

Our Growth Strategy

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

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

Corporate Information

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

Table of Contents

THE OFFERING

Common stock offered by us	100,000 shares
Common stock offered by selling stockholders	2,771,240 shares
Common stock to be outstanding after this offering	11,727,743 shares
Over-allotment option	430,686 shares
Use of proceeds	We estimate that the net proceeds to us from this offering, after deducting estimated underwriting discounts and offering expenses, will be approximately $900,000, based on assumed public offering price of $14.11 per share, which was the last reported sale price of our common stock on November 8, 2010. We will not receive any of the proceeds from the sale of shares by the selling stockholders. See Principal and Selling Stockholders. We intend to use the net proceeds from this offering to pay the expenses we will incur in connection with this offering and for working capital and general corporate purposes.
Nasdaq Global Market symbol	SPSC

The number of shares of our common stock outstanding after this offering is based on 11,627,743 shares outstanding as of September 30, 2010. As of September 30, 2010, we had 11,627,743 shares outstanding, excluding (a) 1,598,986 shares of common stock issuable upon the exercise of outstanding options to purchase our common stock at a weighted average exercise price of $4.40 per share, (b) 68,201 shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of $3.67 per share and (c) 366,314 shares of common stock reserved for issuance under our 2010 Equity Incentive Plan, subject to increase on an annual basis and subject to increase for shares subject to awards under our prior equity plans that expire unexercised or otherwise do not result in the issuance of shares.

Except as otherwise indicated, information in this prospectus assumes no exercise of the underwriters overallotment option to purchase up to 430,686 additional shares of our common stock from the selling stockholders. Except as otherwise indicated, all share and per share information referenced throughout this prospectus have been adjusted to reflect the conversion of all of our preferred stock into common stock, which occurred on April 22, 2010, and a 0.267 for 1 reverse stock split of our common stock that occurred on April 13, 2010.

Table of Contents

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

The following tables summarize the financial data for our business. You should read this summary financial data in conjunction with Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes, all included elsewhere in this prospectus. Our historical results are not necessarily indicative of our results in any future period.

The summary financial data under the heading Balance Sheet Data as of December 31, 2008 and 2009, under the heading Statement of Operations Data for each of the years ended December 31, 2007, 2008 and 2009 and under the heading Operating Data relating to Adjusted EBITDA and non-GAAP net income (loss) per diluted share for each of the three years ended December 31, 2007, 2008 and 2009 have been derived from our audited annual financial statements, which are included elsewhere in this prospectus. The summary financial data under the heading Balance Sheet Data as of September 30, 2010, under the heading Statement of Operations Data for the nine months ended September 30, 2009 and 2010 and under the heading Operating Data relating to Adjusted EBITDA and non-GAAP net income (loss) per diluted share for the nine months ended September 30, 2009 and 2010 have been derived from our unaudited financial statements included elsewhere in this prospectus. Our unaudited financial statements for the nine months ended September 30, 2009 and 2010 have been prepared on the same basis as the annual financial statements and include all adjustments, which include only normal recurring adjustments, necessary for fair presentation of this data in all material respects. The unaudited summary financial data under the heading Operating Data relating to recurring revenue customers have been derived from our internal records of our operations. Our operating results for interim periods are not necessarily indicative of the results that may be expected for a full-year period.

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
				(Unaudited)	
Statement of Operations Data:					
Revenues	$ 25,198	$ 30,697	$ 37,746	$ 27,765	$ 32,678
Cost of revenues(1)	6,379	9,258	11,715	8,742	9,293
Gross profit	18,819	21,439	26,031	19,023	23,385
Operating expenses					
Sales and marketing(1)	11,636	12,493	13,506	10,005	11,768
Research and development(1)	3,546	3,640	4,305	3,226	3,218
General and administrative(1)	5,458	6,716	6,339	4,671	5,805
Total operating expenses	20,640	22,849	24,150	17,902	20,791
Income (loss) from operations	(1,821)	(1,410)	1,881	1,121	2,594
Other income (expense)					
Interest expense	(439)	(419)	(270)	(225)	(66)
Other income (expense)	120	28	(358)	113	11
Total other expense	(319)	(391)	(628)	(112)	(55)

Income tax expense	(16)	(94)	(91)	(60)	(96)
Net income (loss)	$ (2,156)	$ (1,895)	$ 1,162	$ 949	$ 2,443
Net income (loss) per share					
Basic	$ (11.65)	$ (6.45)	$ 3.53	$ 2.87	$ 0.36
Diluted	$ (11.65)	$ (6.45)	$ 0.13	$ 0.10	$ 0.22
Weighted average common shares outstanding					
Basic	185	294	329	331	6,796
Diluted	185	294	9,268	9,084	11,275
Pro forma net income per share (unaudited)(2)					
Basic			$ 0.14	$ 0.11	
Diluted			$ 0.13	$ 0.10	
Pro forma weighted average common shares outstanding (unaudited)(2)					
Basic			8,476	8,496	
Diluted			9,268	9,084	

Table of Contents

	Year Ended December 31, 2007	2008	2009	Nine Months Ended September 30, 2009	2010
				(Unaudited)	
Operating Data:					
Adjusted EBITDA(3)	$ 103	$ 763	$ 3,206	$ 2,500	$ 4,107
Recurring revenue customers(4)	9,496	10,076	11,003	10,939	12,117
Non-GAAP net income (loss) per diluted share(5)	$ (7.41)	$ (3.23)	$ 0.17	$ 0.14	$ 0.26

	As of December 31, 2008	2009	As of September 30, 2010 (Unaudited)
Balance Sheet Data:			
Cash, cash equivalents and short-term investments	$ 3,715	$ 5,931	$ 39,113
Working capital	3,995	4,973	40,608
Total debt(6)	4,471	2,694	122
Total redeemable convertible preferred stock	65,964	65,778	
Total stockholders equity (deficit)	(61,844)	(60,466)	41,720

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

	Year Ended December 31, 2007	2008	2009	Nine Months Ended September 30, 2009	2010
				(Unaudited)	
Cost of revenues	$ 2	$ 19	$ 53	$ 43	$ 65
Sales and marketing	33	60	91	74	129
Research and development	2	4	4	3	12
General and administrative	9	74	80	57	252
Total	$ 46	$ 157	$ 228	$ 177	$ 458

(2) Reflects the conversion of all of our preferred stock into common stock that occurred on April 22, 2010 and the 0.267 for 1 reverse stock split that occurred on April 13, 2010. The calculation of the basic pro forma weighted average shares outstanding (unaudited) consists of the basic weighted average shares outstanding plus the weighted average preferred shares outstanding, which converted to common stock on April 22, 2010.

Table of Contents

(3) EBITDA consists of net income (loss) plus depreciation and amortization, interest expense, interest income, and income tax expense. Adjusted EBITDA consists of EBITDA plus our non-cash, share-based compensation expense. We use Adjusted EBITDA as a measure of operating performance because it assists us in comparing performance on a consistent basis, as it removes from our operating results the impact of our capital structure. We believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company s operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired. The following table provides a reconciliation of net income (loss) to Adjusted EBITDA:

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
				(Unaudited)	
Net income (loss)	$ (2,156)	$ (1,895)	$ 1,162	$ 949	$ 2,443
Depreciation and amortization	1,758	1,988	1,455	1,089	1,148
Interest expense	439	419	270	225	66
Interest income					(104)
Income tax expense	16	94	91	60	96
EBITDA	57	606	2,978	2,323	3,649
Non-cash, share-based compensation expense	46	157	228	177	458
Adjusted EBITDA	$ 103	$ 763	$ 3,206	$ 2,500	$ 4,107

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

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

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
				(Unaudited)	
Net income (loss)	$ (2,156)	$ (1,895)	$ 1,162	$ 949	$ 2,443

Non-cash, share-based compensation expense	46	157	228	177	458
Amortization of intangible assets	740	788	155	155	
Non-GAAP net income (loss)	$ (1,370)	$ (950)	$ 1,545	$ 1,281	$ 2,901
Shares used to compute non-GAAP net income (loss) per share					
Basic	185	294	329	331	6,796
Diluted	185	294	9,268	9,084	11,275
Non-GAAP net income (loss) per share					
Basic	$ (7.41)	$ (3.23)	$ 4.70	$ 3.87	$ 0.43
Diluted	$ (7.41)	$ (3.23)	$ 0.17	$ 0.14	$ 0.26

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

Table of Contents

RISK FACTORS

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

Risks Related to Our Business and Industry

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

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

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

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

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

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

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

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

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

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

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

To increase our revenues and achieve and maintain profitability, we must regularly add new customers, sell additional solutions and our customers must increase their use of the solutions for which they currently subscribe. We intend to grow our business by hiring additional inside sales personnel, developing strategic relationships with resellers, including resellers that incorporate our applications in their offerings, and increasing our marketing activities. In addition, we derived more than 90% of our revenues from sales of our Trading Partner Integration solution in 2007, 2008, 2009 and the nine months ended September 30, 2010, and have not yet received significant revenues from solutions and applications that we introduced in 2009. If we are unable to hire or retain quality sales personnel, convert companies that have been referred to us by our existing network into paying customers, ensure the effectiveness of our marketing programs, or if our existing or new customers do not perceive our solutions to be of sufficiently high value and quality, we might not be able to increase sales and our operating results will be adversely affected. In addition, if we fail to sell our new solutions to existing or new customers, we will not generate anticipated revenues from these solutions, our operating results will suffer and we might be unable to grow our revenues or achieve or maintain profitability.

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

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

- our ability to retain and increase sales to customers and attract new customers, including our ability to maintain and increase our number of recurring revenue customers;
- the timing and success of introductions of new solutions or upgrades by us or our competitors;
- the strength of the economy, in particular as it affects the retail sector;

changes in our pricing policies or those of our competitors;

- competition, including entry into the industry by new competitors and new offerings by existing competitors;
- the amount and timing of 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 prospectus, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance.

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

We began operating our supply chain management solution business in 1997. Throughout most of our history, we have experienced net losses and negative cash flows from operations. As of September 30, 2010, we had an accumulated deficit of $63.2 million. We expect our operating expenses to increase in the future as we expand our operations. Furthermore, since our initial public offering in April 2010, we have experienced a significant increase in legal, accounting and other expenses that we did not incur as a private company. 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. Our ability to attract new customers and increase revenues from customers will depend in significant part on our ability to anticipate industry standards and to continue to enhance existing solutions or introduce or acquire new solutions on a timely basis to keep pace with technological developments. The success of any enhancement or new solution depends on several factors, including the timely completion, introduction and market acceptance of the enhancement or solution. Any new solution we develop or acquire might not be introduced in a timely or cost-effective manner and might not achieve the broad market acceptance necessary to generate significant revenues. For example, we introduced our Trading Partner Intelligence solution during 2009, but we have not yet received significant revenues from this solution. If any of our competitors implements new technologies before we are able to implement them, those competitors may be able to provide more effective solutions than ours at lower prices. Any delay or failure in the introduction of new or enhanced solutions could adversely affect our business, results of operations and financial condition.

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

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

Because customers use our on-demand supply chain management solutions for critical business processes, any defect in our solutions, any disruption to our solutions or any error in execution could cause recurring revenue customers to cancel their contracts with us, prevent potential customers from joining our network and harm our reputation.

Although most of our contracts with our customers limit our liability to our customers for these defects, disruptions or errors, we nonetheless could be subject to litigation for actual or alleged losses to our customers businesses, which may require us to spend significant time and money in litigation or arbitration or to pay significant settlements or damages. We do not currently maintain any warranty reserves. Defending a lawsuit, regardless of its merit, could be costly and divert management s attention and could cause our business to suffer.

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

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

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

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

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

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

Table of Contents

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

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. We are particularly sensitive to these risks because the Internet is a critical component of our on-demand business model. For example, we believe that increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers ability to use and share data, potentially reducing demand for solutions accessed via the Internet and restricting our ability to store, process and share data with our clients via the Internet. In addition, taxation of services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services, which could harm our business.

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

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

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

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

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

Table of Contents

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

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

We rely on hardware and software licensed from third parties to offer our on-demand supply chain management solutions. This hardware and software, as well as maintenance rights for this hardware and software, may not continue to be available to us on commercially reasonable terms, or at all. If we lose the right to use or upgrade any of these licenses, our customers could experience delays or be unable to access our solutions until we can obtain and integrate equivalent technology. There might not always be commercially reasonable hardware or software alternatives to the third-party hardware and software that we currently license. Any such alternatives could be more difficult or costly to replace than the third-party hardware and software we currently license, and integration of the alternatives into our platform could require significant work and substantial time and resources. Any delays or failures associated with our platform could injure our reputation with customers and potential customers and result in an adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

As of December 31, 2009, we had net operating loss carryforwards of $53.5 million for U.S. federal tax purposes and $32.4 million for state tax purposes. These loss carryforwards expire between 2010 and 2029. To the extent these net operating loss carryforwards are available, we intend to use them to reduce the corporate income tax liability associated with our operations. Section 382 of the U.S. Internal Revenue Code generally imposes an annual

13

Table of Contents

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 November 3, 2009. During this time period it was determined that we had five separate ownership changes under Section 382. We believe that $17.6 million of the $53.5 million federal losses will expire unused due to Section 382 limitations. The maximum annual limitation under Section 382 is approximately $990,000. The sale of stock in this offering and in our recent initial public offering may create an additional ownership change. We do not believe this change will materially further limit the use of NOL carryforwards. The limitation could be further restricted if ownership changes occur in future years. To the extent our use of net operating loss carryforwards is significantly limited, our income could be subject to corporate income tax earlier than it would if we were able to use net operating loss carryforwards, which could result in lower profits.

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

The markets for supply chain management solutions are increasingly competitive and global. We expect competition to increase in the future both from existing competitors and new companies that may enter our markets. Increased competition could result in pricing pressure, reduced sales, lower margins or the failure of our solutions to achieve or maintain broad market acceptance. We face competition from:

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

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

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

Our industry is highly fragmented, and we believe it is likely that our existing competitors will continue to consolidate or will be acquired. For example, in June 2010, GXS Corporation and Inovis, two large, on-premise software companies, merged to create an e-commerce business that is much larger than ours. 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.

Table of Contents

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

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

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

We have experienced a period of rapid growth in our headcount and operations. To the extent that we are able to sustain such growth, it will place a significant strain on our management, administrative, operational and financial infrastructure. Our success will depend in part upon the ability of our senior management to manage this growth effectively. To do so, we must continue to hire, train and manage new employees as needed. If our new hires perform poorly, or if we are unsuccessful in hiring, training, managing and integrating these new employees, or if we are not successful in retaining our existing employees, our business would be harmed. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. The additional headcount we are adding will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term. If we fail to successfully manage our growth, we will be unable to execute our business plan.

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

We are required to comply with the internal control evaluation and certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002 by no later than the end of our 2011 fiscal year. We are in the process of determining whether our existing internal controls over financial reporting systems are compliant with Section 404. This process may divert internal resources and will take a significant amount of time and effort to complete. To the extent that we are not currently in compliance with Section 404, we may be required to implement new internal control procedures and re-evaluate our financial reporting. We may experience higher than anticipated operating expenses as well as increased independent auditor fees during the implementation of these changes and thereafter. Further, we may need to hire additional qualified personnel in order for us to comply with Section 404. If we are unable to implement these changes effectively or efficiently, it could harm our operations, financial reporting or financial results and could result in our being unable to obtain an unqualified report on internal controls from our independent auditors, which could have a negative impact on our stock price.

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

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

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

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

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

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

We have limited experience operating in foreign jurisdictions. Customers in countries outside of North America accounted for 2% of our revenues for 2008, 2009 and the nine months ended September 30, 2010. In February 2010, we opened sales and support offices in the United Kingdom and France. Our inexperience in operating our business outside of North America increases the risk that our current and any future international expansion efforts will not be successful. Conducting international operations subjects us to new risks that, generally, we have not faced in the United States, including:

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

Table of Contents

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

Risks Relating to this Offering and Ownership of Our Common Stock

Our stock price may be volatile, and the market price of our common stock after this offering may drop below the price you pay.

Shares of our common stock were sold in our April 2010 initial public offering at a price of $12.00 per share, and, as of November 8, 2010, our common stock has subsequently traded as high as $14.50 and as low as $8.45. 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, 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. 3,244,377 shares of our common stock that will be outstanding immediately after completion of this offering will become eligible for sale in the public markets from time to time, subject to restrictions under the Securities Act of 1933 following the expiration of lock-up agreements entered into for the benefit of the underwriters by the holders of the common stock, including our directors and executive officers. In addition, as of September 30, 2010, we have (i) 366,314 shares of our common stock issuable under our 2010 Equity Incentive Plan, (ii) 1,145,533 shares of our common stock issuable under our 2001 Stock Option Plan, and (iii) 18 shares of our common stock issuable

Table of Contents

under our 1999 Equity Incentive Plan, all of which are covered by effective registration statements. Furthermore, immediately after completion of this offering, certain holders of our common stock will have the right to demand that we file registration statements, or request that their shares be covered by a registration statement that we are otherwise filing, with respect to the shares of our common stock held by them, and will have the right to include those shares in any registration statement that we file with the SEC, subject to exceptions, which would enable those shares to be sold in the public market, subject to the restrictions under the lock-up agreements referred to above.

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

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;
- divide our board of directors into three classes;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder s notice; and
- do not provide for cumulative voting rights.

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

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

We currently intend to retain all future earnings for the operation and expansion of our business and, therefore, do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. 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.

Table of Contents

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

After this offering, our directors, executive officers and current holders that beneficially own more than 5% of our common stock immediately prior to the closing of this offering, together with their affiliates, will beneficially own, in the aggregate, approximately 31.2% of our outstanding common stock, assuming no exercise of the underwriters option to purchase additional shares of our common stock in this offering. As a result, these stockholders, acting together, would have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, would have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might harm the market price of our common stock by:

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

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by the following words: anticipate, believe, continue, could, estimate, expect, ir ongoing, plan, potential, predict, project, should, will, would, or the negative of these terms or other co terminology, although not all forward-looking statements contain these words. Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made and involve known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements in this prospectus. These factors include:

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

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

Table of Contents

USE OF PROCEEDS

The primary purpose of this offering is to provide liquidity for the selling stockholders, including entities affiliated with certain members of our board of directors. We estimate that the net proceeds from our sale of shares of common stock in this offering will be approximately $900,000, based on an assumed public offering price of $14.11 per share, which was the last reported sale price of our common stock on November 8, 2010. We intend to use the net proceeds from this offering to pay the expenses we will incur in connection with this offering and for working capital and general corporate purposes. We will not receive any proceeds from the sale of shares by the selling stockholders.

PRICE RANGE OF COMMON STOCK

Our common stock has traded on the Nasdaq Global Market under the symbol SPSC since April 22, 2010. Our initial public offering was priced at $12.00 per share. 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 2010		
Second Quarter (from April 22, 2010)	$ 14.50	$ 10.90
Third Quarter	$ 12.83	$ 8.45
Fourth Quarter (through November 8, 2010)	$ 14.40	$ 12.28

On November 8, 2010, the last reported sale price of our common stock on the Nasdaq Global Market was $14.11.

On November 1, 2010, we had 109 holders of record of our common stock, excluding holders whose stock is held either in nominee name and/or street name brokerage accounts.

DIVIDEND POLICY

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.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2010:

- on an actual basis; and
- on an as adjusted basis to give effect to the issuance and sale by us of 100,000 shares of common stock in this offering at an assumed offering price of $14.11 per share, which was the last reported sale price of our common stock on November 8, 2010, after deducting the estimated underwriting discounts and offering expenses payable by us.

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

	As of September 30, 2010 Actual	As of September 30, 2010 As adjusted
	(Unaudited in thousands, except share data)	
Current liabilities	$ 9,594	$ 9,594
Long-term liabilities	4,913	4,913
Stockholders equity:		
Common stock $0.001 par value, 55,000,000 authorized, 11,627,743 shares issued and outstanding, actual, and 55,000,000 authorized, 11,727,743 shares issued and outstanding as adjusted	12	12
Undesignated preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued or outstanding actual and as adjusted		
Additional paid-in capital	104,916	105,817
Accumulated deficit	(63,208)	(63,208)
Total stockholders equity	41,720	42,621
Total capitalization	$ 56,227	$ 57,128

The table and calculations above are based on the number of shares of common stock outstanding as of September 30, 2010 and exclude:

- an aggregate of 1,598,986 shares issuable upon the exercise of then outstanding options at a weighted average exercise price of $4.40 per share;
- an aggregate of 68,201 shares issuable upon the exercise of then outstanding warrants at a weighted average exercise price of $3.67 per share; and
- an aggregate of 366,314 shares reserved for issuance under our 2010 Equity Incentive Plan, subject to increase on an annual basis and subject to increase for shares subject to awards under our prior equity plans that expire unexercised or otherwise do not result in the issuance of shares.

Table of Contents

SELECTED FINANCIAL DATA

You should read the following selected financial data together with our financial statements and the related notes appearing at the end of this prospectus and Management s Discussion and Analysis of Financial Condition and Results of Operations, which follows immediately after this section. Our historical results are not necessarily indicative of our results in any future period

The selected financial data under the heading Balance Sheet Data as of December 31, 2008 and 2009, under the heading Statement of Operations Data for each of the years ended December 31, 2007, 2008 and 2009 and under the heading Operating Data relating to Adjusted EBITDA and non-GAAP net income (loss) per diluted share for each of the years ended December 31, 2007, 2008 and 2009 have been derived from our audited annual financial statements, which are included elsewhere in this prospectus. The selected financial data under the heading Balance Sheet Data as of December 31, 2005, 2006 and 2007, under the heading Statement of Operations Data for each of the years ended December 31, 2005 and 2006 and under the heading Operating Data relating to Adjusted EBITDA and non-GAAP net income (loss) per diluted share for each of the years ended December 31, 2005 and 2006 have been derived from our audited annual financial statements, which have not been included in this prospectus. The selected financial data under the heading Balance Sheet Data as of September 30, 2010, under the heading Statement of Operations Data for the nine months ended September 30, 2009 and 2010 and under the heading Operating Data relating to Adjusted EBITDA and non-GAAP net income (loss) per diluted share for the nine months ended September 30, 2009 and 2010 have been derived from our unaudited financial statements included elsewhere in this prospectus. Our unaudited financial statements for the nine months ended September 30, 2009 and 2010 have been prepared on the same basis as the annual financial statements and include all adjustments, which include only normal recurring adjustments, necessary for fair presentation of this data. The unaudited summary financial data under the heading Operating Data relating to recurring revenue customers have been derived from our internal records of our operations. Our operating results for interim periods are not necessarily indicative of the results that may be expected for a full-year period.

	Year Ended December 31,					Nine Months Ended September 30,	
	2005	2006	2007	2008	2009	2009	2010
	(In thousands, except per share data)					(Unaudited)	
Statement of Operations Data:							
Revenues	$ 13,827	$ 19,859	$ 25,198	$ 30,697	$ 37,746	$ 27,765	$ 32,678
Cost of revenues(1)	3,823	5,219	6,379	9,258	11,715	8,742	9,293
Gross profit	10,004	14,640	18,819	21,439	26,031	19,023	23,385
Operating expenses							
Sales and marketing(1)	5,034	8,098	11,636	12,493	13,506	10,005	11,768
Research and development(1)	2,129	3,190	3,546	3,640	4,305	3,226	3,218
General and administrative(1)	3,180	4,199	5,458	6,716	6,339	4,671	5,805

Total operating expenses	10,343	15,487	20,640	22,849	24,150	17,902	20,791
Income (loss) from operations	(339)	(847)	(1,821)	(1,410)	1,881	1,121	2,594
Other income (expense)							
Interest expense	(299)	(558)	(439)	(419)	(270)	(225)	(66)
Other income (expense)	(15)	108	120	28	(358)	113	11
Total other expense	(314)	(450)	(319)	(391)	(628)	(112)	(55)
Income tax expense	(23)	(4)	(16)	(94)	(91)	(60)	(96)
Net income (loss)	$ (676)	$ (1,301)	$ (2,156)	$ (1,895)	$ 1,162	$ 949	$ 2,443

Table of Contents

	Year Ended December 31,					Nine Months Ended September 30,	
	2005	2006	2007	2008	2009	2009	2010
	(In thousands, except per share data)					(Unaudited)	
Net income (loss) per share							
Basic	$ (6.69)	$ (10.93)	$ (11.65)	$ (6.45)	$ 3.53	$ 2.87	$ 0.36
Diluted	$ (6.69)	$ (10.93)	$ (11.65)	$ (6.45)	$ 0.13	$ 0.10	$ 0.22
Weighted average common shares outstanding							
Basic	101	119	185	294	329	331	6,796
Diluted	101	119	185	294	9,268	9,084	11,275
Pro forma net income per share (unaudited)(2)							
Basic					$ 0.14	$ 0.11	
Diluted					$ 0.13	$ 0.10	
Pro forma weighted average common shares outstanding (unaudited)(2)							
Basic					8,476	8,496	
Diluted					9,268	9,084	

	Year Ended December 31,					As of September 30,
	2005	2006	2007	2008	2009	2010
	(In thousands)					(Unaudited)
Balance Sheet Data:						
Cash, cash equivalents and short-term investments	$ 1,609	$ 1,942	$ 6,117	$ 3,715	$ 5,931	$ 39,113
Working capital	(234)	(647)	4,535	3,995	4,973	40,608
Total assets	6,767	12,228	20,687	19,197	21,919	56,227
Long-term liabilities	2,719	5,167	5,550	5,950	5,317	4,913
Total debt(3)	2,675	5,018	4,992	4,471	2,694	122
Total redeemable convertible preferred stock	56,072	58,520	65,964	65,964	65,778	
Total stockholders equity (deficit)	$ (56,758)	$ (58,046)	$ (60,111)	$ (61,844)	$ (60,466)	$ 41,720

	Year Ended December 31,					Nine Months Ended September 30,	
	2005	2006	2007	2008	2009	2009	2010
	(Unaudited; adjusted EBITDA in thousands)						

Operating Data:							
Adjusted EBITDA(4)	$ 385	$ 748	$ 103	$ 763	$ 3,206	$ 2,500	$ 4,107
Recurring revenue customers(5)	6,056	7,940	9,496	10,076	11,003	10,939	12,117
Non-GAAP net income (loss) per diluted share(6)	$ (6.69)	$ (6.38)	$ (7.41)	$ (3.23)	$ 0.17	$ 0.14	$ 0.26

24

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

	Year Ended December 31,					Nine Months Ended September 30,	
	2005	2006	2007	2008	2009	2009	2010
	(In thousands)					(Unaudited)	
Cost of revenues	$	$	$ 2	$ 19	$ 53	$ 43	$ 65
Sales and marketing			33	60	91	74	129
Research and development			2	4	4	3	12
General and administrative		6	9	74	80	57	252
Total	$	$ 6	$ 46	$ 157	$ 228	$ 177	$ 458

(2) Reflects the conversion of all of our preferred stock into common stock that occurred on April 22, 2010 and the 0.267 for 1 reverse stock split that occurred on April 13, 2010. The calculation of the basic pro forma weighted average shares outstanding (unaudited) consists of the basic weighted average shares outstanding plus the weighted average preferred shares outstanding, which converted to common stock on April 22, 2010.

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

(4) EBITDA consists of net income (loss) plus depreciation and amortization, interest expense, interest income and income tax expense. Adjusted EBITDA consists of EBITDA plus our non-cash, share-based compensation expense. We use Adjusted EBITDA as a measure of operating performance because it assists us in comparing performance on a consistent basis, as it removes from our operating results the impact of our capital structure. We believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company s operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired. The following table provides a reconciliation of net income (loss) to Adjusted EBITDA:

	Year Ended December 31,					Nine Months Ended September 30,	
	2005	2006	2007	2008	2009	2009	2010
	(Unaudited; in thousands)						
Net income (loss)	$ (676)	$ (1,301)	$ (2,156)	$ (1,895)	$ 1,162	$ 949	$ 2,443
Depreciation and amortization	739	1,481	1,758	1,988	1,455	1,089	1,148
Interest expense	299	558	439	419	270	225	66
Interest income							(104)

Income tax expense	23	4	16	94	91	60	96
EBITDA	385	742	57	606	2,978	2,323	3,649
Non-cash, share-based compensation expense		6	46	157	228	177	458
Adjusted EBITDA	$ 385	$ 748	$ 103	$ 763	$ 3,206	$ 2,500	$ 4,107

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

(6) Non-GAAP net income (loss) per share consists of net income (loss) plus non-cash, share-based compensation expense and amortization expense related to intangible assets divided by the weighted average number of shares

Table of Contents

of common stock outstanding during each period. We believe non-GAAP net income (loss) per share is useful to an investor because it is widely used to measure a company s operating performance. The following table provides a reconciliation of net income (loss) to non-GAAP net income (loss) per share (in thousands, except per share amounts):

	Year Ended December 31,					Nine Months Ended September 30,	
	2005	2006	2007	2008 (Unaudited)	2009	2009	2010
Net income (loss)	$ (676)	$ (1,301)	$ (2,156)	$ (1,895)	$ 1,162	$ 949	$ 2,443
Non-cash, share-based compensation expense		6	46	157	228	177	458
Amortization of intangible assets		536	740	788	155	155	
Non-GAAP net income (loss)	$ (676)	$ (759)	$ (1,370)	$ (950)	$ 1,545	$ 1,281	$ 2,901
Shares used to compute non-GAAP net income (loss) per share							
Basic	101	119	185	294	329	331	6,796
Diluted	101	119	185	294	9,268	9,084	11,275
Non-GAAP net income (loss) per share							
Basic	$ (6.69)	$ (6.38)	$ (7.41)	$ (3.23)	$ 4.70	$ 3.87	$ 0.43
Diluted	$ (6.69)	$ (6.38)	$ (7.41)	$ (3.23)	$ 0.17	$ 0.14	$ 0.26

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

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

Overview

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

SPSCommerce.net fundamentally changes how organizations use electronic communication to manage a supply chain by replacing the collection of traditional, custom-built, point-to-point integrations with a hub-and-spoke model whereby a single integration to SPSCommerce.net allows an organization to connect seamlessly to the entire SPSCommerce.net network of trading partners. SPSCommerce.net combines integrations with 3,000 order management models across more than 1,500 retailers, grocers and distributors through a multi-tenant architecture and provides ancillary support applications that deliver a comprehensive set of supply chain solutions.

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

We plan to grow our business by further penetrating the supply chain management market, increasing revenues from our customers as their businesses grow, expanding our distribution channels, expanding our international presence and developing new solutions and applications. We also intend to selectively pursue acquisitions that will add customers, allow us to expand into new regions or industries or allow us to offer new functionalities.

For 2007, 2008, 2009 and the nine months ended September 30, 2010, we generated revenues of $25.2 million, $30.7 million, $37.7 million and $32.7 million. Our fiscal quarter ended September 30, 2010 represented our 39th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 83%, 84%, 80% and 83% of our total revenues for 2007, 2008, 2009 and the nine months ended September 30, 2010. No customer represented over 2% of our revenues for 2007, 2008 or 2009 or the nine months ended September 30, 2010.

Key Financial Terms and Metrics

Sources of Revenues

Trading Partner Integration. Our revenues primarily consist of monthly revenues from our customers for our Trading Partner Integration solution. Our revenues for this solution consist of a monthly subscription fee and a transaction-based fee. We also receive set-up fees for initial integration solutions we provide our customers. Most of our customers have contracts with us that may be terminated by the customer by providing 30 days prior notice. Over 90% of our revenues for 2007, 2008, 2009 and the nine months ended September 30, 2010 were derived from Trading Partner Integration.

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

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

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

Cost of Revenues and Operating Expenses

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

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

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

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

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

Table of Contents

company in April 2010, we have incurred additional general and administrative expenses associated with being a public company, including higher legal, audit and insurance fees.

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

Other Metrics

Recurring Revenue Customers. As of September 30, 2010, we had over 12,100 customers with contracts to pay us monthly fees, which we refer to as recurring revenue customers. We report recurring revenue customers at the end of a period. A minority portion of our recurring revenue customers consists of separate units within a larger organization. We treat each of these units, which may include divisions, departments, affiliates and franchises, as distinct customers.

Average Recurring Revenues Per Recurring Revenue Customer. We calculate average recurring revenues per recurring revenue customer for a period by dividing the recurring revenues from recurring revenue customers for the period by the average of the beginning and ending number of recurring revenue customers for the period. For the nine months ended September 30, 2009 and 2010, we annualize this number by multiplying the quotient 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, such as the Trading Partner Intelligence solution we introduced in 2009, and increase the penetration of those solutions across our customer base.

Monthly Subscription and Transaction-Based Fees. For 2007, 2008, 2009 and the nine months ended September 30, 2010, revenues from fixed monthly subscription and transaction-based fees accounted for 83%, 84%, 80% and 83% of our revenues, which we refer to as recurring revenues. All of these recurring revenues in 2007 and 2008 and more than 95% of the recurring revenues for 2009 and the nine months ended September 30, 2010 related to our Trading Partner Integration solution. Our revenues are not concentrated with any customer, as no customer represented over 2% of our revenues for 2007, 2008, 2009 or the nine months ended September 30, 2010.

Table of Contents

Adjusted EBITDA. EBITDA consists of net income (loss) plus depreciation and amortization, interest expense, interest income and income tax expense. Adjusted EBITDA consists of EBITDA plus our non-cash, share-based compensation expense. We use Adjusted EBITDA as a measure of operating performance because it assists us in comparing performance on a consistent basis, as it removes from our operating results the impact of our capital structure. We believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company s operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of performance exclusive of our capital structure and the method by which assets were acquired. The following table provides a reconciliation of net income (loss) to Adjusted EBITDA:

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
	(Unaudited; in thousands)				
Net income (loss)	$ (2,156)	$ (1,895)	$ 1,162	$ 949	$ 2,443
Depreciation and amortization	1,758	1,988	1,455	1,089	1,148
Interest expense	439	419	270	225	66
Interest income					(104)
Income tax expense	16	94	91	60	96
EBITDA	57	606	2,978	2,323	3,649
Non-cash, share-based compensation expense	46	157	228	177	458
Adjusted EBITDA	$ 103	$ 763	$ 3,206	$ 2,500	$ 4,107

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

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

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
				(Unaudited)	
Net income (loss)	$ (2,156)	$ (1,895)	$ 1,162	$ 949	$ 2,443
Non-cash, share-based compensation expense	46	157	228	177	458
Amortization of intangible assets	740	788	155	155	
Non-GAAP net income (loss)	$ (1,370)	$ (950)	$ 1,545	$ 1,281	$ 2,901

Shares used to compute non-GAAP net income (loss) per share					
Basic	185	294	329	331	6,796
Diluted	185	294	9,268	9,084	11,275
Non-GAAP net income (loss) per share					
Basic	$ (7.41)	$ (3.23)	$ 4.70	$ 3.87	$ 0.43
Diluted	$ (7.41)	$ (3.23)	$ 0.17	$ 0.14	$ 0.26

Table of Contents

The non-GAAP measures of Adjusted EBITDA and non-GAAP net income (loss) per share should not be considered a substitute for, or superior to, financial measures calculated in accordance with generally accepted accounting principles in the United States. 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, or GAAP. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that we believe to be reasonable. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in the notes to our financial statements, the following accounting policies involve a greater degree of judgment, complexity and effect on materiality. A critical accounting policy is one that is both material to the presentation of our financial statements and requires us to make difficult, subjective or complex judgments for uncertain matters that could have a material effect on our financial condition and results of operations. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

Revenue Recognition

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

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

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

Table of Contents

Allowance for Doubtful Accounts

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

Income Taxes

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

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

Stock-Based Compensation

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

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

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	**2008**	**2009**	**2009**	**2010**
Risk-free interest rate(1)	4.4%	4.0%	2.7% - 4.0%	2.7% - 4.0%	2.3% - 3.1%

Expected term(2)	8	7	4 - 7	4 - 7	6.25
Estimated volatility(3)	52%	53%	49% - 53%	49% - 53%	46%
Expected dividend yield	0%	0%	0%	0%	0%

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

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

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

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

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

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

We recorded non-cash, stock-based compensation expense under ASC 718 of $46,000 during 2007, $157,000 during 2008, $228,000 during 2009 and $177,000 and $458,000 for the nine months ended September 30, 2009 and 2010. Based on stock options outstanding as of September 30, 2010, we had unrecognized, stock-based compensation of $2,701,000. We expect to continue to grant stock options in the future, and to the extent that we do, our actual stock-based compensation expense recognized in future periods will likely increase.

As of September 30, 2010, we had outstanding vested options to purchase 993,164 shares of our common stock and unvested options to purchase 605,822 shares of our common stock with an intrinsic value of approximately $11,489,000 and $1,974,000, respectively.

Significant Factors Used in Determining Fair Value of Our Common Stock

The fair value of the shares of common stock that underlie the stock options we have granted has historically been determined by our audit committee or board of directors based upon information available to it at the time of grant. Because, prior to our initial public offering, there was no public market for our common stock, our audit committee or board of directors determined the fair value of our common stock by utilizing, among other things, recent or contemporaneous valuation information available as of December 31, 2007 and for each quarter end thereafter until we completed our initial public offering on April 22, 2010. The valuation information included reviews of our business and general economic, market and other conditions that could be reasonably evaluated at that time, including our financial results, business agreements, intellectual property and capital structure. The valuation information also included a thorough review of the conditions of the industry in which we operate and the markets that we serve. Our audit committee or board of directors conducted an analysis of the fair market value of our company considering two widely accepted valuation approaches: (1) market approach and (2) income approach. These valuation approaches are based on a number of assumptions, including our future revenues and industry, general economic, market and other conditions that could reasonably be evaluated at the time of the valuation.

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

Set forth below is a summary of our stock option grants from January 1, 2009 through December 31, 2009 and our contemporaneous valuations and Black-Scholes values for those grants. Following December 31, 2009, all stock option grants were valued at either the price to the public of our common stock for our initial public offering or at the closing sale price of our common stock on the Nasdaq Global Market on the date of grant.

Period of Grant	**Number of Options Granted**	**Per Share Exercise Price(s)**	**Fair Value(s) Estimate Per Share**	**Valuation Date(s)**	**Black-Scholes Value(s) Per Share**
First Quarter 2009	82,503	$ 3.45	$ 3.45	February 10, 2009	$ 1.84
Second Quarter 2009	99,858(1)	$ 2.43-2.55	$ 2.43 - 2.55	April 1, 2009 and April 22, 2009	$ 1.31-1.42
Third Quarter 2009	238,527(2)	$ 3.03	$ 3.03	July 23, 2009	$ 0.15-1.69
Fourth Quarter 2009	801	$ 3.71	$ 3.71	October 22, 2009	$ 7.49

(1) On April 1, 2009, we unilaterally amended the terms of the 82,503 stock options granted to three employees in the first quarter of 2009 to reduce the exercise price for all of the shares subject to each option to $2.43 per share, which was the fair market value of our common stock on the date of the amendments. The amendments did not affect the vesting provisions or the number of shares subject to any of the option awards. For financial statement reporting, we treat the previously granted options as being forfeited and the amendments as new option grants; however, none of the holders of these options made any investment decisions in connection with the amendments.

(2) On July 23, 2009, we unilaterally amended the terms of 237,726 stock options granted to 17 employees and one director to reduce the exercise price for all of the shares subject to options previously granted to the employees and director. The amendments did not affect the vesting provisions or the number of shares subject to any of the option awards. For financial statement reporting, we treat the previously granted options as being forfeited and the amendments as new option grants; however, none of the holders of the previously granted options made any investment decisions in connection with the amendments.

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

Business Conditions and Results:

- Our actual financial condition and results of operations during the relevant period;
- The status of strategic initiatives to increase the market for our services;
- The competitive environment that existed at the time of the valuation;
- All important developments for our company, including the growth of our customer base and the progress of our business model, such as the introduction of new services; and

Table of Contents

- The status of our efforts to build our management team to retain and recruit the talent and size organization required to support our anticipated growth.

Market Conditions:

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

Liquidity and Valuation:

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

As noted below, the significant factors contributing to the differences between the valuation of our common stock as determined by our audit committee or board of directors and our initial public offering price of $12.00 per share include the following:

- Contemporaneous valuations that we performed through October 22, 2009 all included a lack of marketability discount of 30% due to the uncertainty in the feasibility and timing of any public offering. An initial public offering price would include a marketability discount of 0% since the stock sold in the offering will not have restrictions on marketability;
- Recent market performance of the Nasdaq Stock Market and other Software-as-a-Service companies have improved. Specifically, the Nasdaq Stock Market increased 7% from September 30, 2009 to December 31, 2009 and the Nasdaq Stock Market has increased 13% from September 30, 2009 to March 22, 2010. In addition, Software-as-a-Service companies have seen improved valuations and market prices, which we believe increases the value of our common stock;
- 2009 was the first year our revenues reached a sufficient level to provide us with sustainable, positive cash flow, which provides support to our stockholders that we have obtained revenue levels that will allow us to leverage our infrastructure and achieve greater profitability as we increase our business. We believe the ability to generate positive cash flow validates our business model. Our business involves selling our solution to thousands of recurring revenue customers who pay low monthly fees to us; therefore, it is critical that we reach a critical customer count to cover our infrastructure costs. Once sufficient revenue levels are met, our margins improve and we produce positive cash flow that can be used for working capital or potential, strategic acquisitions. We believe reaching this milestone significantly increases our value and, accordingly, the value of our common stock; and
- Financial projections that were used in 2009 by the audit committee and board of directors in valuing the common stock were based in part on estimates of 2009 and future performance. The projections assumed that we would begin to demonstrate improved scalability and leverage of our infrastructure costs in 2009. Our actual performance in 2009 exceeded our management s expectations and led to improved scalability and leverage of our infrastructure costs; therefore, we believe that the value of our common stock has increased substantially from the value determined early in the fourth quarter of 2009.

Specifics related to grants from January 1, 2009 to December 31, 2009 are as follows:

First Quarter 2009

During the first quarter of 2009, we granted 82,503 stock options with an exercise price of $3.45 per share. In the absence of a public trading market for our common stock, our board of directors, with input from management, considered the Key Valuation Considerations and factors described below and determined the fair market value of our common stock in good faith to be $3.45 per share.

Results of Operations: Our cash and cash equivalents and short-term investment balances of $3.7 million as of December 31, 2008 were not sufficient to sustain long term growth and provide cash to invest in operations. Our revenues grew from $6.9 million for the three months ended December 31, 2007 to $8.1 million for the three months ended December 31, 2008. At the same time, our losses for each of the last three quarters of 2008 were $(555,000), $(134,000) and $(287,000).

Preferred Stock Preferences: During this period our audit committee also considered the rights, preferences and privileges of the preferred stock relative to the common stock. As of December 31, 2008, our preferred stock possessed an aggregate liquidation preference of $38.6 million. The participation rights of our preferred stock also provide that the preferred stock participates with the common stock pro rata in our remaining assets. Our audit committee did not believe at that time we were a candidate for a liquidity event, such as an initial public offering or sale of the company at a premium whereby our preferred stock would convert to common thereby eliminating the liquidation preferences of the preferred stock.

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

The values of our company calculated under each methodology were given equal weight based upon our audit committee s estimate as of the valuation date, of the meaningfulness of each methodology to our company s valuation. Based on these inputs, our marketable minority equity value was determined to be $63.0 million. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $63.0 million to each of the series and classes of equity capital to derive a common stock value. The resulting valuation determined a per share value of $3.45 after considering a lack of marketability discount of 30%.

Second Quarter 2009

During the second quarter of 2009, we granted 17,355 stock options with a per share exercise price of $2.55 on April 22, 2009 and on April 1, 2009 amended the exercise price of 82,503 stock options previously granted to three employees to lower the exercise price to $2.43 per share. We treat the amended options as newly granted options for financial statement reporting purposes. In the absence of a public trading market for our common stock, our audit committee, with input from management, considered the Key Valuation Considerations and factors described below and determined the fair market value of our common stock in good faith to be $2.43 per share on April 1, 2009 and $2.55 per share on April 22, 2009.

Results of Operations: Our cash and cash equivalents and short-term investment balances of $4.3 million as of March 31, 2009, which were not sufficient to sustain long-term growth and provide cash to invest in operations.

Our revenues grew from $7.0 million for the three months ended March 31, 2008 to $8.5 million for the three months ended March 31, 2009. At the same time, our losses for each of the three most recently completed quarters were $(134,000), $(287,000) and $(54,000).

Preferred Stock Preferences: During this period our audit committee also considered the rights, preferences and privileges of our preferred stock relative to the common stock. As of March 31, 2009, our preferred stock possessed an aggregate liquidation preference of $38.6 million. The participation rights of our preferred stock also provide that the preferred stock participates with the common stock pro rata in our remaining assets. Our audit committee did not believe at that time we were a candidate for a liquidity event, such as an initial public offering or sale of our company at a premium whereby our preferred stock would convert to common thereby eliminating the liquidation preferences of the preferred stock.

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

The values of our company calculated under each methodology were given equal weight based upon our audit committee s estimate as of the valuation date, of the meaningfulness of each methodology to our company s valuation. Based on these inputs, our marketable minority equity value was determined to be $64.0 million as of April 1, 2009. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $64.0 million to each of the series and classes of equity capital to derive a common stock value as of that date. The resulting valuation determined a per share value of $2.43 on April 1, 2009 after considering a lack of marketability discount of 30%. Our marketable minority equity value was determined to be $64.6 million as of April 22, 2009. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $64.6 million to each of the series and classes of equity capital to derive a common stock value as of that date. The resulting valuation determined a per share value of $2.55 after considering a lack of marketability discount of 30%.

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

Third Quarter 2009

During the third quarter of 2009, on July 23, 2009, we granted 801 stock options and amended 237,726 stock options such that all options granted or amended during the period had a per share exercise price of $3.03. We treat the amended options as newly granted options for financial statement reporting purposes. In the absence of a public trading market for our common stock, our audit committee, with input from management, considered the Key Valuation Considerations and factors described below and determined the fair market value of our common stock in good faith to be $3.03 per share.

Results of Operations: Our cash and cash equivalents and short-term investments balances of $5.4 million as of June 30, 2009 were not sufficient to sustain long-term growth and provide cash to invest in operations. Our revenues grew from $7.6 million for the three months ended June 30, 2008 to $9.6 million for the three months

37

ended June 30, 2009. At the same time, our income (loss) for each of the three most recently completed quarters were $(287,000), $(54,000) and $657,000.

Preferred Stock Preferences: During this period our audit committee also considered the rights, preferences and privileges of our preferred stock relative to the common stock. As of June 30, 2009, our preferred stock possessed an aggregate liquidation preference of $38.6 million. The participation rights of our preferred stock also provide that the preferred stock participates with the common stock pro rata in our remaining assets. At that time, our audit committee believed we could become a candidate for a liquidity event, such as an initial public offering or sale of our company at a premium whereby our preferred stock would convert to common thereby eliminating the liquidation preferences of the preferred stock. However, the audit committee was unsure if there was any interest by potential underwriters for an initial public offering or by potential acquirers of the Company, as neither the audit committee nor the board of directors had held any substantive discussions with potential underwriters or acquirers during the preceding 12 months. If there was interest by a potential underwriter or acquirer, the audit committee also was unsure of when an offering or acquisition would occur and believed any offering or acquisition could occur well in the future.

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

The values of our company calculated under each methodology were given equal weight based upon our audit committee s estimate as of the valuation date, of the meaningfulness of each methodology to our company s valuation. Based on these inputs, our marketable minority equity value was determined to be $71.8 million. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $71.8 million to each of the series and classes of equity capital to derive a common stock value. The resulting valuation determined a per share value of $3.03 after considering a lack of marketability discount of 30%.

Fourth Quarter 2009

During the fourth quarter of 2009, we granted 801 stock options on October 22, 2009 with a per share exercise price of $3.71. In the absence of a public trading market for our common stock, our audit committee, with input from management, considered the Key Valuation Considerations and factors described below and determined the fair market value of our common stock in good faith to be $3.71 per share.

Results of Operations: Our cash and cash equivalents and short-term investments balances of $5.8 million as of September 30, 2009 were not sufficient to sustain long-term growth and provide cash to invest in operations. Our revenues grew from $8.1 million for the three months ended September 30, 2008 to $9.6 million for the three months ended September 30, 2009. At the same time, our income (loss) for each of the three most recently completed quarters was $(54,000), $657,000 and $346,000.

Preferred Stock Preferences: During this period our audit committee also considered the rights, preferences and privileges of our preferred stock relative to the common stock. As of September 30, 2009, our preferred stock possessed an aggregate liquidation preference of $38.6 million. The participation rights of our preferred stock also provide that the preferred stock participates with the common stock pro rata in our remaining assets. At that time, our audit committee believed we could become a candidate for a liquidity event, such as an initial public offering or sale of our company at a premium whereby our preferred stock would convert to common thereby eliminating the liquidation preferences of the preferred stock. In early October 2009, the board of directors received feedback from potential underwriters that we were a potentially viable candidate for an initial public offering, but the board was unsure if it would proceed with such an offering and therefore did not change any of the Key Valuation Considerations at that time.

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

The values of our company calculated under each methodology were given equal weight based upon our audit committee s estimate as of the valuation date, of the meaningfulness of each methodology to our company s valuation. Based on these inputs, our marketable minority equity value was determined to be $82.2 million. The Black-Scholes option pricing model was then used to perform an equity allocation of the marketable minority value of $82.2 million to each of the series and classes of equity capital to derive a common stock value. The resulting valuation determined a per share value of $3.71 after considering a lack of marketability discount of 30%.

Research and Development

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

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

Valuation of Goodwill

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

The valuation of goodwill requires the use of discounted cash flow valuation models. Those models require

estimates of future revenue, profits, capital expenditures and working capital. These estimates will be determined by evaluating historical trends, current budgets, operating plans and industry data. Determining the fair value of goodwill includes significant judgment by management and different judgments could yield different results.

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

Results of Operations

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

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
			(In thousands)		
				(Unaudited)	
Revenues	$ 25,198	$ 30,697	$ 37,746	$ 27,765	$ 32,678
Cost of revenues	6,379	9,258	11,715	8,742	9,293
Gross profit	18,819	21,439	26,031	19,023	23,385
Operating expenses					
Sales and marketing	11,636	12,493	13,506	10,005	11,768
Research and development	3,546	3,640	4,305	3,226	3,218
General and administrative	5,458	6,716	6,339	4,671	5,805
Total operating expenses	20,640	22,849	24,150	17,902	20,791
Income (loss) from operations	(1,821)	(1,410)	1,881	1,121	2,594
Other income (expense)					
Interest expense	(439)	(419)	(270)	(225)	(66)
Interest income					104
Other income (expense)	120	28	(358)	113	(93)
Total other expense	(319)	(391)	(628)	(112)	(55)
Income tax expense	(16)	(94)	(91)	(60)	(96)
Net income (loss)	$ (2,156)	$ (1,895)	$ 1,162	$ 949	$ 2,443

Table of Contents

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

	Year Ended December 31,			Nine Months Ended September 30, (Unaudited)	
	2007	2008	2009	2009	2010
Revenues	100%	100%	100%	100%	100%
Cost of revenues	25	30	31	32	28
Gross profit	75	70	69	68	72
Operating expenses					
Sales and marketing	46	41	36	36	36
Research and development	14	12	11	12	10
General and administrative	22	22	17	17	18
Total operating expenses	82	75	64	65	64
Income (loss) from operations	(7)	(5)	5	4	8
Other income (expense)					
Interest expense	(2)	(1)	(1)	(1)	
Interest income					
Other income (expense)			(1)		
Total other expense	(2)	(1)	(2)		
Income tax expense					
Net income (loss)	(9)%	(6)%	3%	3%	8%

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

Nine Months Ended September 30, 2010 compared to Nine Months Ended September 30, 2009

Revenues. Revenues for the nine months ended September 30, 2010 increased $4.9 million, or 18%, to $32.7 million from $27.8 million for the same period in 2009. Our fiscal quarter ended September 30, 2010 represented our 39th consecutive quarter of increased revenues. The increase in revenues for both periods resulted from an 11% increase in recurring revenue customers to 12,117 at September 30, 2010 from 10,939 at September 30, 2009, as well as an 11% increase in annualized average recurring revenues per recurring revenue customer to $3,226 from $2,900. The increase in annualized average recurring revenues per recurring revenue customer was primarily attributable to increased fees resulting from increased usage of our solutions by our recurring revenue customers. Recurring revenues from recurring revenue customers accounted for 83% of our total revenues for the nine months ended September 30, 2010, compared to 80% for the same period in 2009. We anticipate that the number of recurring revenue customers and the recurring revenues per recurring revenue customer will continue to increase as we increase the number of solutions we offer, such as the Trading Partner Intelligence solution we introduced in 2009, and increase the penetration of those solutions across our customer base.

Cost of Revenues. Cost of revenues for the nine months ended September 30, 2010 increased $551,000, or 6%, to $9.3 million from $8.7 million for the same period in 2009. The increase in costs was primarily attributable to higher costs of personnel, network services and depreciation. As a percentage of revenues, cost of revenues was 28% for the nine months ended September 30, 2010, compared to 32% for the same period in 2009. Increased revenues allowed us to leverage our personnel and infrastructure costs and decrease our cost of revenues as a percentage of total revenues. Going forward, we anticipate that cost of revenues will increase in absolute dollars as we continue to build our business.

Sales and Marketing Expenses. Sales and marketing expenses for the nine months ended September 30, 2010 increased $1.8 million, or 18%, to $11.8 million from $10.0 million for the same period in 2009. The increase in sales and marketing expenses was due to higher commissions earned by sales personnel from new business, as well as increased personnel costs. As a percentage of revenues, sales and marketing expenses were 36% for each of the nine months ended September 30, 2010 and 2009. As we work to grow our business, we will continue to add resources to our sales and marketing efforts over time, and we expect that these expenses will increase in absolute dollars.

Research and Development Expenses. Research and development expenses for the nine months ended September 30, 2010 were $3.2 million, which was comparable to the same period in 2009. As a percentage of revenues, research and development expenses were 10% for the nine months ended September 30, 2010, compared to 12% for the same period in 2009. Increased revenues contributed to the decrease in research and development expenses as a percentage of revenues. We expect research and development expenses will increase in absolute dollars as we continue to enhance and expand our solutions and applications.

General and Administrative Expenses. For the nine months ended September 30, 2010, general and administrative expenses increased $1.1 million, or 24%, to $5.8 million from $4.7 million for the same period in 2009. The increase in general and administrative expenses was due to increased expenses related to being a public company, including board of director, legal and accounting fees. As a percentage of revenues, general and administrative expenses were 18% for the nine months ended September 30, 2010, compared to 17% for the same period in 2009. Going forward, we expect that general and administrative expenses will increase in absolute dollars.

Other Income (Expense). Interest expense for the nine months ended September 30, 2010 decreased $159,000, or 71%, to $66,000 from $225,000 for the same period in 2009. The decrease in interest expense was principally due to reduced equipment borrowings and the repayment of all outstanding indebtedness under our credit facility in 2010. Interest income for the nine months ended September 30, 2010 was $104,000 as the result of interest earned on the net cash proceeds from our initial public offering in April 2010. Other expense for the nine months ended September 30, 2010 was $93,000 compared to other income of $113,000 for the same period in 2009. The other income (expense) change was driven primarily by updating the value of outstanding preferred stock warrants to fair market value as required by generally accepted accounting principles. We expect that there will be no further income or expense related to these warrants as they were converted to common stock warrants with the completion of our initial public offering on April 22, 2010.

Income Tax Expense. Income tax expense was $96,000 for the nine months ended September 30, 2010 compared to $60,000 for the same period in 2009. We record our interim provision for income taxes based on our estimated annual effective tax rate for the year. Our provision for income taxes includes estimated federal alternative minimum taxes, state income and franchise taxes, as well as deferred tax expense resulting from the book and tax basis difference in goodwill from a prior asset acquisition.

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

Revenues. Revenues for 2009 increased $7.0 million, or 23%, to $37.7 million from $30.7 million for 2008. The increase in revenues resulted primarily from a 9% increase in recurring revenue customers to 11,003 from 10,076 as well as a 10% increase in average recurring revenues per recurring revenue customer to $2,879 from $2,622. The increase in average recurring revenues per recurring revenue customer was primarily attributable to increased fees resulting from increased usage of our solutions by our recurring revenue customers. In addition, $1.2 million of the increase in revenues was due to higher testing and certification revenues due to a greater number of enablement campaigns for 2009. In 2009, we had our highest level of revenues from Trading Partner Enablement due to significant increased demand for enablement from our retailers in the year.

42

Cost of Revenues. Cost of revenues for 2009 increased $2.4 million, or 27%, to $11.7 million from $9.3 million for 2008. Of the increase in costs, approximately $2.1 million resulted from an increase in personnel costs, which was primarily attributable to the additional employees we hired for our implementation groups and customer support team. The remaining $300,000 increase was primarily due to higher costs of network services and depreciation. As a percentage of revenues, cost of revenues was 31% for 2009 compared to 30% for 2008.

Sales and Marketing Expenses. Sales and marketing expenses for 2009 increased $1.0 million, or 8%, to $13.5 million from $12.5 million for 2008. The increase in the dollar amount is due to higher commissions earned by sales personnel from new business. As a percentage of revenues, sales and marketing expenses were 36% for 2009 compared to 41% for 2008. Increased revenues for 2009 compared to 2008 allowed us to leverage our fixed sales and marketing expenses and caused the decrease in sales and marketing expenses as a percentage of revenues.

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

General and Administrative Expenses. General and administrative expenses for 2009 decreased $377,000, or 6%, to $6.3 million from $6.7 million for 2008. As a percentage of revenues, general and administrative expenses were 17% for 2009 compared to 22% for 2008. In February 2009, the subscriber relationships from our 2006 Owens Direct acquisition became fully amortized, causing a decrease in amortization costs included in general and administrative expenses for the remainder of 2009 and driving the decrease in general and administrative expenses in absolute dollars and as a percentage of revenues.

Other Income (Expense). Interest expense for 2009 decreased $149,000, or 36%, to $270,000 from $419,000 for 2008. The decrease in interest expense is principally due to reduced equipment borrowings. Other expense for 2009 was $358,000 compared to other income of $28,000 for 2008. The other income (expense) change was driven by updating the value of preferred stock warrants we issued to fair market value using the Black-Scholes method.

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

Revenues. Revenues for 2008 increased $5.5 million, or 22%, to $30.7 million from $25.2 million for 2007. The increase in revenues resulted primarily from a 6% increase in recurring revenue customers to 10,076 from 9,496 as well as a 10% increase in average recurring revenues per recurring revenue customer to $2,622 from $2,385. The increase in average recurring revenues per recurring revenue customer was primarily attributable to increased fees resulting from increased usage of our solutions by our recurring revenue customers.

Cost of Revenues. Cost of revenues for 2008 increased $2.9 million, or 45%, to $9.3 million from $6.4 million for 2007. Of the increase in costs, $2.3 million is related to personnel costs associated with implementation and customer and applications support based on business growth. The principal driver of these increased personnel costs, which we amortize over 24 months, is the additional employees we hired during 2007 to provide implementation services to support our focus on integrating our solutions into our recurring revenue customers business systems. This resulted in a larger impact in 2008 than 2007. Additionally, $500,000 of the increase in cost of revenues from 2007 to 2008 is attributable to direct cost, which includes cost of resale and increased depreciation. As a percentage of revenues, cost of revenues was 30% for 2008 compared to 25% for 2007. Cost of revenues increased as a percentage of revenues because the increased personnel costs for 2008 did not correspond with an increase in revenues for the period.

Table of Contents

Sales and Marketing Expenses. Sales and marketing expenses for 2008 increased $857,000, or 7%, to $12.5 million from $11.6 million for 2007. The increase in sales and marketing expenses is due to the increase in personnel costs driven by an increase to the number of employees in sales and marketing in 2008 compared to 2007. As a percentage of revenues, sales and marketing expenses were 41% for 2008 compared to 46% for 2007. Sales and marketing expenses decreased as a percentage of revenues because we effectively leveraged these costs across the revenues generated by the recurring revenue customers added during 2008.

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

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

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

Quarterly Results of Operations

The following tables set forth our unaudited operating results, Adjusted EBITDA and non-GAAP net income (loss) per diluted share for each of the eleven quarters preceding and including the period ended September 30, 2010 and the percentage of revenues for each line item shown. The information is derived from our unaudited financial statements. In the opinion of management, our unaudited financial statements include all adjustments, consisting only of normal recurring items, except as noted in the notes to the financial statements, necessary for a fair statement of interim periods. The financial information presented for the interim periods has been prepared in a manner consistent with our accounting policies described elsewhere in this prospectus and should be read in

Table of Contents

conjunction therewith. Operating results for interim periods are not necessarily indicative of the results that may be expected for a full-year period.

	Three Months Ended									
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010
	(Unaudited; in thousands)									
ata:										
	$ 6,957	$ 7,586	$ 8,074	$ 8,080	$ 8,531	$ 9,600	$ 9,634	$ 9,981	$ 10,243	$ 10,944
ues(1)	1,986	2,199	2,435	2,638	2,837	2,896	3,009	2,973	2,981	3,101
	4,971	5,387	5,639	5,442	5,694	6,704	6,625	7,008	7,262	7,843
enses										
	3,162	3,240	3,101	2,990	3,075	3,397	3,533	3,501	3,507	4,122
1)	949	954	875	862	1,044	1,059	1,123	1,079	1,043	1,067
e(1)	1,639	1,669	1,684	1,724	1,652	1,514	1,505	1,668	1,665	1,975
g	5,750	5,863	5,660	5,576	5,771	5,970	6,161	6,248	6,215	7,164
from	(779)	(476)	(21)	(134)	(77)	734	464	760	1,047	679
se	(112)	(106)	(104)	(97)	(89)	(75)	(61)	(45)	(45)	(13)
ne	(21)	29	(6)	26	123	(2)	(8)	(471)	(18)	10
come	(133)	(77)	(110)	(71)	34	(77)	(69)	(516)	(63)	(3)
pense	(7)	(2)	(3)	(82)	(11)		(49)	(31)	(65)	(38)
oss)	$ (919)	$ (555)	$ (134)	$ (287)	$ (54)	$ 657	$ 346	$ 213	$ 919	$ 638
ata:										
TDA(2)	$ (259)	$ 76	$ 504	$ 442	$ 536	$ 1,103	$ 861	$ 706	$ 1,422	$ 1,267
enue	9,808	9,949	10,033	10,076	10,273	10,709	10,939	11,003	11,392	11,804
et per 3)	$ (2.77)	$ (1.18)	$ 0.01	$ (0.13)	$ 0.01	$ 0.08	$ 0.05	$ 0.03	$ 0.10	$ 0.07

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

	Three Months Ended										
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010
	(Unaudited; in thousands)										
Cost of revenues	$ 4	$ 4	$ 4	$ 7	$ 12	$ 11	$ 20	$ 10	$ 10	$ 24	$ 31
Sales and marketing	14	15	15	16	15	17	42	17	17	48	64
Research and development	1	1	1	1	1	1	1	1	1	4	7
General and administrative	17	17	17	23	20	21	16	23	23	99	130
Total	$ 36	$ 37	$ 37	$ 47	$ 48	$ 50	$ 79	$ 51	$ 51	$ 175	$ 232

(2) EBITDA consists of net income (loss) plus depreciation and amortization, interest expense, interest income and income tax expense (benefit). Adjusted EBITDA consists of EBITDA plus our non-cash, share-based compensation expense. We use Adjusted EBITDA as a measure of operating performance because it assists us in comparing performance on a consistent basis, as it removes from our operating results the impact of our

Table of Contents

capital structure. We believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because it is widely used to measure a company s operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired. The following table provides a reconciliation of net income (loss) to Adjusted EBITDA:

	Three Months Ended										
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	September 2010
	(Unaudited; in thousands)										
et income (loss)	$ (919)	$ (555)	$ (134)	$ (287)	$ (54)	$ 657	$ 346	$ 213	$ 919	$ 638	$ 886
epreciation and mortization	505	486	494	503	442	321	326	366	342	403	403
nterest expense	112	106	104	97	89	75	61	45	45	13	8
nterest income											(104
ncome tax expense enefit)	7	2	3	82	11		49	31	65	38	(7
BITDA	(295)	39	467	395	488	1,053	782	655	1,371	1,092	1,186
on-cash, hare-based ompensation xpense	36	37	37	47	48	50	79	51	51	175	232
djusted EBITDA	$ (295)	$ 76	$ 504	$ 442	$ 536	$ 1,103	$ 861	$ 706	$ 1,422	$ 1,267	$ 1,418

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

	Three Months Ended										
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	Septembe 201
	(Unaudited; in thousands, except per share data)										
income s)	$ (919)	$ (555)	$ (134)	$ (287)	$ (54)	$ 657	$ 346	$ 213	$ 919	$ 638	$ 8
-cash, e-based pensation ense	36	37	37	47	48	50	79	51	51	175	2

ortization ntangible ts	197	197	197	197	143	12					
-GAAP ncome s)	$ (686)	$ (321)	$ 100	$ (43)	$ 137	$ 719	$ 425	$ 264	$ 970	$ 813	$ 1,1
res used to pute -GAAP ncome s) per e											
c	248	273	323	331	331	331	331	329	327	8,301	11,6
ted	248	273	9,226	331	9,203	9,046	9,004	9,428	9,525	11,844	12,4
-GAAP ncome s) per e											
c	$ (2.77)	$ (1.18)	$ 0.31	$ (0.13)	$ 0.41	$ 2.17	$ 1.28	$ 0.80	$ 2.97	$ 0.10	$ 0.
ted	$ (2.77)	$ (1.18)	$ 0.01	$ (0.13)	$ 0.01	$ 0.08	$ 0.05	$ 0.03	$ 0.10	$ 0.07	$ 0.

Table of Contents

As a percentage of revenues:

	Three Months Ended										
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	September 2010
							(Unaudited)				
evenues	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100
ost of revenues	29	29	30	33	33	30	31	30	29	28	28
oss profit	71	71	70	67	67	70	69	70	71	72	72
perating expenses											
les and marketing	45	43	38	37	36	35	37	35	34	38	36
esearch and velopment	14	13	11	11	12	11	12	11	10	10	10
eneral and ministrative	24	22	21	21	19	16	16	17	16	18	19
otal operating penses	83	77	70	69	68	62	64	63	61	66	64
come (loss) from erations	(11)	(6)		(2)	(1)	8	5	7	10	6	8
her income xpense)											
terest expense	(2)	(1)	(1)	(1)	(1)	(1)	(1)				
terest income											1
her income xpense)					1			(5)			(1
otal other income xpense)	(2)	(1)	(1)	(1)		(1)	(1)	(5)	(1)		
come tax xpense) benefit				(1)			(1)		(1)		
et income (loss)	(13)%	(7)%	(2)%	(4)%	(1)%	7%	4%	2%	9%	6%	8

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

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

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

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

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through the sale of preferred stock, borrowings under credit facilities and, prior to 2004, issuances of notes payable to stockholders. At September 30, 2010, our principal sources of liquidity were cash and cash equivalents totaling $39.1 million and accounts receivable, net of allowance for doubtful accounts, of $5.5 million compared to cash and cash equivalents of $5.9 million and accounts receivable, net of allowance for doubtful accounts, of $4.8 million at December 31, 2009. Our working capital as of September 30, 2010 was $40.6 million compared to working capital of $5.0 million as of December 31, 2009. We bill our recurring revenue customers in arrears for monthly service fees and initial integration set-up fees. As a result, the amount of our accounts receivable at the end of a period is driven significantly by our revenues from recurring revenue customers for the last month of the period, and our cash flows from operations are affected by our collection of amounts due from customers for services that resulted in the recognition of revenues in a prior period. The increase in working capital from December 31, 2009 to September 30, 2010 resulted primarily from the following:

- $33.2 million increase in cash and cash equivalents, primarily representing the net proceeds from our initial public offering in April 2010;
- $751,000 increase in net accounts receivable, due to new business for the nine months ended September 30, 2010;
- $455,000 increase in deferred costs, current for expenses related to increased implementation resources and commission payments for new business;
- $449,000 decrease in prepaid expenses and other current assets, as prepaid expenses related to our initial public offering were recognized;
- $287,000 decrease in accounts payable, and $175,000 decrease in accrued expenses and other current liabilities, as payments were made on invoices and accruals related to our initial public offering;
- $714,000 increase in accrued compensation and benefits, due primarily to increased salary accruals, slightly offset by payments made in early 2010 for bonuses accrued as of December 31, 2009;
- $267,000 increase in current deferred revenue, due to new business for the nine months ended September 30, 2010; and
- $2.2 million decrease in the current portion of long-term debt and line of credit, as amounts were repaid with proceeds from our initial public offering.

Net Cash Flows from Operating Activities

Net cash provided by operating activities was $4.1 million for each of the nine months ended September 30, 2010 and 2009, as the approximate $1.5 million increase in net income was more than offset by the changes in non-cash expenses and the changes in working capital accounts as discussed above.

Net cash provided by (used in) operating activities was $5.2 million for 2009, $(807,000) for 2008 and $(803,000) for 2007. For 2009, net cash provided by operating activities was primarily a result of $1.2 million of net income, non-cash depreciation and amortization of $1.5 million, a $1.1 million increase in accrued compensation for bonuses in 2009 compared to 2008 due to our improved performance in 2009, and an $844,000 increase in deferred revenue. Increases in deferred revenue are due to continued growth in new business, offset by the recognition of setup revenue recognized ratably over time.

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

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

Table of Contents

Net Cash Flows from Investing Activities

For the nine months ended September 30, 2010 and 2009, net cash used in investing activities was $1.2 million and $506,000 respectively, all for capital expenditures. Capital expenditures in 2010 included a significant consolidated purchase of middleware and database licenses.

For 2009, net cash used in investing activities was $1.0 million for the purchase of various capital expenditures. In general, our various capital expenditures are for supporting our existing customer base, growth in new business, and internal use such as equipment for our employees. Net cash provided by investing for 2008 was $379,000, consisting of the sale of short-term investments of $1.3 million, partially offset by $884,000 in capital expenditures. Net cash used in investing was $2.4 million for 2007, consisting of $1.1 million of capital expenditures and $1.3 million for the purchase of short-term investments.

Net Cash Flows from Financing Activities

Net cash provided by financing activities was $30.3 million for the nine months ended September 30, 2010, representing the approximate $33.0 million of net proceeds from our initial public offering slightly offset by $2.6 million of net repayments on our outstanding indebtedness. Net cash used in financing activities was $1.5 million for the nine months ended September 30, 2009, representing net repayments on outstanding indebtedness.

Net cash used in financing activities was $1.9 million for 2009. We used these funds to pay $1.3 million in equipment loans and capital lease obligations and to pay $679,000 toward the term loan from our Owens Direct acquisition. For 2008, net cash used in financing activities was $711,000. We used these funds primarily to pay capital lease obligations as well as to pay a portion of the term loan from our Owens Direct acquisition. For 2007, net cash flows provided by financing was $6.1 million, primarily from the issuance of Series C redeemable convertible preferred stock in April 2007.

Credit Facility

We terminated our credit facility with BlueCrest Venture Finance Master Fund Limited effective March 31, 2010, such that no new borrowings will be made and all related outstanding indebtedness was repaid during the quarter ended June 30, 2010. We are currently reviewing our future needs for a credit facility.

Pursuant to this facility, BlueCrest provided us a series of equipment term loans that were payable in 36 equal monthly installments. In 2007, BlueCrest agreed to make equipment loans to us from time to time until December 31, 2007. Before its commitment expired, BlueCrest made loans in the aggregate principal amount of $1.2 million, of which $212,000 was outstanding as of December 31, 2009. Each loan bore interest at a per annum rate equal to the sum of (i) 7.20% plus (ii) the greater of 4.84% or the yield on three-year U.S. Treasury notes on the date the loan was made. In 2008, BlueCrest agreed to make additional equipment loans to us from time to time until December 31, 2008. Before its commitment expired, BlueCrest made loans in the aggregate principal amount of $756,000, of which $520,000 was outstanding as of December 31, 2009. Each loan bore interest at a per annum rate equal to the sum of (i) 9.25% plus (ii) the greater of 2.55% or the yield on three-year U.S. Treasury notes on the date the loan was made.

In 2009, BlueCrest established a revolving credit facility that allowed us to borrow an amount that did not exceed the lesser of the revolving loan commitment and the borrowing base. The amount of the revolving loan commitment was $3.5 million. The borrowing base was determined monthly and calculated based on specified percentages of our domestic and Canadian accounts receivable, less certain reserves established by BlueCrest. As of December 31,

Table of Contents

2009, the maximum amount we could borrow under the revolving facility was $1.5 million, all of which we had borrowed. The revolving facility bore interest at the rate of 9.00% per annum and terminated on March 31, 2010.

Adequacy of Capital Resources

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

We believe our cash and cash equivalents and cash flows from our operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months.

During the last three years, inflation and changing prices have not had a material effect on our business and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

Contractual and Commercial Commitment Summary

Our contractual obligations and commercial commitments as of December 31, 2009 are summarized below:

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

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

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

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity Risk. For fixed rate debt, interest rate changes affect the fair value of financial instruments but do not impact earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant. The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss. The recorded carrying amounts of cash and cash equivalents approximate fair value due to their short maturities. Due to the nature of our short-term investments, we have concluded that we do not have material market risk exposure. All of our outstanding debt as of December 31, 2008 and 2009 had a fixed rate. We therefore do not have any material risk to interest rate fluctuations.

Table of Contents

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

Seasonality

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

New Accounting Pronouncements

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

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

In May 2009, the FASB issued ASC 855, *Subsequent Events*. ASC 855 incorporates guidance into accounting literature that was previously addressed only in auditing standards. The statement refers to subsequent events that provide additional evidence about conditions that existed at the balance-sheet date as recognized subsequent events. Subsequent events that provide evidence about conditions that arose after the balance-sheet date but prior to the issuance of the financial statements are referred to as non-recognized subsequent events. The disclosure requirements of ASC 855 were effective for interim and annual periods ending after June 15, 2009. In February 2010, Accounting Standards Update, or ASU, 2010-09, Subsequent Events (Topic 855), *Amendments to Certain Recognition and Disclosure Requirements,* was issued to clarify disclosure requirements and align with SEC subsequent event disclosure guidelines. We have adopted this new standard.

In June 2009, the FASB issued guidance that establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles, or GAAP. Use of the new codification was effective for interim and annual periods ending after September 15, 2009. We have used the new codification in reference to GAAP in this report.

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

In October 2009, the FASB issued ASU No. 2009-14, Software (ASC Topic 985), *Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force.* This guidance modifies the scope of ASC subtopic 965-605, *Software-Revenue Recognition,* to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed or leased

Table of Contents

with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product s essential functionality.

ASU No. 2009-13 and ASU No. 2009-14 both require expanded qualitative and quantitative disclosures and are effective for fiscal years beginning on or after June 15, 2010. However, companies may elect to adopt the updated requirements as early as interim periods ended September 30, 2009. These updates may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. We are currently evaluating the impact of adopting these updates.

Table of Contents

BUSINESS

Overview

We are a leading provider of on-demand supply chain management solutions, providing integration, collaboration, connectivity, visibility and data analytics to thousands of customers worldwide. We provide our solutions through SPSCommerce.net, a hosted software suite that improves the way suppliers, retailers, distributors and other customers manage and fulfill orders. Implementing and maintaining supply chain management software is resource intensive and not a core competency for most businesses. SPSCommerce.net uses pre-built integrations to eliminate the need for on-premise software and support staff, which enables our supplier customers to shorten supply cycle times, optimize inventory levels, reduce costs and satisfy retailer requirements. As of September 30, 2010, we had over 12,100 customers with contracts to pay us monthly fees, which we refer to as recurring revenue customers. We have also generated revenues by providing supply chain management solutions to an additional 26,000 organizations that, together with our recurring revenue customers, we refer to as our customers. Once connected to our platform, our customers often require integrations to new organizations that represent an expansion of our platform and new sources of revenues for us.

We deliver our solutions to our customers over the Internet using a Software-as-a-Service model. This model enables our customers to easily interact with their trading partners around the world without the local implementation and servicing of software that traditional on-premise solutions require. Our delivery model also enables us to offer greater functionality, integration and reliability with less cost and risk than traditional solutions. Our platform features pre-built integrations with 3,000 order management models across more than 1,500 retailers, grocers and distributors, as well as integrations to over 100 accounting, warehouse management, enterprise resource planning and packing and shipping applications. Our delivery model leverages our existing integrations across current and new customers. As a result, each integration that we add to SPSCommerce.net makes our platform more appealing to potential customers by increasing the number of pre-built integrations we offer. Furthermore, integrating trading partners to SPSCommerce.net can generate new sales leads from the organizations with which we integrate our customers because those organizations typically have other trading partners who can benefit from our solutions. We systematically pursue these sales leads to convert them into new customers.

For 2007, 2008, 2009, and the nine months ended September 30, 2010, we generated revenues of $25.2 million, $30.7 million, $37.7 million and $32.7 million. Our fiscal quarter ended September 30, 2010 represented our 39th consecutive quarter of increased revenues. Recurring revenues from recurring revenue customers accounted for 83%, 84%, 80% and 83% of our total revenues for 2007, 2008, 2009 and the nine months ended September 30, 2010. No customer represented over 2% of our revenues for 2007, 2008, 2009 or the nine months ended September 30, 2010.

Table of Contents

Our Industry

Supply Chain Management Industry Background

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

The pervasiveness of the Internet, along with the dramatic declines in the pricing of computing technology and network bandwidth, have enabled companies to adopt on-demand applications at an increasing rate. As familiarity and acceptance of on-demand solutions continues to accelerate, we believe companies, both large and small, will continue to turn to on-demand delivery methods similar to ours for their supply chain integration needs, as opposed to traditional on-premise software deployment. Our target market, supply chain integration solutions delivered on a Software-as-a-Service platform, is one of many which comprise the global Software-as-a-Service market. International Data Corporation, or IDC, estimated in June 2010 that the global Software-as-a-Service market reached $13.1 billion in 2009 and expects it to increase to $40.5 billion in 2014, a compound annual growth rate of 25.3%.

The Rule Books Integration Between Retailers and Suppliers

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

Traditional Supply Chain Management Solutions

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

Key Trends in Supply Chain Management

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

Increasing Retailer Service and Performance Demands. Within the supply chain ecosystem, retailers hold a significant strategic position relative to their trading partners, particularly small- and medium-sized suppliers. Retailers maintain the direct relationship with the consumer and collect the retail price, within which the cost of manufacture and distribution must be covered. Given this power dynamic, retailers continuously demand enhanced levels of performance from suppliers, including more frequent on-time delivery of goods, increased availability of goods to manage inventory and lower prices. We believe the recent economic downturn has exacerbated these trends.

Globalization of the Supply Chain Ecosystem. Globalization creates the need for participants in the supply chain ecosystem to connect across time zones with different languages and regulatory environments. Retailers typically demand a 10-day turnaround upon submitting a purchase order. However, growing physical distances between the sources of materials, manufacturers and retailers, as well as the complexities of connecting with trading partners worldwide, increase the time a supplier typically needs to obtain goods to 60 days from receipt of a purchase order. This increased time pressure to deliver goods requires that the various trading partners in the supply chain communicate more efficiently than current solutions typically offer.

Increasing Complexity of the Supply Chain Ecosystem. Increasing cost pressures force many suppliers, especially those of a small and medium size, to focus on product development and business management. This specialization drives organizations to outsource non-core business functions, including fabrication, distribution and transportation. Outsourcing these functions increases the number of participants in the supply chain ecosystem. The increasing complexity from these additional participants drives demand for a more integrated approach allowing suppliers to communicate and track a larger volume of information among a larger number of trading partners than traditional solutions have supported.

Increasing Use of Outsourcing by Small- and Medium-Sized Suppliers. The outsourcing of non-core business functions, including by small- and medium-sized suppliers, has helped participants in the supply chain ecosystem become more comfortable utilizing outsourced service providers, including for information technology services. Limited internal expertise and constrained budgets also drive the need for suppliers to rely on third-party service providers to manage the complexity of their supply chain at an affordable cost.

Need for Effective Analysis of Data for Intelligent Decision Making

Integrating retailers and suppliers is a first step in addressing the complexities in the supply chain ecosystem. As the number and geographic dispersion of trading partners has grown, so too has the volume of data produced by the

55

supply chain. As a result, trading partners want a solution to effectively consolidate, distill and channel information to managers and decision-makers who can use the information to drive efficiency, revenue growth and profitability. The abundance of data produced by these processes, including data for fulfillment, sales and inventory levels, is often inaccessible to trading partners for analysis. The data and related analytics are essential for optimizing the inventory and fulfillment process and will continue to drive demand for supply chain management solutions.

Organizations are continuing to increase their demand for gathering and analyzing data. For example, IDC estimated in September 2010 that the worldwide business analytics software market will grow from $24.3 billion in 2009 to $34.0 billion in 2014 at a compound annual growth rate of 7.0%. This broader market is subcategorized by IDC into three segments: performance management and analytic applications, business intelligence and analytic tools, and data warehousing platform software. The performance management and analytic applications segment includes the supply chain analytic applications market. We believe our target market of analytical applications falls within both the business intelligence and analytic tools sub-segment, which is expected to grow from $8.6 billion in 2009 to $12.4 billion in 2014, at a compound annual growth rate of 7.5%, as well as the supply chain analytic applications market, which is expected to grow from $1.6 billion in 2009 to $2.1 billion in 2014 at a compound annual growth rate of 5.5%.

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

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

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

SPSCommerce.net: Our Platform

We operate one of the largest trading partner integration centers through SPSCommerce.net, a hosted software suite that improves the way suppliers, retailers, distributors and other trading partners manage and fulfill orders. More than 38,000 customers across more than 40 countries have used our platform to enhance their trading relationships. SPSCommerce.net fundamentally changes how organizations use electronic communication to manage their supply chains by replacing the collection of traditional, custom-built, point-to-point integrations with a hub-and-spoke model whereby a single integration to SPSCommerce.net allows an organization to connect seamlessly to the entire SPSCommerce.net network of trading partners.

Table of Contents

SPSCommerce.net combines integrations that comply with 3,000 rule books for more than 1,500 retailers, grocers and distributors, through a multi-tenant architecture and provides ancillary support services that deliver a comprehensive set of supply chain management solutions to customers. By maintaining current integrations with retailers such as Wal-Mart, Target, Macy s and Safeway, SPSCommerce.net obviates the need for suppliers to continually stay up-to-date with the rule book changes required by these large retailers. Moreover, by leveraging an on-demand delivery model, we eliminate or greatly reduce the burden on suppliers to support and maintain an on-premise software application, thereby reducing ongoing operating costs. As the communication hub for trading partners, we provide seamless, cost-effective integration and connectivity as well as increased visibility and data analytics capabilities for retailers and suppliers across their supply chains, each of which is difficult to gain from traditional, point-to-point integration solutions.

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

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

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

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

- Reduced expenses through automation of the receipt of goods at distribution centers, more effective reconciliation of shipments, orders and payments, and reduced manual effort and data entry;
- Improved reliability of suppliers who are more likely to comply with rule book requirements by leveraging our expertise integrating trading partners;

Decreased cost and enhanced quality of inventory by more efficiently tracking sales and inventory information and communicating with suppliers; and

Growth of revenue by reducing the risk of failing to keep products in stock and the associated reputational impact with consumers.

Our platform delivers suppliers and retailers the following solutions:

Trading Partner Integration. Our Trading Partner Integration solution replaces or augments an organization s existing trading partner electronic communication infrastructure, enabling suppliers to comply with retailers rule books and allowing for the electronic exchange of information among numerous trading partners through various protocols.

Trading Partner Enablement. Our Trading Partner Enablement solution helps organizations, typically large retailers, implement new integrations with trading partners to drive automation and electronic communication across their supply chains.

Trading Partner Intelligence. In 2009, we introduced our Trading Partner Intelligence solution, which consists of six data analytics applications and allows our supplier customers to improve their visibility across, and analysis of, their supply chains. Retailers improve their visibility into supplier performance and their understanding of product sell-through.

Other Trading Partner Solutions. We provide a number of peripheral solutions such as barcode labeling and our scan and pack application, which helps trading partners process information to streamline the picking and packaging process.

Our Go-to-Market Approach

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

Network Effect of SPSCommerce.net

Once connected to our network, trading partners can exchange electronic supply chain information with each other. Through our platform, we helped over 38,000 customers to communicate electronically with their trading partners. The value of our platform increases with the number of trading partners connected to the platform. The addition of each new customer to our platform allows that new customer to communicate with our existing customers and allows our existing customers to route orders to the new customer. This network effect of adding an additional customer to our platform creates a significant opportunity for existing customers to realize incremental sales by working with our new trading partners and vice versa. As a result of this increased volume of activity amongst our network participants, we earn additional revenues from these participants.

Customer Acquisition Sources

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

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

Table of Contents

This viral sales lead generation allows us to acquire new customers at a lower cost than traditional marketing programs. Typically, these new customers become recurring revenue customers.

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

Our Sales Force

We also sell our solutions through a direct sales force of over 75 people. Our sales force is organized as follows:

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

Supplier Sales. We employ a team of supplier sales representatives based in North America. We also maintain an office in China with sales representatives and opened direct sales offices in the United Kingdom and France in February 2010. Our sales professionals primarily work over the phone to convert sales leads into customers and then actively sell additional solutions to those customers over time.

Business Development Efforts. Our business development organization focuses on indirect sales channels. This group establishes relationships with resellers, system integrators, software providers and other partners. In the future, we expect to forge additional indirect channel partnerships to continue to grow this part of our business.

Other Marketing Initiatives

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

Our Growth Strategy

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

Further Penetrate Our Current Market. We believe the global supply chain management market is under-penetrated and, as the supply chain ecosystem becomes more complex and geographically dispersed, the demand for supply chain management solutions will increase, especially among small- and medium-sized businesses. We intend to continue leveraging our relationships with customers and their trading partners to obtain new sales leads. We believe our leadership in providing supply chain management solutions favorably positions us to convert these sales leads into customers.

Increase Revenues from Our Customer Base. We believe our overall customer satisfaction is strong and will lead our customers to further utilize our current solutions as their businesses grow, generating additional revenues for us. We also expect to introduce new solutions to sell to our customers. We believe our position as the incumbent supply chain management solution provider to our customers, our integration into our recurring revenue customers business systems and the modular nature of our platform are conducive to deploying additional solutions with customers.

Expand Our Distribution Channels. We intend to grow our business by expanding our network of direct sales representatives to gain new customers. We also believe there are valuable opportunities to promote and sell our solutions through collaboration with other providers. For example, we currently provide tracking, visibility and data analysis applications to a leading global logistics provider. We believe there are opportunities for us to leverage our relationship with this company to identify sales leads that will continue to lead to new customers. We integrated our applications with NetSuite s business software, which is another relationship we expect will continue to provide us new sales leads.

Expand Our International Presence. We believe our presence in China represents a significant competitive advantage. We plan to increase our international sales efforts to obtain new supplier customers around the world. As part of this plan, we opened direct sales and support offices in the United Kingdom and France in February 2010. We are in the process of forming a wholly-owned subsidiary organized under the laws of Hong Kong. We intend to leverage our current international presence to increase the number of integrations we have with retailers in foreign markets to make our platform more valuable to suppliers based overseas.

Enhance and Expand Our Platform. We intend to further improve and develop the functionality and features of our platform, including developing new solutions and applications. For example, in 2009, we launched our Trading Partner Intelligence solution, which delivers data analytics applications to suppliers and retailers to improve performance. We also introduced a scan and pack application in 2009 that helps trading partners process information to streamline the picking and packaging process.

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

Technology, Development and Operations

Technology

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

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

Our scalable, on-demand platform treats all customers as logically separate tenants in central applications and databases. As a result, we spread the cost of delivering our solutions across our customer base. Because we do not manage thousands of distinct applications with their own business logic and database schemes, we believe that we

can scale our business faster than traditional software vendors, even those that modified their products to be accessible over the Internet.

Development

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

Operations

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

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

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

Our Customers

As of September 30, 2010, we had over 12,100 recurring revenue customers and over 38,000 total customers. Our primary source of revenue is from small- to mid-sized suppliers in the consumer packaged goods industry. We also generate revenues from other members of the supply chain ecosystem, including retailers, grocers, distributors, third-party logistics providers and other trading partners. No customer represented over 2% of our revenues in 2007, 2008, 2009 or the nine months ended September 30, 2010.

Competition

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

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

- breadth of pre-built connections to retailers, third-party logistics providers and other trading partners;
- history of establishing and maintaining reliable integration connections with trading partners;
- reputation of the Software-as-a-Service vendor in the supply chain management industry;
- price;
- specialization in a customer market segment;

speed and quality with which the Software-as-a-Service vendor can integrate its customers to their trading partners;

Table of Contents

- functionality of the Software-as-a-Service solution, such as the ability to integrate the solution with a customer s business systems;
- breadth of complementary supply chain management solutions the Software-as-a-Service vendor offers; and
- training and customer support services provided during and after a customer s initial integration.

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

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

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

Intellectual Property and Proprietary Content

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

Legal Proceedings

We are not currently subject to any material legal proceedings. From time to time, we have been named as a

defendant in legal actions arising from our normal business activities, none of which has had a material effect on our business, results of operations or financial condition. We believe that we have obtained adequate insurance coverage or rights to indemnification in connection with potential legal proceedings that may arise.

Facilities

Our corporate headquarters, including our principal administrative, marketing, sales, technical support and research and development facilities, are located in Minneapolis, where we lease approximately 55,400 square feet under an agreement that expires on October 31, 2012.

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

Employees

As of September 30, 2010, we had 337 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.

Table of Contents

MANAGEMENT

Executive Officers and Directors

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

Name	Age	Position
Archie C. Black	48	Chief Executive Officer, President and Director
Kimberly K. Nelson	43	Executive Vice President and Chief Financial Officer
James J. Frome	45	Executive Vice President and Chief Strategy Officer
Michael J. Gray	51	Executive Vice President of Operations
David J. Novak, Jr.	42	Executive Vice President of Business Development
Steve A. Cobb	39	Chairman of the Board of Directors
Michael B. Gorman	44	Director
Martin J. Leestma	52	Director
Philip E. Soran	53	Director
George H. Spencer, III	47	Director
Sven A. Wehrwein	59	Director

Executive Officers

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

We believe Mr. Black is qualified to serve on our board of directors because of his extensive management, financial, and operational experience and his experience with our company.

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

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

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

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

Board of Directors

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

Mr. Cobb s qualifications to serve on our board of directors include, among other skills and qualifications, his financial capabilities due to his expertise in the private equity field and his general business experience due to his board service on other companies. As chairman of the nominating and governance committee, Mr. Cobb also keeps the board abreast of current issues and collaborates with our senior management team.

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

Mr. Gorman s qualifications to serve on our board of directors include, among other skills and qualifications, his extensive experience with venture capital companies, including his focus on software and internet services companies, and his general business knowledge.

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

Mr. Leestma s qualifications to serve on our board of directors include, among other skills and qualifications his general business experience due to his work as an independent business consultant and his experience with public companies as the chief executive officer of Retek Information Systems, a software company, from 2003 to 2005.

Philip E. Soran has served on our board of directors since July 2010. He is currently the President and Chief Executive Officer of Compellent Technologies, Inc., which he co-founded in March 2002. From July 1995 to August 2001, Mr. Soran served as President, Chief Executive Officer and member of the board of directors of Xiotech, which Mr. Soran co-founded in July 1995. Xiotech was acquired by Seagate in January 2000. From October 1993 to April 1995, Mr. Soran served as Executive Vice President of Prodea Software Corporation, a data warehousing software company. Mr. Soran also held a variety of management, sales, marketing and technical positions with IBM. Mr. Soran also served on the board of directors of Stellent, Inc. from April 2003 until its acquisition by Oracle Corporation in December 2006.

Mr. Soran s qualifications to serve on our board of directors include, among other skills and qualifications, his experience as a chief executive officer of a publicly-traded company, his experience in founding and building

technology companies as well as his corporate vision and operational knowledge, which provide strategic guidance to the board.

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

Mr. Spencer s qualifications to serve on our board of directors include, among other skills and qualifications, his extensive experience in the venture capital industry and general business experience due to his board service on other companies. As chairman of the compensation committee, Mr. Spencer also keeps the board abreast of current issues and collaborates with our senior management team.

Sven A. Wehrwein has served on our board of directors since July 2008. He has been an independent financial consultant to emerging companies since 1999. He has more than 30 years of experience as an investment banker, chief financial officer and certified public accountant. He currently serves on the board of directors of Compellent Technologies, Inc., Image Sensing Systems, Inc., Synovis Life Technologies, Inc., Uroplasty, Inc. and Vital Images, Inc., all of which are publicly-traded companies. In 2005 and 2006, Mr. Wehrwein served as a director of six mutual funds in the Van Wagoner group.

Mr. Wehrwein s qualifications to serve on our board of directors include, among other skills and qualifications, his capabilities in financial understanding, strategic planning, and auditing expertise, given his experiences in investment banking and in financial leadership positions. As chairman of the audit committee, Mr. Wehrwein also keeps the board abreast of current audit issues and collaborates with our independent auditors and senior management team.

Messrs. Cobb, Gorman, Spencer and Black were elected to our board of directors pursuant to a voting agreement entered into in connection with the sale of our Series C convertible preferred stock in 2007. The voting agreement provided that the parties thereto will vote for nominees of the venture capital funds with which Messrs. Cobb, Gorman and Spencer are affiliated for so long as the applicable fund and its affiliates own a specified percentage of our capital stock. The voting agreement also provided that our chief executive officer will be elected to serve as a director. This voting agreement terminated upon the closing of our initial public offering in April 2010.

Board Composition

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

In accordance with our certificate of incorporation, our board of directors is divided into three classes with staggered three-year terms. At each annual general meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Our directors are divided among the three classes as follows:

The Class I directors are Messrs. Gorman and Soran and their terms will expire at the annual meeting of stockholders to be held in 2011;

The Class II directors are Messrs. Black and Spencer and their terms will expire at the annual meeting of stockholders to be held in 2012; and

The Class III directors are Messrs. Cobb, Leestma and Wehrwein and their terms will expire at the annual meeting of stockholders to be held in 2013.

Table of Contents

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

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

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

Board Committees

The board of directors has established an audit committee, a compensation committee and a nominating and governance committee. Each of our committees has a charter and each charter is posted on our website.

The following sets forth the membership of each of our committees.

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

Audit Committee

Among other matters, our audit committee:

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

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