SPS COMMERCE INC
Form 424B4
December 03, 2010

Filed Pursuant to Rule 424(b)(4)
Registration No. 333-170544

PROSPECTUS

2,871,240 Shares

Common Stock

$12.25 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 December 2, 2010, the last reported sale price of our common stock on the Nasdaq Global Market was $12.95 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	$ 12.25	$ 35,172,690
Underwriting discount	$ 0.735	$ 2,110,361
Proceeds, before expenses, to us	$ 11.515	$ 1,151,500
Proceeds, before expenses, to the selling stockholders	$ 11.515	$ 31,910,829

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 December 3, 2010.

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

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

In this prospectus, company, we, our, and us refer to SPS Commerce, Inc. and its subsidiary, 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.

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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

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.

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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.

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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 underwriting discounts and estimated offering expenses, will be approximately $727,000. 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.

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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, (Unaudited)	
	2007	2008	2009	2009	2010
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	

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	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	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,		As of September 30,
	2008	2009	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,			Nine Months Ended September 30,	
	2007	2008	2009	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.

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(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.

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

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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,

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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.

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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.

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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

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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.

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

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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.

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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 December 2, 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

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.

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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.

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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, i 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.

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 $727,000, or approximately $899,000 if the underwriters exercise their over-allotment option in full, after deducting underwriting discounts and estimated offering expenses payable by us. 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 December 2, 2010)	$ 14.40	$ 11.59

On December 2, 2010, the last reported sale price of our common stock on the Nasdaq Global Market was $12.95.

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.

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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 the offering price of $12.25 per share, after deducting the underwriting discounts and estimated 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 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	105,643
Accumulated deficit	(63,208)	(63,208)
Total stockholders equity	41,720	42,447
Total capitalization	$ 56,227	$ 56,954

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.

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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

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	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

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(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

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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	2009	2009	2010
						(Unaudited)	
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 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.

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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

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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.

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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

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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.

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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

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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

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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

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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,	
	2007	2008	2009	2009	2010
				(Unaudited)	
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.

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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.

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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.

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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

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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
penses										
	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

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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	September 30, 2010
	(Unaudited; in thousands, except per share data)										
Net income (loss)	$ (919)	$ (555)	$ (134)	$ (287)	$ (54)	$ 657	$ 346	$ 213	$ 919	$ 638	$ 886
Non-cash, share-based compensation expense	36	37	37	47	48	50	79	51	51	175	