



**Statements of Income**

(Unaudited; in thousands, except per share data)

|                                             | 2014      |            | 2015      |           |           |           |            | 2016      |           |           |           |            | 2017      |           |           |
|---------------------------------------------|-----------|------------|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|
|                                             | Q4        | YR         | Q1        | Q2        | Q3        | Q4        | YR         | Q1        | Q2        | Q3        | Q4        | YR         | Q1        | Q2        | Q3        |
| Revenues                                    | \$ 35,402 | \$ 127,947 | \$ 36,970 | \$ 38,846 | \$ 40,354 | \$ 42,348 | \$ 158,518 | \$ 45,599 | \$ 47,351 | \$ 49,284 | \$ 51,061 | \$ 193,295 | \$ 51,932 | \$ 54,284 | \$ 56,150 |
| Cost of revenues                            | 11,139    | 39,991     | 11,572    | 12,335    | 12,700    | 13,436    | 50,043     | 14,881    | 15,972    | 16,171    | 17,322    | 64,346     | 17,330    | 18,191    | 18,645    |
| Gross profit                                | 24,263    | 87,956     | 25,398    | 26,511    | 27,654    | 28,912    | 108,475    | 30,718    | 31,379    | 33,113    | 33,739    | 128,949    | 34,602    | 36,093    | 37,505    |
| Operating expenses                          |           |            |           |           |           |           |            |           |           |           |           |            |           |           |           |
| Sales and marketing                         | 12,490    | 46,990     | 13,744    | 14,101    | 13,795    | 13,734    | 55,374     | 15,889    | 16,677    | 16,526    | 16,794    | 65,886     | 17,079    | 18,741    | 18,239    |
| Research and development                    | 3,817     | 13,494     | 4,069     | 4,495     | 4,494     | 4,896     | 17,954     | 5,069     | 5,542     | 5,574     | 5,796     | 21,981     | 5,105     | 5,369     | 6,549     |
| General and administrative                  | 5,727     | 20,233     | 5,818     | 6,055     | 6,276     | 6,668     | 24,817     | 7,285     | 7,082     | 7,149     | 7,311     | 28,827     | 7,827     | 8,139     | 8,744     |
| Amortization of intangible assets           | 812       | 2,856      | 845       | 833       | 829       | 800       | 3,307      | 1,161     | 1,198     | 1,194     | 1,185     | 4,738      | 1,215     | 1,117     | 1,128     |
| Total operating expenses                    | 22,846    | 83,573     | 24,476    | 25,484    | 25,394    | 26,098    | 101,452    | 29,404    | 30,499    | 30,443    | 31,086    | 121,432    | 31,226    | 33,366    | 34,660    |
| Income from operations                      | 1,417     | 4,383      | 922       | 1,027     | 2,260     | 2,814     | 7,023      | 1,314     | 880       | 2,670     | 2,653     | 7,517      | 3,376     | 2,727     | 2,845     |
| Other income (expense)                      |           |            |           |           |           |           |            |           |           |           |           |            |           |           |           |
| Interest income, net                        | 36        | 187        | 37        | 37        | 49        | 74        | 197        | 145       | 151       | 112       | 193       | 601        | 191       | 242       | 272       |
| Other income (expense)                      | (401)     | (458)      | (112)     | (57)      | (86)      | 110       | (145)      | 293       | (374)     | 947       | (134)     | 732        | (60)      | (102)     | (195)     |
| Total other income (expense), net           | (365)     | (271)      | (75)      | (20)      | (37)      | 184       | 52         | 438       | (223)     | 1,059     | 59        | 1,333      | 131       | 140       | 77        |
| Income before income taxes                  | 1,052     | 4,112      | 847       | 1,007     | 2,223     | 2,998     | 7,075      | 1,752     | 657       | 3,729     | 2,712     | 8,850      | 3,507     | 2,867     | 2,922     |
| Income tax expense                          | (198)     | (1,408)    | (261)     | (356)     | (953)     | (866)     | (2,436)    | (708)     | (305)     | (1,220)   | (907)     | (3,140)    | (536)     | (1,042)   | (1,058)   |
| Net income                                  | \$ 854    | \$ 2,704   | \$ 586    | \$ 651    | \$ 1,270  | \$ 2,132  | \$ 4,639   | \$ 1,044  | \$ 352    | \$ 2,509  | \$ 1,805  | \$ 5,710   | \$ 2,971  | \$ 1,825  | \$ 1,864  |
| Net income per share                        |           |            |           |           |           |           |            |           |           |           |           |            |           |           |           |
| Basic                                       | \$ 0.05   | \$ 0.17    | \$ 0.04   | \$ 0.04   | \$ 0.08   | \$ 0.13   | \$ 0.28    | \$ 0.06   | \$ 0.02   | \$ 0.15   | \$ 0.11   | \$ 0.34    | \$ 0.17   | \$ 0.11   | \$ 0.11   |
| Diluted                                     | \$ 0.05   | \$ 0.16    | \$ 0.03   | \$ 0.04   | \$ 0.07   | \$ 0.12   | \$ 0.27    | \$ 0.06   | \$ 0.02   | \$ 0.14   | \$ 0.10   | \$ 0.33    | \$ 0.17   | \$ 0.11   | \$ 0.11   |
| Shares used to compute Net income per share |           |            |           |           |           |           |            |           |           |           |           |            |           |           |           |
| Basic                                       | 16,323    | 16,236     | 16,433    | 16,536    | 16,605    | 16,681    | 16,565     | 16,783    | 16,909    | 17,001    | 17,050    | 16,947     | 17,154    | 17,198    | 17,223    |
| Diluted                                     | 16,878    | 16,814     | 17,011    | 16,998    | 17,054    | 17,110    | 17,032     | 17,029    | 17,120    | 17,341    | 17,366    | 17,241     | 17,393    | 17,378    | 17,410    |



SPS COMMERCE

**Balance Sheets**

(Unaudited, in thousands)

|                                               | 2014       | 2015       |            |            |            | 2016       |            |            |            | 2017       |            |            |
|-----------------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                                               | Q4         | Q1         | Q2         | Q3         | Q4         | Q1         | Q2         | Q3         | Q4         | Q1         | Q2         | Q3         |
| <b>Assets</b>                                 |            |            |            |            |            |            |            |            |            |            |            |            |
| Current assets                                |            |            |            |            |            |            |            |            |            |            |            |            |
| Cash and cash equivalents                     | \$ 130,795 | \$ 133,550 | \$ 121,344 | \$ 117,887 | \$ 121,538 | \$ 110,889 | \$ 107,160 | \$ 109,635 | \$ 115,877 | \$ 128,707 | \$ 131,744 | \$ 128,984 |
| Short-term marketable securities              | -          | -          | -          | 5,014      | 7,517      | 10,010     | 21,010     | 15,616     | 23,076     | 25,550     | 26,896     | 34,869     |
| Accounts receivable, net                      | 15,422     | 15,823     | 17,255     | 17,945     | 17,615     | 20,426     | 20,432     | 21,361     | 20,746     | 22,683     | 21,545     | 24,175     |
| Deferred costs                                | 12,055     | 12,911     | 14,003     | 14,761     | 15,086     | 15,799     | 17,278     | 18,647     | 19,224     | 20,908     | 21,917     | 23,326     |
| Deferred income tax asset                     | 76         | 76         | 76         | 76         | -          | -          | -          | -          | -          | -          | -          | -          |
| Other current assets                          | 3,846      | 3,797      | 6,393      | 5,688      | 5,030      | 5,529      | 7,540      | 7,323      | 7,010      | 6,992      | 6,955      | 5,853      |
| Total current assets                          | 162,194    | 166,157    | 159,071    | 161,371    | 166,786    | 162,653    | 173,420    | 172,582    | 185,933    | 204,840    | 209,057    | 217,207    |
| Property and equipment, net                   | 11,361     | 12,088     | 12,952     | 13,079     | 13,620     | 13,972     | 13,932     | 14,830     | 15,314     | 15,066     | 15,527     | 15,616     |
| Goodwill                                      | 34,854     | 34,210     | 34,303     | 33,527     | 33,848     | 50,921     | 50,852     | 51,005     | 49,777     | 50,289     | 50,766     | 51,783     |
| Intangible assets, net                        | 18,851     | 17,705     | 16,915     | 15,766     | 15,081     | 23,845     | 22,534     | 21,338     | 19,788     | 19,389     | 18,484     | 17,720     |
| Marketable securities, non-current            | -          | -          | 9,995      | 12,514     | 14,950     | 12,529     | 7,556      | 12,529     | 7,494      | 2,503      | 4,997      | 2,491      |
| Deferred costs, non-current                   | 5,267      | 5,274      | 5,445      | 5,465      | 5,260      | 5,311      | 5,660      | 5,893      | 6,086      | 6,051      | 6,419      | 6,475      |
| Deferred income tax asset, non-current        | 11,035     | 11,086     | 10,880     | 10,758     | 11,149     | 11,451     | 11,588     | 11,967     | 12,446     | 28,408     | 27,524     | 26,628     |
| Other non-current assets                      | 213        | 350        | 365        | 397        | 1,037      | 1,043      | 2,213      | 2,130      | 1,527      | 1,372      | 1,098      | 1,101      |
| Total assets                                  | \$ 243,775 | \$ 246,870 | \$ 249,926 | \$ 252,877 | \$ 261,731 | \$ 281,725 | \$ 287,755 | \$ 292,274 | \$ 298,365 | \$ 327,918 | \$ 333,872 | \$ 339,021 |
| <b>Liabilities &amp; Stockholders' Equity</b> |            |            |            |            |            |            |            |            |            |            |            |            |
| Current liabilities                           |            |            |            |            |            |            |            |            |            |            |            |            |
| Accounts payable                              | \$ 3,961   | \$ 3,444   | \$ 3,706   | \$ 2,381   | \$ 2,163   | \$ 3,900   | \$ 3,581   | \$ 2,442   | \$ 2,302   | \$ 3,580   | \$ 2,720   | \$ 3,089   |
| Accrued compensation                          | 9,926      | 10,303     | 9,468      | 9,922      | 11,150     | 11,333     | 12,053     | 11,796     | 13,740     | 12,272     | 13,243     | 12,681     |
| Accrued expenses & other current liabilities  | 3,168      | 3,473      | 2,833      | 3,061      | 3,181      | 4,007      | 5,231      | 3,839      | 5,064      | 5,963      | 5,329      | 5,646      |
| Deferred revenue                              | 7,505      | 7,530      | 7,833      | 8,072      | 7,740      | 11,334     | 12,281     | 12,157     | 11,055     | 15,803     | 16,624     | 16,209     |
| Total current liabilities                     | 24,560     | 24,750     | 23,840     | 23,436     | 24,234     | 30,574     | 33,146     | 30,234     | 32,161     | 37,618     | 37,916     | 37,625     |
| Deferred revenue, non-current                 | 10,653     | 10,550     | 10,996     | 11,701     | 11,005     | 10,876     | 11,236     | 10,962     | 10,847     | 11,087     | 11,050     | 10,625     |
| Other non-current liabilities                 | 3,471      | 3,346      | 3,178      | 3,015      | 4,307      | 4,486      | 4,140      | 3,900      | 4,179      | 3,912      | 3,899      | 3,498      |
| Deferred income tax liability, non-current    | -          | -          | -          | -          | -          | 2,396      | 2,391      | 2,368      | 1,911      | 1,895      | 1,977      | 2,100      |
| Total liabilities                             | 38,684     | 38,646     | 38,014     | 38,152     | 39,546     | 48,332     | 50,913     | 47,464     | 49,098     | 54,512     | 54,842     | 53,848     |
| Stockholders' equity                          |            |            |            |            |            |            |            |            |            |            |            |            |
| Common stock                                  | 16         | 16         | 16         | 17         | 17         | 17         | 17         | 17         | 17         | 17         | 17         | 17         |
| Additional paid-in capital                    | 250,633    | 254,479    | 257,317    | 260,580    | 265,265    | 272,533    | 276,462    | 281,536    | 286,315    | 289,652    | 292,533    | 294,943    |
| Accumulated deficit                           | (44,088)   | (43,502)   | (42,851)   | (41,581)   | (39,449)   | (38,405)   | (38,053)   | (35,544)   | (33,739)   | (14,490)   | (12,665)   | (10,800)   |
| Accumulated other comprehensive loss          | (1,470)    | (2,769)    | (2,570)    | (4,291)    | (3,648)    | (752)      | (1,584)    | (1,199)    | (3,326)    | (1,773)    | (855)      | 1,013      |
| Total stockholders' equity                    | 205,091    | 208,224    | 211,912    | 214,725    | 222,185    | 233,393    | 236,842    | 244,810    | 249,267    | 273,406    | 279,030    | 285,173    |
| Total liabilities and stockholders' equity    | \$ 243,775 | \$ 246,870 | \$ 249,926 | \$ 252,877 | \$ 261,731 | \$ 281,725 | \$ 287,755 | \$ 292,274 | \$ 298,365 | \$ 327,918 | \$ 333,872 | \$ 339,021 |



**Statements of Cash Flows**

(Unaudited; amounts in thousands)

|                                                                                     | 2014       |            | 2015       |            |            |            |            | 2016       |            |            |            |            | 2017       |            |            |            |
|-------------------------------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                                                                                     | Q4         | YR         | Q1         | Q2         | Q3         | Q4         | YR         | Q1         | Q2         | Q3         | Q4         | YR         | Q1         | Q2         | Q3         | YR         |
| <b>Cash flows from operating activities</b>                                         |            |            |            |            |            |            |            |            |            |            |            |            |            |            |            |            |
| Net income                                                                          | \$ 854     | \$ 2,704   | \$ 586     | \$ 651     | \$ 1,270   | \$ 2,132   | \$ 4,639   | \$ 1,044   | \$ 352     | \$ 2,509   | \$ 1,805   | \$ 5,710   | \$ 2,971   | \$ 1,825   | \$ 1,865   | \$ 6,661   |
| Reconciliation of net income to net cash provided by (used in) operating activities |            |            |            |            |            |            |            |            |            |            |            |            |            |            |            |            |
| Deferred income taxes                                                               | (34)       | 1,031      | (51)       | 206        | 122        | (315)      | (38)       | (302)      | (137)      | (379)      | (880)      | (1,698)    | 310        | 926        | 732        | 1,968      |
| Share based earn-out liability                                                      | -          | -          | -          | -          | -          | -          | -          | (365)      | 293        | (1,031)    | -          | (1,103)    | -          | -          | -          | -          |
| Depreciation and amortization                                                       | 1,461      | 5,714      | 1,541      | 1,568      | 1,584      | 1,572      | 6,265      | 1,626      | 1,633      | 1,624      | 1,715      | 6,598      | 1,691      | 1,740      | 1,830      | 5,261      |
| Amortization of intangible assets                                                   | 812        | 2,856      | 845        | 833        | 829        | 800        | 3,307      | 1,161      | 1,198      | 1,194      | 1,185      | 4,738      | 1,215      | 1,117      | 1,128      | 3,460      |
| Provision for doubtful accounts                                                     | 210        | 717        | 138        | 380        | 328        | 425        | 1,271      | 304        | 288        | 385        | 398        | 1,375      | 332        | 541        | 492        | 1,365      |
| Stock-based compensation                                                            | 1,405      | 5,396      | 1,499      | 1,647      | 1,610      | 1,623      | 6,379      | 1,927      | 2,065      | 2,012      | 2,019      | 8,023      | 2,300      | 2,186      | 2,347      | 6,833      |
| Other, net                                                                          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | -          | (25)       | 34         | (28)       | (19)       |
| Changes in assets and liabilities                                                   |            |            |            |            |            |            |            |            |            |            |            |            |            |            |            |            |
| Accounts receivable                                                                 | (1,400)    | (3,890)    | (594)      | (1,803)    | (1,030)    | (90)       | (3,517)    | (2,189)    | (306)      | (1,384)    | 144        | (3,735)    | (2,201)    | 594        | (2,869)    | (4,476)    |
| Deferred costs                                                                      | (1,314)    | (4,590)    | (863)      | (1,263)    | (778)      | (119)      | (3,023)    | (765)      | (1,827)    | (1,602)    | (770)      | (4,964)    | (1,649)    | (1,376)    | (1,462)    | (4,487)    |
| Other current and non-current assets                                                | 210        | (719)      | (105)      | (2,605)    | 654        | 19         | (2,037)    | 99         | (3,237)    | 298        | 929        | (1,911)    | 180        | (183)      | 1,138      | 1,135      |
| Accounts payable                                                                    | 971        | 1,271      | (477)      | 602        | (1,619)    | (75)       | (1,569)    | 1,694      | (975)      | (809)      | (292)      | (382)      | 1,169      | (974)      | 437        | 632        |
| Accrued compensation                                                                | (495)      | 1,568      | 420        | (829)      | 502        | 1,202      | 1,295      | (319)      | 758        | (266)      | 2,007      | 2,180      | (1,508)    | 962        | (594)      | (1,140)    |
| Accrued expenses                                                                    | 958        | 1,365      | 347        | (671)      | 220        | (357)      | (461)      | (90)       | 554        | (338)      | 864        | 990        | 945        | (739)      | 263        | 469        |
| Deferred revenue                                                                    | 363        | 2,440      | (78)       | 749        | 944        | (1,028)    | 587        | 3,019      | 1,306      | (398)      | (1,217)    | 2,710      | 4,988      | 784        | (840)      | 4,932      |
| Deferred rent                                                                       | 1,170      | 925        | (146)      | (140)      | (145)      | 1,762      | 1,331      | 67         | (84)       | (254)      | 505        | 234        | (319)      | 70         | (373)      | (622)      |
| Net cash provided by (used in) operating activities                                 | 5,171      | 16,788     | 3,062      | (675)      | 4,491      | 7,551      | 14,429     | 6,911      | 1,881      | 1,561      | 8,412      | 18,765     | 10,399     | 7,507      | 4,066      | 21,972     |
| <b>Cash flows from investing activities</b>                                         |            |            |            |            |            |            |            |            |            |            |            |            |            |            |            |            |
| Purchases of property and equipment                                                 | (3,188)    | (7,582)    | (2,308)    | (2,771)    | (1,425)    | (2,253)    | (8,757)    | (2,116)    | (954)      | (2,902)    | (2,036)    | (8,008)    | (1,299)    | (2,035)    | (1,908)    | (5,242)    |
| Purchases of marketable securities                                                  | -          | -          | -          | (9,989)    | (7,520)    | (5,018)    | (22,527)   | (2,495)    | (6,004)    | (9,638)    | (4,998)    | (23,135)   | (4,995)    | (17,355)   | (7,469)    | (29,819)   |
| Maturities of marketable securities                                                 | -          | -          | -          | -          | -          | -          | -          | 2,500      | -          | 10,000     | 2,518      | 15,018     | 7,500      | 13,500     | 2,029      | 23,029     |
| Acquisitions of businesses and intangible assets, net                               | (12,595)   | (12,595)   | -          | -          | -          | -          | -          | (17,942)   | (120)      | -          | 30         | (18,032)   | (500)      | -          | -          | (500)      |
| Net cash provided by (used in) investing activities                                 | (15,783)   | (20,177)   | (2,308)    | (12,760)   | (8,945)    | (7,271)    | (31,284)   | (20,053)   | (7,078)    | (2,540)    | (4,486)    | (34,157)   | 706        | (5,890)    | (7,348)    | (12,532)   |
| <b>Cash flows from financing activities</b>                                         |            |            |            |            |            |            |            |            |            |            |            |            |            |            |            |            |
| Proceeds from exercise of stock options & employee stock purchase plan              | 979        | 3,224      | 2,047      | 1,090      | 877        | 1,904      | 5,918      | 1,069      | 1,466      | 1,771      | 1,729      | 6,035      | 1,037      | 1,218      | 63         | 2,318      |
| Excess tax benefit from exercise of stock options                                   | 201        | 261        | 300        | 100        | 779        | 1,157      | 2,336      | 1,021      | 400        | 1,289      | 1,360      | 4,070      | -          | -          | -          | -          |
| Net cash provided by financing activities                                           | 1,180      | 3,485      | 2,347      | 1,190      | 1,656      | 3,061      | 8,254      | 2,090      | 1,866      | 3,060      | 3,089      | 10,105     | 1,037      | 1,218      | 63         | 2,318      |
| Effect of foreign currency exchange rate changes                                    | (595)      | (595)      | (346)      | 39         | (659)      | 310        | (656)      | 403        | (398)      | 394        | (773)      | (374)      | 688        | 202        | 459        | 1,349      |
| <b>Net increase (decrease) in cash and cash equivalents</b>                         | (10,027)   | (499)      | 2,755      | (12,206)   | (3,457)    | 3,651      | (9,257)    | (10,649)   | (3,729)    | 2,475      | 6,242      | (5,661)    | 12,830     | 3,037      | (2,760)    | 13,107     |
| Cash and cash equivalents at beginning of period                                    | 140,822    | 131,294    | 130,795    | 133,550    | 121,344    | 117,887    | 130,795    | 121,538    | 110,889    | 107,160    | 109,635    | 121,538    | 115,877    | 128,707    | 131,744    | 115,877    |
| Cash and cash equivalents at end of period                                          | \$ 130,795 | \$ 130,795 | \$ 133,550 | \$ 121,344 | \$ 117,887 | \$ 121,538 | \$ 121,538 | \$ 110,889 | \$ 107,160 | \$ 109,635 | \$ 115,877 | \$ 115,877 | \$ 128,707 | \$ 131,744 | \$ 128,984 | \$ 128,984 |



**Supplemental Financial Data**  
(Unaudited)

|                                                                                              | 2014      |            | 2015      |           |           |           |            | 2016      |           |           |           |            | 2017      |           |           |
|----------------------------------------------------------------------------------------------|-----------|------------|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|
|                                                                                              | Q4        | YR         | Q1        | Q2        | Q3        | Q4        | YR         | Q1        | Q2        | Q3        | Q4        | YR         | Q1        | Q2        | Q3        |
| Revenues (in thousands)                                                                      | \$ 35,402 | \$ 127,947 | \$ 36,970 | \$ 38,846 | \$ 40,354 | \$ 42,348 | \$ 158,518 | \$ 45,599 | \$ 47,351 | \$ 49,284 | \$ 51,061 | \$ 193,295 | \$ 51,932 | \$ 54,284 | \$ 56,150 |
| % change (year over year)                                                                    | 27%       | 23%        | 28%       | 25%       | 24%       | 20%       | 24%        | 23%       | 22%       | 22%       | 21%       | 22%        | 14%       | 15%       | 14%       |
| Percentage recurring revenues of total revenues                                              | 90%       | 90%        | 90%       | 91%       | 91%       | 91%       | 91%        | 91%       | 92%       | 92%       | 92%       | 92%        | 92%       | 92%       | 92%       |
| Recurring revenue customers                                                                  | 21,983    | 21,983     | 22,436    | 22,746    | 23,092    | 23,410    | 23,410     | 23,817    | 24,186    | 24,583    | 24,805    | 24,805     | 25,001    | 25,153    | 25,359    |
| % change (year over year)                                                                    | 12%       | 12%        | 12%       | 10%       | 9%        | 6%        | 6%         | 6%        | 6%        | 6%        | 6%        | 6%         | 5%        | 4%        | 3%        |
| Average recurring revenues per recurring revenue customer (quarterly amounts are annualized) | \$ 5,922  | \$ 5,524   | \$ 6,013  | \$ 6,225  | \$ 6,436  | \$ 6,631  | \$ 6,343   | \$ 7,053  | \$ 7,223  | \$ 7,399  | \$ 7,610  | \$ 7,344   | \$ 7,707  | \$ 7,993  | \$ 8,219  |
| % change (year over year)                                                                    | 16%       | 12%        | 15%       | 14%       | 15%       | 12%       | 15%        | 17%       | 16%       | 15%       | 15%       | 16%        | 9%        | 11%       | 11%       |
| <b>Adjusted EBITDA (in thousands)</b>                                                        |           |            |           |           |           |           |            |           |           |           |           |            |           |           |           |
| Net income                                                                                   | \$ 854    | \$ 2,704   | \$ 586    | \$ 651    | \$ 1,270  | \$ 2,132  | \$ 4,639   | \$ 1,044  | \$ 352    | \$ 2,509  | \$ 1,805  | \$ 5,710   | \$ 2,971  | \$ 1,825  | \$ 1,864  |
| Depreciation and amortization                                                                | 2,273     | 8,570      | 2,386     | 2,401     | 2,413     | 2,372     | 9,572      | 2,787     | 2,831     | 2,818     | 2,900     | 11,336     | 2,906     | 1,740     | 1,830     |
| Interest expense (income), net                                                               | (36)      | (187)      | (37)      | (37)      | (49)      | (74)      | (197)      | (145)     | (151)     | (112)     | (193)     | (601)      | (191)     | 875       | (272)     |
| Income tax expense                                                                           | 198       | 1,408      | 261       | 356       | 953       | 866       | 2,436      | 708       | 305       | 1,220     | 907       | 3,140      | 536       | 1,042     | 1,058     |
| Stock-based compensation expense                                                             | 1,405     | 5,396      | 1,499     | 1,647     | 1,610     | 1,623     | 6,379      | 1,927     | 2,065     | 2,012     | 2,019     | 8,023      | 2,300     | 2,186     | 2,347     |
| Other                                                                                        | 338       | 269        | -         | -         | -         | (209)     | (209)      | (365)     | 293       | (1,034)   | -         | (1,106)    | -         | -         | -         |
| Adjusted EBITDA                                                                              | \$ 5,032  | \$ 18,160  | \$ 4,695  | \$ 5,018  | \$ 6,197  | \$ 6,710  | \$ 22,620  | \$ 5,956  | \$ 5,695  | \$ 7,413  | \$ 7,438  | \$ 26,502  | \$ 8,522  | \$ 7,668  | \$ 7,955  |
| <b>Stock-based compensation expense (in thousands) included in</b>                           |           |            |           |           |           |           |            |           |           |           |           |            |           |           |           |
| Cost of revenues                                                                             | \$ 175    | \$ 614     | \$ 172    | \$ 288    | \$ 256    | \$ 273    | \$ 989     | \$ 280    | \$ 317    | \$ 319    | \$ 393    | \$ 1,309   | \$ 451    | \$ 469    | \$ 494    |
| Sales and marketing                                                                          | 510       | 1,933      | 542       | 482       | 466       | 488       | 1,978      | 654       | 639       | 620       | 499       | 2,412      | 517       | 574       | 565       |
| Research and development                                                                     | 122       | 444        | 135       | 173       | 178       | 154       | 640        | 138       | 141       | 143       | 196       | 618        | 229       | 228       | 241       |
| General and administrative                                                                   | 598       | 2,405      | 650       | 704       | 710       | 708       | 2,772      | 855       | 968       | 930       | 931       | 3,684      | 1,103     | 915       | 1,047     |
| Total stock-based compensation expense                                                       | \$ 1,405  | \$ 5,396   | \$ 1,499  | \$ 1,647  | \$ 1,610  | \$ 1,623  | \$ 6,379   | \$ 1,927  | \$ 2,065  | \$ 2,012  | \$ 2,019  | \$ 8,023   | \$ 2,300  | \$ 2,186  | \$ 2,347  |
| <b>Non-GAAP income per share (in thousands, except per share amounts)</b>                    |           |            |           |           |           |           |            |           |           |           |           |            |           |           |           |
| Net income                                                                                   | \$ 854    | \$ 2,704   | \$ 586    | \$ 651    | \$ 1,270  | \$ 2,132  | \$ 4,639   | \$ 1,044  | \$ 352    | \$ 2,509  | \$ 1,805  | \$ 5,710   | \$ 2,971  | \$ 1,825  | \$ 1,864  |
| Stock-based compensation expense                                                             | 1,405     | 5,396      | 1,499     | 1,647     | 1,610     | 1,623     | 6,379      | 1,927     | 2,065     | 2,012     | 2,019     | 8,023      | 2,300     | 2,186     | 2,347     |
| Amortization of intangible assets                                                            | 812       | 2,856      | 845       | 833       | 829       | 800       | 3,307      | 1,161     | 1,198     | 1,194     | 1,185     | 4,738      | 1,215     | 1,117     | 1,128     |
| Other                                                                                        | -         | -          | -         | -         | -         | -         | -          | (365)     | 293       | (1,034)   | -         | (1,106)    | -         | -         | -         |
| Non-GAAP income as historically reported ^                                                   | 3,071     | 10,956     | 2,930     | 3,131     | 3,709     | 4,555     | 14,325     | 3,767     | 3,908     | 4,681     | 5,009     | 17,365     | N/A       | N/A       | N/A       |
| Income tax effects of adjustments ^                                                          | (771)     | (2,891)    | (888)     | (925)     | (857)     | (896)     | (3,566)    | (1,066)   | (1,272)   | (1,061)   | (1,526)   | (4,925)    | (2,133)   | (1,211)   | (1,259)   |
| Non-GAAP income with tax adjustments ^                                                       | \$ 2,300  | \$ 8,065   | \$ 2,042  | \$ 2,206  | \$ 2,852  | \$ 3,659  | \$ 10,759  | \$ 2,701  | \$ 2,636  | \$ 3,620  | \$ 3,483  | \$ 12,440  | \$ 4,353  | \$ 3,917  | \$ 4,080  |
| <b>Shares used to compute non-GAAP income per share</b>                                      |           |            |           |           |           |           |            |           |           |           |           |            |           |           |           |
| Basic                                                                                        | 16,323    | 16,236     | 16,433    | 16,536    | 16,605    | 16,681    | 16,565     | 16,783    | 16,909    | 17,001    | 17,050    | 16,947     | 17,154    | 17,198    | 17,223    |
| Diluted                                                                                      | 16,878    | 16,814     | 17,011    | 16,998    | 17,054    | 17,110    | 17,032     | 17,029    | 17,120    | 17,341    | 17,366    | 17,241     | 17,393    | 17,378    | 17,410    |
| <b>Non-GAAP income per share with tax adjustments ^</b>                                      |           |            |           |           |           |           |            |           |           |           |           |            |           |           |           |
| Basic                                                                                        | \$ 0.14   | \$ 0.50    | \$ 0.12   | \$ 0.13   | \$ 0.17   | \$ 0.22   | \$ 0.65    | \$ 0.16   | \$ 0.16   | \$ 0.21   | \$ 0.20   | \$ 0.73    | \$ 0.25   | \$ 0.23   | \$ 0.24   |
| Diluted                                                                                      | \$ 0.14   | \$ 0.48    | \$ 0.12   | \$ 0.13   | \$ 0.17   | \$ 0.21   | \$ 0.63    | \$ 0.16   | \$ 0.15   | \$ 0.21   | \$ 0.20   | \$ 0.72    | \$ 0.25   | \$ 0.23   | \$ 0.23   |
| <b>Non-GAAP income per share as historically reported ^</b>                                  |           |            |           |           |           |           |            |           |           |           |           |            |           |           |           |
| Basic                                                                                        | \$ 0.19   | \$ 0.67    | \$ 0.18   | \$ 0.19   | \$ 0.22   | \$ 0.27   | \$ 0.86    | \$ 0.22   | \$ 0.23   | \$ 0.28   | \$ 0.29   | \$ 1.02    | N/A       | N/A       | N/A       |
| Diluted                                                                                      | \$ 0.18   | \$ 0.65    | \$ 0.17   | \$ 0.18   | \$ 0.22   | \$ 0.27   | \$ 0.84    | \$ 0.22   | \$ 0.23   | \$ 0.27   | \$ 0.29   | \$ 1.01    | N/A       | N/A       | N/A       |

\*\* See additional disclosure regarding non-GAAP financial measures on the following page \*\*

To supplement its financial statements, SPS Commerce also provides investors with Adjusted EBITDA and non-GAAP income per share, which are non-GAAP financial measures. SPS Commerce believes that these non-GAAP measures provide useful information to management and investors regarding certain financial and business trends relating to its financial condition and results of operations. SPS Commerce's management uses these non-GAAP measures to compare the company's performance to that of prior periods for trend analyses and planning purposes. It uses Adjusted EBITDA for purposes of determining executive and senior management incentive compensation. These measures are also presented to the company's board of directors.

Adjusted EBITDA consists of net income adjusted for depreciation and amortization, interest expense, interest income, income tax expense, stock-based compensation expense and other adjustments as necessary for a fair presentation. For additional information on the "other" adjustments for a specific period, please see Management's Discussion and Analysis of Financial Condition and Results of Operations in SPS Commerce's filings with the U.S. Securities and Exchange Commission. SPS Commerce uses Adjusted EBITDA as a measure of operating performance because it assists the company in comparing performance on a consistent basis, as it removes from operating results the impact of the company's capital structure. SPS Commerce believes Adjusted EBITDA is useful to an investor in evaluating the company's 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 the company's capital structure and the method by which assets were acquired.

Non-GAAP income per share consists of Net income plus stock-based compensation expense, amortization expense related to intangible assets and other adjustments as necessary for a fair presentation divided by the weighted average number of shares of outstanding during each period. SPS Commerce believes non-GAAP income per share is useful to an investor because it is widely used to measure a company's operating performance.

These non-GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with generally accepted accounting principles in the United States. 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. SPS Commerce urges investors to review the reconciliation of its non-GAAP financial measures to the comparable GAAP financial measures. The preceding tables provide reconciliations of net income to Adjusted EBITDA and non-GAAP income per share.

<sup>^</sup> Pursuant to recent Compliance and Disclosure Interpretations published by the U.S. Securities and Exchange Commission in May 2016 (the "May C&DI") related to the use of non-GAAP financial measures, we now include an adjustment to non-GAAP income to reflect the income tax effects of the adjustments to GAAP net income, as discussed above. To quantify these tax effects, SPS Commerce recalculates income tax expense excluding the direct book and tax effects of the specific items constituting the non-GAAP adjustments (e.g., stock-based compensation expense). The difference between this recalculated income tax expense and GAAP income tax expense is presented as the income tax effect of the non-GAAP adjustments.