SERVICESOURCE INTERNATIONAL, INC.
Form 10-K
March 16, 2015

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

FORM 10-K

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from to

Commission file number 001-35108

SERVICESOURCE INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	No. 81-0578975 (I.R.S. Employer Identification No.)
634 Second Street San Francisco, California (Address of Principal Executive Offices)	94107 (Zip Code)

Registrant's telephone number, including area code: (415) 901-6030

Securities registered pursuant to Section 12(b)	Name of each exchange on which registered
Common Stock, $0.0001 Par Value	The NASDAQ Stock Market LLC

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§29.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price at which the common stock was sold on June 30, 2014, the last business day of the registrant’s most recently completed second fiscal quarter, as reported on The NASDAQ Global Market, was $349,527,801. Shares of common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status does not reflect a determination that such persons are affiliates of the registrant for any other purpose.

As of February 28, 2015, there were approximately 84,853,962 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for its 2015 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS AND INDUSTRY DATA

This Annual Report on Form 10-K contains certain statements that constitute “forward looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. The forward looking statements are contained principally in “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward looking statements include information concerning our future results of operations, including the effect of restructuring activities on our overall financial performance; estimates of recurring revenue opportunity under management; changes in market conditions that impact our ability to generate recurring revenue on our customers’ behalf; errors in estimates as to the recurring revenue we can generate for our customers; risks associated with material defects or errors in our software or the effect of data security breaches; our ability to adapt our solution to changes in the market or new competition; our ability to improve our customers’ renewal rates, margins and profitability; our ability to increase our revenue and contribution margin over time from new and existing customers, the impact of our investments in improvements of Renew OnDemand and ServiceSource SaaS offerings; the potential effect of mergers and acquisitions on our customer base; business strategies and new sales initiatives; technology development; protection of our intellectual property; investment and financing plans; liquidity; competitive position; the effects of competition; industry environment; our ability to acquire and integrate business and technologies; litigation involving us; and potential growth opportunities.

Forward looking statements include all statements that are not historical facts and can be identified by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “likely,” “may,” “might,” “plans,” “potential,” “predicts,” “should,” “will,” “would” or similar expressions and the negatives of those terms.

Forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. We discuss these risks in greater detail in “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on these forward looking statements. Also, forward looking statements represent our management’s beliefs and assumptions only as of the date of this Annual Report on Form 10-K. You should read this Annual Report on Form 10-K and the documents that we have filed as exhibits hereto, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward looking statements, even if new information becomes available in the future.

In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate is necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in “Risk Factors” and elsewhere in this Annual Report on Form 10-K. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

As used herein, “ServiceSource” the “Company,” “we,” “our,” and similar terms include ServiceSource International, Inc. and its subsidiaries, unless the context indicates otherwise.

PART I

ITEM 1. BUSINESS

Overview

ServiceSource International, Inc. (NASDAQ: SREV) is the global leader in customer success and recurring revenue growth solutions for the Revenue Lifecycle of companies. Revenue Lifecycle is a part of the Customer Lifecycle Management business segment, which also includes customer acquisition with-the initial sale-, billing and customer support. For the Revenue Lifecycle, we address critical elements of customer success, recurring revenue growth, and renewal processes, which include on-boarding, adoption, quoting, up-sell, cross sell, retention and renewals, as well as recurring revenue business intelligence. Our customer success and recurring revenue growth solutions are designed to optimize the retention rates and recurring revenue performance for our customers to drive revenue growth and decrease churn from our customers' existing business to business ("B2B") customers.

We provide managed services, cloud software, and best-practice processes. To deliver these services, we leverage industry and company data, and best-practices drawn from our rich database of renewal benchmarks. By integrating managed services, cloud software and data, we provide end-to-end management and optimization of the subscription and service-contract renewal process.

Our managed services business is built on our pay-for-performance model, whereby our customers pay us a commission based on renewal sales that we generate on their behalf, enabling a success-driven, shared-risk partnership with our customers. Our cloud offerings currently include: ServiceSource Revenue Analytics (formerly Scout Analytics), Renew OnDemand, and the ServiceSource Customer Success application, all of which automate and provide data-driven insights into these highly valuable but typically manual business processes. Our cloud offerings and managed services can drive higher subscription, maintenance, and support revenue while improving customer retention and increasing business predictability.

As of December 31, 2014, we managed approximately 191 engagements across more than 103 customers, representing more than $13.5 billion recurring revenue opportunity under management. Recurring revenue opportunity under management is a forward-looking metric and is our estimate, as of a given date, of the value of all end customer service contracts that we will have the opportunity to service on behalf of our customers over the subsequent twelve-month period.

The scalability of our solution enables us to sell in over 40 languages from six sales centers around the globe. Our solution is designed to optimize recurring revenue across different revenue models, distribution models, and segments including hardware, software, SaaS, industrial systems, technology-enabled health care and life sciences.

As part of our introduction of Renew OnDemand in prior years, the Company had been expanding the organization, investing in our engineering and sales and marketing organization primarily in advance of an expected increase in revenues from both existing customers and new customer due to increased adoption of our new SaaS platform. In addition, we acquired Scout Analytics in January 2014. With some of Scout Analytics recent new business, we believed that this business had near term significant growth potential. For both SaaS platforms, we experienced a slower adoption rate than we originally planned. As a result of this slower adoption, the Company announced a restructuring plan in the third quarter of 2014 with the intention to reduce the resources to better match the expected revenues. In addition, with the incurred losses in combination with lower stock price, we did a goodwill and long lived asset impairment analysis. In 2014, we recorded a goodwill and other intangible asset impairment of $25.1 million.

Our total revenue was $272.2 million, $272.5 million and $243.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. For summarized financial information by geographic area, see Note 16 of the Notes to Consolidated Financial Statements. For a discussion of the development of our business over the last year, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Overview.”

We were incorporated in Delaware as a limited liability company in 2002 and converted to a Delaware corporation on March 24, 2011. Additional information about us is available on our website at http://www.servicesource.com. The information on our website is not incorporated herein by reference and is not a part of this Form 10-K. We make available free of charge on our corporate website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after those reports are electronically filed with, or furnished to, the SEC. From time to time, we may use our website as a channel of distribution of material Company information. Financial and other material information regarding our business is routinely posted on and accessible at http://ir.servicesource.com.

Our Solutions

Our solutions are based on more than a decade of experience pioneering solutions in the Revenue Lifecycle category and are offered via managed services as well as the cloud. We believe this dual approach is critical to addressing the unique requirements of effective recurring revenue management and customer success.

Our suite of managed services include customer success, on-boarding, enablement and selling services, in which dedicated service teams with specific expertise in our customers' businesses are deployed under our customers' brands and follow a sales process tailored specifically to improve customer retention and increase service contract renewals.

The components of our cloud solution currently consist of a suite of managed services and cloud offerings, and include ServiceSource Revenue Analytics, Renew OnDemand and ServiceSource Customer Success. The ServiceSource Customer Success application, which was introduced in October 2014, leverages the capabilities of our ServiceSource Revenue Analytics platform (formerly Scout Analytics, which was acquired in January 2014). Our cloud offerings increase the visibility and control of recurring revenue streams and customer success data, and are utilized by customers, their channel partners, end customers and our service sales teams.

Managed Services Offerings

ServiceSource leverages deep experience, analytical expertise, high-performance sales teams and unique technology to drive customer success and renewals through our managed services. With our dedicated sales or channel sales teams, who are highly trained in selling the value of renewable products and services, our customers consistently see improved customer adoption and retention, lower churn rates and, ultimately, greater recurring revenue.
Our managed services leverages our knowledge base across the following critical business processes:

- Service Performance Analysis. During the Service Performance Analysis ("SPA") process, we conduct interviews with our prospective customers, analyze their historical performance and future opportunity, and evaluate their recurring revenue business using a number of metrics. We also use our breadth of experience to benchmark and identify service renewal opportunities, and to calculate our ability to improve our customers' performance based on our performance with similar types of businesses and revenue streams.

- Business Case, Pricing and Contract Structuring. We utilize our reservoir of data and benchmarks to estimate the critical components of the business case and appropriate pricing model for prospective customers. This intelligence is fundamental to our pay-for-performance business model.

- Recurring Revenue Performance. Once a partnership is in place with our customer, we leverage our data warehouse to enable, measure, analyze, benchmark and optimize the performance of our service sales teams.

- Customer Benchmarking and Continuous Improvement. Our extensive platform serves as the foundation for benchmarking our customers' evolving recurring revenue and customer success performance against industry peers and previous period performance. We conduct quarterly business review meetings and annual partnership reviews with our customers to review performance, identify potential weaknesses in their processes and determine opportunities for improvement, and make recommendations that we believe will allow our customers and us to achieve higher levels of performance and efficiencies.

- Developing and Delivering Applications. Our data warehouse fuels the opportunity data, sales methodologies, metrics, and reporting dashboards that we engineer into our applications. Accordingly, we design our applications to leverage the transactional, analytical and industry data housed in our platform.

For our selling services, we employ service sales personnel that interact directly with end customers to sell service renewals. They also provide active sales enablement, support and management of channel partners. Our service sales teams act as an extension of our customers' brands.

We have developed a set of service delivery best-practices that includes role specialization for selling, enablement, and data service. We believe that role specialization is a key component in driving higher recurring revenue rates. We offer a package of managed services for each of these specialized roles, and our customers can choose to purchase individual solutions or a full pay-for-performance solution. They include renewal selling services, up-sell and cross-sell services, enablement and quoting services, warranty services, customer success services and on-boarding services.

Cloud Offerings

We provides a suite of cloud offerings uniquely designed to help companies drive revenue growth and customer success from their existing customers throughout the Revenue Lifecycle. Our cloud offerings are purpose-built to address the challenges of B2B customer success, account management, and recurring revenue renewals. Our current offerings include:

ServiceSource Revenue Analytics

ServiceSource Revenue Analytics is a Revenue Lifecycle management platform that helps subscription-based businesses execute cost-effective processes across on-boarding and adoption, up-sell and cross-sell, retention and renewals throughout the entire Revenue Lifecycle. ServiceSource Revenue Analytics, derived from our Scout Analytics acquisition, correlates product usage, billing and customer revenue management ("CRM") data with success plans to proactively trigger intelligent workflow automations, and helps companies engage the right customer with the right play at the right time.

Renew OnDemand

Renew OnDemand is a cloud application that helps customers increase recurring revenue and profitability, improve retention and gain unique business insights. Renew OnDemand provides customers with a unified view of their data from diverse sources and leverages a data warehouse of transactional, analytical, and industry information to offer a comparative view of our customers' results against their industry peers.

ServiceSource Customer Success

ServiceSource Customer Success is a best-practices driven customer success management solution, powered by account, user- and subscription-level predictive analytics, outcomes-based success plans, closed-loop reporting and revenue advisory services. The solution enables our customer to profile a successful customer journey, deliver actionable insight into customer health and retention risks, prioritize accounts based on business goals and user behavior, and recommend next best actions for each customer at every stage of the customer lifecycle. ServiceSource Customer Success ensures that best-practice on-boarding, adoption and retention processes are applied.

Our cloud offerings are hosted at third-party data centers where we employ rigorous technologies, policies and procedures to protect customer data.

Key benefits of our solutions include:

Financial Benefits

- Increased recurring revenue. Our solution is designed to increase recurring revenues for our customers. Each customer engagement begins with a Service Performance Assessment (“SPA”), an in-depth analysis of customers’ current renewal rates. We actively monitor the contract renewal rates we drive on behalf of our customers in each engagement. When we generate higher renewal rates, we not only drive incremental revenue for the associated period, but also have a compounding effect in increasing the base number of contracts eligible for renewal in subsequent periods, which expands the opportunity to generate greater revenue in future periods.

- Improved Retention and Customer Success. Our solutions drive customer retention and revenue growth for the world’s leading companies, leveraging more than a decade of expertise to continuously monitor customer health, engage each customer with the right play at the right time and reinforce the unique value and benefits of each customer’s product. The result is reduced customer churn, increased revenue through up-sell and cross-sell, stronger customer relationships and higher satisfaction.

- Increased margin and profitability. We believe that the costs associated with delivering maintenance, support and subscription services by many of our customers can be relatively fixed, and thus growth of these recurring revenue streams can benefit our customers’ profitability. In addition, customers that deploy our solution can avoid infrastructure expenditures and personnel costs that would otherwise be associated with managing renewals internally. As a result, each incremental dollar of recurring revenue generated by our solution can drive greater profitability for our customers.

Operational Benefits

- Greater business insight and analytics. The analytics engines in our cloud offerings allow us to analyze each customer’s renewals and churn rates against similar transactions, identifying areas for improvement and enabling greater insight into their business. All transactions, regardless of outcome, are recorded in our platform. We leverage this platform to provide benchmarking, end customer metrics, sales efficiency data, and insight into successful and unsuccessful renewal efforts. The breadth of our data allows us to provide powerful analysis across regions, industries, channel partners, and product segments.

- Greater visibility and forecasting tools. Our cloud offerings deliver real-time analytics and visibility into a customer's recurring revenue performance, sales efficiency and forecasts. We measure recurring revenue performance across dozens of key performance indicators ("KPIs") and provide real-time data to our customers through a clear and impactful web-based interface. Chief Financial Officers and other executives rely on our applications to assist in forecasting their results and to measure progress against their forecasts on a real-time basis.

- Global consistency. We are able to maintain a globally consistent customer success and revenue growth selling process for our customers. Our global sales centers operate from a unified platform. Our cloud offerings automate the application of best-practices to recurring revenue renewals and customer success processes, and provide all relevant constituencies with a consistent view of the data. This automation facilitates contract renewals and provides reliable performance management and analytics.

Our Strategy

We intend to continue our industry leadership by delivering solutions to support the challenges faced by our customers in managing their revenue lifecycle. Our strategy to execute this vision is:

- Expand our customer base within existing industry verticals. In the last two years we have expanded our list of target industries. We currently have more than 103 customers and believe that there are over 800 companies in our addressable market.

- Increase footprint with existing customers to drive greater revenue per customer. Our goal is to manage a greater portion of each customer’s recurring revenue. We have increasingly taken on the management of more than just one component of a customer’s recurring revenue, such as a specific product, market segment or geographic region. Because we baseline our customers’ performance prior to any engagement, we are able to quantify our results for the customer, frequently leads to increased opportunities to expand our revenue opportunity under management for that customer, and ultimately generating greater revenue for ourselves.

- Continue to expand our suite of cloud offerings. We have developed our cloud offerings to increase our customer's sales efficiency and automate tasks associated with customer success and recurring revenue management. By continuing to invest in our cloud offerings, automation processes, and the innovation of our technology platform, we can uncover new revenue opportunities, lower operating costs, increase the efficiency of our solutions, and enhance our profitability and cash flow.

Customers

We sell our solutions to companies within the computer hardware, software, software-as-a-service ("SaaS"), telecommunications, healthcare, life sciences, media and industrial systems industries. As of December 31, 2014, we managed approximately 191 engagements across more than 103 customers, representing over $13.5 billion recurring revenue opportunity under management for those customers.

Our top ten customers accounted for approximately 51%, 50% and 50% of our revenue in 2014, 2013 and 2012, respectively. VMware, Inc. represented over 12%, 14% and 13% of our revenue in 2014, 2013 and 2012 respectively.

Sales and Marketing

We sell our solutions through our global sales organization. Our sales representatives are organized by geographic regions: North America and Latin America (“NALA”), Europe, Middle East and Africa (“EMEA”) and Asia Pacific-Japan (“APJ”); and by specialization in either managed services or cloud software. We deploy quota-carrying sales and solution design professionals to target specific regions and industry verticals.

We generate customer leads, accelerate sales opportunities and build brand awareness through our marketing programs. Our marketing programs target sales, services, customer success, account management, technology and finance executives within the computer hardware, software, SaaS, telecommunications, healthcare, life sciences, media and industrial systems industries. Our marketing teams and programs are organized by geography and industry segment to focus on the unique needs of customers within the specific target markets.

We participate in industry trade shows and host local and regional events around the world to stimulate industry dialog on renewals and to promote our cloud offerings and managed services.

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We are actively involved in the Service Executive Industry Board ("SEIB"), an independent industry board we founded to share best practices and address issues impacting the industry. The board members consist of 24 senior executives, including two of our executives, who manage and grow recurring revenue at leading technology-based hardware, software, and health care companies. SEIB meets regularly to establish industry standards and best practices for benchmarking and measuring the health of global maintenance, support and subscription recurring revenue and customer satisfaction.

Research and Development

We focus our research and development efforts on enhancing our cloud offerings and managed services as well as creating complementary new capabilities to add to our proprietary solution. Our development strategy is to identify features, business intelligence, applications and other technology elements that are, or are expected to be, needed by service sales professionals, customer success and account management professionals, customers, channel partners and end customers to optimize recurring revenue performance. We are also continuing to invest in the development of our cloud offerings to serve our customers' needs and enable greater operational efficiencies in our organization.

Our research and development expenses were $25.8 million in 2014, $23.9 million in 2013 and $19.3 million in 2012. In addition, we capitalized certain expenditures related to the development and enhancement of internal-use software in 2014, 2012 and 2011.

Competition

The market for recurring revenue management is evolving. Historically, technology companies have managed their service renewals through internal personnel and relied upon a variety of technologies including spreadsheets, internally developed software and customized versions of traditional business intelligence tools and customer relationship management or enterprise resource planning software from vendors such as Oracle Corporation, SAP AG, Salesforce.com, Inc. and NetSuite, Inc. Some companies have made further investments in this area using firms such as Accenture, Plc. and McKinsey & Company, Inc. for technology consulting and education services focused on service renewals. These internally developed solutions represent the primary alternative to our integrated approach of combining software, managed services and data to provide end-to-end optimized recurring revenue performance.

We believe the principal competitive factors in our markets include the following:

- recurring revenue and customer success industry expertise, best practices, and benchmarks;
- ability to increase recurring revenue and renewal rates;
- global capabilities;
- completeness of solution;
- performance-based pricing of solutions;
- ability to effectively represent customer brands to end customers and channel partners;
- size of upfront investment; and
- size and financial stability of operations.

With respect to our cloud offerings, we are seeing competition from companies targeting product usage, renewals and customer success related offerings. Although we believe we compete or compare favorably with respect to many of these factors and currently have few direct competitors that offer integrated solutions at our scale, we expect competition and competitive pressure, from both new and existing competitors, to increase in the future.

Intellectual Property

We rely upon a combination of copyrights, trade secrets and trademarks, in addition to contractual restrictions such as confidentiality agreements, to establish and protect our proprietary rights. We currently have one registered copyright in the United States, nine pending patent applications in the United States, one pending international patent application, and eight national phase patent applications pending in four foreign patent offices (two applications in each of Europe, Australia, Canada, and Japan). We also have registered trademarks for "ServiceSource" in the United States, the European Community, Japan, Singapore and Australia. In addition, we have registered trademarks and pending trademark applications for a number of product names in various jurisdictions.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or obtain and use our technology and/or brand names to develop products with the same functionality as our solution. Policing unauthorized use of our technology is difficult. The laws of other countries in which we market our solutions may offer little or no effective

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protection of our proprietary technology. Our competitors could also independently develop technologies equivalent or superior to ours, and our intellectual property rights may not be broad enough for us to prevent competitors from selling products incorporating those technologies. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without paying us for it, which would significantly harm our business.

We expect that technology solutions in our industry may be increasingly subject to third-party patent infringement claims as the number of competitors grows and the functionality of products in different industry segments overlaps. Such competitors could make a claim alleging that we infringe one or more of their patents, and we do not own any patents, which could be asserted against them. Third parties may currently have, or may eventually be issued, patents upon which our current solution or future technology infringe. Any of these third parties might make a claim of infringement against us at any time.

Employees

As of December 31, 2014, we had 3,017 employees. None of our employees is represented by a labor union with respect to their employment with us.

ITEM 1A. Risk Factors

You should carefully consider the risks and uncertainties described below together with all the other information in this Annual Report on Form 10-K. If any of the following risks are realized, our business, financial condition, results of operations, cash flows, the trading price of our common stock could be materially and adversely affected. The risks described below are not the only risks facing us. Risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially affect our business, financial condition, results of operations, cash flows, the trading price of our common stock.

Risks Related to Our Business and Industry

Our business and growth depend substantially on customers renewing their agreements with us and expanding their use of our solution for additional available markets. Any decline in our customer renewals, termination of ongoing engagements or failure to expand their relationships with us could harm our future operating results.

In order for us to improve our operating results and grow, it is important that our customers renew their agreements with us when the initial contract term expires and that we expand our customer relationships to add new market opportunities and the related service revenue opportunity under management. Our customers may elect not to renew their contracts with us after their initial terms have expired or may elect to otherwise terminate our services, and we cannot assure you that our customers will renew service contracts with us at the same or higher level of service, if at all, or provide us with the opportunity to manage additional opportunity. Although our renewal rates have been historically higher than those achieved by our customers prior to their using our solution, some customers have still elected not to renew their agreements with us. Our customers’ renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our solution and results, our pricing, mergers and acquisitions affecting our customers or their end customers, the effects of economic conditions or reductions in our customers’ or their end customers’ spending levels. If our customers do not renew their agreements with us, renew on less favorable terms, terminate their services with us or fail to contract with us for additional service revenue management opportunities, our revenue may decline and our operating results may be adversely affected.

Our revenue will decline if there is a decrease in the overall demand for our customers’ products and services for which we provide service revenue management.

Our revenue is based on a pay-for-performance model under which we are paid a commission based on the service contracts we sell on behalf of our customers. If a particular customer's products or services fail to appeal to its end customers, our revenue will decline for our work with that customer. In addition, if end customer demand decreases for other reasons, such as negative news regarding our customers or their products, unfavorable economic conditions, shifts in strategy by our customers away from promoting the service contracts we sell in favor of selling their other products or services to their end customers, or if end customers experience financial constraints and terminate or fail to renew the service contracts we sell, we may experience a decrease in our revenue as the demand for our customers' service contracts declines. Similarly, if our customers come under economic pressure, they may be more likely to terminate their contracts with us and/or seek to restructure those contracts, and for customers whose contracts are up for renewal, they may seek to renew those contracts on less favorable terms. We have experienced a decline in our opportunity under management from our managed services

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customers in 2014 as compared to 2013 and we expect a further decline in 2015. If we continue to experience such a decline in opportunity under management, our revenue and results of operations will be adversely affected.

If close rates fall short of our estimates, our customer relationships will be at risk, our revenue will suffer and our ability to grow and achieve broader market acceptance of our solution could be harmed.

Given our pay-for-performance pricing model, our revenue is directly tied to close rates. Close rates represent the percentage of the actual opportunity delivered that we renew on behalf of our customers. If the close rate for a particular customer is lower than anticipated, then our revenue for that customer will also be lower than projected. If close rates fall short of expectations across a broad range of customers, or if they fall below expectations for a particularly large customer, then the impact on our revenue and our overall business will be significant. In the event close rates are lower than expected for a given customer, our margins will suffer because we will have already incurred a certain level of costs in both personnel and infrastructure to support the engagement. This risk is compounded by the fact that many of our customer relationships are terminable if we fail to meet certain specified sales targets over a sustained period of time. If actual close rates fall to a level at which our revenue and customer contracts are at risk, then our financial performance will decline and we will be severely compromised in our ability to retain and attract new customers. Increasing our customer base and achieving broader market acceptance of our solution depends, to a large extent, on how effectively our solution increases service sales. As a result, poor performance with respect to our close rates, in addition to causing our revenue, margins and earnings to suffer, will likely damage our customer relationships and overall reputation, and prevent us from effectively developing and maintaining awareness of our brand or achieving widespread acceptance of our solution, in which case we could fail to grow our business and our revenue, margins and earnings would suffer.

The loss of one or more of our key customers could slow our revenue growth or cause our revenue to decline.

A substantial portion of our revenue has to date come from a relatively small number of customers. During the twelve months ended December 31, 2014, our top ten customers accounted for 51% of our revenue, with one customer representing over 10% of our revenue. A relatively small number of customers may continue to account for a significant portion of our revenue for the foreseeable future. The loss of revenue from any of our significant customers for any reason, including the failure to renew our contracts, termination of some or all of our services, a change of relationship with any of our key customers or their acquisition as discussed below, may cause a significant decrease in our revenue.

Our restructuring plans may not produce anticipated benefits and may lead to charges that will adversely affect our results of operations.

We are currently implementing restructuring and other cost-reduction plans designed to reduce our overhead and our operating expenses. As we experience changes in our strategy, we will continue to determine whether additional restructuring efforts are required. These restructuring efforts may result in significant restructuring charges that may adversely affect our results of operations for the periods in which such charges occur. Additionally, actual costs related to such restructuring plans may exceed the amounts that we previously estimated, leading to additional charges as actual costs are incurred. We incurred restructuring and other charges of $3.3 million in 2014.

We are also going to invest and re-focus our efforts to improve efficiency in our managed services business. These investments and changes will relate to technology, processes, and people. If such changes do not result in the improvements we expect, we could see a decrease in our performance in certain accounts, lower customer satisfaction, and therefore increased customer churn.

Our quarterly results of operations may fluctuate as a result of numerous factors, many of which may be outside of our control.

Our quarterly operating results are likely to fluctuate. Some of the important factors that may cause our revenue, operating results and cash flows to fluctuate from quarter to quarter include:

- our ability to attract new customers;
- our ability to retain existing customers and/or maintain the size of our engagements with those customers;
- the renewal rates we achieve early in an engagement and the time it takes to achieve the close rates expected for the term of the engagement;
- our ability to effectively sell and implement our cloud offerings;
- fluctuations in the value of end customer contracts delivered to us;
- fluctuations in close rates;
- changes in our commission rates;

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- seasonality;
- loss of customers for any reason including due to acquisition;
- the mix of new customers as compared to existing customers;
- the length of the sales cycle for our solution, and our level of upfront investments prior to the period we begin generating revenue associated with such investments;
- the timing of customer payments and payment defaults by customers;
- the amount and timing of operating costs and capital expenditures related to the operations of our business, including the development of new products or cloud offerings;
- the rate of expansion, productivity and realignment of our direct sales force;
- the cost and timing of the introduction of new technologies or new services, including additional investments in our cloud offerings;
- general economic conditions;
- technical difficulties or interruptions in delivery of our solution;
- changes in foreign currency exchange rates;
- changes in tax rates;
- regulatory compliance costs, including data privacy;
- costs associated with acquisitions of companies and technologies;
- changes in our stock price and the impact of such changes on our convertible notes and related note hedges and warrants;
- extraordinary expenses such as litigation or other dispute-related settlement payments; and
- the impact of new accounting pronouncements.

Many of the above factors are discussed in more detail elsewhere in these Risk Factors. Many of these factors are outside our control, and the variability and unpredictability of such factors could result in our failing to meet our revenue or operating results expectations for a given period. In addition, the occurrence of one or more of these factors might cause our operating results to vary widely which could lead to negative impacts on our margins, short-term liquidity or ability to retain or attract key personnel, and could cause other unanticipated issues. Accordingly, we believe that quarter-to-quarter comparisons of our revenue, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

Our customer relationships and overall business will suffer if our cloud offerings do not meet expectations or if we encounter significant problems implementing them for our customers.

In the fall of 2012 we introduced Renew OnDemand, our next-generation service revenue management platform. This platform is offered on a subscription basis and initially served as the core foundation for our customer-facing cloud applications. We have now expanded into other cloud offerings such as ServiceSource Revenue Analytics and ServiceSource Customer Success on the Salesforce platform. Renew OnDemand and our current cloud offerings remains relatively new and we have limited experience selling and/or implementing it for customers, as well as limited experience migrating customers from our traditional platform to Renew OnDemand. Given the complexity and significance of this ongoing transition, including as a result of the amount of customer data within our systems that will need to be accessed and migrated, our customer relationships, our reputation, and our overall business could be severely damaged if our implementations or migrations are poorly executed. In addition, we expect to incur additional expenses as a result of our near term plans to run dual technology platforms as we move toward broad use and adoption of certain cloud and technologies internally while maintaining our existing technology platform. Similarly our business operations and customer relationships will be at high risk if our cloud offerings do not meet our performance expectations or those of our customers. This could harm our business in numerous ways including, without limitation, a loss of revenue and customer contracts and damage to our reputation.

If we cannot efficiently implement our offering for customers, we may be delayed in generating revenue, fail to generate revenue and/or incur significant costs.

In general, our customer engagements are complex and may require lengthy and significant work to implement our offerings. Changes in our go-to-market and technology strategies also will increase costs and create implementation risks for us. We also have limited experience implementing our current cloud offerings in general. As a result, we generally incur sales and marketing expenses related to the commissions owed to our sales representatives and make upfront investments in technology and personnel to support the engagements one to three months before we begin selling end customer contracts. Each customer's situation may be different, and unanticipated difficulties and delays may arise as a result of our failure, or that of our customer, to meet respective implementation responsibilities. If the customer implementation process is not executed successfully or if execution is delayed, we could incur significant costs without yet generating revenue, and our relationships with some of our customers may be adversely impacted.

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The market for our solution is relatively undeveloped and may not grow.

The market for service revenue management is still relatively undeveloped, has not yet achieved widespread acceptance and may not grow quickly or at all. In addition, we are still promoting market acceptance of our cloud offerings. Our success will depend to a substantial extent on the willingness of companies to engage a third party such as us to manage the sales of their support, maintenance and subscription contracts and subscribe for our cloud offerings. Many companies have invested substantial personnel, infrastructure and financial resources in their own internal service revenue organizations or in some cases have built or modified software applications to help manage renewals-and therefore may be reluctant to switch to a solution such as ours. Companies may not engage us for other reasons, including a desire to maintain control over all aspects of their sales activities and customer relations, concerns about end customer reaction, a belief that they can sell their support, maintenance and subscription services more cost-effectively using their internal sales organizations, perceptions about the expenses associated with changing to a new approach and the timing of expenses once they adopt a new approach, general reluctance to adopt any new and different approach to old ways of doing business, or other considerations that may not always be evident. New concerns or considerations may also emerge in the future. Particularly because our market is relatively undeveloped, we must address our potential customers’ concerns and explain the benefits of our approach in order to convince them to change the way that they manage the sales of support, maintenance and subscription contracts. If companies are not sufficiently convinced that we can address their concerns and that the benefits of our solution are compelling, then the market for our solution may not develop as we anticipate and our business will not grow.

Delayed or unsuccessful investment in new technology, services and markets may harm our financial results.

We plan to invest significant resources in research and development in order to enhance our managed services offerings, and SaaS cloud offerings and other new offerings that will appeal to customers and potential customers. We have undertaken the development of our cloud offerings as our new technology to offer improved and more scalable service revenue management, including enhancements to our applications. In addition, we have continued to develop our cloud offerings to utilize a Salesforce based platform for our solutions. The development of new products and services entails a number of risks that could adversely affect our business and operating results, including:

- the risk of diverting the attention of our management and our employees from the day-to-day operations of the business;
- insufficient revenue to offset increased expenses associated with research, development, operational and marketing activities; and
- write-offs of the value of such technology investments as a result of unsuccessful implementation or otherwise.

If our cloud offerings or any of our other new or modified technology does not work as intended, are not responsive to user preferences or industry or regulatory changes, are not appropriately timed with market opportunity, or are not effectively brought to market, we may lose existing and potential customers or related service revenue opportunities, in which case our results of operations may suffer. The cost of future development of new service revenue management offerings or technologies also could require us to raise additional debt or equity financing. These actions could be dilutive to our stockholders and negatively impact our financial condition or our results of operations.

We sell subscriptions to our cloud offerings separately from our integrated solution, which may not be successful and could impact revenue from our existing solution.

We currently derive a portion of our revenue from subscriptions to our cloud offerings for a few customers, and we package and price the applications we offer on such applications on a subscription model. We may not be able to fully develop a successful market for our subscription applications. In addition, because we have limited prior experience selling technology subscriptions on a stand-alone basis, we may encounter technical and execution challenges that undermine the quality of the technology offering or cause us to fall short of customer expectations. We also have little experience pricing our technology subscriptions separately, which could result in underpricing that damages our profit margins and financial performance. It is also possible that selling a technology solution separately from our integrated solution will result in a reduction in sales of our current offerings that we might otherwise have sold. An unsuccessful expansion of our business to promote a stand-alone subscription model for any of the foregoing reasons or otherwise would lead to a diversion of financial and managerial resources from our existing business and an inability to generate sufficient revenue to offset our investment costs.

We have separated our business units and such plan may not produce anticipated benefits and may lead to charges that will adversely affect our results of operations.

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We have separated the Cloud & Business Intelligence business unit and the Managed Services unit. Though both units still have the same finance, legal, Human Resources, and high level executive oversight. The establishment of these two separate business units may not be achieved in an efficient manner, and may not fully realize the anticipated growth and costs savings for a variety of reasons. Some of the risks relating to this plan include potential disruption of our operations, diverting management from other important work, failure to obtain anticipated growth rates, a loss of employee morale and productivity, including the effects of employee attrition, and costs relating to such plans exceeding the costs previously estimated.

Our estimates of service revenue opportunity under management and other metrics may prove inaccurate.

We use various estimates in formulating our business plans and analyzing our potential and historical performance, including our estimate of service revenue opportunity under management. We base our estimates upon a number of assumptions that are inherently subject to significant business and economic uncertainties and contingencies, many of which are beyond our control. Our estimates therefore may prove inaccurate.

Recurring revenue opportunity under management ("opportunity under management") is a forward-looking metric and is our estimate, as of a given date, of the value of all end customer service contracts that we will have the opportunity to sell on behalf of our customers over the subsequent twelve-month period. Opportunity under management is not a measure of our expected revenue. We estimate the value of such end customer contracts based on a combination of factors, including the value of end-customer contracts made available to us by customers in past periods; the minimum value of end-customer contracts that our customers are required to give us the opportunity to sell pursuant to the terms of their contracts with us; periodic internal business reviews of our expectations as to the value of end customer contracts that will be made available to us by customers; the value of end customer contracts included in the SPA; and collaborative discussions with our customers assessing their expectations as to the value of service contracts that they will make available to us for sale. While the minimum value of end customer contracts that our customers are required to give us represents a portion of our estimated opportunity under management, a significant portion of the opportunity under management is estimated based on the other factors described above.

When estimating recurring revenue opportunity under management and other similar metrics, we must, to a large degree, rely on the assumptions described above, which may prove incorrect. These assumptions are inherently subject to significant business and economic uncertainties and contingencies, many of which are beyond our control. Our estimates therefore may prove inaccurate, causing the actual value of end customer contracts delivered to us in a given twelve-month period to differ from our estimate of opportunity under management. These factors include:

- the extent to which customers deliver a greater or lesser value of end customer contracts than may be required or otherwise expected;
- roll-overs of unsold service contract renewals from prior periods to the current period or future periods;
- changes in the pricing or terms of service contracts offered by our customers;
- increases or decreases in the end customer base of our customers;
- the extent to which the renewal rates we achieve on behalf of a customer early in an engagement affect the amount of opportunity that the customer makes available to us later in the engagement;
- customer cancellations of their contracts with us due to acquisitions or otherwise; and
- changes in our customers' businesses, sales organizations, sales processes or priorities, including changes in executive support for our partnership.

In addition, opportunity under management reflects our estimate for a forward twelve-month period and should not be used to estimate our opportunity for any particular quarter within that period.

If our security measures are breached or fail, resulting in unauthorized access to customer data, our solution may be perceived as insecure, the attractiveness of our solution to current or potential customers may be reduced and we may incur significant liabilities.

Our solution involves the storage and transmission of the proprietary information and protected data that we receive from our customers. We rely on proprietary and commercially available systems, software, tools and monitoring, as well as other processes, to provide security for processing, transmission and storage of such information. If our security measures are breached or fail as a result of third-party action, employee negligence, error, malfeasance or otherwise, unauthorized access to customer or end customer data may occur. Improper activities by third parties, advances in computer and software capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a compromise or breach of our computer systems. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, and we may be unable to anticipate these techniques or

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implement adequate protective measures. Our security measures may not be effective in preventing these types of activities, and the security measures of our third-party data centers and service providers may not be adequate.

Our customer contracts generally provide that we will indemnify our customers for data privacy breaches. If such a breach occurs, we could face contractual damages, damages and fees arising from our indemnification obligations, penalties for violation of applicable laws or regulations, possible lawsuits by affected individuals and significant remediation costs and efforts to prevent future occurrences. In addition, whether there is an actual or a perceived breach of our security, the market perception of the effectiveness of our security measures could be harmed significantly and we could lose current or potential customers.

We may be liable to our customers or third parties if we make errors in providing our solution or fail to properly safeguard our customers' confidential information.

The solution we offer is complex, and we make errors from time to time. These may include human errors made in the course of managing the sales process for our customers as we interact with their end customers, or errors arising from our technology solution as it interacts with our customers’ systems and the disparate data contained on such systems. Errors may also arise from the launch of and migration of our current offerings to the cloud offerings. The costs incurred in correcting any material errors may be substantial. In addition, as part of our business, we collect, process and analyze confidential information provided by our customers and prospective customers. Although we take significant steps to safeguard the confidentiality of customer information, we could be subject to claims that we disclosed their information without appropriate authorization or used their information inappropriately. Any claims based on errors or unauthorized disclosure or use of information could subject us to exposure for damages, significant legal defense costs, adverse publicity and reputational harm, regardless of the merits or eventual outcome of such claims.

If we are unable to compete effectively against current and future competitors, our business and operating results will be harmed.

The market for service revenue management is evolving. Historically, technology companies have managed their service renewals through internal personnel and relied upon technology ranging from Excel spreadsheets to internally-developed software to customized versions of traditional business intelligence tools and CRM or ERP software from vendors such as Oracle Corporation, SAP AG, Salesforce.com, Inc. and NetSuite, Inc. Some companies have made further investments in this area using firms such as Accenture, Plc. and McKinsey & Company, Inc. for technology consulting and education services focused on service renewals. These internally-developed solutions represent the primary alternative to our offerings. We also face direct competition from smaller companies that offer specialized service revenue management solutions, typically providing technology for use by their customers’ internal sales personnel. With our acquisition of Scout Analytics in January 2014, we also face competition from other SaaS and enterprise software providers and service providers that offer products and services that analyze recurring revenue management.

We believe the principal competitive factors in our markets include the following:

- recurring revenue industry expertise, best practices, and benchmarks;
- quality and reliability of software offerings, including convenience and efficacy of cloud-based offerings;
- marketing resources and capabilities;
- performance-based pricing of solutions;
- ability to increase recurring revenue, renewal rates, and close rates;
- global capabilities;
- completeness of solution;

- ability to effectively represent customer brands to end customers and channel partners;
- size of upfront investment; and
- size and financial stability of operations.

We believe that more competitors will emerge. With respect to our cloud offerings, we are seeing competition from companies targeting product usage, renewals and customer success related offerings. Competitors may have greater name recognition, longer operating histories, well-established relationships with customers in our markets and substantially greater financial, technical, personnel and other resources than we have, and even a potentially broader array of offerings. Potential competitors of any size may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer or end customer requirements. Even if our solution is more effective than competing solutions, potential customers might choose new entrants unless we can convince them of the advantages of our integrated solution. We expect competition and competitive pressure, from both new and existing competitors, to increase in the future.

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If there is a widespread shift away from business customers purchasing maintenance and support service contracts, we could be adversely impacted if we are not able to adapt to new trends or expand our target markets.

As a result of our historical concentration in the software and hardware industries, a significant portion of our revenue comes from the sale of maintenance and support service contracts for the software and hardware products used by our customers' end customers. Although we also sell other types of renewals, such as subscriptions to software-as-a-service offerings, those sales have to date constituted a relatively small portion of our revenue. The emergence of cloud computing and other alternative technology purchasing models, in which technology services are provided on a remote-access basis, may have a significant impact on the size of the market for traditional maintenance and support contracts. If these alternative models continue gaining traction and reduce the size of our traditional market, we will need to continue to adapt our solution to capitalize on these trends or our results of operations will suffer.

Supporting our existing and growing customer base could strain our personnel resources and infrastructure, and if we cannot scale our operations and increase productivity, we may be unsuccessful in implementing our business plan.

Anticipated growth in our customer base will place a strain on our management, administrative, operational and financial infrastructure. We expect that additional investments in sales personnel, information technology, infrastructure and research and development spending will be required to:

- further develop and enhance our offerings;
- address the needs of our customers;
- scale our operations and increase productivity;
- develop new technology; and
- expand our markets and opportunity under management, including into new industry verticals and geographic areas.

Our success will depend in part upon our ability to manage our growth effectively. To do so, we must continue to increase the productivity of our existing employees and to hire, train and manage new employees as needed. To manage domestic and international growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting processes and procedures, and implement more extensive and integrated financial and business information systems. These additional investments will increase our operating costs, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term. Moreover, if we fail to scale our operations successfully and increase productivity, our overall business will be at risk.

Consolidation in the technology sector is continuing at a rapid pace, which could harm our business in the event that our customers are acquired and their contracts are cancelled.

Consolidation among technology companies in our target market has been robust in recent years, and this trend poses a risk for us. Acquisitions of our customers could lead to cancellation of our contracts with those customers by the acquiring companies and could reduce the number of our existing and potential customers. For example, Oracle has acquired a number of our customers in recent years, including our then-largest customer, Sun Microsystems, in January 2010. Oracle elected to terminate our service contracts with each customer because Oracle conducted its service revenue management internally. If mergers and acquisitions continue, we expect that some of the acquiring companies, and Oracle in particular, will terminate, renegotiate and/or elect not to renew our contracts with the companies they acquire, which would reduce our revenue.

We enter into long-term, commission-based contracts with our customers, and our failure to correctly price these contracts may negatively affect our profitability.

We enter into long-term contracts with our customers that are priced based on multiple factors determined in large part by the SPA we conduct for our customers. These factors include opportunity size, anticipated close rates and expected commission rates at various levels of sales performance. Some of these factors require forward-looking assumptions that may prove incorrect. If our assumptions are inaccurate, or if we otherwise fail to correctly price our customer contracts, particularly those with lengthy contract terms, then our revenue, profitability and overall business operations may suffer. Further, if we fail to anticipate any unexpected increase in our cost of providing services, including the costs for employees, office space or technology, we could be exposed to risks associated with cost overruns related to our required performance under our contracts, which could have a negative effect on our margins and earnings.

Many of our customer contracts allow termination for our failure to meet certain performance conditions.

Although most of our customer contracts are subject to multi-year terms, these agreements often have termination rights if we fail to meet specified sales targets. During the SPA and contract negotiation phase with a customer, we typically negotiate

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minimum performance levels for the engagement. If we fail to meet our required targets and our customers choose to exercise their termination rights, our revenue could decline. These termination rights may also create instability in our revenue forecasts and other forward-looking financial metrics.

Our business may be harmed if our customers rely upon our service revenue forecasts in their business and actual results are materially different.

The contracts that we enter into with our customers provide for sharing of information with respect to forecasts and plans for the renewal of maintenance, support and subscription agreements of our customers. Our customers may use such forecasted data for a variety of purposes related to their business. Our forecasts are based upon the data our customers provide to us, and are inherently subject to significant business, economic and competitive uncertainties, many of which are beyond our control. In addition, these forecasted expectations are based upon historical trends and data that may not be true in subsequent periods. Any material inaccuracies related to these forecasts could lead to claims on the part of our customers related to the accuracy of the forecasted data we provide to them, or the appropriateness of our methodology. Any liability that we incur or any harm to our brand that we suffer because of inaccuracies in the forecasted data we provide to our customers could impact our ability to retain existing customers and harm our business.

Changing global economic conditions and large scale economic shifts may impact our business.

Our overall performance depends in part on worldwide economic conditions that impact the technology sector and other technology-enabled industries such as healthcare, life sciences and industrial systems. For example, the economic downturn typically results in many businesses deferring technology investments, including purchases of new software, hardware and other equipment, and purchases of additional or supplemental maintenance, support and subscription services. To a certain extent, these businesses also slow the rate of renewals of maintenance, support and subscription services for their existing technology base. Any future downturn could cause business customers to stop renewing their existing maintenance, support and subscription agreements or contracting for additional maintenance services as they look for ways to further cut expenses, in which case our business could suffer.

Conversely, a significant upturn in global economic conditions could cause business purchasers to purchase new hardware, software and other technology products, which we generally do not sell, instead of renewing or otherwise purchasing maintenance, support and subscription services for their existing products. A general shift toward new product sales could reduce our near term opportunities for these contracts, which could lead to a decline in our revenue.

Our inability to expand our target markets could adversely impact our business and operating results.

We derive substantially all of our revenue from customers in certain sectors in the technology and technology-enabled healthcare and life sciences industries, and an important part of our strategy is to expand our existing customer base and win new customers in these industries. In addition, because of the service revenue opportunities that we believe exist beyond these industries, we intend to target new customers in additional industry vertical markets, such as technology-enabled building services. In connection with the expansion of our target markets, we may not have familiarity with such additional industry verticals, and our execution of such expansion could face risks where our experience base is less developed within a particular new vertical. We may encounter customers in these previously untapped markets that have different pricing and other business sensitivities than we are used to managing. As a result of these and other factors, our efforts to expand our solution to additional industry vertical markets may not succeed, may divert management resources from our existing operations and may require us to commit significant financial resources to unproven parts of our business, all of which may harm our financial performance.

A substantial portion of our business consists of supporting our customers' channel partners in the sale of service contracts. If those channel partners become unreceptive to our solution, our business could be harmed.

Many of our customers, including some of our largest customers, sell service contracts through their channel partners and engage our solution to help those channel partners become more effective at selling service contract renewals. These channel partners may have access to some of our cloud offerings, such as our Channel Sales Cloud, in addition to other sales support services we provide. In this context, the ultimate buyers of the service contracts are end customers of those channel partners, who then receive the actual services from our customers. In the event our customers' channel partners become unreceptive to our involvement in the renewals process, those channel partners could discourage our current or future customers from engaging our solution to support channel sales. This risk is compounded by the fact that large channel partners may have relationships with more than one of our customers or prospects, in which case the negative reaction of one or more of those large channel partners could impact multiple customer relationships. Accordingly, with respect to those customers and prospective customers who sell service contracts through channel partners, any significant resistance to our solution by their channel partners could harm our ability to attract or retain customers, which would damage our overall business operations.

We face long sales cycles to secure new customer contracts, making it difficult to predict the timing of specific new customer relationships.

We face a variable selling cycle to secure new customer agreements, typically spanning a number of months and requiring our effort to obtain and analyze our prospect's business through the SPA, for which we are not paid. We recently have also experienced a lengthening of our sales cycles reflecting the hiring of a number of new sales personnel in the past eighteen months who are new to selling our solution as well as slower decision making by a few end customers as well as other end customers considering renewals of large, multi-year contracts. This has adversely affected the conversion rates of new customer contracts. Moreover, even if we succeed in developing a relationship with a potential new customer, the scope of the potential subscription or service revenue management engagement frequently changes over the course of the business discussions and, for a variety of reasons, our sales discussions may fail to result in new customer acquisitions. Consequently, we have only a limited ability to predict the timing and size of specific new customer relationships.

If we fail to balance our expenses with our revenue forecasts or experience significant fluctuations in our business, our results could be harmed and we may need to raise additional capital.

Due to our evolving business model, the uncertain size of our markets and the unpredictability of future general economic and financial market conditions, we expect to continue to require significant capital and may not be able to accurately forecast our revenue and operating needs. We require a significant amount of cash resources to operate our business. We plan our expense levels and investments based on estimates of future sales performance for our customers with respect to their end customers, future revenue and future customer acquisition. If our assumptions prove incorrect, we may not be able to adjust our spending quickly enough to offset the resulting decline in growth and revenue. Consequently, we expect that our gross margins, operating margins and cash flows may fluctuate significantly on a quarterly basis, and we may need to raise additional capital in order to meet operating and capital expenditure requirements. Any decline in our customer renewals or termination of our ongoing engagements may result in higher than anticipated losses in the future and shorten the time before we would need to raise additional capital. If we issue equity securities in order to raise additional funds, substantial dilution to existing stockholders may occur. If we raise cash through additional indebtedness, we may be subject to additional contractual restrictions on our business.

If we continue to see turnover of our top executives, or if we are unable to attract, hire, integrate and retain key personnel and other necessary employees, our business will be harmed.

Our future success depends on the continued contributions of our executives, each of whom may be difficult to replace. Our future success also depends in part on our ability to attract, hire, integrate and retain qualified service sales personnel, sales representatives and management- level employees to oversee such sales forces in addition to marketing, research and development and general and administrative personnel to support our global operation. We have experienced increased turnover in key executive positions during the last twelve months, including our chief executive officer. The loss of any of our key executives, or our inability to continue to attract and retain high-quality talent, could harm our business.

Because competition for our target employees is intense, we may be unable to attract and retain the highly skilled employees we need to support our planned growth.

To continue to execute on our growth plan, we must attract and retain highly qualified sales representatives, engineers and other key employees in the markets in which we have operations. Competition for these personnel is intense, especially for highly educated, qualified sales representatives. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled key employees with appropriate qualifications. In addition, declines in the trading price of our common stock may make attracting and retaining our employees more difficult given the competitive compensatory environment we face recruiting technology employees in the San Francisco Bay Area. If we fail to attract new sales representatives, engineers and other key employees, or fail to retain and motivate our most successful employees, our business and future growth prospects could be harmed.

The length of time it takes our newly-hired sales representatives to become productive could adversely impact our success rate, the execution of our overall business plan and our costs.

It can take twelve months or longer before our internal sales representatives are fully trained and productive in selling our solution to prospective customers. This long ramp period presents a number of operational challenges as the cost of recruiting, hiring and carrying new sales representatives cannot be offset by the revenue such new sales representatives produce until after they complete their long ramp periods. Further, given the length of the ramp period, we often cannot determine if a sales representative will succeed until he or she has been employed for a year or more. If we cannot reliably develop our sales representatives to a productive level, or if we lose productive representatives in whom we have heavily invested, our future growth rates and revenue will suffer.

We depend on revenue from sources outside the United States, and our international business operations and expansion plans are subject to risks related to international operations, and may not increase our revenue growth or enhance our business operations.

For the year ended December 31, 2014, approximately 35% of our revenue was generated outside of the United States. As a result of our continued focus on international markets, we expect that revenue derived from international sources will continue to represent a significant portion of our total revenue.

A portion of the sales commissions earned from our international customers is paid in foreign currencies. As a result, fluctuations in the value of these foreign currencies may make our solution more expensive or cause resulting fluctuations in cost for international customers, which could harm our business. We currently do not undertake hedging activities to manage these currency fluctuations. In addition, if the effective price of the contracts we sell to end customers were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for such contracts could fall, which in turn would reduce our revenue.

Our growth strategy includes further expansion into international markets. Our international expansion may require significant additional financial resources and management attention, and could negatively affect our financial condition, cash flows and operating results. In addition, we may be exposed to associated risks and challenges, including:

- the need to localize and adapt our solution for specific countries, including translation into foreign languages and associated expenses;
- difficulties in staffing and managing foreign operations;
- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- new and different sources of competition;
- weaker protection for our intellectual property than in the United States and practical difficulties in enforcing our rights abroad;
- laws and business practices favoring local competitors;
- compliance obligations related to multiple, conflicting and changing foreign governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- adverse tax consequences; and
- unstable regional economic and political conditions.

We cannot assure you we will succeed in creating additional international demand for our solution or that we will be able to effectively sell service agreements in the international markets we enter.

We incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our operating results.

As a public company, we incur significant legal, accounting and other expenses, and greater expenditures may be necessary in the future with the advent of new laws, regulations and stock exchange listing requirements pertaining to public companies. The Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010, as well as rules subsequently implemented by the Securities and Exchange Commission and The NASDAQ Stock Market LLC, impose various requirements on public companies, including establishing effective internal controls and certain corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance initiatives, and additional laws and regulations may divert further management resources. Moreover, if we are not able to meet new compliance requirements in a timely manner, the market price of our stock could decline, and we could be subject to investigations and other actions by The NASDAQ Stock Market LLC, the Securities and Exchange Commission, or other regulatory authorities, which would require additional financial and management resources.

While we believe we currently have adequate internal control over financial reporting, we are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Under Section 404 of the Sarbanes-Oxley Act, we are required to furnish a report by our management on our internal control over financial reporting. The report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

We monitor and assess our internal control over financial reporting, and if our management identifies one or more material weaknesses in our internal control over financial reporting and such weakness remains uncorrected at year-end, we will be unable to assert such internal control is effective at such time. If we are unable to assert that our internal control over financial reporting is effective at year-end (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting or concludes that we have a material weakness in our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would likely have an adverse effect on our business and stock price.

Changes in the U.S. and foreign legal and regulatory environment that affect our operations, including those relating to privacy, data security and cross-border data flows, could pose a significant risk to us by disrupting our business and increasing our expenses.

We are subject to a wide variety of laws and regulations in the United States and the other jurisdictions in which we operate, and changes in the level of government regulation of our business have the potential to materially alter our business practices with resultant increases in costs and decreases in profitability. Depending on the jurisdiction, those changes may come about through new legislation, the issuance of new regulations or changes in the interpretation of existing laws and regulations by a court, regulatory body or governmental official. Sometimes those changes have both prospective and retroactive effect, which is particularly true when a change is made through reinterpretation of laws or regulations that have been in effect for some time.

Privacy and data security are rapidly evolving areas of regulation, and additional regulation in those areas, some of it potentially difficult and costly for us to accommodate, is frequently proposed and occasionally adopted. Laws in many countries and jurisdictions, particularly in the European Union and Canada, govern the requirements related to how we store, transfer or otherwise process the private data provided to us by our customers. In addition, the centralized nature of our information systems at the data and operations centers that we use requires the routine flow of data relating to our customers and their respective end customers across national borders, both with respect to the jurisdictions within which we have operations and the jurisdictions in which we provide services to our customers. If this flow of data becomes subject to new or different restrictions, our ability to serve our customers and their respective customers could be seriously impaired for an extended period of time. For example, we participate in the U.S. Department of Commerce Safe Harbor Framework to govern our treatment of data and data flow with respect to our customers and their respective customers across various jurisdictions. We also have entered into various model contracts and related contractual provisions to enable these data flows. For any jurisdictions in which these measures are not recognized or otherwise not compliant with the laws of the countries in which we process data, or where more stringent data privacy laws are enacted irrespective of international treaty arrangements or other existing compliance mechanisms, we could face increased compliance expenses and face penalties for violating such laws or be excluded from those markets altogether, in which case our operations could be materially damaged.

If we do not adequately protect our intellectual property rights, our competitive position and our business may suffer.

We rely upon a combination of patent, trademark, copyright and trade secret law and contractual terms to protect our intellectual property rights, all of which provide only limited protection. Our success depends, in part, upon our ability to establish, protect and enforce our intellectual property and other proprietary rights. If we fail to protect or effectively enforce our intellectual property rights, others may be able to compete against us using intellectual property that is the same as or similar to our own. In addition, we cannot assure you that our intellectual property rights are sufficient to provide us with a competitive advantage against others who offer services similar to ours.

While we have filed patent applications to protect our intellectual property, we cannot assure you that any patents will issue or that any issued patents arising from our applications will provide the protection we seek, or that any future patents issued to us will not be challenged, invalidated or circumvented. Also, we cannot assure you that we will obtain any copyright or trademark registrations from our pending or future applications or that any of our trademarks will be enforceable or provide adequate protection of our proprietary rights. We also rely in some circumstances on trade secrets to protect our technology.

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Trade secrets may lose their value if not properly protected. We endeavor to enter into non-disclosure agreements with our employees, customers, contractors and business partners to limit access to and disclosure of our proprietary information. The steps we have taken, however, may not prevent unauthorized use of our technology, and adequate remedies may not be available in the event of unauthorized use or disclosure of our trade secrets and proprietary technology. However, trade secret protection does not prevent others from reverse engineering or independently developing similar technologies. In addition, reverse engineering, unauthorized copying or other misappropriation of our trade secrets could enable third parties to benefit from our technology without paying for it.

Accordingly, despite our efforts, we may be unable to prevent third parties from infringing or misappropriating our intellectual property and using our technology for their competitive advantage. Any such infringement or misappropriation could have a material adverse effect on our business, results of operations and financial condition. Monitoring infringement of our intellectual property rights can be difficult and costly, and enforcement of our intellectual property rights may require us to bring legal actions against infringers. Infringement actions are inherently uncertain and therefore may not be successful, even when claims are meritorious. Even if such actions are successful, they may require a substantial amount of resources and divert our management's attention.

Claims by others that we infringe or violate their intellectual property could force us to incur significant costs and require us to change the way we conduct our business.

Numerous technology companies including potential competitors protect their intellectual property rights by means such as patents, trade secrets, copyrights and trademarks. We have not conducted an independent review of patents issued to third parties. Additionally, because patent applications in the United States and many other jurisdictions are kept confidential for some period of time before they are published, we may be unaware of pending patent applications that relate to our proprietary technology. From time to time we may receive letters from other parties alleging, or inquiring about, possible breaches of their intellectual property rights.

Any party asserting that we infringe its proprietary rights would force us to defend ourselves, and possibly our customers, against the alleged infringement. The technology industry is 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. Moreover, the risk of such a lawsuit will likely increase as we become larger, the scope of our solution and technology expands and the number of competitors in our market increases. Any such claims or litigation could:

- be time-consuming and expensive to defend, and deplete our financial resources, whether meritorious or not;
- require us to stop providing the services that use the technology that infringes the other party's intellectual property;
- divert the attention of our technical and managerial resources away from our business;
- require us to enter into royalty or licensing agreements with third parties, which may not be available on terms that we deem acceptable, if at all;
- prevent us from operating all or a portion of our business or force us to redesign our technology, which could be difficult and expensive and may make the performance or value of our solution less attractive;
- subject us to significant liability for damages or result in significant settlement payments; or
- require us to indemnify our customers as we are required by contract to indemnify some of our customers for certain claims based upon the infringement or alleged infringement of any third party's intellectual property rights resulting from our customers' use of our intellectual property.

During the course of any intellectual property litigation, confidential information may be disclosed in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. Disclosure of our confidential information and our involvement in intellectual property litigation could harm us. In addition, any uncertainties resulting from the initiation and continuation of any litigation could significantly limit our ability to continue our operations and could harm our relationships with current and prospective customers. Any of the foregoing could disrupt our business and have a material adverse effect on our operating results and financial condition.

In addition, we may incorporate open source software into our technology solution. The terms of many open source licenses have not been interpreted by United States or foreign courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our commercialization of any of our solutions that may include open source software. As a result, we will be required to analyze and monitor our use of open source software closely. As a result of the use of open source software, we could be required to seek licenses from third parties in order to develop such future products, re-engineer our products, discontinue sales of our solutions or release our software code under the terms of an open source license to the public. Given the nature of open source software, there is also a risk that third parties may assert copyright and other intellectual property infringement claims against us based on any use of such open source software, as more generally discussed with respect to general intellectual property claims.

Various risks could affect our worldwide operations, including numerous events outside of our control, exposing us to significant costs that could adversely affect our operations and customer confidence.

We conduct operations throughout the world, including our headquarters in the United States and operations in Ireland, Malaysia, Singapore and the United Kingdom. Such worldwide operations expose us to potential operational disruptions and costs as a result of a wide variety of events, including local inflation or economic downturn, currency exchange fluctuations, political turmoil, labor issues, terrorism, natural disasters and pandemics. Any such disruptions or costs could have a negative effect on our ability to provide our solution or meet our contractual obligations, the cost of our solution, customer satisfaction, our ability to attract or maintain customers, and, ultimately, our profits.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. Such events could make it difficult or impossible for us to deliver our solution to our customers, and could decrease demand for our solution. The majority of our research and development activities, corporate headquarters, information technology systems and other critical business operations are located near major seismic faults in the San Francisco Bay Area. Because we may not have insurance coverage that would cover quake-related losses, and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected in the event of a major earthquake or catastrophic event.

Terrorist attacks and other acts of violence or war may adversely affect worldwide financial markets and could potentially lead to economic recession, which could adversely affect our business, results of operations, financial condition and cash flows. These events could adversely affect our customers' levels of business activity and precipitate sudden significant changes in regional and global economic conditions and cycles.

The technology we currently use may not operate properly, which could damage our reputation, give rise to claims against us or divert application of our resources from other purposes, any of which could harm our business and operating results.

The technology we currently use, which includes our cloud offerings may contain or develop unexpected defects or errors. There can be no assurance that performance problems or defects in our technology will not arise in the future. Errors may result from receipt, entry or interpretation of customer or end customer information or from the interface of our technology with legacy systems and data that are outside of our control. Despite testing, defects or errors may arise in our solution. Any defects and errors that we discover in our technology and any failure by us to identify and effectively address them could result in loss of revenue or market share, liability to customers or others, failure to achieve market acceptance or expansion, diversion of development resources, injury to our reputation, and increased costs. Defects or errors in our technology may discourage existing or potential customers from contracting with us. Correction of defects or errors could prove impossible or impracticable. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability may be substantial and could adversely affect our operating results.

Disruptions in service or damage to the data center that hosts our data and our locations could adversely affect our business.

Our operations depend on our ability to maintain and protect our data servers and cloud applications, which are located in data centers operated for us by third parties. We cannot control or assure the continued or uninterrupted availability of these third-party data centers. In addition, our information technologies and systems, as well as our data center, are vulnerable to damage or interruption from various causes, including natural disasters, war and acts of terrorism and power losses, computer systems failures, Internet and telecommunications or data network failures, operator error, losses of and corruption of data and similar events. Although we conduct business continuity planning and maintain certain insurance for certain events, the situations for which we plan, and the amount of insurance coverage we maintain, may prove inadequate in any particular case. In addition, the occurrence of any of these events could result in interruptions, delays or cessations in the delivery of the solutions we offer to our customers. Any of these events could impair or prohibit our ability to provide our solution, reduce the attractiveness of our solution to current or potential customers and adversely impact our financial condition and results of operations.

In addition, despite the implementation of security measures, our infrastructure, data centers, operations and other centers or systems that we interface with, including the Internet and related systems, may be vulnerable to physical intrusions, hackers, improper employee or contractor access, computer viruses, programming errors, denial-of-service attacks or other attacks by third parties.

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Any failure or interruptions in the Internet infrastructure, bandwidth providers, data center providers, other third parties or our own systems for providing our solution to customers, and changes in the terms and conditions of third-party platform providers, could negatively impact our business.

Our ability to deliver our solution is dependent on the development and maintenance of the infrastructure of the Internet and other telecommunications services by third parties. Such services include maintenance of a reliable network backbone with the necessary speed, data capacity and security for providing reliable Internet access and services and reliable telecommunications systems that connect our global operations. As we plan to transition to a Salesforce based platform for certain of our solutions, we will rely on Salesforce to make application programming interfaces publicly available in order to enable customer integrations with our platform. In addition, any deterioration in our relationship with Salesforce could adversely affect our operating results.

While our solution is designed to operate without interruption, we have experienced and expect that we will in the future experience interruptions and delays in services and availability from time to time. We rely on internal systems as well as third-party vendors, including data center, bandwidth, and telecommunications equipment providers, to provide our solution. We do not maintain redundant systems or facilities for some of these services. In the event of a catastrophic event with respect to one or more of these systems or facilities, we may experience an extended period of system unavailability, which could negatively impact our relationship with our customers.

Additional government regulations may reduce the size of the market for our solution, harm demand for our solution and increase our costs of doing business.

Any changes in government regulations that impact our customers or their end customers could have a harmful effect on our business by reducing the size of our addressable market or otherwise increasing our costs. For example, with respect to our technology-enabled healthcare and life sciences customers, any change in U.S. Food and Drug Administration or foreign equivalent regulation of, or denial, withholding or withdrawal of approval of, our customers' products could lead to a lack of demand for service revenue management with respect to such products. Other changes in government regulations, in areas such as privacy, export compliance or anti-bribery statutes, such as the U.S. Foreign Corrupt Practices Act, could require us to implement changes in our services or operations that increase our cost of doing business and thereby hurt our financial performance.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting data privacy and the use of the Internet as a commercial medium. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, result in a decline in the use of the Internet and the viability of Internet-based applications such as ours and reduce the demand for our solution.

We operate and offer our services in many jurisdictions and, therefore, may be subject to state, local and foreign taxes that could harm our business.

We operate service sales centers in multiple locations. Some of the jurisdictions in which we operate, such as Ireland, give us the benefit of either relatively low tax rates, tax holidays or government grants, in each case, that are dependent on how we operate or how many jobs we create and employees we retain. We plan on utilizing such tax incentives in the future as opportunities are made available to us. Any failure on our part to operate in conformity with applicable requirements to remain qualified for any such tax incentives or grants may result in an increase in our taxes. In addition, jurisdictions may choose to increase rates at any time due to economic or other factors, such as the current economic situation in Ireland. Any such rate increases may harm our results of operations.

In addition, we may lose sales or incur significant costs should various tax jurisdictions impose taxes on either a broader range of services or services that we have performed in the past. We may be subject to audits of the taxing authorities in the jurisdictions where we do business that would require us to incur costs in responding to such audits. Imposition of such taxes on our services could result in substantial unplanned costs, would effectively increase the cost of such services to our customers and may adversely affect our ability to retain existing customers or to gain new customers in the areas in which such taxes are imposed.

As we acquire companies or technologies in the future, they could prove difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our operating results and the value of our common stock.

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As part of our business strategy, we may acquire, enter into joint ventures with, or make investments in companies, services and technologies that we believe to be complementary. Acquisitions and investments involve numerous risks, including:

- difficulties in identifying and acquiring technologies or businesses that will help our business;
- difficulties in integrating operations, technologies, services and personnel;
- diversion of financial and managerial resources from existing operations;
- the risk of entering new markets in which we have little to no experience;
- risks related to the assumption of known and unknown liabilities;
- potential litigation by third parties, such as claims related to intellectual property or other assets acquired or liabilities assumed;
- the risk of write-offs of goodwill and other intangible assets;
- delays in customer engagements due to uncertainty and the inability to maintain relationships with customers of the acquired businesses;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- incurrence of acquisition-related costs;
- harm to our existing business relationships with business partners and customers as a result of the acquisition;
- the key personnel of the acquired entity or business may decide not to work for us or may not perform according to our expectations; and
- use of substantial portions of our available cash or dilutive issuances of equity securities or the incurrence of debt to consummate the acquisition.

We may record impairment charges related to our acquisitions or strategic investments. In assessing goodwill for impairment, we make significant estimates and assumptions, including estimates and assumptions about market penetration, anticipated growth rates and risk-adjusted discount rates based on our budgets, business plans, economic projections, anticipated future cash flows and industry data. The estimates and assumptions used by management have a high degree of subjectivity and require significant judgment on the part of management. Changes in estimates and assumptions in the context of our impairment testing may have a material impact on us. Any losses or impairment charges that we incur related to acquisitions or strategic investments may have a negative impact on our financial results, and we may continue to incur new or additional losses related to acquisitions or strategic investments that we have not fully impaired or exited.

As a result, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of any such acquisitions, we may incur costs in excess of what we anticipate and management resources and attention may be diverted from other necessary or valuable activities.

We may be exposed to various risks related to legal proceedings or claims that could adversely affect our operating results.

From time to time, we may be party to lawsuits in the normal course of our business. Such litigation may include claims, suits, government investigations and other proceedings involving intellectual property rights, commercial, corporate and securities, labor and employment, wage and hour, and other matters. Litigation in general can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to lawsuits brought against us, or legal actions initiated by us, can often be expensive and time-consuming. Unfavorable outcomes from any claims and/or lawsuits could adversely affect our business, results of operations, or financial condition, and we could incur substantial monetary liability and/or be required to change our business practices. Our business and technology acquisition activity could also result in litigation in connection with such acquired companies. For example, refer to Item 3 of this Annual Report on Form

10-K which discusses some ongoing litigation related to our acquisition of Scout Analytics, Inc.

Risks Relating to Owning Our Common Stock and Capitalization Matters

Our share price has been volatile and is likely to be volatile in the future.

The trading price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to various factors. In addition to the risks described in this section, 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 as discussed in more detail elsewhere in these "Risk Factors;"
- failure to achieve our revenue or earnings expectations, or those of investors or analysts, such as we experienced for the first quarter of 2014;

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- changes in estimates of our financial results or recommendations by securities analysts;
- recruitment or departure of key personnel;
- investors' general perception of us;
- volatility inherent in prices of technology company stocks;
- adverse publicity;
- the volume of trading in our common stock, including sales upon exercise of outstanding options;
- sales of shares of our common stock by existing stockholders;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- terrorist attacks or natural disasters or other such events impacting countries where we or our customers have operations; and
- actual or perceived changes in general economic, industry and market conditions.

In addition, if 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.

Some companies that have had volatile market prices for their securities have had securities class actions filed against them. If a suit were filed against us, regardless of its merits or outcome, it would likely result in substantial costs and divert management's attention and resources. This could have a material adverse effect on our business, operating results and financial condition.

Our actual results may differ significantly from any guidance that we may issue in the future.

From time to time, we may release financial guidance or other forward-looking statements in our earnings releases, earnings conference calls or otherwise, regarding our future performance that represent our management's estimates as of the date of release. If given, this guidance will be based on forecasts prepared by our management. These forecasts are not prepared with a view toward compliance with published accounting guidelines, and neither our independent registered public accounting firm nor any other independent expert or outside party compiles or examines the forecasts and, accordingly, no such person expresses any opinion or any other form of assurance with respect to such forecasts. The principal reason that we may release guidance is to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any third persons. Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of any future guidance furnished by us may not materialize or may vary significantly from actual future results.

Concentration of ownership among our existing executive officers, directors and their affiliates may prevent new investors from influencing significant corporate decisions.

Our directors and executive officers and their affiliates beneficially own, in the aggregate, over 25% of our outstanding common stock as of December 31, 2014. As a result, these stockholders will have substantial influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit the ability of other stockholders to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation, by laws and Delaware law contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions:

- authorizing blank check preferred stock, which could be issued by our board of directors without stockholder approval, with voting, liquidation, dividend and other rights superior to our common stock;
- classifying our board of directors, staggered into three classes, only one of which is elected at each annual meeting;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- controlling the procedures for the conduct and scheduling of stockholder meetings;
- providing the board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;

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- limiting the determination of the number of directors on our board and the filling of vacancies or newly created seats on the board to our board of directors then in office; and
- providing that directors may be removed by stockholders only for cause.

These provisions, alone or together, could delay hostile takeovers and changes in control or changes in our management. As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which limits the ability of stockholders owning in excess of 15% of our outstanding common stock to merge or combine with us.

Any provision of our certificate of incorporation, by laws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock

Our business could be negatively affected as a result of actions of activist stockholders.

Campaigns by stockholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase short-term stockholder value through various corporate actions. We have recently seen some activist investors take ownership positions in our common stock. Altai Capital Management is the beneficial owner of approximately 14% of our common stock, has a representative on our board and has entered into a letter agreement and registration rights agreement with us governing various rights and obligations. As a general matter, if we become engaged in a proxy contest with an activist stockholder in the future, our business could be adversely affected as such contests could be costly and time consuming, disrupt our operations and divert the attention of management and our employees from executing our strategic plan. Additionally, perceived uncertainties as to our future direction as a result of stockholder activism or changes to the composition of our board of directors may lead to the perception of a change in the direction of our business, instability or lack of continuity which may be exploited by our competitors, cause concern to current or potential buyers and sellers on our platform, and make it more difficult to attract and retain qualified personnel. If buyers and/or sellers choose to delay, defer or reduce transactions with us or through our platform or transact with our competitors instead of us because of any such issues, then our revenue, earnings and operating cash flows could be adversely affected.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If any of these analysts cease coverage of us, the trading price and trading volume of our stock could be negatively impacted. If analysts downgrade our stock or publish unfavorable research about our business, our stock price would also likely decline.

We are leveraged financially, which could adversely affect our ability to adjust our business to respond to competitive pressures and to obtain sufficient funds to satisfy our future growth, business needs and development plans.

We have substantial existing indebtedness. In August 2013, we issued $150.0 million aggregate principal amount of our convertible notes. We also have entered into a credit agreement providing for a secured revolving line of credit based on eligible accounts receivable of up to $10.0 million, with a $2.0 million letter of credit sublimit, under which we had amounts outstanding at December 31, 2014 consisting solely of a letter of credit for $0.6 million.

The degree to which we are leveraged could have negative consequences, including, but not limited to, the following:

- we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions;
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may be limited;
- a substantial portion of our cash flows from operations in the future may be required for the payment of the principal amount of our existing indebtedness when it becomes due; and
- we may be required to make cash payments upon any conversion of the convertible notes, which would reduce our cash on hand.

A failure to comply with the covenants and other provisions of our debt instruments could result in events of default under such instruments, which could permit acceleration of all of our outstanding convertible notes and credit facilities. We have in the past been able to obtain waivers from our lender under our credit agreement for our failure to comply with certain financial covenants, including our failure to comply with the consolidated funded debt to EBITDA ratio for the quarters ended June 30,

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2014 and September 30, 2014. In addition, on November 3, 2014, we entered into Amendment 5 to the credit agreement to, among other things, amend certain financial covenants under the credit agreement. We may not be able to obtain waivers or enter into further amendments to our credit agreement in the future, and the failure to comply with the covenants and other provisions of the credit agreement could result in a lack of availability for borrowing under the credit facility or events of default, which could permit acceleration of repayment of all amounts due under the credit agreement, and may lead to a cross default under any other outstanding indebtedness.

Any required repurchase of the convertible notes as a result of a fundamental change or acceleration of the convertible notes would reduce our cash on hand such that we would not have those funds available for use in our business. If we are at any time unable to generate sufficient cash flows from operations to service our indebtedness when payment is due, we may be required to attempt to renegotiate the terms of the instruments relating to the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that we will be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

Conversion of our convertible notes will dilute the ownership interest of existing stockholders and may depress the price of our common stock.

The conversion of some or all of our convertible notes will dilute the ownership interests of then-existing stockholders to the extent we deliver shares upon conversion of any of the notes. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could be used to satisfy short positions, or anticipated conversion of the notes into shares of our common stock could depress the price of our common stock.

The conditional conversion feature of the notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the notes is triggered, holders of notes will be entitled to convert the notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the convertible notes, may have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board, which we refer to as FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the notes is that the equity component is included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component of the notes. As a result, we will record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the notes to their face amount over the term of the notes. We will report lower net income (or greater net loss) in our financial results because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the market price of our common stock and the trading price of the notes. In addition, convertible debt instruments (such as the notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the notes, then our diluted earnings per share would be adversely affected.

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We have incurred and may in the future incur impairments to goodwill or long-lived assets.

We perform an annual impairment analysis of goodwill in the fourth quarter of each year and between annual tests if events or circumstances indicate that it is more likely than not that the asset is impaired. Negative industry or economic trends, including reduced market prices of our common stock, reduced estimates of future cash flows, disruptions to our business, slower growth rates, or lack of growth in our relevant business units, could lead to impairment charges against our long-lived assets, including goodwill and other intangible assets. During the third quarter of 2014 the value of our common stock declined and we experienced slowing revenue growth, which led us to perform an impairment analysis. Based on the outcome of this analysis, we incurred a goodwill impairment charge of $21.0 million during the third quarter of 2014 and subsequently in the fourth quarter of 2014, we incurred an additional goodwill impairment charge of $1.7 million which together eliminated all of the $22.7 million of goodwill in the Cloud and Business Intelligence ("CBI") segment. During the fourth quarter of 2014, we had a change in strategy for part of the CBI segment which resulted in an impairment charge of $2.5 million of certain intangible assets from the Scout Analytics acquisition. If in any future period the Company's market capitalization declines, this could indicate a potential impairment, and we may be required to record an impairment charge in that period against any remaining goodwill or other long-live assets.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in San Francisco, California. We have signed a new lease for a scheduled move in May 2015 to a new corporate headquarters in San Francisco, California to occupy 24,394 square feet. We also have six globally distributed sales centers. We have two sales and operations centers in North America located in Denver and Nashville. We have additional international sales centers in Dublin, Ireland; Liverpool, United Kingdom; Singapore and Tokyo, Japan. We also have a global sales operations center in Kuala Lumpur, Malaysia. We use this center to centralize key contract renewal processes that do not require regional expertise, such as customer data management and quoting. We do not own any real estate. All of our office space is leased under long-term leases with varying expiration dates. We believe that our facilities are adequate to meet our needs in the near future.

Location	Square Footage Leased	Region	Principal Use
San Francisco	45,361	NALA	Headquarters
Denver	71,319	NALA	Sales Center
Nashville	120,685	NALA	Sales Center
Issaquah	15,572	NALA	R&D Center
Singapore	17,086	APJ	International Sales Center
Kuala Lumpur	70,782	APJ	Sales Operation Center
Yokohama	8,977	APJ	International Sales Center
Dublin	37,923	EMEA	International Sales Center
Liverpool	22,500	EMEA	International Sales Center

ITEM 3. LEGAL PROCEEDINGS

On January 10, 2014, certain now-former shareholders of Scout Analytics, Inc. ("Scout") filed a lawsuit ("Bionet Lawsuit ") against Scout and some of its directors and their employers regarding the Company's then-pending acquisition of Scout, and on April 17, 2014, the plaintiffs filed a First Amended Complaint, in which they added the Company as a defendant in the case and asserted additional related claims.

Certain now-former Scout shareholders also asserted dissenter's rights claims related to the Scout acquisition. On June 13, 2014, the Company filed a lawsuit in the Superior Court for King County, Washington, in which it sought a determination

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by the Court as to the fair value of the shares, and a ruling that such dissenter's rights claims have no merit ("Dissenter's Rights Lawsuit").

On November 16, 2014, a settlement was completed that resolved the Bionet Lawsuit, the Dissenter's Rights Lawsuit, and all dissenter's rights claim, except for one shareholder's claim. On December 11, 2014, the remaining dissenters' rights claim was resolved through settlement. The foregoing settlements were paid from the Scout acquisition escrow funds, and thus the settlements had no financial impact on the Company. There are no pending legal claims or proceedings with respect to the Scout acquisition.

From time to time, the Company may be subject to other litigation or threatened litigation arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, the Company is currently not aware of any litigation or threats of litigation in which the final outcome could have a material adverse effect on our business, operating results, financial position, or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources, and other factors. The Company records a contingent liability when it is probable that a loss has been incurred and the amount is reasonably estimable in accordance with accounting for contingencies.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on The NASDAQ Global Market under the symbol "SREV" since it began trading on March 25, 2011. Our initial public offering was priced at $10.00 per share on March 24, 2011. The following table sets forth, for the time period indicated, the high and low prices of our common stock as reported on The NASDAQ Global Market.

	2014	
	High	Low
First Quarter	$9.63	$6.97
Second Quarter	$8.98	$3.95
Third Quarter	$5.91	$3.16
Fourth Quarter	$4.89	$2.81

	2013	
	High	Low
First Quarter	$7.31	$5.63
Second Quarter	$9.46	$5.33
Third Quarter	$13.69	$9.32
Fourth Quarter	$12.99	$7.77

Holders

As of February 28, 2015, there were 82 holders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

Dividends

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our common stock in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant. In addition, our credit facility contains certain restrictions on our ability to declare and pay cash dividends on our capital stock.

Stock Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference into any filing of ServiceSource under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph shows a comparison from March 25, 2011(the date our common stock commenced trading on The NASDAQ Global Market) through December 31, 2014, of the cumulative total return for (1) our common stock, (2) the Morgan Stanley Technology Index, and (3) the NASDAQ Composite Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NASDAQ Composite Index and the Morgan Stanley Technology Index assume reinvestment of dividends. We have never declared or paid cash dividends on our common stock nor do we anticipate paying any such cash dividends in the foreseeable future.

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	ServiceSource	Morgan Stanley Technology Index	NASDAQ Composite Index
3/25/2011	100.00	100.00	100.00
12/30/2011	128.82	86.49	93.67
12/31/2012	48.03	100.73	108.57
12/31/2013	68.80	132.75	150.18
12/31/2014	38.42	151.08	172.66

Recent Sales of Unregistered Securities
None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers
We did not repurchase any shares of our common stock in the year ending December 31, 2014.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except per share amounts)				
Net revenue	$272,180	$272,482	$243,703	$205,501	$152,935
Cost of revenue (1)	194,009	162,449	136,321	113,406	90,048
Gross profit	78,171	110,033	107,382	92,095	62,887
Operating expenses:					
Sales and marketing (1)	59,988	58,826	56,925	48,520	35,119
Research and development (1)	25,802	23,855	19,255	13,073	7,188
General and administrative (1)	47,808	44,913	41,135	33,647	19,378
Restructuring and other	3,314	—	—	—	—
Goodwill and other intangibles impairments	25,108	—	—	—	—
Total operating expenses	162,020	127,594	117,315	95,240	61,685
Income (loss) from operations	(83,849)	(17,561)	(9,933)	(3,145)	1,202
Other, net	(11,008)	(4,420)	(774)	(1,127)	(1,622)
Loss before income taxes	(94,857)	(21,981)	(10,707)	(4,272)	(420)
Income tax provision (benefit)	302	871	32,107	(19,383)	2,147
Net income (loss)	$(95,159)	$(22,852)	$(42,814)	$15,111	$(2,567)
Net income (loss) per common share:					
Basic	$(1.15)	$(0.29)	$(0.58)	$0.23	$(0.04)
Diluted	$(1.15)	$(0.29)	$(0.58)	$0.21	$(0.04)
Cash Distribution per common share (2)	$—	$—	$—	$—	$0.04
Weighted-average shares used in computing net income (loss) per common share:					
Basic	82,872	78,408	74,270	66,656	57,284
Diluted	82,872	78,408	74,270	73,585	57,284

(1) Reported amounts include stock-based compensation expense as follows:

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Cost of revenue	$3,995	$3,303	$2,780	$1,877	$1,126
Sales and marketing	6,193	9,831	8,146	4,456	2,993
Research and development	2,800	2,414	1,880	1,167	803
General and administrative	7,911	8,072	8,077	4,099	3,167
Total stock-based compensation	$20,899	$23,620	$20,883	$11,599	$8,089

(2) Pursuant to our previous limited liability company agreement, we were required to pay cash distributions to our members to fund their tax obligations in respect of their equity interests. All other distributions are determined by our directors in their sole discretion. Tax distributions to members were $2.5 million in 2010. Effective with our initial public offering in March 2011, we converted from a limited liability company into a Delaware corporation.

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		2011	2010
Consolidated Balance Sheet Data:			
Cash, cash equivalents and short-term investments	$215,382	$108,865	$22,652
Working capital	249,590	134,796	18,135
Total assets	339,846	238,961	108,103
Term loan, current and non-current		—	15,459
Obligations under capital leases, current and non-current		1,664	1,759
Convertible notes, net	120,730	—	—
Total members'/stockholders' equity	171,288	197,016	33,884

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our annual consolidated financial statements and notes thereto which appear elsewhere in this Annual Report on Form 10-K.

This discussion contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section of this Annual Report on Form 10-K titled "Special Note Regarding Forward Looking Statements and Industry Data" and "Risk Factors". Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are a global leader in customer success and recurring revenue growth solutions for the Revenue Lifecycle. We provide expert managed services, cloud software and best-practice processes to increase customer success, drive revenue growth and decrease churn from existing customers. Our cloud software applications and managed services can drive higher subscription, maintenance and support revenue for our customers while improving customer retention and increasing business predictability.

The components of our solution consist of a suite of managed services and our cloud software applications, including ServiceSource Revenue Analytics, Renew OnDemand and ServiceSource Customer Success. The ServiceSource Customer Success application, which was introduced in October 2014, heavily leverages the capabilities of our Revenue Analytics platform (formerly Scout Analytics acquisition completed in January 2014). Our cloud applications are purpose-built to address the challenges of B2B customer success, account management and recurring revenue renewals. They are designed to increase the visibility and control of recurring revenue streams and customer success data, and are utilized by customers, their channel partners, end customers and our service sales teams. Our managed services include customer success, onboarding, enablement and selling services, in which dedicated service teams with specific expertise in our customers' businesses are deployed under our customers' brands and follow a sales process tailored specifically to improve customer retention and increase service contract renewals. Our managed services business is built on our pay-for-performance model, whereby customers pay us a commission based on renewal sales that we generate on their behalf, enabling a success-driven and shared-risk partnership with our customers.

We are continuing to invest in the development of our cloud software portfolio, including the recent addition of ServiceSource Customer Success to our suite, to further expand that product's capabilities. We are also returning significant focus to our core services business. The ability to deliver on these two critical competencies, services and cloud software, and being able to provide holistic solutions that draw from both, will provide us a significant competitive edge in the coming years. Our investments in the near term will be at a lower level than 2014 as we work to match our expenses to our revenues.

We also plan to maintain our focus on improving operational efficiency and driving down our delivery and infrastructure costs in 2015. To achieve this we are making significant investments in improving both the efficiency and effectiveness our delivery capabilities, enabling us to not only improve profitability but to maintain a strong competitive position and to keep enhancing our customer-facing execution.

Key Business Metrics
In assessing the performance of our business, we consider a variety of business metrics in addition to the financial metrics discussed below under, "Basis of Presentation." These key metrics include recurring revenue opportunity under management and number of engagements.
Recurring Revenue Opportunity Under Management. At December 31, 2014, we estimated our opportunity under management to be over $13.5 billion. Recurring revenue opportunity under management ("opportunity under management") is a forward-looking metric and is our estimate, as of a given date, of the value of all end customer service contracts that we will

have the opportunity to sell or provide support on behalf of our customers over the subsequent twelve-month period. Opportunity under management is not a measure of our expected revenue. In addition, opportunity under management reflects our estimate for a forward twelve-month period and should not be used to estimate our opportunity for any particular quarter within that period. The value of end customer contracts actually delivered during a twelve-month period should not be expected to occur in even quarterly increments due to seasonality and other factors impacting our customers and their end customers. We estimate the value of such end customer contracts based on a combination of factors, including the value of end customer contracts made available to us by customers in past periods, the minimum value of end customer contracts that our customers are required to give us the opportunity to sell pursuant to the terms of their contracts with us, periodic internal business reviews of our expectations as to the value of end customer contracts that will be made available to us by customers, the value of end customer contracts included in the Service Performance Analysis ("SPA") and collaborative discussions with our customers assessing their expectations as to the value of service contracts that they will make available to us for sale. While the minimum value of end customer contracts that our customers are required to give us represents a portion of our estimated opportunity under management, a significant portion of the opportunity under management is estimated based on the other factors described above. As our experience with our business, our customers and their contracts has grown, we have continually refined the process, improved the assumptions and expanded the data related to our calculation of opportunity under management. When estimating recurring revenue opportunity under management, we must, to a large degree, rely on the assumptions described above, which may prove incorrect. These assumptions are inherently subject to significant business and economic uncertainties and contingencies, many of which are beyond our control. Our estimates therefore may prove inaccurate, causing the actual value of end customer contracts delivered to us in a given twelve-month period to differ from our estimate of opportunity under management. These factors include:

- the extent to which customers deliver a greater or lesser value of end customer contracts than may be required or otherwise expected;
- roll-overs of unsold service contract renewals from prior periods to the current period or future periods;
- changes in the pricing or terms of service contracts offered by our customers;
- increases or decreases in the end customer base of our customers;
- the extent to which the renewal rates we achieve on behalf of a customer early in an engagement affect the amount of opportunity that the customer makes available to us later in the engagement;
- customer cancellations of their contracts with us; and
- changes in our customers' businesses, sales organizations, management, sales processes or priorities.

Our managed services revenue also depends on our close rates and commissions. Our close rate is the percentage of opportunity under management that we renew on behalf of our customers. Our commission rate is an agreed-upon percentage of the renewal value of end customer contracts that we sell on behalf of our customers.

Our close rate is impacted principally by our ability to successfully sell service contracts on behalf of our customers. Other factors impacting our close rate include: the manner in which our customers price their service contracts for sale to their end customers; the stage of life-cycle associated with the products and underlying technologies covered by the service contracts offered to the end customer; the extent to which our customers or their competitors introduce new products or underlying technologies; the nature, size and age of the service contracts; and the extent to which we have managed the renewals process for similar products and underlying technologies in the past.

In determining commission rates for an individual engagement, various factors, including our close rates, as described above, are evaluated. These factors include: historical, industry-specific and customer-specific renewal rates for similar service contracts; the magnitude of the opportunity under management in a particular engagement; the number of end customers associated with these opportunities; and the opportunity to receive additional performance commissions when we exceed certain renewal levels. We endeavor to set our commission rates at levels commensurate with these factors and other factors that may be relevant to a particular engagement. Accordingly, our commission rates vary, often significantly, from engagement to engagement. In addition, we sometimes agree to lower commission rates for engagements with significant opportunity under management.

Number of Engagements. We track the number of engagements we have with our customers. We often have multiple engagements with a single customer, particularly where we manage the sales of service renewals relating to different product lines, technologies, types of contracts or geographies for the customer. When the set of renewals we manage on behalf of a customer is associated with a separate customer contract or a distinct product set, type of end customer contract or geography and therefore requires us to assign a service sales team to manage the renewals, we designate the set of renewals, and associated revenues and costs to us as a unique engagement. For example, we may have one engagement consisting of a service sales team selling maintenance contract renewals of a particular product for a customer in the United States and another engagement consisting of a sales team selling warranty contract renewals of a different product for the same customer in Europe. These would count as two engagements. We had approximately 191, 150 and 145 engagements as of December 31, 2014, 2013 and 2012 respectively.

In 2014, we experienced a decline in Opportunity Under Management ("OUM") for our managed services business due to a number of contractions and nonrenewal by some of our customers. We expect that the OUM reduction in 2014 will further impact our 2015 results since the Company's 2014 results were not fully impacted since the business reflected it for a portion of the year.

Factors Affecting our Performance

Sales Cycle. We sell our integrated solution through our sales organization. At the beginning of the sales process, our quota-carrying sales representatives contact prospective customers and educate them about our offerings. Educating prospective customers about the benefits of our solution can take time, as many of these prospects have not historically relied upon integrated solutions like ours for service revenue management, nor have they typically put out a formal request for proposal or otherwise made a decision to focus on this area. As part of our sales process, we utilize our solutions design team to perform a SPA of our prospect's service revenue. The SPA includes an analysis of best practices and benchmarks the prospect's service revenue against industry peers. Through the SPA process, which typically takes several weeks, we are able to assess the characteristics and size of the prospect's service revenue, identify potential areas of performance improvement, and formulate our proposal for managing the prospect's service revenue. The length of our sales cycle for a new customer, inclusive of the SPA process and measured from our first formal discussion with the customer until execution of a new customer contract, is typically longer than six months and has increased in recent periods.

We generally contract with new customers to manage a specified portion of their service revenue opportunity, such as the opportunity associated with a particular product line or technology, contract type or geography. We negotiate the engagement specific terms of our customer contracts, including commission rates, based on the output of the SPA, including the areas identified for improvement. Once we demonstrate success to a customer with respect to the opportunity under contract, we seek to expand the scope of our engagement to include other opportunities with the customer. For some customers, we manage all or substantially all of their service contract renewals.

For cloud offerings, the SPA may be more limited and focused on the benefits of the respective technology and therefore may take less time.

Implementation Cycle. After entering into an engagement with a new customer, and to a lesser extent after adding an engagement with an existing customer, we incur sales and marketing expenses related to the commissions owed to our sales personnel. The commissions are based on the estimated total contract value, with a material portion of the commission expensed upfront with the remaining portion expensed ratably over a period of twelve to fourteen months. We also make upfront investments in technology and personnel to support the engagement. These expenses are typically incurred one to three months before we begin generating sales and recognizing revenue. Accordingly, in a given quarter, an increase in new customers, and, to a lesser extent, an increase in engagements with existing customers, or a significant increase in the contract value associated with such new customers and engagements, will negatively impact our gross margin and operating margins until we begin to achieve anticipated sales levels associated with the new engagements, which is typically two-to-three quarters after we begin selling contracts on behalf of our customers.

Although we expect new customer engagements to contribute to our operating profitability over time, in the initial periods of a customer relationship, the near term impact on our profitability can be negatively impacted by slower-than anticipated growth in revenues for these engagements as well as the impact of the upfront costs we incur, the lower initial level of associated service sales team productivity and lack of mature data and technology integration with the customer. As a result, an increase in the mix of new customers as a percentage of total customers may initially have a negative impact on our operating results. Similarly, a decline in the ratio of new customers to total customers may positively impact our near-term operating results.

Contract Terms. Substantially all of our managed services revenue comes from our pay-for-performance model. Under our pay-for-performance model, we earn commissions based on the value of service contracts we sell on behalf of our customers. In some cases, we earn additional performance-based commissions for exceeding pre-determined service renewal targets.

Our new customer contracts have typically had a term of approximately 36 months, although we sometimes have contract terms of up to 60 months. Our contracts generally require our customers to deliver a minimum value of qualifying service revenue contracts for us to renew on their behalf during a specified period. To the extent that our customers do not meet their minimum contractual commitments over a specified period, they may be subject to fees for the shortfall. Our customer contracts are cancelable on relatively short notice, subject in most cases to the payment of an early termination fee by the customer. The amount of this fee is based on the length of the remaining term and value of the contract.

We invoice our customers on a monthly basis based on commissions we earn during the prior month, and with respect to performance-based commissions, on a quarterly basis based on our overall performance during the prior quarter. Amounts invoiced to our customers are recognized as revenue in the period in which our services are performed or, in the case of performance commissions, when the performance condition is determinable. Because the invoicing for our services generally coincides with or immediately follows the sale of service contracts on behalf of our customers, we do not generate or report a significant deferred revenue balance. However, the combination of minimum contractual commitments, our success in generating improved renewal rates for our customers, our customers' historical renewal rates and the performance improvement potential identified by our SPA process, provides us with revenue visibility.

M&A Activity. Our customers, particularly those in the technology sector, participate in an active environment for mergers and acquisitions. Large technology companies have maintained active acquisition programs to increase the breadth and depth of their product and service offerings and small and mid-sized companies have combined to better compete with large technology companies. A number of our customers have merged, purchased other companies or been acquired by other companies. We expect merger and acquisition activity to continue to occur in the future.

The impact of these transactions on our business can vary. Acquisitions of other companies by our customers can provide us with the opportunity to pursue additional business to the extent the acquired company is not already one of our customers. Similarly, when a customer is acquired, we may be able to use our relationship with the acquired company to build a relationship with the acquirer. In some cases we have been able to maintain our relationship with an acquired customer even where the acquiring company handles its other service contract renewals through internal resources. In other cases, however, acquirers have elected to terminate or not renew our contract with the acquired company. For example, Oracle terminated our contracts with Sun Microsystems.

Economic Conditions and Seasonality. An improving economic outlook generally has a positive, but mixed, impact on our business. As with most businesses, improved economic conditions can lead to increased end customer demand and sales. In particular, within the technology sector, we believe that the recent economic downturn led many companies to cut their expenses by choosing to let their existing maintenance, support and subscription agreements lapse. An improving economy may have the opposite effect.

However, an improving economy may also cause companies to purchase new hardware, software and other technology products, which we generally do not sell on behalf of our customers, instead of purchasing maintenance, support and subscription services for existing products. To the extent this occurs, it would have a negative impact on our opportunities in the near term that would partially offset the benefits of an improving economy.

We believe the current uncertainty in the economy, combined with shifting market forces toward subscription-based models, is impacting a number of our customers and prospective customers, particularly in the traditional enterprise software and hardware segments. These forces have placed pressure on end customer demand for their renewal contracts and also have led to some slower decision making in general. This economic and industry environment has adversely affected the conversion rates for end customers and contracts. To the extent these conditions continue they will impact our future revenues.

In addition to the uncertainty in the macroeconomic environment, we experience a seasonal variance in our revenue typically for the third quarter of the year as a result of lower or flat renewal volume corresponding to the timing of our customers' product sales particularly in the international regions. The impact of this seasonal fluctuation can be amplified if the economy as a whole is experiencing disruption or uncertainty, leading to deferral of some renewal decisions. As we increase our subscription revenue base, this seasonality will become less apparent. However for at least the next couple years, we would expect this pattern to continue.

Establishment of "Software-as-a-Service" Business unit. Within the software industry, there is a growing trend toward providing software to customers using a software-as-a-service ("SaaS") model. Under this model, SaaS companies provide access to software applications to customers on a remote basis, and provide their customers with a subscription to use the software, rather than licensing software to their customers.

We have several SaaS-based applications that we develop and support: Renew OnDemand (our purpose-built offering to manage and maximize recurring revenue), ServiceSource Revenue Analytics (formerly Scout Analytics, our SaaS offering to help companies with predictive analytics for recurring revenue), and other SaaS cloud offerings such as ServiceSource Customer Success. Our research and development costs are primarily related to these SaaS based applications. We intend to maintain customer support, training and professional service organizations to support deployments of our solutions. Our current spending incorporates a level of investment required for development of our products and are targeted at improving the tools

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and infrastructure that will make the product easier to deploy and support in the future. We believe that the level of effort to deploy and maintain these applications will decline over time, due to product development investments made in 2014 to improve the application layer of the solutions and to improve the underlying database architecture and reduce the overall cost of our cloud infrastructure. As a result, we expect costs to decline in 2015 and rise more slowly or at the same pace as revenue growth in future years.

Basis of Presentation

Net Revenue

Substantially all of our net revenue is attributable to commissions we earn from the sale of renewals of maintenance, support and subscription agreements on behalf of our customers. We generally invoice our customers for our services in arrears on a monthly basis for sales commissions, and on a quarterly basis for certain performance sales commissions; accordingly, we typically have no deferred revenue related to these services. We do not set the price, terms or scope of services in the service contracts with end customers and do not have any obligations related to the underlying service contracts between our customers and their end customers.

We also earn revenue from the sale of subscriptions to our cloud based applications. To date, subscription revenue has been a small percentage of total revenue. We expect revenues generated from subscriptions of Renew OnDemand and ServiceSource SaaS cloud offerings to rise over the longer term as we continue new customers, but decline in 2015 as losses from our initial customers on our SaaS platform do not renew. Subscription fees are accounted for separately from commissions, and they are billed in advance over a monthly, quarterly or annual basis. Subscription revenue is recognized ratably over the related subscription term.

We have generated a significant portion of our revenue from a limited number of customers. Our top ten customers accounted for 51%, 50% and 50% of our net revenue for the years ended December 31, 2014, 2013 and 2012, respectively. VMware, Inc. accounted for more than 10% of our revenues in each of 2014, 2013 and 2012.

In the first quarter of 2015, our largest customer notified the Company of its intention to reduce the scope of their managed services and engagement and subscription of our legacy system contracted effective April 2015. Our opportunity under management reflects this reduction as of December 31, 2014.

The loss of revenue from any of our top customers for any reason, including the failure to renew our contracts, termination of some or all of our services, a change of relationship with any of our key customers or their acquisition, can cause a significant decrease in our revenue. We experienced a slight decrease in revenue in 2014 due to customer cancellation and reductions, including among some or our top customers, in excess of new customer additions and expansions for the managed services segment. The customer cancellations and reductions in 2014 were higher than our historical rates, and we will continue to see the effects of these cancellations and reductions on our revenue to a certain extent in the first quarter of 2015 and to a larger extent in the second quarter of 2015.

Our business is geographically diversified. During 2014, 65% of our net revenue was earned in North America and Latin America (“NALA”), 26% in Europe, Middle East and Africa (“EMEA”) and 9% in Asia Pacific-Japan (“APJ”). Net revenue for a particular geography generally reflects commissions earned from sales of service contracts managed from our sales centers in that geography. Predominantly all of the service contracts sold and managed by our sales centers relate to end customers located in the same geography. APJ is our newest region, and as a result accounts for less of our net revenue. In addition, our Kuala Lumpur location is also our global sales operations center where we have centralized, for our worldwide operations, the key contract renewal processes that do not require regional expertise, such as customer data management and quoting. We do not generate any customer revenue out of Kuala Lumpur, so it is effectively a cost center which contributes to our APJ region.

Cost of Revenue and Gross Profit

Our cost of revenue expenses include employee compensation, technology costs, including those related to the delivery of our cloud-based solutions, and allocated overhead costs. Compensation includes salary, bonus, benefits and stock-based compensation for our dedicated service sales teams. Our allocated overhead includes costs for facilities, information technology and depreciation, including amortization of internal-use software associated with our service revenue technology platform and cloud applications. Allocated costs for facilities consist of rent, maintenance and compensation of personnel in our facilities departments. Our allocated costs for information technology include costs associated with third-party data centers where we maintain our data servers, compensation of our information technology personnel and the cost of support and maintenance contracts associated with computer hardware and software. To the extent our customer base or opportunity under management

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expands, we may need to hire additional service sales personnel and invest in infrastructure to support such growth. We currently expect that our cost of revenue will fluctuate significantly and may increase on an absolute basis and as a percentage of revenue in the near term, including for the reasons discussed above under, "—Factors Affecting Our Performance—Implementation Cycle". We are currently taking measures to reduce the costs to deliver our solutions and support our customer engagements, in order to improve our gross profit. We are also evaluating additional measures to further reduce our costs of revenue as opportunity under management has declined and we focus on delivering our SAAS offerings on a more focused criteria than our initial engagements.

Operating Expenses

Sales and Marketing. Sales and marketing expenses are the largest component of our operating expenses and consist primarily of compensation and sales commissions for our sales and marketing staff, allocated expenses and marketing programs and events. We sell our solutions through our global sales organization, which is organized across three geographic regions: NALA, EMEA and APJ. Our commission plans provide that payment of commissions to our sales representatives is contingent on their continued employment, and we recognize expense over a period that is generally between twelve and fourteen months following the execution of the applicable contract. When commissions are paid out upon contract signing and are not contingent on future payments and continued employment, we expense the sales commission upon contract signing. We currently expect sales and marketing expenses to decline in 2015 and decrease or remain flat as a percentage of revenue in future years.

Research and Development. Research and development expenses consist primarily of compensation, allocated costs and the cost of third-party service providers. We focus our research and development efforts on developing new products and related applications for revenue analytics. In connection with the development and enhancements of our SaaS cloud applications, we capitalize certain expenditures related to the development and enhancement of internal-use software related to our technology platform. We expect research and development spending to decline in 2015 and decrease or remain flat as a percentage of revenue in future years.

General and Administrative. General and administrative expenses consist primarily of compensation for our executive, human resources, finance and legal functions, and related expenses for professional fees for accounting, tax and legal services, as well as allocated expenses. We expect that our general and administrative expenses will remain flat or slightly lower on an absolute basis as we streamline our operations where possible.

Restructuring and Other. Restructuring and other expenses consist primarily of employees' severance payments, related employee benefits, retention bonuses and charges related to cancellation of contracts. We expect to have restructuring and other expenses through 2015 as restructuring activities targeted at reducing the overall cost structure of the business continue.

Goodwill and other intangibles impairment. The goodwill and other intangibles impairment charge recorded in 2014 is related to the outcome of our third and fourth quarter impairment analysis which resulted in a non-cash goodwill impairment charge of $21.0 million in the third quarter and $1.7 million in the fourth quarter of 2014 relating to our Cloud and Business Intelligence reporting unit, and a charge of $2.5 million in the fourth quarter of 2014 related to the impairment of intangible assets. Our policy is to perform an annual impairment analysis of goodwill in the fourth quarter of each year and between annual tests if events or circumstances indicate that it is more likely than not that the asset is impaired, which was the case in the third quarter of 2014. The intangible asset impairment of $2.5 million was related to the carrying value of the intangible assets impacted by the cancellation of a product line acquired in the Scout acquisition in the fourth quarter. Additionally, any further decline in the Company's market capitalization or other events or circumstances may require additional impairment charges to be recorded in future periods against any remaining other intangibles

Other Income (Expense), Net

Interest expense. Interest expense consists primarily of interest expense associated with our convertible debt, fees related to our credit facility, capital lease payments; accretion of debt discount; and amortization of debt issuance costs. We recognize accretion of debt discount and amortization of interest costs using the effective interest method. We expect our interest expense to increase slightly in 2015 from accretion of debt discount, amortization of deferred financing costs and contractual interest costs as a result of our August 2013 issuance of $150.0 million aggregate principal amount of convertible notes due August 2018.

Other, Net. Other, net consists primarily of the interest income earned on our cash, cash equivalents and marketable securities investments and foreign exchange gains and losses. We expect other income to vary depending on the movement in foreign currency exchange rates and the related impact on our foreign exchange gain (loss) and the return of interest on our investments.

Income Tax Provision (Benefit)

We account for income taxes using an asset and liability method, which requires the recognition of taxes payable or refundable for the current year and deferred tax assets and liabilities for the expected future tax consequences of temporary differences that currently exist between the tax basis and the financial reporting basis of our taxable subsidiaries' assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in operations in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

We evaluate our ability to realize the tax benefits associated with deferred tax assets on a jurisdictional basis. This evaluation utilizes the framework contained in ASC 740, Income Taxes, wherein management analyzes all positive and negative evidence available at the balance sheet date to determine whether all or some portion of our deferred tax assets will not be realized. Under this guidance, a valuation allowance must be established for deferred tax assets when it is more likely than not (a probability level of more than 50 percent) that they will not be realized. In assessing the realization of our deferred tax assets, we consider all available evidence, both positive and negative.

In performing our evaluation, we place significant emphasis on guidance contained in ASC 740, which states that "a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome."

We account for unrecognized tax benefits using a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. We record an income tax liability, if any, for the difference between the benefit recognized and measured and the tax position taken or expected to be taken on our tax returns. To the extent that the assessment of such tax positions change, the change in estimate is recorded in the period in which the determination is made. The reserves are adjusted in light of changing facts and circumstances, such as the outcome of a tax audit. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

Results of Operations

The table below sets forth our consolidated results of operations for the periods presented. The period-to-period comparison of financial results presented below is not necessarily indicative of financial results to be achieved in future periods.

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	Years Ended December 31,		
	2014	2013	2012
Consolidated statement of operations data:	(in thousands)		
Net revenue	$272,180	$272,482	$243,703
Cost of revenue	194,009	162,449	136,321
Gross profit	78,171	110,033	107,382
Operating expenses:			
Sales and marketing	59,988	58,826	56,925
Research and development	25,802	23,855	19,255
General and administrative	47,808	44,913	41,135
Restructuring and other	3,314	—	—
Goodwill and other intangibles impairments	25,108	—	—
Total operating expenses	162,020	127,594	117,315
Loss from operations	(83,849)	(17,561)	(9,933)
Other, net	(11,008)	(4,420)	(774)
Loss before income taxes	(94,857)	(21,981)	(10,707)
Income tax provision	302	871	32,107
Net loss	$(95,159)	$(22,852)	$(42,814)
Includes stock-based compensation of:			
Cost of revenue	$3,995	$3,303	$2,780
Sales and marketing	6,193	9,831	8,146
Research and development	2,800	2,414	1,880
General and administrative	7,911	8,072	8,077
Total stock-based compensation	$20,899	$23,620	$20,883

The following table sets forth our operating results as a percentage of net revenue:

	Years Ended December 31,		
	2014	2013	2012
	(as % of net revenue)		
Net revenue	100%	100%	100%
Cost of revenue	71%	60%	56%
Gross profit	29%	40%	44%
Operating expenses:			
Sales and marketing	22%	22%	23%
Research and development	9%	9%	8%
General and administrative	18%	16%	17%
Restructuring and other	1%	—%	—%
Goodwill and other intangibles impairments	9%	—%	—%
Total operating expenses	59%	47%	48%
Loss from operations	(30)%	(7)%	(4)%

Years Ended—December 31, 2014 and 2013

Net Revenue

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	Years Ended December 31,					
	2014		2013			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousand)					
Net revenue						
Managed Services	$240,573	89 %	$255,547	94 %	$(14,974)	(6)%
Cloud and Business Intelligence	31,607	11 %	16,935	6 %	14,672	87 %
Total net revenue	$272,180	100 %	$272,482	100 %	$(302)	— %

Net revenue decreased $0.3 million in 2014 compared to 2013. The overall decrease in revenue in 2014 was due to customer cancellation and reductions, including among some of our top customers, in excess of new customer additions and expansions for the managed services segment. The customer cancellations and reductions in 2014 were higher than our historical rates, and we will continue to see the effects of these cancellations and reductions on our revenue to a certain extent in the first quarter of 2015 and to a larger extent in the second quarter of 2015. In addition, Scout Analytics revenue increased in 2014.

Managed services revenue decreased by 6% in 2014, compared to 2013 due to the restructuring of certain of the managed services revenue contracts with our installed base customers to include a subscription to our SaaS platform, which resulted in a shift of some revenue from managed services to CBI. The customer cancellation and reductions occurred heavily in the second part of 2014, and therefore had a limited impact on 2014.

The increase in revenue from our Cloud and Business Intelligence (“CBI”) business in 2014, compared to 2013, was primarily attributable to nearly $10 million from the restructuring of certain contracts with our installed based customers that were originally only Managed Services to include a subscription to our SaaS platform and approximately $4 million in revenue attributable to our Scout SaaS platform acquired in January 2014. CBI benefited from expansions from several customers but was offset by cancellations from other customers.

Cost of Revenue and Gross Profit

	Years Ended December 31,					
	2014		2013			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousand)					
Cost of Revenue						
Managed Services	$170,820	89 %	$147,278	91 %	$23,542	16 %
Cloud and Business Intelligence	23,189	11 %	15,171	9 %	8,018	53 %
Total cost of revenue	$194,009	100 %	$162,449	100 %	$31,560	19 %

	Years Ended December 31,					
	2014		2013			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousand)					
Gross profit						
Managed Services	$69,753	90 %	$108,269	98 %	$(38,516)	(36)%
Cloud and Business Intelligence	8,418	10 %	1,764	2 %	6,654	377 %
Total gross profit	$78,171	100 %	$110,033	100 %	$(31,862)	(29)%

The 19% increase in our cost of revenue in 2014 compared to 2013 reflects a $22.4 million increase in the compensation of service sales personnel for manage services as a result of increased headcount and higher average salaries, and a $2.0 million

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increase in our information technology and depreciation expenses related to the expansion of the service sales teams and amortization related to developed technology assets developed internally and related to our acquisition of Scout Analytics in 2014.

The $8.0 million increase in our cost of revenue for our CBI business in 2014 compared to 2013, reflected a $3.4 million increase in compensation partially due to incremental employees of Scout Analytics that was acquired January 2014, employees that moved to revenue generating efforts rather than engineering related work in 2013, a $2.5 million increase for information technology, depreciation and amortization expense and a $0.5 million increase in stock compensation expense with the increase in headcount and addition of resources related to our acquisition of Scout Analytics.

Gross profit in 2014 was adversely impacted for our managed services business due to the restructuring of some of the managed services contracts with our installed base customers to include a subscription to our SaaS platform. This change had the effect of reducing the revenue for our managed services business, without reducing the cost structure to serve the customer in many cases. In addition, to better support our customers, we have increased our investment across several key accounts, both in terms of increased managed services and professional services personnel. This increased allocation of resources has continued to compress our gross margins across both of our business segments.

Gross profit in 2014 increased for our CBI business due to the improved scale in our SaaS business, increase in revenue from restructuring of certain managed services contracts with our installed base customers to include a subscription to our SaaS platform and revenue from Scout Revenue Analytic solution acquired in January 2014, offset by a shift in expenses from research and development to cost of revenue, as we transitioned from development to customer deployment of these products.

Operating Expenses

	Years Ended December 31,									
	2014			2013						
	Amount	% of Net Revenue		Amount	% of Net Revenue		Change		% Change	
	(in thousand)									
Operating expenses:										
Sales and marketing	$59,988	22	%	$58,826	22	%	$1,162		2	%
Research and development	25,802	9	%	23,855	9	%	1,947		8	%
General and administrative	47,808	18	%	44,913	16	%	2,895		6	%
Restructuring and other	3,314	1	%	—	—	%	3,314		100	%
Goodwill and other intangibles impairment	25,108	9	%	—	—	%	25,108		100	%
Total operating expenses	$162,020	$—		$127,594	47	%	$34,426		27	%
Includes stock-based compensation of:										
Sales and marketing	$6,193			$9,831			$(3,638	)		
Research and development	2,800			2,414			386			
General and administrative	7,911			8,072			(161	)		
Total stock-based compensation	$16,904			$20,317			$(3,413	)		

Sales and marketing expenses

The 2% increase in sales and marketing expenses in 2014 is due to an increase in the number of sales and marketing personnel, primarily in NALA and EMEA resulting in a $4.0 million increase in compensation and recruiting costs. Also, the increase in headcount reflected hiring for the Revenue Analytics sales team and overall increase in sales effort primarily in the first half of 2014. There was also a total of $1.6 million increase in consulting fees related to strategic initiatives in 2014 and higher overall costs including depreciation expenses and Scout Analytics related expenses, which was partially offset by lower marketing expenses of $0.5 million as a result of lower spending on brand development. Stock compensation expense decreased by $3.6 million from 2013 due to streamlining of sales management in 2014 where certain executive roles that existed in 2013 did not exist in 2014 and the lower stock price from 2013 reduced the cost of stock compensation. We expect sales and marketing expenses to decrease in 2015 as we seek to better match our expense levels to our revenue.

Research and development expenses

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The 8% increase in research and development expense in 2014 was primarily due to higher headcount, professional fees and the addition of the Scout Analytics engineering team in January 2014 of $5.3 million. Capitalization of internally developed software increased $3.0 million compared to 2013 due to development of our Renew OnDemand and Revenue Analytics offerings and related applications. Travel declined $0.3 million due to an effort to reduce spending in the second half of 2014. We expect research and development spending to decrease or remain the same on an absolute basis and as a percentage of revenue in the near term as we focus on achieving profitability through a combination of revenue growth and spending controls. We expect to capitalize internal-use software costs in the future and the amount capitalized will depend on the level of expenditures on research and development.

General and administrative expenses

The 6% increase in general and administrative expense in 2014 compared to 2013 reflected a $2.9 million increase in compensation due to hiring across finance, human resources and information technology as the team expanded to support the new business lines and integration of our acquisition.

We anticipate spending in 2015 for general and administrative functions to remain flat or decrease from 2014 as we work to better align our expenses with our revenue.

Restructuring and other expenses

The increase in restructuring and other expenses in 2014 of $3.3 million is related to the Company executing a restructuring effort during the second half of 2014. The charge consists primarily of employees' severance payments, related employee benefits, retention bonuses and cancellation of contracts. We expect to have restructuring and other expenses through 2015, as restructuring activities targeted at reducing the overall cost structure of the business continue.

Goodwill and other intangibles impairment expenses

The goodwill and other intangibles impairment charge recorded in 2014 is related to the outcome of impairment analysis which resulted in a non-cash goodwill impairment charge of $22.7 million relating to our Cloud Business Intelligence reporting unit, and a charge of $2.5 million related to the impairment of intangible assets related to the cancellation of a product line acquired in the Scout acquisition. The Company incurred a $21.0 million goodwill impairment as part of its interim impairment performed in the third quarter and a $1.7 million goodwill impairment charge in the fourth quarter as part of its annual impairment analysis. All goodwill impairment charges were related to the Cloud and Business Intelligence business unit due to the slower than expected adoption of its SaaS products in tandem with the costs to support the platform. The Company also recorded an intangible asset impairment of $2.5 million related to the carrying value of the intangible assets impacted by the cancellation of a product line acquired in the Scout acquisition in the fourth quarter. The Company performs its annual impairment analysis of goodwill in the fourth quarter of each year and between annual tests if events or circumstances indicate that it is more likely than not that the asset is impaired. Additionally, any further decline in the Company's market capitalization or other event or circumstances may require additional impairment charges to be recorded in future periods against remaining other intangibles.

Other Expense, Net

	Years Ended December 31,									
	2014			2013						
	Amount	% of Net Revenue		Amount	% of Net Revenue		Change		% Change	
	(in thousands)									
Interest expense	$9,886	4	%	$3,754	1	%	$6,132		163	%
Other, net	$1,122	—	%	$666	—	%	$456		68	%

Interest expense for 2014 increased by $6.1 million as compared to 2013 due to accretion of debt discount and the amortization of debt issuance costs of $7.5 million and interest expense of $2.3 million for the convertible notes issued in August 2013. The increase in interest expense is due 2014 incurring a full year of these costs and 2013 incurring these costs starting August 2013.

Other, net for 2014 increased by $0.5 million due primarily to higher foreign currency expenses as compared to 2013.

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Income Tax Provision

	Years Ended December 31,			
	2014	2013	Change	% Change
	(in thousands)			
Income tax provision	$302	$871	$(569)	(65)%

For the year ended December, 31, 2014, a charge to income tax expense of $0.3 million was recorded. This amount primarily represents anticipated taxes in jurisdictions where we have profitable operations, including certain U.S. states, offset by benefits available from state tax credits. No benefit was otherwise provided for losses incurred in U.S. and Singapore, because these losses are offset by a full valuation allowance. The benefit associated with losses in Ireland is also offset by a full valuation allowance, except to the extent of losses which may be carried back to offset taxable income in the preceding year. In December 2013, our Malaysia affiliate was granted a 10-year tax holiday as an Operational Headquarters (OHQ), commencing January 1, 2014.

In 2013, a charge to income tax expense of $0.9 million was recorded. This amount primarily represents anticipated taxes in jurisdictions where we have profitable operations, including certain U.S. states, offset by benefits from state credits. No benefit was otherwise provided for losses incurred in U.S. and Singapore, because these losses are offset by a full valuation allowance. In December 2013, our Malaysia affiliate was granted a 10-year tax holiday as an Operational Headquarters (OHQ), commencing January 1, 2014. The 2013 tax provision includes a benefit of $0.2 million resulting from a revaluation of previously recorded Malaysia deferred tax liabilities as a result of the OHQ tax holiday.

Years Ended—December 31, 2013 and 2012

Net Revenue

	Years Ended December 31,					
	2013		2012			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousand)					
Net revenue						
Managed Services	$255,547	94%	$238,809	98%	$16,738	7%
Cloud and Business Intelligence	16,935	6%	4,894	2%	12,041	246%
Total net revenue	$272,482	100%	$243,703	100%	$28,779	12%

Net revenue increased $28.8 million, or 12%, in 2013 compared to 2012. Our revenue performance was driven by a combination of growth in opportunity from new and existing customers in both 2012 and 2013, as well as strong performance across our service sales centers in closing recurring revenue renewals. The increase in net revenue reflects revenue growth due to an increase in the number and value of service contracts sold on behalf of our customers and the ramp of new engagements entered into in 2012 and first half of 2013. These increases were partially offset due to customer attrition.

The increase in revenue from our CBI business in 2013, compared to 2012, was attributable to the restructuring of certain of the managed services revenue contracts with our installed base customers to include a subscription to our SaaS platform and the addition of a small number of large customers in late 2012 and 2013 that adopted our SaaS platform.

Cost of Revenue and Gross Profit

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	Years Ended December 31,									
	2013			2012						
	Amount	% of Net Revenue		Amount	% of Net Revenue		Change	% Change	
	(in thousand)								
Cost of Revenue									
Managed Services	$147,278	91	%	$131,795	97	%	$15,483	12	%
Cloud and Business Intelligence	15,171	9	%	4,526	3	%	10,645	235	%
Total cost of revenue	$162,449	100	%	$136,321	100	%	$26,128	19	%

	Years Ended December 31,								
	2013			2012					
	Amount	% of Net Revenue		Amount	% of Net Revenue		Change	% Change	
	(in thousand)								
Gross profit									
Managed Services	$108,269	99	%	$107,014	100	%	$1,255	1	%
Cloud and Business Intelligence	1,764	1	%	368	—	%	1,396	379	%
Total gross profit	$110,033	100	%	$107,382	100	%	$2,651	2	%

The 19% increase in our cost of revenue in 2013 compared to 2012 reflected an increase in the number of service sales personnel, primarily for managed services, as we pursue new sales initiatives and professional services personnel associated with implementation of our Renew OnDemand application suite for our CBI customers resulting in a $17.6 million increase in compensation and a $8.3 million increase in allocated costs for facilities, including incremental facility costs related to expansion of our primarily managed services facilities in NALA and APJ, and greater allocations for information technology and depreciations, partially offset by decrease in travel expenses of $1.8 million.

Gross profit in 2013 was adversely impacted by the increased expenditures for professional services and our staff operations costs, as well as the shift in some of these expenses from research and development to cost of revenue, as we moved from the products being in development to having deployed customers on Renew OnDemand as well as slower ramp of some of our larger new engagements and due to staffing and technology costs associated with the deployment of our cloud applications.

Operating Expenses

	Years Ended December 31,								
	2013			2012					
	Amount	% of Net Revenue		Amount	% of Net Revenue		Change	% Change	
	(in thousand)								
Operating expenses:									
Sales and marketing	$58,826	22	%	$56,925	23	%	$1,901	3	%
Research and development	23,855	9	%	19,255	8	%	4,600	24	%
General and administrative	44,913	16	%	41,135	17	%	3,778	9	%
Total operating expenses	$127,594	47	%	$117,315	48	%	$10,279	9	%
Includes stock-based compensation of:									

Sales and marketing	$9,831	$8,146	$1,685
Research and development	2,414	1,880	534
General and administrative	8,072	8,077	(5)
Total stock-based compensation	$20,317	$18,103	$2,214

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Sales and marketing expenses

The 3% increase in sales and marketing expenses in 2013 reflected higher stock-based compensation and an increase in the number of sales and marketing personnel, primarily in NALA and EMEA resulting in a $3.3 million increase in compensation. The increase in headcount reflected our investment in sales and marketing resources aimed at expanding our customer base. The increase was partially offset by lower marketing expenses of $1.2 million as a result of lower spending on brand development initiatives and lower travel and entertainment expenses of $0.7 million.

Research and development expenses

The 24% increase in research and development expense in 2013 was primarily due to the fact that no capitalization of labor and third party costs for development of internal-use software took place in the year compared to $6.1 million capitalized costs in 2012, offset by lower expenses due to transition of configuration engineers from R&D to professional services as these individuals focus more on revenue generating activities. In 2012, we were capitalizing the development costs associated with Renew OnDemand which was released to customers in the fourth quarter of 2012. The research and development costs incurred in 2013 on Renew OnDemand have been focused supporting product functionality, bug fixes and robustness.

General and administrative expenses

The 9% increase in general and administrative expense in 2013 compared to 2012 reflected a $2.5 million increase in compensation due to hiring and investments in our IT infrastructure to support our global operations partially offset by lower allocations of information technology costs and depreciation.

Other Expense, Net

	Years Ended December 31,					
	2013		2012			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands)					
Interest expense	$3,754	1 %	$236	— %	$3,518	1,491 %
Other, net	$666	— %	$538	— %	$128	24 %

Interest expense for 2013 increased by $3.5 million as compared to 2012 due to accretion of debt discount and the amortization of debt issuance costs of $2.8 million and interest expense of $0.9 million for the convertible notes issued in August 2013.

Income Tax Provision

	Years Ended December 31,			
	2013	2012	Change	% Change
	(in thousands)			
Income tax provision	$871	$32,107	$(31,236)	(97)%

In 2013, income tax expense of $0.9 million was recorded. This amount primarily represents taxes in domestic and foreign jurisdictions where we have profitable operations, including certain U.S. states, offset by benefits available from state credits. No benefit was provided for losses incurred in U.S. and Singapore, because these losses are offset by a full valuation allowance. In December 2013, our Malaysia subsidiary was granted a ten year tax holiday as an

OHQ, commencing January 1, 2014. The 2013 tax provision includes a benefit of $0.2 million resulting from a revaluation of previously recorded Malaysia deferred tax liabilities as a result of the OHQ tax holiday.

During the second quarter of 2012, a valuation allowance against our U.S. deferred tax assets was recorded in the amount of $31.8 million as the cumulative losses for the most recent three years, as well as the U.S. losses in the first half of 2012, represented significant negative evidence for us to conclude that a valuation allowance was required. Accordingly, the computation of the effective tax rate does not include U.S. losses, nor does it include losses incurred by our Singapore subsidiary, which are offset by a full valuation allowance. The 2012 tax provision also reflects the reversal of prior quarter deferred tax benefits, plus tax expense in jurisdictions where we report taxable profits.

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Liquidity and Capital Resources

At December 31, 2014, we had cash, cash equivalents and short-term investments of $215.4 million, which primarily consisted of cash, money market accounts, corporate bonds and U.S. government obligations held by well-capitalized financial institutions. In addition, at December 31, 2014, we had cash and cash equivalents of $6.1 million held outside of the U.S. by our foreign subsidiaries that was generated by such subsidiaries and which is used to satisfy their current operating requirements. We consider the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested in foreign operations and our current plans do not require us to repatriate these earnings to fund our U.S. operations as we have sufficient cash, cash-equivalents and short-term investments held in the U.S. and have access to external funding under our credit agreement.

Our primary operating cash requirements include the payment of compensation and related costs, working capital requirements related to accounts receivable and accounts payable, as well as costs for our facilities and information technology infrastructure. Historically, we have financed our operations principally from cash provided by our operating activities, proceeds from stock offerings and the exercise of stock options, and to a lesser extent, from a convertible note issuance and borrowings under various credit facilities, with no such borrowings in 2014. We believe our existing cash and cash equivalents and short-term investments and our currently available credit facility will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months.

In August 2013, we issued $150.0 million aggregate principal amount of 1.50% convertible notes due August 1, 2018 (the "Notes") and concurrently entered into convertible notes hedges and separate warrant transactions. The Notes will mature on August 1, 2018, unless earlier converted. Upon conversion, the Notes will be settled in cash, shares of our stock, or any combination thereof, at our option. We received proceeds of $145.1 million from the issuance of the convertible notes, net of associated fees, received $21.8 million from the issuance of the warrants and paid $31.4 million for the note hedges. The Notes are classified as a non-current liability on our consolidated balance sheet as of December 31, 2014.

Credit Facility

On July 5, 2012, we entered into a three-year credit agreement (the “Credit Agreement”). The Credit Agreement provides for a secured revolving line of credit based on eligible accounts receivable in an amount up to $25.0 million on and before July 5, 2013 and up to $30.0 million thereafter, in each case with a $2.0 million letter of credit sublimit. On June 18, 2013, we elected to reduce our revolving commitment by $5.0 million from $30.0 million to $25.0 million. Proceeds available under the Credit Agreement may be used for working capital and other general corporate purposes. We have the option to prepay the loans under the Credit Agreement in whole or in part at any time without premium or penalty. We also have the option to terminate the commitments under the Credit Agreement in whole at any time.

On August 6, 2013, we entered into a second amendment ("Amendment No. 2") to the Credit Agreement. Amendment No. 2, among other things, allowed us to issue the convertible notes and enter into certain related agreements. The loans under the Credit Agreement bear interest, at our option, at a base rate determined in accordance with the Credit Agreement, minus 0.50%, or at a LIBOR rate plus 2.00%. Principal, together with all accrued and unpaid interest, is due and payable on July 5, 2015, the maturity date. We are also obligated to pay a quarterly commitment fee, payable in arrears, based on the available commitments.

On January 21, 2014, we entered into a third amendment to the credit agreement which amended the financial covenants to allow us to acquire Scout Analytics.

On May 5, 2014, we entered into a fourth amendment to the credit agreement which reduced the secured revolving line of credit from $25.0 million to $10.0 million. The amendment also increased the consideration we may pay in connection with an acquisition before we are required to seek prior lender approval under the credit agreement.

The Credit Agreement contains customary affirmative and negative covenants, as well as financial covenants. Affirmative covenants include, among others, delivery of financial statements, compliance certificates and notices of specified events, maintenance of properties and insurance, preservation of existence, and compliance with applicable laws and regulations. Negative covenants include, among others, limitations on our ability and our subsidiaries' ability to grant liens, incur indebtedness, engage in mergers, consolidations, sales of assets and affiliate transactions. The Credit Agreement requires us to maintain a maximum leverage ratio and a minimum liquidity amount, each as defined in the Credit Agreement.

The Credit Agreement also contains customary events of default including, among other things, payment defaults, breaches of covenants or representations and warranties, cross-defaults with certain other indebtedness, bankruptcy and

insolvency events and change in control of the Company, subject to grace periods in certain instances. Upon an event of default, the lender may declare the outstanding obligations of the Company under the Credit Agreement to be immediately due and payable and exercise other rights and remedies provided for under the Credit Agreement.
On August 1, 2014 and October 29, 2014, we entered into a waiver under the Credit Agreement that waived our failure to comply with consolidated funded debt to EBITDA ratio for the quarter ended June 30, 2014 and September 30, 2014.

On November 1, 2014, the Company entered into a fifth amendment to the Credit Agreement where the parties agreed to remove a financial covenant requiring a certain level of consolidated funded debt to EBITDA ratio for the previous four quarters. The Company agreed to a new financial covenant requiring the Company to have an EBITDA loss not to exceed a specified target. The Company was in compliance with all of the covenants under the Credit Agreement as of December 31, 2014.

Our obligations under the Credit Agreement are guaranteed by our subsidiary, ServiceSource Delaware, Inc., and are collateralized by substantially all of our assets and our subsidiary's assets.

Summary Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Years Ended December 31,		
	2014	2013	2012
	(in thousands)		
Net cash (used in) provided by operating activities	$(23,762)	$15,675	$10,502
Net cash used in investing activities	(61,872)	(82,472)	(10,889)
Net cash provided by financing activities	4,168	159,765	11,092
Net increase (decrease) in cash and cash equivalents, net of impact of foreign exchanges on cash and cash equivalents	$(79,750)	$93,564	$10,585

Operating Activities

In 2014, net cash used in operating activities was $23.8 million. Our net loss during the period was $95.2 million, which was impacted by non-cash charges of $13.2 million for depreciation and amortization, and $7.5 million of amortization of debt discount and issuance costs, $20.9 million for stock-based compensation and $25.1 million for goodwill and other intangibles impairment. Cash provided for operations resulted from changes in our working capital, including a $3.7 million decrease in accounts receivable, a $0.5 million increase in accrued taxes, and a $1.1 million increase in accrued liabilities and other. Uses of cash were related to a $0.6 million increase in prepaid expenses, and a $0.3 million decrease in accounts payable.

In 2013, net cash provided by operating activities was $15.7 million. Our net loss during the period was $22.9 million, adjusted by non-cash charges of $11.7 million for depreciation and amortization, $23.6 million for stock-based compensation and $2.8 million of amortization of debt discount and issuance costs. Cash provided for operations resulted from changes in our working capital, including a $3.8 million increase in accrued compensation and benefits, a $3.6 million increase in accrued liabilities and other, and a $0.5 million increase in accounts payable. Uses of cash were related to a $7.5 million increase in accounts receivable and a $1.3 million increase in prepaid expenses. Our working capital management, particularly around accounts receivable and accrued compensation and benefits, contributed to an improvements in our net cash flows from operations in 2013.

In 2012, net cash provided by operating activities was $10.5 million. Our net loss during the period was $42.8 million, which was impacted by a non-cash valuation allowance of $33.1 million for a substantial portion of our deferred tax assets and adjusted by non-cash charges of $10.0 million for depreciation and amortization and $20.9 million for stock-based compensation. Cash provided for operations resulted from changes in our working capital, including a $7.5 million increase in other accrued liabilities and a $3.8 million decrease in prepaid balances. Uses of cash were related to an $11.2 million increase in accounts receivable, a $6.2 million decrease in accrued compensation and benefits and a $2.5 million decrease in accounts payable.

Investing Activities

In 2014 cash used for investing activities was principally to purchase of short-term investments, net sales and maturities of $20.0 million, acquisition of Scout Analytics of $32.6 million and to a lesser extent for purchases of property and equipment of $9.4 million.

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In 2013 cash used for investing activities was principally to purchase of short-term investments, net sales and maturities of $72.7 million, and to a lesser extent for purchases of property and equipment of $5.3 million and as investments of $4.5 million in a privately held company.
In 2012 cash used for investing activities related to purchases of property and equipment totaled $20.0 million, including costs capitalized for development of internal-use software and leasehold improvements associated with our offices, partially offset by net proceeds from sales and maturities of short-term of investments $9.5 million.

Financing Activities

Cash provided by financing activities was $4.2 million during 2014 and comprised primarily from option exercises and the purchase of common stock under our employee stock purchase plan of $4.4 million offset by payment of capital leases obligations.
Cash provided by financing activities was $159.8 million during 2013 and comprised primarily from proceeds from issuance of convertible notes of $145.1 million, issuance of warrants of $21.8 million, and option exercises and the purchase of common stock under our employee stock purchase plan of $25.0 million. These proceeds were partially offset by our payment of $31.4 million for the convertible note hedges.
Cash provided by financing activities was $11.0 million during 2012 and principally resulted from proceeds of $10.4 million from the exercise of common stock options and the purchase of common stock under our employee stock purchase plan.

Off-Balance Sheet Arrangements

We do not have any relationships with other entities or financial partnerships, such as entities often referred to as structured finance or special-purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes

Contractual Obligations and Commitments

Our principal commitments consist of obligations under operating leases for office space and computer equipment, and purchase commitments and unrecognized tax benefits during our normal course of business.
At December 31, 2014, the future minimum payments under these commitments were as follows (in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Obligations under capital leases	$521	$192	$272	$57	$—
Operating lease obligations	31,048	7,123	14,153	5,593	4,179
	$31,569	$7,315	$14,425	$5,650	$4,179

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding, which specify significant terms, including payment terms, related services and the approximate timing of the transaction. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

Also excluded from the table above is the income tax liability we recorded for the difference between the benefit recognized and measured and the tax position taken or expected to be taken on our tax returns ("unrecognized tax benefits"). As of December 31, 2014, our liability for unrecognized tax benefits was immaterial. Reasonably reliable estimates of the amounts and periods of related future payments cannot be made at this time.

We have also signed a new lease for a scheduled move to a new corporate headquarters in San Francisco, California in May 2015 to occupy 24,394 square feet.

Critical Accounting Policies and Estimates

Revenue Recognition

Our revenue is derived primarily from managed services. Other revenues include subscriptions to our cloud applications and professional services.

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Revenue is recognized when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists. Customer contracts are generally used to determine the existence of an arrangement.

- Delivery has occurred. The service has been or is being provided to the customer.

- Our fee is fixed or determinable. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the selling price is subject to refund or adjustment.

- The collectability of our fee is reasonably assured. We assess collectability based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

Managed Services

Revenue from managed services consists of fees earned from the sales of services contracts on behalf of our customers or assisting our customers in their sales process. Our contract obligations include administering and managing the sales and/or renewal process for our customer's service contracts, providing adequately trained staff, reporting, and holding periodic business reviews with our customers. Under our contracts, customers are obligated to provide us with a detailed listing of sales prospects, access to their databases or management systems, and sales and marketing materials. Our fees are generally calculated as a fixed percentage of the overall sales value associated with the successful renewal of service contracts sold on behalf of our customers. In addition, some of our customer contracts include performance-based fees determined by the achievement of specified performance metrics. Our managed service contracts typically entitle us to additional fees and adjustments resulting from instances where our customers fail to provide us with a specified minimum value of contract renewals or they fail to provide contract renewal data within the time frames specified in our contract. We also receive termination fees in the event a customer cancels a contract without cause prior to its terminations date. Our managed service contracts can also be cancelled by our customers without a termination fee if we fail to achieve certain performance levels.

Our fees from managed services are recognized on a net basis since we act as an agent on behalf of our customers. We do not perform the underlying maintenance services; determine pricing, terms or scope of services to our customer's end users. Performance incentive fees and early termination fees are recorded in the period when the performance criteria have been met.

Subscriptions and Professional Services

Subscription revenue is comprised of subscriptions fees to access our cloud based applications, and professional services is generated from implementation and project based services. Subscription revenue is recognized ratably over the contract term, commencing when our cloud applications are made available to our customers. Our subscription service arrangements are generally non-cancelable and do not contain refund-type provisions. Professional services are deemed delivered and revenue recognized upon the successful completion of implementation projects or when project milestones have been achieved and accepted by the customer.

Multiple-Deliverable Arrangements

We have entered into a limited number of multiple element arrangements wherein our customers utilize a combination of managed services, subscriptions to our cloud applications and professional services. We separate deliverables at the inception of the arrangement as if each deliverable has stand-alone value to our customer. Arrangement consideration is allocated based on the relative best estimate of selling prices of each deliverable. However, substantially all fees earned from our managed services are contingent in nature as the commissions we earn are based on our performance against the specific terms of each contract. Therefore, contingent fees from managed services are excluded from the allocation of relative best selling prices at inception of our multiple element arrangements.

According to the accounting guidance prescribed in Accounting Standards Codification (ASC) 605, Revenue Recognition, selling prices for each deliverable is determined based on the selling price hierarchy of vendor-specific objective evidence (VSOE), third-party evidence (TPE), and best estimated selling price (BESP). We have not been able to establish VSOE for our deliverables due to the customer-specific nature of our products and services. Also, we have not been able to reliably determine the stand-alone selling prices of competitor's products and services, and as a result, we cannot rely on TPE for our deliverables. Therefore, we utilize estimates of BESP to determine the selling prices of our deliverables. BESP is determined through consultation with management, taking into consideration our marketing and pricing strategies. As these strategies evolve, we may modify our pricing practices in the future, which could result in changes in the estimates used to estimate BESP which could change the allocation of revenue for our multiple element arrangements.

Stock-Based Compensation

We measure and recognize compensation expense for share-based payment awards made to our employees and directors, including employee stock options and restricted stock units, based on the grant-date fair values of the awards.

We estimate the fair value of stock options granted using the Black-Scholes option-pricing model. This model requires us to make estimates and assumptions including, among other things, estimates regarding the length of time an employee will retain vested stock options before exercising them, the estimated volatility of our common stock price using peer company volatility and the number of options that will be forfeited prior to vesting. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Changes in these estimates and assumptions can materially affect the determination of the fair value of share-based compensation and consequently, the related amount recognized in our consolidated statements of operations.

Stock-based compensation expense for our restricted stock units and performance based restricted stock awards is determined using the fair value of our common stock on the date of grant, and the expense is recognized on a straight-line basis over the vesting period. Performance based restricted stock awards compensation expense is only recorded if it is probable that the performance conditions will be met.

Valuation analysis of goodwill and intangible assets

We perform our annual goodwill impairment analysis in the fourth quarter of each year according to the provisions of ASC 350-20-35. A two-step impairment test of goodwill is required, unless the simplified method is elected. In the first step, the fair value of each reporting unit is compared to its carrying value. If the fair value exceeds carrying value, goodwill is not impaired and further testing is not required. If the carrying value exceeds fair value, then the second step of the impairment test is required to determine the implied fair value of the reporting unit’s goodwill. The implied fair value of goodwill is calculated by deducting the fair value of all tangible and intangible net assets of the reporting unit, excluding goodwill, from the fair value of the reporting unit as determined in the first step. If the carrying value of the reporting unit’s goodwill exceeds its implied fair value, then an impairment loss must be recorded equal to the difference.

Our goodwill valuation analysis is based on our respective reporting units (Managed Services and Cloud and Business Intelligence), which are consistent with our operating segments identified in Note 16-Segment and Geographic Information of the Notes to Consolidated Financial Statements. We determined the fair value of our reporting units as of December 31, 2014 by the income approach. Under the income approach, we estimated fair value based on a projected cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

Significant management judgments are required in order to assess goodwill and intangible asset impairment, including the following:

- identification of comparable companies to benchmark under the market approach giving due consideration to the following factors:
  - financial condition and operating performance of the reporting unit being evaluated relative to companies operating in the same or similar business,
  - economic, environmental, and political factors faced by such companies, and
- impact of goodwill impairment recognized in prior years,
- susceptibility of our reporting unit to fair value fluctuations,
- reporting unit revenue, gross profit, and operating expense growth rates,
- financial forecasts,
- discount rate to apply to estimated cash flows,
- terminal values,

• reasonable gross profit levels,

- estimated control premium a willing buyer is likely to pay, including consideration of the following:
  - the most similar transactions in relevant industries and determined the average premium indicated by the transactions deemed to be most similar to a hypothetical transaction involving our reporting units,
  - weighted average and median control premiums offered in relevant industries,
  - industry specific control premiums, and
  - specific transaction control premiums.
- significant events or changes in circumstances including the following:
  - significant negative industry or economic trends,
  - significant decline in our stock price for a sustained period,
  - our market capitalization relative to net book value,
  - significant changes in the manner of our use of the acquired assets,
  - significant changes in the strategy for our overall business, and
  - our assessment of growth and profitability in each reporting unit over the coming years.

Given the uncertainty of the economic environment and the potential impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of our goodwill impairment testing at December 31, 2014 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or gross profit rates are not achieved, we may be required to record additional goodwill impairment charges in future periods relating to any of our reporting units, whether in connection with the next annual impairment testing in the fourth quarter of 2015 or prior to that, if any such change constitutes an interim triggering event. It is not possible to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

As part of this process, we engaged a third party valuation firm to assist management in its analysis. All estimates, key assumptions, and forecasts were either provided by or reviewed by us. While we chose to utilize a third party valuation firm, the impairment analysis and related valuations represent the conclusions of management and not the conclusions or statements of any third party.

Income Taxes

We account for income taxes using an asset and liability method, which requires the recognition of taxes payable or refundable for the current year and deferred tax assets and liabilities for the expected future tax consequences of temporary differences that currently exist between the tax basis and the financial reporting basis of our taxable subsidiaries' assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in operations in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

We regularly assess the need for a valuation allowance against our deferred tax assets. In making that assessment, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets on a jurisdictional basis to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. Examples of positive and negative evidence include future growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, historical earnings, taxable income in prior years, if carryback is permitted under the law and prudent and feasible tax planning strategies. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets valuation allowance would be charged to earnings in the period in which we make such a determination, or goodwill would be adjusted at our final determination of the valuation allowance related to an acquisition within the measurement period. If we later determine that it is more likely than not that the net deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance as an adjustment to earnings at such time.

We account for unrecognized tax benefits using a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We establish reserves for tax-related uncertainties

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based on estimates of whether, and the extent to which, additional taxes will be due. We record an income tax liability, if any, for the difference between the benefit recognized and measured and the tax position taken or expected to be taken on our tax returns. We recognize interest accrued and penalties related to unrecognized tax benefits in the income tax provision. To the extent that the assessment of such tax positions change, the change in estimate is recorded in the period in which the determination is made. The reserves are adjusted in light of changing facts and circumstances, such as the outcome of a tax audit. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

Recent Accounting Pronouncements

See "Note 2. Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on Consolidated Balance Sheets and Consolidated Statements of Operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro, British pound, Singapore dollar and Malaysian Ringgit. To date, we have not entered into any foreign currency hedging contracts, but may consider entering into such contracts in the future. We believe our operating activities act as a natural hedge for a substantial portion of our foreign currency exposure because we typically collect revenue and incur costs in the currency in the location in which we provide our solution from our sales centers. However, our global sales operations center in Kuala Lumpur incurs costs in the Malaysian Ringgit but we do not generate revenue or cash proceeds in this currency and, as a result, have some related foreign currency risk exposure. As our international operations grow, we will continue to reassess our approach to managing our risk relating to fluctuations in currency rates.

We performed a sensitivity analysis of our foreign currency exposure at December 31, 2014 to assess the potential impact of fluctuations in exchange rates for all foreign denominated assets and liabilities. A 10% appreciation or depreciation for all currencies against the U.S. dollar at December 31, 2014 would not have had a material impact on our results of operations or our cash flows.

Interest Rate Risk

At December 31, 2014, we had cash and cash equivalents of $90.4 million and short-term investments of $125.0 million, which primarily consisted of corporate bonds, agency securities, asset-backed securities and U.S. treasury securities. The carrying amount of our cash equivalents reasonably approximates fair value due to the short maturities of these instruments. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs and the fiduciary control of cash and investments. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to fluctuations in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, however, we do not believe an immediate 10% increase or decrease in interest rates would have a material effect on the fair market value of our portfolio. We therefore do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates. We do not believe our cash equivalents have significant risk of default or illiquidity. While we believe our cash equivalents do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits. We cannot be assured that we will not experience losses on these deposits

As of December 31, 2014, we had $150.0 million aggregate principal amount of convertible senior notes outstanding and capital lease obligations of $0.5 million, all of which are fixed rate instruments. Therefore, our results of operations are not subject to fluctuations in interest rates.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
ServiceSource International, Inc.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
ServiceSource International, Inc.

To the Board of Directors and Stockholders of ServiceSource International, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive loss, stockholders’ equity and cash flows present fairly, in all material respects, the financial position of ServiceSource International, Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

March 16, 2015

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ServiceSource International, Inc.
Consolidated Balance Sheets
(In thousands, except per share amounts)

	December 31, 2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$90,382	$170,132
Short-term investments	125,000	105,001
Accounts receivable, net	70,163	73,113
Deferred income taxes	398	412
Prepaid expenses and other	6,815	6,295
Total current assets	292,758	354,953
Property and equipment, net	25,658	27,998
Deferred income taxes, net of current portion	2,488	2,035
Goodwill and intangibles, net	10,957	6,334
Other assets, net	7,985	8,626
Total assets	$339,846	$399,946
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$2,922	$3,610
Accrued taxes	1,721	1,134
Accrued compensation and benefits	20,056	19,610
Deferred revenue	7,018	5,905
Accrued liabilities and other	11,451	9,509
Total current liabilities	43,168	39,768
Obligations under capital leases, net of current portion	329	387
Convertible notes, net	120,730	113,915
Other long-term liabilities	4,331	5,179
Total liabilities	168,558	159,249
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 20,000,000 shares authorized and none issued and outstanding	—	—
Common stock; $0.0001 par value; 1,000,000 shares authorized, 83,928 shares issued and 83,807 shares outstanding as of December 31, 2014; 82,086 shares issued and 81,965 shares outstanding at December 31, 2013	8	8
Treasury stock	(441)	(441)
Additional paid-in capital	312,017	286,526
Accumulated deficit	(141,409)	(46,250)
Accumulated other comprehensive income	1,113	854
Total stockholders' equity	171,288	240,697
Total liabilities and stockholders' equity	$339,846	$399,946

The accompanying notes are an integral part of these consolidated financial statements.

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ServiceSource International, Inc.
Consolidated Statements of Operations
(In thousands, except per share amounts)

	Years Ended December 31,		
	2014	2013	2012
Net revenue	$272,180	$272,482	$243,703
Cost of revenue	194,009	162,449	136,321
Gross profit	78,171	110,033	107,382
Operating expenses:			
Sales and marketing	59,988	58,826	56,925
Research and development	25,802	23,855	19,255
General and administrative	47,808	44,913	41,135
Restructuring and other	3,314	—	—
Goodwill and other intangibles impairments	25,108	—	—
Total operating expenses	162,020	127,594	117,315
Loss from operations	(83,849)	(17,561)	(9,933)
Other, net	(11,008)	(4,420)	(774)
Loss before income taxes	(94,857)	(21,981)	(10,707)
Income tax provision	302	871	32,107
Net loss	$(95,159)	$(22,852)	$(42,814)
Net loss per common share:			
Basic	$(1.15)	$(0.29)	$(0.58)
Diluted	$(1.15)	$(0.29)	$(0.58)
Weighted-average shares used in computing net loss per common share:			
Basic	82,872	78,408	74,270
Diluted	82,872	78,408	74,270

The accompanying notes are an integral part of these consolidated financial statements.

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ServiceSource International, Inc.
Consolidated Statements of Comprehensive Loss
(In thousands)

	Years Ended December 31,		
	2014	2013	2012
Net loss	$(95,159)	$(22,852)	$(42,814)
Other comprehensive income:			
Foreign currency translation adjustments	471	579	(110)
Unrealized (loss) gain on short-term investments, net of tax	(212)	167	(20)
Total other comprehensive income (loss), net of tax	259	746	(130)
Total comprehensive loss, net of tax	$(94,900)	$(22,106)	$(42,944)

The accompanying notes are an integral part of these consolidated financial statements.

ServiceSource International, Inc.
Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Stock		Treasury Shares/Stock		Additional Paid-in Capital	Retained Earnings/ Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balances at January 1, 2012	72,688	$ 7	(121)	$ (441)	$ 177,796	$ 19,416	$ 238	$ 197,016
Issuance of common stock from exercise of stock options, vesting of RSU's and employee stock purchase plan	2,570	1	—	—	10,483	—	—	10,484
Stock-based compensation	—	—	—	—	20,883	—	—	20,883
Income tax benefit from stock-based compensation	—	—	—	—	1,488	—	—	1,488
Comprehensive loss:								
Net loss	—	—	—	—	—	(42,814)	—	(42,814)
Other comprehensive loss	—	—	—	—	—	—	(130)	(130)
Total comprehensive loss								(42,944)
Balances at January 1, 2013	75,258	8	(121)	(441)	210,650	(23,398)	108	186,927
Proceeds from common stock issuance (Options) and employee stock purchase plan	5,887	—	—	—	24,976	—	—	24,976
Vested restricted stock units converted to shares	514	—	—	—	—	—	—	—
Equity component of the convertible notes issuance, net	—	—	—	—	37,297	—	—	37,297
Issuance of warrants	—	—	—	—	21,763	—	—	21,763
Bond hedges	—	—	—	—	(31,408)	—	—	(31,408)
Stock-based compensation	—	—	—	—	23,608	—	—	23,608
Income tax deficiency from stock-based compensation	—	—	—	—	(360)	—	—	(360)
Comprehensive loss:								
Net loss	—	—	—	—	—	(22,852)	—	(22,852)
Other comprehensive loss	—	—	—	—	—	—	746	746
Total comprehensive loss								(22,106)
Balances at January 1, 2014	81,659	8	(121)	(441)	286,526	(46,250)	854	240,697
Proceeds from common stock issuance (Options) and employee stock purchase plan	937	—	—	—	4,386	—	—	4,386
Vested restricted stock units converted to shares	1,332	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	20,959	—	—	20,959
Income tax benefit from stock-based compensation	—	—	—	—	146	—	—	146
Comprehensive loss:								

Net loss	—	—	—	—	—	(95,159)	—	(95,159)
Other comprehensive loss	—	—	—	—	—	—	259	259
Total comprehensive loss								(94,900)
Balances at December 31, 2014	83,928	$ 8	(121)	$ (441)	$ 312,017	$ (141,409)	$ 1,113	$ 171,288

The accompanying notes are an integral part of these consolidated financial statements.

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ServiceSource International, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net loss	$(95,159)	$(22,852)	$(42,814)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	13,219	11,652	10,003
Amortization of debt discount and issuance costs	7,474	2,761	149
Amortization of premium on short-term investments	(245)	750	591
Deferred income taxes	(514)	217	31,340
Stock-based compensation	20,899	23,620	20,883
Tax (benefit) deficit from stock-based compensation	(146)	360	(1,488)
Restructuring and other	952	—	—
Goodwill and other intangibles impairments	25,108	—	—
Changes in operating assets and liabilities:			
Accounts receivable, net	3,716	(7,470)	(10,906)
Prepaid expenses and other	(631)	(1,305)	3,819
Accounts payable	(278)	521	(2,473)
Accrued taxes	477	71	115
Accrued compensation and benefits	248	3,772	(6,239)
Accrued liabilities and other	1,118	3,578	7,522
Net cash (used in) provided by operating activities	(23,762)	15,675	10,502
Cash flows from investing activities			
Acquisition of property and equipment	(9,357)	(5,261)	(20,353)
Investment in privately held company	—	(4,500)	—
Cash paid for acquisition, net of cash acquired	(32,550)	—	—
Purchases of short-term investments	(84,415)	(89,747)	(64,002)
Sales of short-term investments	60,407	14,436	52,051
Maturities of short-term investments	4,043	2,600	21,415
Net cash used in investing activities	(61,872)	(82,472)	(10,889)
Cash flows from financing activities			
Proceeds from issuance of convertible notes	—	150,000	