

SERVICESOURCE INTERNATIONAL, INC.

Form 10-K

March 07, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

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)

94,107
(Zip Code)

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

Securities registered pursuant to Section 12(b)

Common Stock, \$0.0001 Par Value

Name of each exchange on which registered
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

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

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 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 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.

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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

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

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 28, 2013, the last business day of the registrant’s most recently completed second fiscal quarter, as reported on The NASDAQ Global Market, was \$360,520,829. 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, 2014, there were approximately 82,583,868 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for its 2014 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 possible or assumed future results of operations; 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, including as a result of sales of Renew OnDemand, on a stand-alone subscription basis; our ability to implement Renew OnDemand; 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 a global leader in recurring revenue management partnering with technology and technology-enabled companies to optimize maintenance, support and subscription revenue streams, while also improving customer relationships and loyalty. We deliver these results via a cloud application , Renew OnDemand and associated managed services, leveraging benchmarks and best practices derived from our rich database of service and renewal behavior. By integrating software, managed services and data, we provide end-to-end management and optimization of the service-contract renewals process, including data management, quoting, selling

and recurring-revenue business intelligence. 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, shared-risk partnership with our customers.

ServiceSource offers a cloud application, Renew OnDemand, to automate this highly valuable but typically manual business process. Renew OnDemand and our proven managed services, drive higher subscription, maintenance and support revenue while improving customer retention and increasing business predictability.

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ServiceSource delivers results by leveraging best practices derived from our extensive database of service and renewal behavior across companies, industries and geographies. By integrating cloud services, managed services and renewal-ready data, we provide end-to-end management and optimization of the recurring revenue process, including data management, quoting, selling and business intelligence.

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, shared-risk partnership with our customers.

Renew OnDemand, our cloud application built to maximize recurring revenue, can be purchased with or without our managed selling services.

As of December 31, 2013, we managed approximately 150 engagements across more than 70 customers, representing over \$11.6 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 sell 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.

Our total revenue was \$272.5 million, \$243.7 million and \$205.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. For summarized financial information by geographic area, see Note 14 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 Solution

Our solution is based on a decade of experience pioneering the recurring revenue management category and is designed to optimize recurring revenue performance for our customers. It addresses the critical elements of the renewals process, including data management, quoting, selling and recurring-revenue business intelligence. We believe our solution, reflects the growing trend of delivering enterprise services via the cloud. We believe this approach is critical to addressing the unique requirements of effective recurring revenue management.

The components of our solution consist of our Renew OnDemand SaaS application introduced in September 2012, Scout Analytics (that was acquired in January 2014) and a suite of managed services. The foundation of our solution is Renew OnDemand, a SaaS-based renewal management system based on our data warehouse of transactional, analytical and industry data that grows with each service renewal transaction and customer. Our suite of cloud applications increase visibility and control of recurring revenue streams and are utilized by customers, their channel partners, end customers and our service sales teams. Our managed services including data, enablement and selling services, in which dedicated service teams have specific expertise in our customers’ businesses, are deployed under our customers’ brands and follow a sales process tailored specifically to increase service contract renewals.

Renew OnDemand Platform

Since our inception, we have developed and evolved our data capabilities which provide customers with a unified view of their data from diverse sources and leverage a data warehouse of transactional, analytical and industry information to offer a comparative view of our customers' results against their industry peers. This information includes:

Transactional data. An integral part of our renewals process is the broad data capture we perform to ensure we have documented the important information about each transaction. With over four million transactions completed since inception, we have been able to build a robust data warehouse of recurring revenue and renewals information.

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Analytical data . We track and leverage dozens of KPIs and benchmarks in our platform across our business. The data has been analyzed across a number of dimensions, such as region, customer segment, and contract dollar value, among others.

Industry data . At the core of our platform is a recurring revenue-specific data model and benchmarking database that allows us to extract transactional data from customers and capture other structured and unstructured analytical data in a consistent manner. This allows us to benchmark performance across industries and perform cohort analyses to understand where we can apply best practices to increase performance.

Our platform improves with every renewal we manage, every customer we engage, and every benchmarking study we complete. We believe this is the most comprehensive data warehouse built exclusively for managing and optimizing recurring revenue from maintenance, support and subscription agreements on behalf of third-party customers.

Renew OnDemand includes key applications that help customers increase recurring revenue and profitability, improve retention and gain unique business insights. These applications are designed to optimize specific elements of the renewals process. Our applications reflect our experience in optimizing recurring revenue and are tested for usability and impact inside our own operations. Our suite of applications includes:

Renew Analytics. Our Analytics application provides analysis and reporting. It delivers dashboards to view and analyze recurring revenue performance by customer, revenue tier, channel partner, product line and region. It also provides real-time visibility into expected results, conversion and up-sells, territory analysis, benchmarking and other trending reports. This tool enables the executive staff of our customers to identify trends and update sales strategies.

Renew Sales. This application module provides the information, best practices and automation needed by a renewal sales team in a simple, easy-to-use application built specifically for maximizing recurring revenue streams. Renew Sales automates time-consuming manual activities while providing all the essential information needed to identify opportunities and close a sale. It includes quoting, forecasting, and workflow tools as well as an analytics dashboard which allows sales people and managers the ability to view overall pipeline, top opportunities and performance trendsprofessionals.

Renew Ops. Renew Ops allows customers to separate selling and administrative activities so their sales people can focus on selling. Sales administration teams have a complete application to manage all operational activities and ensure tasks are completed in an accurate and timely fashion.

Renew Channel. Our Channel application provides channel partners and resellers with online access to their specific renewals opportunities and their performance. The application includes an executive dashboard that enables partners to view their renewals pipeline, their performance against key performance targets and how they are trending compared to previous quarters. In addition, an opportunity view allows partners to manage each upcoming renewal opportunity, find account, contact and asset information specific to that opportunity, download pre-built quotes and request assistance from us to support the sales process.

Renew Installed Base. Our Installed Base application provides a single repository for cleansed installed-base data and deep business intelligence to analyze the integrity and completeness of the data to flag anomalies and missing data elements and to identify cross- sell and up-sell opportunities. The application provides resellers, distributors and sales representatives with an accurate view of the installed base, including information on end customer purchases and usage. Renew Installed Base also facilitates workflow between sales representatives, channel partners and the ServiceSource sales operations teams to correct installed base data issues in the customer's source data systems.

Scout Analytics

The Scout Suite is an array of role-based products that leverage the Scout Platform, a powerful recurring revenue management solution designed to maximize customer value and accelerate growth in revenue and profits. All of the products in the Scout Suite help companies integrate customer data, predict opportunities, and automate customer

engagement processes-but each product comes with its own specialized workflows, automation, and reports, designed to solve specific recurring revenue challenges.

Managed Services

We leverage our knowledge base across critical business processes, including:

Service Performance Analysis . During the SPA process, we conduct interviews of our prospective customers,

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analyze their historical performance and future opportunity, and evaluate their recurring revenue business on a number of dimensions. We also use our breadth of experience to benchmark and identify service renewal opportunities, and to calculate our ability to improve performance based on our performance with similar types of businesses and opportunities.

Business Case, Pricing and Contract Structuring . We utilize our reservoir of data and benchmarks to estimate the critical components of the business case and pricing model that we use in discussions with 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, optimize and continuously improve the performance of our service sales teams.

Customer Benchmarking and Continuous Improvement . Our extensive renewals platform serves as the foundation to benchmark our customers' evolving recurring revenue performance against industry peers and previous period performance. We convene quarterly business review meetings and annual partnership reviews with our customers to review performance, identify potential weaknesses in the renewals process and 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 that 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.

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 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 as a full pay for performance solution. They include Selling Services, Enablement Services, and Data Services. Our service sales teams are grouped into three primary areas:

Selling Services We offer customers the ability to buy a high performance sales team to drive recurring revenue as part of a full pay for performance solution. Our team acts as an extension of the customer's sales team, directly contacting end users and channel partners to drive recurring revenue, close contracts, and upsell/cross-sell additional products and services. Our sales teams are trained in our renewals sales methodology, a set of proven best practices developed over twelve years of experience focused exclusively on recurring revenue sales. They undergo extensive training on our processes, applications, and on products, competitive differentiation and value propositions of the products and services they represent. This team is backed up by our sales enablement and data services teams which are provided as separate and complementary offerings.

Enablement Services We provide recurring revenue forecasting tailored to fit our customers' bookings, revenue targets and specific reporting requirements. We supply a dedicated team of resources and tools to build and update customer and channel partner quotes and distribute them to the sales teams, channel partners and customers. Finally, we offer a business analytics team that provides analysis to maximize recurring revenue performance and provide insight into end customers, competitors and channel partners.

Data Services Our specially trained data teams pull together and prepare critical renewals data from disparate sources, creating a holistic view of the recurring revenue opportunity. A single renewal often requires up to 100 data elements - 10 times more than that of a new product sale, typically from five to seven disparate systems. Our data teams merge and cleanse data, and continuously analyze data quality to track improvement over time.

Our Renew OnDemand platform, as well as our legacy cloud based solution, are hosted at third-party data centers where we employ rigorous technologies, policies and procedures to protect customer data.

Key benefits of our solution include:

Financial Benefits

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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.

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. Our Renew OnDemand™ Platform allows us to analyze our customers’ renewals against similar transactions and to identify areas for improvement, enabling greater insight into their renewals business. All transactions, whether or not resulting in a successful renewal by an end customer, 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 applications 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. CFOs 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.

Strengthened channel loyalty. Our Channel Sales Cloud application empowers our customers’ channel partners to generate higher sales by providing accurate, real-time data on their renewal opportunities and performance relative to quota, as well as tools to sell more effectively to end customers. Our cloud applications help our customers develop a closer relationship with their channel partners and enable our customers to increase renewals through the channel.

Global consistency. We are able to maintain a globally consistent renewals process for our customers. Our global sales centers operate from a unified platform. Our solution automates the application of best practices to the recurring revenue renewals process and provides all relevant constituencies with a consistent view of the data. This facilitates contract renewals and provides reliable performance management and analytics.

Our Strategy

We intend to continue our industry leadership in recurring revenue management with the following strategies:

Increased use and adoption of our industry-leading cloud application. Offered on a subscription basis, Renew OnDemand is the core foundation of our customer-facing cloud applications in addition to being used for our internal operations. Our Renew OnDemand subscription offering is differentiated by our ability to provide a suite of managed services to create renewal ready data to enable high performance sales. As we move from one complete solution to an unbundled offering, we offer a menu of services which customers can attach to their Renew OnDemand subscriptions. These services include data services, enablement services, selling services and support services.

Expand our customer base to additional industry verticals. We recognize that recurring revenue opportunities exist in sectors beyond the technology industry we have traditionally served. Our penetration in the SaaS market has grown

significantly this year. We currently have a small number of technology-enabled health care and life sciences and industrial systems customers for whom we manage equipment maintenance and support contracts. We believe there are additional industry verticals that can benefit from our expertise and best practices, and we intend to pursue these opportunities.

• Expand our customer base within existing industry verticals. We believe there is a significant opportunity to increase our recurring revenue opportunity under management. We currently have more than 70 customers and believe there

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are over 800 companies in our addressable market. In addition, we intend to increase investment in our sales and marketing organization to win new customers in technology and technology-enabled industries.

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. Typically, we initially manage 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 leading to an increase of revenue opportunity under management for that customer, and ultimately greater revenue.

Develop new functionality for Renew OnDemand. We have developed Renew OnDemand to drive increases in efficiency and help to automate tasks associated with recurring revenue management. By continuing to automate processes and innovate on our technology platform, we can lower operating costs, increase the efficiency of our solutions and ultimately enhance our profitability and cash flow.

Customers

We sell our solutions to technology and technology-enabled health care and life sciences companies. As of December 31, 2013, we managed approximately 150 engagements across more than 70 customers, representing over \$11.6 billion in recurring revenue opportunity under management.

Our top ten customers accounted for approximately 50%, 50% and 47% of our revenue in 2013, 2012 and 2011, respectively. One customer represented over 10% of our revenue in 2013, 2012 and 2011.

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 industry verticals. 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, technology and finance executives within technology and technology-enabled health care and life sciences 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 ServiceSource products and services.

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 21 senior executives, including three 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 product and service offerings as well as complementary new capabilities as part of 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, customers, channel partners and end customers to optimize recurring revenue performance. We are also investing in the development of Renew OnDemand to serve our customers' needs and enable greater operational efficiencies in our organization.

Our research and development expenses were \$23.9 million in 2013, \$19.3 million in 2012 and \$13.1 million in 2011. In addition, we capitalized certain expenditures related to the development and enhancement of internal-use software in 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, SAP, salesforce.com and NetSuite. Some companies have made further investments in this area using firms such as Accenture and McKinsey for technology consulting and education

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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 industry expertise, best practices, and benchmarks;
- performance-based pricing of solutions;
- ability to increase recurring revenue and renewal 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.

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 and two international patent applications. 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 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, 2013, we had 2,914 employees. None of our employees is represented by a labor union with respect to his or her employment with us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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 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;

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