

## ServiceSource Reports Second Quarter 2014 Financial Results

**SAN FRANCISCO, July 31, 2014** - ServiceSource® (Nasdaq: SREV), the global leader in recurring revenue management, today announced financial results for the second quarter ended June 30, 2014.

“Despite some great expansions and new customer additions, our results this quarter reflect the execution challenges of our hybrid operating model,” said Mike Smerklo, Chairman & CEO of ServiceSource. “As such, we are announcing plans to create two separate business units for our Managed Services and SaaS operations and to align our customer-facing teams along these different efforts. I am confident that our plan to separate our business across these distinct offerings, right size our spend levels and re-focus on our Managed Services operations will put us back on track to growth and profitability.”

GAAP revenue was \$66.0 million in the second quarter, representing a 2.5% decrease from the \$67.7 million delivered in the prior year. Non-GAAP revenue, which excludes the impact of the reduction of deferred revenue in connection with our acquisition of Scout Analytics, was \$66.3 million, reflecting a 2.0% decrease over prior year.

For the second quarter of fiscal year 2014, adjusted EBITDA was a loss of \$9.7 million, compared with a gain \$4.4 million for the same period last year. GAAP net loss in the quarter was \$21.1 million, or \$0.25 per share, compared with loss of \$4.9 million, or \$0.06 per share, for the same period last year. Non-GAAP net loss in the quarter was \$7.3 million compared with non-GAAP net income of \$1.5 million for the same period last year. Non-GAAP EPS was \$0.09 loss per basic and diluted share, compared with \$0.02 income per diluted share for the same period last year.

A reconciliation of GAAP to non-GAAP financial measures has been provided in the financial statement tables included in this press release.

### Quarterly Conference Call

ServiceSource will discuss its second quarter of 2014 results and provide 2014 financial guidance today via teleconference at 1:30 p.m. Pacific Time. To access the call within the U.S., please dial (877) 293-5486, or outside the U.S. (914) 495-8592, at least five minutes prior to the start time. Conference ID number: 75456311. In addition, a live webcast of the call will also be available on the Investor Relations section of the ServiceSource web site under Events & Presentations. A replay of the webcast will also be available on the Company's website at <http://ir.servicesource.com>.

### Forward-Looking Statements

This press release contains forward-looking statements, including statements regarding the benefits of ServiceSource offerings, our managed services, our Renew OnDemand cloud platform and application, and/or our Scout application. These forward-looking statements are based on our current assumptions and beliefs, and involve risks and uncertainties that could cause our results to differ materially from those expressed or implied in our forward-looking statements. Those risks and uncertainties include, without limitation, fluctuations in our quarterly results of operations; the risk of material defects or errors in our software offerings or their failure to meet customer expectations; migrating customers to Renew OnDemand and other SaaS offerings and the ability to integrate such offerings with other third-party applications used by our customers; errors in estimates as to the renewal rate improvements and/or service revenue we can generate for our customers; our ability to grow the market for service revenue management; our ability to protect our intellectual property rights; the risk of claims that our offerings

infringe the intellectual property rights of others; changes in market conditions that impact our ability to sell the Renew OnDemand, Scout or other SaaS solutions and/or generate service revenue on our customers' behalf; the possibility that our estimates of service revenue opportunity under management and other metrics may prove inaccurate; demand for our offering that falls short of expectations; our ability to keep customer data and other confidential information secure; our ability to adapt our solution to changes in the market or new competition; general political, economic and market conditions and events; and other risks and uncertainties described more fully in our periodic reports and registration statements filed with the Securities and Exchange Commission, which can be obtained online at the Commission's website at <http://www.sec.gov>. All forward-looking statements in this press release are based on information currently available to us, and we assume no obligation to update these forward-looking statements.

## **About ServiceSource**

ServiceSource International, Inc. (NASDAQ: SREV) is the global leader in cloud-based recurring revenue management solutions. The company helps customers drive growth and build long-standing relationships across the customer lifecycle with the industry's most comprehensive data management, analytics, automation and services capabilities. Through Renew OnDemand™, Scout® and proven services, ServiceSource delivers higher subscription, maintenance, and support revenue, improved customer retention, and increased business predictability. Headquartered in the Cloud Corridor of San Francisco, ServiceSource® manages \$14.5 billion in recurring revenue for the world's largest and most respected technology and B2B companies. For more information, please go to [www.servicesource.com](http://www.servicesource.com).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net revenue	\$ 65,997	\$ 67,697	\$ 132,813	\$ 128,818
Cost of revenue (1)	48,518	38,620	96,113	77,118
Gross profit	17,479	29,077	36,700	51,700
Operating expenses:				
Sales and marketing (1)	17,212	15,367	32,883	30,175
Research and development (1)	6,881	6,794	13,597	13,042
General and administrative (1)	12,256	10,783	25,121	22,004
Total operating expenses	36,349	32,944	71,601	65,221
Loss from operations	(18,870)	(3,867)	(34,901)	(13,521)
Other (income) expense:				
Interest expense	(2,471)	(50)	(4,860)	(104)
Other, net	275	(245)	90	(299)
Loss before income taxes	(21,066)	(4,162)	(39,671)	(13,924)
Income tax provision	26	744	161	1,437
Net loss	\$ (21,092)	\$ (4,906)	\$ (39,832)	\$ (15,361)
Net loss per share, basic and diluted	\$ (0.25)	\$ (0.06)	\$ (0.48)	\$ (0.20)
Weighted average common shares outstanding, basic and diluted	82,784	77,275	82,432	76,447

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenue	\$ 1,099	\$ 688	\$ 2,133	\$ 1,420
Sales and marketing	1,583	2,449	3,420	4,982
Research and development	736	519	1,437	1,005
General and administrative	1,932	1,767	3,942	3,936
Total stock-based compensation	\$ 5,350	\$ 5,423	\$ 10,932	\$ 11,343

**ServiceSource International, Inc.**  
**Condensed Consolidated Balance Sheets**  
(In thousands)  
(Unaudited)

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 115,576	\$ 170,132
Short-term investments	124,911	105,001
Accounts receivable, net	60,142	73,113
Deferred income taxes	412	412
Prepaid expenses and other	6,570	6,295
Total current assets	307,611	354,953
Property and equipment, net	28,574	27,998
Deferred income taxes, net of current portion	2,035	2,035
Other assets, net	16,392	8,626
Goodwill and intangibles, net	28,987	6,334
Total assets	<u>\$ 383,599</u>	<u>\$ 399,946</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,737	\$ 3,610
Accrued taxes	1,638	1,134
Accrued compensation and benefits	21,801	19,610
Deferred revenue	5,329	5,905
Accrued liabilities and other	12,317	9,509
Total current liabilities	45,822	39,768
Convertible notes, net	117,220	113,915
Deferred revenue, non-current	109	367
Other long-term liabilities	4,828	5,199
Total liabilities	167,979	159,249
Stockholders' equity:		
Common stock	8	8
Treasury stock	(441)	(441)
Additional paid-in capital	301,091	286,526
Accumulated deficit	(86,082)	(46,250)
Accumulated other comprehensive income	1,044	854
Total stockholders' equity	215,620	240,697
Total liabilities and stockholders' equity	<u>\$ 383,599</u>	<u>\$ 399,946</u>

**ServiceSource International, Inc.**  
**Condensed Consolidated Statements of Cash Flows**

(In thousands)

(Unaudited)

Six months ended

June 30,

	2014	2013
<b>Cash flows from operating activities</b>		
Net loss	\$ (39,832)	\$ (15,361)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,322	6,028
Amortization of debt discount and issuance costs	3,636	24
Accretion of premium on short-term investments	40	347
Deferred income taxes	—	545
Stock-based compensation	10,932	11,343
Income tax charge from stock-based compensation	—	264
Changes in operating assets and liabilities:		
Accounts receivable, net	15,504	4,040
Prepaid expenses and other	(45)	(1,204)
Accounts payable	1,030	(558)
Accrued taxes	315	752
Accrued compensation and benefits	1,936	3,291
Accrued liabilities and other	70	2,156
Net cash (used in) provided by operating activities	(92)	11,667
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(5,577)	(2,224)
Cash paid for acquisition, net of cash acquired	(32,551)	—
Purchases of short-term investments	(46,926)	(26,647)
Sales of short-term investments	23,134	3,154
Maturities of short-term investments	3,943	1,250
Net cash used in investing activities	(57,977)	(24,467)
<b>Cash flows from financing activities</b>		
Repayment on capital leases obligations	(212)	(161)
Proceeds from common stock issuances	3,569	13,612
Income tax charge from stock-based compensation	—	(264)
Net cash provided by financing activities	3,357	13,187
Net (decrease) increase in cash and cash equivalents	(54,712)	387
Effect of exchange rate changes on cash and cash equivalents	156	448
Cash and cash equivalents at beginning of period	170,132	76,568
Cash and cash equivalents at end of period	\$ 115,576	\$ 77,403

## *Use of Non-GAAP Financial Measures*

To supplement its financial statements presented in accordance with generally accepted accounting principles, or GAAP, ServiceSource also provides investors with non-GAAP gross profit, net income, net income per share and Adjusted EBITDA. A reconciliation of these non-GAAP financial measures to the closest GAAP financial measure is presented in the financial tables below under the heading, "GAAP to Non-GAAP Reconciliation."

ServiceSource believes that the non-GAAP financial information provided in this release can assist investors in understanding and assessing its on-going core operations and prospects for the future and provides an additional tool for investors to use in comparing ServiceSource's financial results with other companies in the industry, many of which present similar non-GAAP financial measures to investors.

Non-GAAP revenue is defined as net revenue plus revenue not recognized in the period for Scout Analytics due to the impact of purchase accounting rules related to deferred revenue acquired.

Non-GAAP gross profit consists of gross profit plus adjustments to revenue related to purchase accounting, stock based compensation, amortization of purchased intangible assets and amortization of internally-developed software.

Non-GAAP net loss consists of net loss plus adjustments to revenue related to purchase accounting, stock-based compensation, amortization of purchased intangible assets, amortization of internally-developed software, acquisition related costs associated with external and incremental costs resulting directly from merger and acquisition activities such as legal, due diligence, integration costs, and acquisition bonus payments, non-cash interest expense and applying an income tax rate of 40% reflecting our estimated tax expense on our core operations. Stock-based compensation expense is expected to vary depending on the number of new grants issued, changes in the company's stock price, stock market volatility, expected option lives and risk-free rates of return, all of which are difficult to estimate.

EBITDA consists of net loss plus depreciation and amortization, interest expense, other expenses, net, and income tax expense. Adjusted EBITDA consists of EBITDA plus non-cash, stock-based compensation expense, acquisition related costs associated with external and incremental costs resulting directly from merger and acquisition activities such as legal, due diligence, integration costs, and acquisition bonus payments and adjustments to revenue related to purchase accounting. ServiceSource uses Adjusted EBITDA as a measure of operating performance because it assists the company in comparing performance on a consistent basis, as it removes from the operating results the impact of the company's capital structure.

These non-GAAP measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with generally accepted accounting principles in the United States.

**ServiceSource International, Inc.**  
**GAAP To Non-GAAP Reconciliation**  
(Dollars in thousands, except per share amounts)  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Net Revenue</b>				
GAAP net revenue	\$ 65,997	\$ 67,697	\$ 132,813	\$ 128,818
Adjustments to revenue (A)	314	—	760	—
Non-GAAP net revenue	<u>\$ 66,311</u>	<u>\$ 67,697</u>	<u>\$ 133,573</u>	<u>\$ 128,818</u>
<b>Gross Profit</b>				
<b>GAAP gross profit</b>	\$ 17,479	\$ 29,077	\$ 36,700	\$ 51,700
Non-GAAP adjustments:				
Adjustments to revenue (A)	314	—	760	—
Stock-based compensation (B)	1,099	688	2,133	1,420
Amortization of internally-developed software (C)	505	838	1,036	1,658
Amortization of purchased intangible assets (D)	348	—	623	—
Non-GAAP gross profit	<u>\$ 19,745</u>	<u>\$ 30,603</u>	<u>\$ 41,252</u>	<u>\$ 54,778</u>
<b>Gross Profit %</b>				
GAAP gross profit	26%	43%	28%	40%
Non-GAAP adjustments:				
Adjustments to revenue (A)	—%	—%	1%	—%
Stock-based compensation (B)	2%	1%	2%	1%
Amortization of internally-developed software (C)	1%	1%	1%	1%
Amortization of purchased intangible assets (D)	1%	—%	—%	—%
Non-GAAP gross profit	<u>30%</u>	<u>45%</u>	<u>31%</u>	<u>43%</u>
Certain totals do not add due to rounding				
<b>Operating Expenses</b>				
GAAP operating expenses	\$ 36,349	\$ 32,944	\$ 71,601	\$ 65,221
Stock-based compensation (B)	(4,251)	(4,735)	(8,799)	(9,923)
Amortization of internally-developed software (C)	(83)	(432)	(141)	(883)
Amortization of purchased intangible assets (D)	(212)	—	(377)	—
Acquisition related costs (E)	(175)	—	(728)	—
Non-GAAP operating expenses	<u>\$ 31,628</u>	<u>\$ 27,777</u>	<u>\$ 61,556</u>	<u>\$ 54,415</u>
<b>Net loss</b>				
GAAP net loss	\$ (21,092)	\$ (4,906)	\$ (39,832)	\$ (15,361)
Non-GAAP adjustments:				
Adjustments to revenue (A)	314	—	760	—
Stock-based compensation (B)	5,350	5,423	10,932	11,343
Amortization of internally-developed software (C)	588	1,270	1,177	2,541
Amortization of purchased intangible assets (D)	560	—	1,000	—
Acquisition related costs (E)	175	—	728	—
Non-cash interest expense (F)	1,877	—	3,665	—
Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate (G)	4,907	(268)	8,725	1,453
Non-GAAP net income (loss)	<u>\$ (7,321)</u>	<u>\$ 1,519</u>	<u>\$ (12,845)</u>	<u>\$ (24)</u>
<b>Diluted Net Loss Per Share</b>				
GAAP net loss per share	\$ (0.25)	\$ (0.06)	\$ (0.48)	\$ (0.20)
Non-GAAP adjustments:				
Adjustments to revenue (A)	—	—	0.01	—
Stock-based compensation (B)	0.06	0.07	0.13	0.15
Amortization of internally-developed software (C)	0.01	0.02	0.01	0.03
Amortization of purchased intangible assets (D)	0.01	—	0.01	—
Acquisition related costs (E)	—	—	0.01	—
Non-cash interest expense (F)	0.02	—	0.04	—
Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate (G)	0.06	—	0.11	0.02
Non-GAAP diluted net income (loss) per share	<u>\$ (0.09)</u>	<u>\$ 0.02</u>	<u>\$ (0.16)</u>	<u>\$ —</u>
Certain totals do not add due to rounding				
Shares used in calculating diluted net loss per share on a non-GAAP basis	<u>82,784</u>	<u>81,855</u>	<u>82,432</u>	<u>76,447</u>

## Footnotes to GAAP to Non-GAAP Reconciliation

(A) Adjustments to revenue - Due to purchase accounting rules, upon acquisition, we recorded an adjustment of \$1.65 million to reduce the balance of deferred revenue related to the assumed client contracts acquired from Scout Analytics. As a result of this adjustment, \$0.3 million of revenue was not recognized for the three months ended June 30, 2014 and \$0.8 million for the six months ended June 30, 2014. Therefore, revenue is adjusted by an increase of \$0.3 million to arrive at non-GAAP revenue for the three months ended June 30, 2014 and \$0.8 million to arrive at non-GAAP revenue for the six months ended June 30, 2014.

(B) Stock-based compensation. Included in our GAAP presentation of cost of revenue and operating expenses, stock-based compensation consists of expenses for stock options and awards and purchase rights under our stock purchase plan. We exclude stock-based compensation expense from our non-GAAP measures because some investors may view it as not reflective of our core operating performance as it is a non-cash expense.

(C) Amortization of internally-developed software. Included in our GAAP presentation of cost of revenue and operating expenses, amortization of internally-developed software reflects non-cash expense for certain software purchases and software developed or obtained for internal use. We exclude these expenses from our non-GAAP measures because we believe they are not indicative of our core operating performance.

(D) Amortization of Purchased Intangibles. Included in our GAAP presentation of gross margin and operating expenses is amortization of purchased intangible assets. We believe amortization of acquisition-related intangible assets, such as the amortization of the cost associated with an acquired company's research and development efforts, trade names and customer relationships, as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are continually evaluated for impairment, amortization of the cost of purchased intangibles is a static expense, one that is not typically affected by operations during any particular period.

(E) Acquisition related costs. Included in our GAAP presentation of operating expenses, acquisition costs consist of external and incremental costs resulting directly from merger and acquisition activities such as legal, due diligence, integration costs and acquisition bonus payments. These are one-time costs that vary significantly in amount and timing and are not indicative of our core operating performance.

(F) Non-cash interest expense. Under GAAP, we are required to separately account for liability (debt) and equity (conversion option) components of the \$150 million convertible senior notes that were issued in August 2013. Accordingly, for GAAP purposes we are required to recognize effective interest expense on our convertible senior notes which includes interest cost related to the amortization of debt issuance costs and the contractual 1.5% interest rate of the note. The difference between the effective interest expense and the contractual interest expense is excluded from our assessment of our operating performance because we believe that this non-cash expense is not indicative of ongoing operating performance. We believe that the exclusion of the non-cash interest expense provides investors a view of our core operating performance.

(G) Income tax effect on non-GAAP adjustments as well as the impact of normalizing the effective income tax rate. This adjusts (i) the provision for income taxes to reflect the effect of the non-GAAP items A, B, C, D, E and F noted above on our non-GAAP net loss; (ii) the income tax rate to a normalized effective tax rate of 40%; and (iii) non-GAAP earnings per share based on a fully-diluted share count.



**ServiceSource International, Inc.**  
**Reconciliation of Net Loss to Adjusted EBITDA**

(In thousands)

(Unaudited)

	Three Months Ended		Six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net loss	\$ (21,092)	\$ (4,906)	\$ (39,832)	\$ (15,361)
Income tax provision	26	744	161	1,437
Other expense, net	2,196	295	4,770	403
Depreciation and amortization	3,293	2,814	6,322	6,020
EBITDA	(15,577)	(1,053)	(28,579)	(7,501)
Stock-based compensation	5,350	5,423	10,932	11,343
Adjustments to revenue	314	—	760	—
Acquisition related costs	175	—	728	—
Adjusted EBITDA	\$ (9,738)	\$ 4,370	\$ (16,159)	\$ 3,842

**ServiceSource International, Inc.**

**Reporting Segments**

(In thousands)

(unaudited)

	Three Months Ended June 30,			
	2014		2013	
	Managed Services	Cloud and Business Intelligence	Managed Services	Cloud and Business Intelligence
Net Revenue	\$ 58,575	\$ 7,422	\$ 63,045	\$ 4,652
Cost of Revenue	42,589	5,929	36,103	2,517
Gross Profit	\$ 15,986	\$ 1,493	\$ 26,942	\$ 2,135

	Six Months Ended June 30,			
	2014		2013	
	Managed Services	Cloud and Business Intelligence	Managed Services	Cloud and Business Intelligence
Net Revenue	\$ 117,144	\$ 15,669	\$ 121,384	\$ 7,434
Cost of Revenue	83,895	12,218	72,221	4,897
Gross Profit	\$ 33,249	\$ 3,451	\$ 49,163	\$ 2,537

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