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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

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	**No. 81-0578975**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
634 Second Street	**94107**

San Francisco, California
(Address of Principal Executive Offices) **(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 x

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 x

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 x 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 x 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	x
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 x

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 29, 2012, the last business day of the registrant s most recently completed second fiscal quarter, as reported on The NASDAQ Global Market, was $695,671,110. 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, 2013, there were approximately 76,027,756 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its 2013 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 service revenue opportunity under management; changes in market conditions that impact our ability to generate service revenue on our customers behalf; errors in estimates as to the service 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 our next-generation technology platform, 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; 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, projects, seeks, 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 is the 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 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. . We launched Renew OnDemand, our cloud application built to maximize recurring revenue, in September, 2012. As of December 31, 2012, we managed over 145 engagements across more than 70 customers, representing over $8 billion in service revenue opportunity under management. Service 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.

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

Our total revenue was $243.7 million, $205.5 million and $152.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. For summarized financial information by geographic area, see Note 13 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/index.cfm/.

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 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.

Key benefits of our solution include:

Financial Benefits

- *Increased recurring revenue.* Our solution is designed to increase recurring revenues for our customers. Each customer engagement begins with an in-depth analysis of customers current renewal rates, which we call our Service Performance Assessment (SPA). 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 bundled solution can avoid infrastructure expenditures and personnel costs that would otherwise be associated with managing service 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) that are housed in our intelligence platform 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 as all of our five sales centers leverage 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 SaaS solution. Our Renew OnDemand service revenue management platform serves as a primary component of our solution. Offered on a subscription basis, Renew OnDemand is the core foundation of our cutomer-facing cloud applications in addition to applications we use 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.

Add new customers from additional industry verticals. We recognize that recurring revenue opportunities exist in sectors beyond the traditional technology industry. Our penetration in the SaaS market has grown significantly this year. We currently have a small number of technology-enabled healthcare 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 service revenue opportunity under management. We currently have more than 70 customers and believe there 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.

The Components of Our Solution

Our solution consists of our Renew OnDemand Platform and our managed services.

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.

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 service 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.

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, analyze their historical performance and future opportunity, and evaluate their service 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.

Service 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 service 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 ourcustomers 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 chose to purchase ala-carte 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 service 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 service 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.

Customers

We sell our solutions to technology and technology-enabled healthcare and life sciences companies. As of December 31, 2012, we managed over 145 engagements across more than 70 customers, representing over $8 billion in service revenue opportunity under management.

Our top ten customers accounted for approximately 50%, 47% and 54% of our revenue in 2012, 2011 and 2010, respectively. One customer represented over 10% of our revenue in 2012, 2011 and 2010 and another customer represented more than 10% of our revenue in 2010.

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 healthcare 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 service revenue at leading technology-based hardware, software, and healthcare companies. SEIB meets regularly to establish industry standards and best practices for benchmarking and measuring the health of global maintenance, support and subscription service 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 service revenue performance. We are also investing in the development of additional capabilities in Renew OnDemand to serve our customers needs and enable greater operational efficiencies in our organization.

Our research and development expenses were $19.2 million in 2012, $13.1 million in 2011 and $7.2 million in 2010. In addition, we capitalize certain expenditures related to the development and enhancement of internal-use software. Capitalized software expenses were $6.2 million in 2012, $6.0 million in 2011, and $4.7 million in 2010.

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 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 service revenue performance.

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

- service revenue industry expertise, best practices, and benchmarks;
- performance-based pricing of solutions;
- ability to increase service 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 and one pending patent application in the United States. 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, 2012, we had 2,609 employees. None of our employees is represented by a labor union with respect to his or her employment with us.

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Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described below, together with all of 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;
- 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 Renew OnDemand;
- fluctuations in the value of end customer contracts delivered to us;
- fluctuations in close rates;
- changes in our commission rates;
- 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 technologies such as Renew OnDemand;

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 Renew OnDemand;

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 with respect to data privacy;

costs associated with acquisitions of companies and technologies;

extraordinary expenses such as litigation or other dispute-related settlement payments; and

the impact of new accounting pronouncements.

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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 we encounter significant problems migrating customers to our next-generation technology platform, or if the new platform does not meet expectations.

We recently introduced Renew OnDemand, our next-generation service revenue management platform. This new platform is offered on a subscription basis and will be the core foundation for our customer-facing cloud applications, in addition to applications we use for our internal operations. As of today, Renew OnDemand is largely unproven and we have little experience selling and/or implementing it for customers. We also have limited experience migrating customers from one platform to another. Given the complexity and significance of this 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 for several quarters as we move toward broad adoption of Renew OnDemand while maintaining our existing technology platform. Additionally, if we experience any delay or technical problems as a result of moving to Renew OnDemand, we may incur such expenses for much longer than anticipated. Similarly, even if the transition to Renew OnDemand is properly executed, our business operations and customer relationships will be at high risk if the new platform does 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.

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 may decline. 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 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 as 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.

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. 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. 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 continue investing significant resources in research and development in order to enhance Renew OnDemand, our managed services offerings, and other new offerings that will appeal to customers and potential customers. We have undertaken the development of Renew OnDemand as our new technology to offer improved and more scalable service revenue management, including enhancements to our applications. 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 Renew OnDemand or any of our other new or modified technology does not work as intended, is not responsive to user preferences or industry or regulatory changes, is not appropriately timed with market opportunity, or is 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 existing stockholders and negatively impact our financial condition or our results of operations.

We plan to sell subscriptions to our cloud applications via Renew OnDemand separately from our integrated solution, which may not be successful and could impact revenue from our existing solution.

We currently derive a small portion of our revenue from subscriptions to our cloud applications for a few customers, and we plan to package and price the applications we offer on Renew OnDemand on a subscription model. We may not find a successful market for our Renew OnDemand 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 under pricing that damages our profit margins and financial performance. It is also possible that selling a technology solution separate via Renew OnDemand 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.

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

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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.

Service 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 service 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 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 their 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 offerings to Renew OnDemand. 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 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.

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

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internally-developed software to customized versions of traditional business intelligence tools and CRM or ERP 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 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.

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

- service revenue industry expertise, best practices, and benchmarks;
- quality and reliability of software offerings;
- marketing resources and capabilities;
- performance-based pricing of solutions;
- ability to increase service 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. These 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. 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.

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.

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. For the year ended December 31, 2012, our top ten customers accounted for 50% 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 any of our significant customers for any

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reason, including the failure to renew our contracts, a change of relationship with any of our key customers or their acquisition as discussed below, may cause a significant decrease in our revenue.

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 Renew OnDemand and our other 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 has elected to terminate our service contracts with each customer because Oracle conducts 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.

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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 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 recent economic downturn resulted 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 slowed the rate of renewals of maintenance, support and subscription services for their existing technology base. A 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

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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.

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 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 related service revenue opportunity under management. Our customers may elect not to renew their contracts with us after the initial terms have expired, 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 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 or fail to contract with us for additional service revenue management opportunities, our revenue may decline and we may not realize improved operating results and growth from our customer base.

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 applications, 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.

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If we experience significant fluctuations in our anticipated growth rate and fail to balance our expenses with our revenue forecasts, our results could be harmed.

Due to our evolving business model, the uncertain size of our markets and the unpredictability of future general economic and financial market conditions, we may not be able to accurately forecast our growth rate. 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.

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. We also have limited experience implementing our Renew OnDemand platform. 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.

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 international 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. 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.

If we lose 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. In particular, Michael Smerklo, our chairman of the board of directors and chief executive officer, is critical to the management of our business and operations and the development of our strategic direction. The loss of Mr. Smerklo s services or those of our other executives, or our inability to continue to attract and retain high-quality talent, could harm our business.

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, 2012, approximately 38% of our revenue was generated from sales centers located outside of the United States. As a result of our continued focus on international markets, we expect that future 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 the 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 all of 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.

While we have determined that our internal control over financial reporting was effective as of December 31, 2012, as indicated in our Management Report on Internal Control over Financial Reporting, included in this Annual Report on Form 10-K, we must continue to monitor and assess our internal control over financial reporting. 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 controls 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 may 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 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. 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

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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 Renew OnDemand platform, 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.

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 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. 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

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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.

If 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.

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.

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 its business. 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 its business practices.

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Risks Relating to Owning Our Common Stock

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. Further, our common stock has a limited trading history. 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;
- 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 such 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, approximately 20% of our outstanding common stock as of December 31, 2012. As a result, these stockholders will have a 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 us or our 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;
- 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.

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.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and principal administrative, sales and marketing and product development operations are located in San Francisco, California. We also have five globally distributed sales centers. We have two sales centers in North America located in Denver and Nashville. We have additional international sales centers in Dublin, Ireland; Liverpool, United Kingdom; and Singapore. 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.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are subject to litigation or threatened litigation in the general nature of business. We do not believe the resolution of these matters will have a material adverse impact on our consolidated financial position, results of operations or cash flows.

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 closing prices of our common stock as reported on The NASDAQ Global Market.

	2012	
	High	**Low**
First Quarter	$ 17.71	$ 14.98
Second Quarter	$ 16.70	$ 11.41
Third Quarter	$ 13.78	$ 7.76
Fourth Quarter	$ 10.65	$ 4.18

	2011	
	High	**Low**
First Quarter (from March 25, 2011)	$ 12.43	$ 11.53
Second Quarter	$ 22.22	$ 11.75
Third Quarter	$ 22.29	$ 12.80
Fourth Quarter	$ 15.84	$ 12.08

Holders

As of February 28, 2013, there were 111 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, 2012, 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

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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.

	ServiceSource	Morgan Stanley Technology Index	NASDAQ Composite Index
3/25/2011	100.00	100.00	100.00
6/30/2011	182.43	96.60	99.73
9/30/2011	108.46	81.85	86.85
12/30/2011	128.82	86.49	93.67
3/30/2012	127.09	105.28	111.16
6/29/2012	113.71	94.60	105.54
9/28/2012	84.36	100.52	112.05
12/31/2012	48.03	100.73	108.57

Recent Sales of Unregistered Securities

None.

Use of Proceeds

Our initial public offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-171271) that was declared effective by the Securities and Exchange Commission on March 24, 2011, which registered an aggregate of 13,731,153 shares of our common stock, including 1,791,020 shares that the underwriters had the option to purchase. On March 30, 2011, 9,791,020 shares of common stock were sold on our behalf, including 1,791,020 shares sold by us upon the exercise in full of the underwriters option to purchase additional shares, and 3,940,133 shares of common stock were sold on behalf of the selling stockholders, at a price to the public of $10.00 per share, for an aggregate gross offering price of $97,910,200 to us, and $39,401,330 to the selling stockholders. The underwriters of the offering were Morgan Stanley & Co. Incorporated, Deutsche Bank Securities, Inc., Piper Jaffrey & Co., JMP Securities LLC, William Blair & Company, L.L.C. and Lazard Capital Markets LLC. Following the sale of the shares in connection with the closing of our initial public offering, the offering terminated.

We paid underwriting discounts and commissions totaling approximately $6.9 million in connection with the offering. In addition, we incurred additional costs of approximately $3.2 million in connection with the offering, which when added to the underwriting discounts and commissions paid by us, amounts to total fees and costs of approximately $10.1 million. Thus, the net offering proceeds to us, after deducting underwriting discounts and commissions and offering costs, were approximately $87.7 million. No offering costs were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates, other than the payment of certain legal expenses on behalf of our selling stockholders.

Our follow-on offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-175626) that was declared effective by the Securities and Exchange Commission on July 28, 2011, which registered an aggregate of 10,350,000 shares of our common stock, including 1,372,061 shares of common stock sold by us (inclusive of 1,350,000 shares of common stock from the full exercise of the over-allotment option granted to the underwriters) and 8,977,939 shares of common stock sold by the selling stockholders. The price of the shares sold in the offering was $17.50 per share. The total gross proceeds from the offering to us were $24.0 million. After deducting underwriting discounts and commissions and estimated offering expenses payable by the Company, the aggregate net proceeds received by the Company totaled approximately $23.0 million. We did not receive any proceeds from the sales of shares by the selling stockholders (other than approximately $2.9 million in additional cash received from the exercise of stock options by certain of the selling stockholders). The underwriters of the offering were Morgan Stanley & Co. Incorporated, Deutsche Bank Securities, Inc., Piper Jaffrey & Co., JMP Securities LLC, William Blair & Company, L.L.C., Lazard Capital Markets LLC, Oppenheimer & Co., Wells Fargo Securities and Credit Agricole CIB. Following the sale of the shares in connection with the closing of our follow-on offering, the offering terminated.

There was no material change in the use of proceeds from our initial and follow-on public offerings as described in our final prospectus filed with the SEC pursuant to Rule 424(b). From the effective date of the registration statement through December 31, 2012, we have used the net proceeds of the offering for repayment of a term-loan and borrowing under a revolving credit facility and for working capital and other general corporate purposes.

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, 2012.

We launched in December 2012 and completed in January 2013 a stock option exchange program pursuant to which eligible employees were able to exchange certain outstanding out-of-the money stock options with an exercise price greater than $6.03 per share for a lesser amount of new stock options. See Note 10 to the of the Notes to Consolidated Financial Statements for a description of this stock option exchange program.

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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,				
	2012	2011	2010	2009	2008
	(in thousands, except per share amounts)				
Net revenue	$ 243,703	$ 205,501	$ 152,935	$ 110,676	$ 100,280
Cost of revenue[1]	136,321	113,406	90,048	58,877	56,965
Gross profit	107,382	92,095	62,887	51,799	43,315
Operating expenses					
Sales and marketing[1]	56,925	48,520	35,119	23,182	20,486
Research and development[1]	19,255	13,073	7,188	2,054	1,160
General and administrative[1]	41,135	33,647	19,378	13,777	10,571
Amortization of intangible assets[1]				68	857
Total operating expenses	117,315	95,240	61,685	39,081	33,074
Income (loss) from operations	(9,933)	(3,145)	1,202	12,718	10,241
Interest expense	(236)	(503)	(1,271)	(1,116)	(2,209)
Other income (expense), net	(538)	(624)	(351)	639	(2,058)
Income (loss) before provision for (benefit from) income taxes	(10,707)	(4,272)	(420)	12,241	5,974
Income tax provision (benefit)	31,107	(19,383)	2,147	1,866	1,153
Net income (loss)	$ (42,814)	$ 15,111	$ (2,567)	$ 10,375	$ 4,821
Net income (loss) per common share:					
Basic	$ (0.58)	$ 0.23	$ (0.04)	$ 0.18	$ 0.09
Diluted	$ (0.58)	$ 0.21	$ (0.04)	$ 0.18	$ 0.08
Cash distributions per common share[2]	$	$	$ 0.04	$	$ 0.09
Weighted-average shares used in computing net income (loss) per common share:					
Basic	74,270	66,656	57,284	56,750	56,209
Diluted	74,270	73,585	57,284	58,912	58,733

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

	Years Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
Cost of revenue	$ 2,772	$ 1,877	$ 1,126	$ 914	$ 1,271
Sales and marketing	8,146	4,456	2,993	2,340	1,570

Research and development	1,880	1,167	803	541	
General and administrative	8,077	4,099	3,167	2,265	2,608
Total stock-based compensation	$ 20,875	$ 11,599	$ 8,089	$ 6,060	$ 5,449

(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

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determined by our directors in their sole discretion. Tax distributions to members were $0, $0, $2.5 million, $0 and $5.2 million in 2012, 2011, 2010, 2009 and 2008, respectively. Effective with our initial public offering, we converted from a limited liability company into a Delaware corporation.

	As of December 31,				
	2012	2011	2010	2009	2008
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 109,442	$ 108,865	$ 22,652	$ 13,169	$ 3,780
Working capital	149,431	134,796	18,135	19,099	12,319
Total assets	224,472	238,961	108,103	69,580	51,712
Term loan, current and non-current			15,459	16,835	19,625
Obligations under capital leases, current and non-current	964	1,664	1,759	773	151
Total members /stockholders equity	186,927	197,016	33,884	30,331	13,482

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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 forward-looking statements include, but are not limited to, statements related to changes in market conditions that impact our ability to generate service revenue on behalf of our customers; errors in estimates as to the service revenue we can generate for our customers; our ability to attract new customers and retain existing 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 our next-generation technology platform, 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; our competitive position; the effects of competition; industry environment; and potential growth opportunities. Forward-looking statements are also often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estimate, expect, intend, may, plan, project, seek, should, target, will, would, and similar expressions or variations intended to identify 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 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 the 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 with a suite of managed services through dedicated service teams, 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 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. We recently began to unbundle our renewal management software and offer as a Software-As-A-Service (SaaS) solution to customers. We believe selling software subscription as a stand-alone SaaS offering will be an important part of our business over time. As of December 31, 2012, we managed over 145 engagements across more than 70 customers, representing over $8 billion in service revenue opportunity under management.

We were formed in November 2002 as a limited liability company, and shortly thereafter we purchased certain assets of a business originally started by service sales representatives from a major technology company. Since then we have refined our business model, developed and expanded our service sales teams, and our suite of cloud based applications, and opened additional sales centers in the United States, Europe and Asia and a global sales operations center in Kuala Lumpur, Malaysia. We broadened our customer focus from technology companies to also include technology-enabled healthcare and life sciences and industrial systems companies. We have experienced rapid growth in our operations in recent periods, as indicated by the following:

Our revenue has increased from $205.5 million in 2011 to $243.7 million in 2012, representing an increase of 19%.

Our engagements have grown from approximately 120 as of December 31, 2011 to over 145 as of December 31, 2012.

Over the past several quarters, we have invested a substantial portion of our research and development resources toward the development of Renew OnDemand, a cloud application purpose-built to maximize recurring revenues. Total spending on research and development, including amounts capitalized as internal-use software, were $11.9 million, $19.1 million and $25.4 million for the years ended December 31, 2010, 2011 and 2012, respectively.

We currently derive a small portion of our revenue from subscriptions to our legacy cloud applications. With the launch of Renew OnDemand, we have gone to market with two distinct offerings. First, our Renew OnDemand SaaS solution and its cloud applications. And second, a menu of services, including data services, enablement services, selling services and support services which customers can attach to their SaaS subscription. We believe our strategy of combing subscriptions to our cloud applications with a suite of managed services provides our customers with software and services needed to maximize renewals of subscriptions, maintenance and support contracts.

To date, a limited number of customers are using our Renew OnDemand platform to manage their recurring revenues. As a result, Renew OnDemand is largely unproven and we have little experience implementing it with customers. Accordingly, we intend to control the pace of customer deployments in the first half of 2013 to ensure the successful rollout of our cloud applications. As the year progresses, we expect most new engagements will have a Renew OnDemand commercial subscription relationship even for customers that continue to choose our full pay-for-performance offering.

As we move to an unbundled solution of software and services, we anticipate significant investments in implementation resources as well as support and training functions, all of which will adversely impact our gross profit in the near term. We also expect to incur additional expenses as a result of running dual technology platforms for the next several quarters as we move toward broad adoption of Renew OnDemand while also maintaining our legacy technology platform. In addition, we anticipate our our total spending on research and development will increase in absolute dollars in 2013 relative to 2012 as we invest in our suite of cloud application.

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 service revenue opportunity under management and number of engagements.

Service Revenue Opportunity Under Management. At December 31, 2012, we estimated our opportunity under management to be over $8 billion. Service 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. 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 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 service 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 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.

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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 145, 120 and 100 engagements as of December 31, 2012, 2011 and 2010, respectively.

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 Service Performance Analysis (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.

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 over a period of eight 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

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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 operating results.

Contract Terms. Substantially all of our 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.

Since 2009, 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 effective as of September 30, 2010 and had previously terminated our contract with another customer, BEA Systems, in April 2008.

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.

Certain new engagements we entered into in the fourth quarter of 2011 and during 2012 and have not yet fully ramped-up to performance levels we anticipate achieving. As a result, our revenues have not reflected, and are not expected in the first half of 2013 to reflect, the full revenue and operating margin potential from these customers. 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. 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.

Adoption of Software-as-a-Service Solutions. 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. SaaS companies face a distinct set of challenges with respect to customer renewals, given the potentially lower switching costs for customers utilizing their solutions, and are more reliant on renewals for their long-term revenues than traditional software companies. Given the strategic importance of renewals to their model, SaaS companies may be less inclined than traditional software companies to rely on third-party solutions such as ours to manage the sale of renewals of subscription contracts. We have tailored our solution to address the needs of SaaS companies in this area and expect to continue to develop and enhance our solution as this market grows, especially with our Renew OnDemand application suite.

In connection with our purpose-built SaaS offering to manage and maximize recurring revenue, we intend to significantly increase our investment in our customer support, training and professional services organizations to support deployments of Renew OnDemand. We anticipate that the cost of providing professional services, support and training will be significant and that our gross profit will be adversely affected as we build out these functions.

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 insignificant. However, we expect revenues generated from subscriptions to Renew OnDemand to increase in 2013. Subscription fees are accounted for separately from commissions and they are billed on either a monthly or quarterly basis in advance and revenue is recognized ratably over the related subscription term.

We have generated a significant portion of our revenue from a limited number of customers. For the years ended December 31, 2012, 2011 and 2010, our top ten customers in each period accounted for 50%, 47%, and 54% of our net revenue, respectively. One customer accounted for more than 10% of our revenues in 2012, 2011 and 2010 and another customer represented more than 10% of our revenues in 2010.

Our business is geographically diversified. During 2012, 62% of our net revenue was earned in North America and Latin America (NALA), 27% in Europe, Middle East and Africa (EMEA) and 11% 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.

Cost of Revenue and Gross Profit

Our cost of revenue expenses include 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 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 and as a result of our near term plans to run dual technology platforms for several quarters as we commence the launch of Renew OnDemand while maintaining our existing technology platform.

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. We currently expect sales and marketing expenses to increase on an absolute basis and as a percentage of revenue in the near term based on commissions earned on customer contracts entered into in prior periods, as well as continued investments in sales and marketing personnel and programs as we expand our business domestically and internationally and pursue new sales initiatives.

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, including Renew OnDemand, our next-generation technology platform, and adding new features to our existing technology platform. In connection with the development and enhancements of our SaaS 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 increase on an absolute basis and as a percentage of revenue in the near term as we continue to invest in enhancement to our Renew OnDemand platform and our expectation that future capitalization of internal-use software costs will be insignificant.

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

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accounting, tax and legal services, as well as allocated expenses. We expect that our general and administrative expenses will increase on an absolute basis to support our anticipated growth.

Other Income (Expense), Net

Other income (expense) consists primarily of interest expense associated with borrowings under our credit facility, foreign exchange transaction gains and losses and interest income.

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 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.

For a description of our accounting practices relating to income taxes, see Critical Accounting Policies and Estimates Income Taxes below.

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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.

	Years Ended December 31,		
	2012	2011	2010
	(in thousands)		
Consolidated statement of operations data:			
Net revenue	$ 243,703	$ 205,501	$ 152,935
Cost of revenue	136,321	113,406	90,048
Gross profit	107,382	92,095	62,887
Operating expenses:			
Sales and marketing	56,925	48,520	35,119
Research and development	19,255	13,073	7,188
General and administrative	41,135	33,647	19,378
Total operating expenses	117,315	95,240	61,685
Income (loss) from operations	(9,933)	(3,145)	1,202
Other expense, net	(774)	(1,127)	(1,622)
Loss before provision for income taxes	(10,707)	(4,272)	(420)
Income tax provision (benefit)	32,107	(19,383)	2,147
Net income (loss)	$ (42,814)	$ 15,111	$ (2,567)
Includes stock-based compensation of:			
Cost of revenue	$ 2,772	$ 1,877	$ 1,126
Sales and marketing	8,146	4,456	2,993
Research and development	1,880	1,167	803
General and administrative	8,077	4,099	3,167
Total	$ 20,875	$ 11,599	$ 8,089

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

	Years Ended December 31,		
	2012	2011	2010
	(as a % of net revenue)		
Net revenue	100%	100%	100%
Cost of revenue	56%	55%	59%
Gross profit	44%	45%	41%
Operating expenses:			
Sales and marketing	23%	24%	23%
Research and development	8%	6%	5%
General and administrative	17%	16%	12%

Total operating expenses	48%	46%	40%
Income (loss) from operations	(4)%	(1)%	1%

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Years Ended December 31, 2012 and 2011

Net Revenue

	Years Ended December 31, 2012 Amount	2012 % of Net Revenue	2011 Amount	2011 % of Net Revenue	Change	% Change
	(in thousands)					
Net revenue by geography:						
NALA	$ 150,041	62%	$ 127,430	62%	$ 22,611	18%
EMEA	66,902	27%	58,344	28%	8,558	15%
APJ	26,760	11%	19,727	10%	7,033	36%
Total net revenue	$ 243,703	100%	$ 205,501	100%	$ 38,202	19%

The 19% increase in net revenue in 2012 reflects an increase in the number of engagements from 120 at December 31, 2011 to over 145 at December 31, 2012 as well as an increase in the value of service contracts sold on behalf of our customers. Our revenue performance was driven by a combination of growth in opportunity from new and existing customers, as well as strong performance across all of our service sales centers around the world in closing service revenue renewals. The increase in number of customer engagements resulted from expansion of customer engagements with certain existing customers due to the success of our solution with these customers as well as new customer acquisitions due to our investments in our sales organization. These increases were partially offset by a few customers in NALA and APJ where the scope of our services was reduced as well as the impact of customer terminations in EMEA in the last half of 2011. The increase in net revenue reflects revenue growth in all geographies, particularly NALA and APJ, 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 2011.

Cost of Revenue and Gross Profit

	Years Ended December 31, 2012	2011	Change	% Change
	(in thousands)			
Cost of revenue	$ 136,321	$ 113,406	$ 22,915	20%
Includes stock-based compensation of:	2,772	1,877	895	48%
Gross profit	107,382	92,095	15,287	17%
Gross profit percentage	44%	45%	(1)%	

The 20% increase in our cost of revenue in 2012 reflected an increase in the number of service sales and sales operational personnel, primarily in APJ, resulting in a $16.6 million increase in compensation and temporary labor, a $5.4 million increase in allocated costs for facilities, including incremental facility costs related to an expansion of an existing facility, and greater costs for information technology and depreciation. The decrease in our gross profit was driven primarily by the slower ramp of new customers added in the last half of 2011 and during 2012, technology costs associated with hosting our cloud applications and lower margins from professional service engagements associated with the deployment of our cloud applications. For the next several quarters, we expect that our spending will reflect increased amounts to support our legacy service revenue platform in addition to our Renew OnDemand application suite as well as increased spending on customer support and training to support future deployments of our cloud applications.

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Operating Expenses

	Years Ended December 31, 2012		2011			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
			(in thousands)			
Operating expenses:						
Sales and marketing	$ 56,925	23%	$ 48,520	24%	$ 8,405	17%
Research and development	19,255	8%	13,073	6%	6,182	47%
General and administrative	41,135	17%	33,647	16%	7,488	22%
Total operating expenses	$ 117,315	48%	$ 95,240	46%	$ 22,075	23%
Includes stock-based compensation of:						
Sales and marketing	$ 8,146		$ 4,456		$ 3,690	
Research and development	1,880		1,167		713	
General and administrative	8,077		4,099		3,978	
Total	$ 18,103		$ 9,722		$ 8,381	

Sales and marketing expenses

The 17% increase in sales and marketing expenses in 2012 reflected an increase in the number of sales and marketing personnel, primarily in NALA, resulting in a $4.8 million increase in compensation. The increase also resulted from a $1.7 million increase in marketing program expenses as a result of additional investments in brand development to heighten awareness and to maximize the strength of our brand and an increase in costs for facilities and IT of $1.1 million associated with higher headcount.

Research and development expenses

The increase in research and development expense in 2012 reflected an increase in the number of research and development personnel in NALA, resulting in a $1.8 million increase in compensation, a $3.6 million increase in outside consulting services related to contract research and development services and a $0.5 million increase in facilities and IT costs. The increase is a result of our continued investment in the development of additional cloud based applications to enable greater operational efficiencies and enhanced functionality for our customers. The increase was partially offset by capitalization of $6.2 million of internal labor and third party costs for development of internal-use software in 2012 compared to $6.0 million of capitalized costs in 2011. We expect research and development expenditures to increase in both absolute dollars and as a percentage of net revenues as we continue to enhance Renew OnDemand and our expectations that there will be an insignificant amount of capitalized costs in 2013.

General and administrative expenses

The 23% increase in general and administrative expenses in 2012 reflected a $7.5 million increase in compensation due to an increase in headcount in the general and administrative functions across all geographic segments. We anticipate increased spending for general and administrative functions to support the overall growth anticipated in our operations.

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Other Expense, Net

	Years Ended December 31, 2012 Amount	2012 % of Net Revenue	2011 Amount	2011 % of Net Revenue	Change	% Change
	(in thousands)					
Other expense, net	$ 774	0%	$ 1,127	1%	$ (353)	(31)%

The decrease in other expense in 2012 compared to 2011 resulted from a $0.4 million decrease in interest expense and the write-off of costs associated with our borrowings due to the repayment of outstanding balances on our term loan and borrowings under our revolving credit facility in March 2011, partially offset by a $0.1 million increase in interest income in 2012 from our short-term investments.

Income Tax Provision

	Years Ended December 31, 2012	2011	Change	% Change
	(in thousands)			
Income tax provision (benefit)	$ 32,107	$ (19,383)	$ 51,490	*

* Not meaningful.

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 provisions also reflects the reversal of prior quarter deferred tax benefits, plus tax expense in jurisdictions where we report taxable profits. In 2011, we recorded a one-time non-cash tax benefit of $20.7 million as a result of recognition of deferred tax assets resulting from our election to be subject to taxation as a corporation.

Years Ended December 31, 2011 and 2010

Net Revenue

	Years Ended December 31, 2011 Amount	2011 % of Net Revenue	2010 Amount	2010 % of Net Revenue	Change	% Change
	(in thousands)					
Net revenue by geography:						
NALA	$ 127,430	62%	$ 102,411	67%	$ 25,019	24%
EMEA	58,344	28%	43,069	28%	15,275	35%
APJ	19,727	10%	7,455	5%	12,272	165%
Total net revenue	$ 205,501	100%	$ 152,935	100%	$ 52,566	34%

* Not meaningful.

The 34% increase in net revenue in 2011 reflects an increase in the number of engagements and the value of service contracts sold on behalf of our customers. The number of customer engagements increased from approximately 100 as of December 31, 2010 to over 120 as of December 31, 2011. International revenue increased 55% during 2011 as compared to 2010 with this growth supported by strong performance in our foreign service sales centers around the world in closing service revenue renewals reflecting the strong demand we see for our solution internationally.

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Cost of Revenue and Gross Profit

	Years Ended December 31, 2011	2010	Change	% Change
		(in thousands)		
Cost of revenue	$ 113,406	$ 90,048	$ 23,358	26%
Includes stock-based compensation of:	1,877	1,126	751	67%
Gross profit	92,095	62,887	29,208	46%
Gross profit percentage	45%	41%	4%	

The 26% increase in our cost of revenue in 2011 reflected an increase in the number of service sales personnel, primarily in APJ, resulting in a $18.1 million increase in compensation, a $2.9 million increase in costs for facilities, including incremental facility costs related to an expansion of an existing facility, and greater costs for information technology and depreciation and a $2.1 million increase in temporary labor to ramp up our new engagements. The improvement in our gross profit was driven primarily by the improved revenue performance we saw across all of our service sales centers in 2011 and increasing use of our applications to drive automation and operating scale across the Company as well as the ramp of new engagements. Gross margins for 2011 and 2010 were favorably impacted by one-time events including $1.8 million in settlement fees and $3.8 million in contract termination fees, respectively, both of which had no direct costs.

Operating Expenses

	Years Ended December 31, 2011		2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
			(in thousands)			
Operating expenses:						
Sales and marketing	$ 48,520	24%	$ 35,119	23%	$ 13,401	38%
Research and development	13,073	6%	7,188	5%	5,885	82%
General and administrative	33,647	16%	19,378	12%	14,269	74%
Total operating expenses	$ 95,240	46%	$ 61,685	40%	$ 33,555	54%
Includes stock-based compensation of:						
Sales and marketing	$ 4,456		$ 2,993		$ 1,463	
Research and development	1,167		803		364	
General and administrative	4,099		3,167		932	
Total	$ 9,722		$ 6,963		$ 2,759	

Sales and marketing expenses

The 38% increase in sales and marketing expenses in 2012 reflected an increase in the number of sales and marketing personnel, primarily in APJ and EMEA, resulting in a $6.7 million increase in compensation. The increase also resulted from a $3.3 million increase in marketing and consulting expenses as a result of additional investments in brand development to heighten awareness and to maximize the strength of our brand, and an increase in costs for facilities and IT of $1.5 million.

Research and development expenses

The increase in research and development expense in 2011 reflected an increase in the number of research and development personnel in NALA, resulting in a $4.5 million increase in compensation, a $1.8 million

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increase in outside consulting services related to contract research and development services and a $1.4 million increase in facilities and IT costs. The increase is a result of our continued investment in the development of additional cloud based applications to enable greater operational efficiencies and enhanced functionality for our customers. The increase was partially offset by capitalization of $5.6 million of internal labor and third party costs for development of internal-use software in 2011 compared to $3.8 million of capitalized costs in 2010.

General and administrative expenses

The 74% increase in general and administrative expense in 2011 reflected a $10.3 million increase in compensation due to an increase in headcount in the general and administrative functions across all geographic segments and a $2.2 million increase in professional fees related to expenses incurred in connection with our initial public offering and follow-on offering and incremental fees related to being a public company.

Other Expense, Net

	Years Ended December 31,					
	2011		2010			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands)					
Other expense, net	$ 1,127	1%	$ 1,622	1%	$ (495)	(31)%

The decrease in other expense in 2011 compared to 2010 resulted from a $0.7 million decrease in interest expense in 2011 due to the retirement of our term loan in March 2011, partially offset by a net increase in losses on foreign exchange transactions primarily in APJ, combined with the strengthening of the US dollar.

Income Tax Provision (Benefit)

	Years Ended December 31,			%
	2011	2010	Change	Change
	(in thousands)			
Income tax provision (benefit)	$ (19,383)	$ 2,147	$ (21,530)	*

* Not meaningful.

In 2011, we recorded a one-time non-cash tax benefit of $20.7 million as a result of recognition of deferred tax assets resulting from our election to be subject to taxation as a corporation. The computation of the effective tax rate does not include losses incurred prior to March 1, 2011 when we became subject to taxation as a corporation. Pretax earnings for 2011, excluding LLC losses incurred prior to March 1, 2011, were approximately $50,000, which would result in an effective tax rate that is not meaningful for comparison purposes. We would have recognized a larger tax benefit in 2011 were it not for projected losses in a foreign subsidiary for which no tax benefit was recognized, and nondeductible IPO and secondary offering expenses incurred.

Liquidity and Capital Resources

At December 31, 2012, we had cash, cash equivalents and short-term investments of $109.4 million, which primarily consisted of money market mutual funds, corporate bonds and U.S. government obligations held by well-capitalized financial institutions. 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 borrowings under various credit facilities, with no such borrowings in 2012. 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.

Credit Facility

On June 29, 2012, we terminated a revolving credit facility scheduled to expire in February 2013. The credit facility provided for a $20.0 million line of credit. At the time of termination, no borrowings other than a letter of credit in the face amount of $850,000 were outstanding under the credit facility.

On July 5, 2012, we entered into a new 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. 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, and may reduce the commitments by up to $10.0 million between July 1, 2013 and June 30, 2014.

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.

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 the ability of us and our subsidiaries to grant liens, incur indebtedness, engage in mergers, consolidations and sales of assets and engage in 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.

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.

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Summary Cash Flows

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

	Years Ended December 31,		
	2012	2011	2010
		(in thousands)	
Net cash (used in) provided by operating activities	$ 10,502	$ (11,231)	$ 22,630
Net cash used in investing activities	(10,889)	(57,542)	(9,170)
Net cash provided by (used in) financing activities	11,092	112,181	(4,139)
Net increase in cash and cash equivalents, net of impact of exchange charges on cash	$ 10,585	$ 43,331	$ 9,483

Operating Activities

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.

In 2011, net cash used in operating activities was $11.2 million. Our net income during the period was $15.1 million which reflected a one-time non-cash tax benefit of $20.7 million as a result of recognition of deferred tax assets resulting from our election to be subject to taxation as a corporation. The net income was adjusted by non-cash charges of $9.4 million for depreciation and amortization and $11.6 million for stock-based compensation. Cash used for operations during 2011 principally resulted from $18.1 million in payments to Oracle/Sun and the related settlement of accrued payables owed to Oracle/Sun and amounts owed to us by Oracle/Sun. Additional uses of cash were related to a $1.4 million increase in prepaid expenses and other assets and a $5.0 million increase in accounts receivable. Sources of cash resulted from changes in our working capital, including a $6.9 million increase in accrued compensation and benefits, a $2.2 million increase in accounts payable, a $2.0 million increase in other accrued liabilities and a $1.8 million increase in accrued taxes.

In 2010, cash inflows from our operating activities were $22.6 million. Our net loss during the period was $2.6 million, adjusted by non-cash charges of $6.1 million for depreciation and amortization and $8.1 million for stock-based compensation. Additional sources of net cash inflows were from changes in our working capital, including a $23.6 million increase in accrued payables to customers, consisting of amounts owed to Oracle from end customers with respect to our Sun Microsystems engagements that terminated effective September 30, 2010, a $5.2 million increase in other accrued liabilities and a $3.9 million increase in accrued compensation and benefits, partially offset by a $21.2 million increase in accounts receivable.

Investing Activities

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.

In 2011 net cash used in investing activities was $57.5 million. During 2011, a portion of our proceeds from our public stock offering was used to purchase short-term investments. Our other investing activities consisted of purchases of property and equipment and costs related to capitalizing internal-use software. We expect to increase our purchases of property and equipment in future periods as we continue to invest in the infrastructure needed to operate our global service sales centers for an increasing customer and engagement base. In 2011, cash used in investing activities was principally for the purchases of short-term investments, net of sales and maturities, of $43.5 million and to a lesser extent, for purchase of property and equipment of $14.0 million, including costs capitalized for development of internal-use software.

In 2010, net cash used in investing activities was $9.2 million, and related to the purchase of property and equipment, including costs capitalized for the development of internal-use software.

Financing Activities

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.

Cash provided by financing activities was $112.2 million during 2011 and comprised primarily of proceeds from our IPO, net of issuance costs, of $87.7 million and proceeds from our follow-on offering, net of issuance costs of $23.0 million. In addition we received proceeds of $15.0 million from the exercise of common stock options and the purchase of common stock under our employee stock purchase plan, partially offset by $16.3 million in net payments to pay off our term loan and for payment under capital lease obligations.

In 2010 cash used in financing activities was $4.1 million, primarily resulting from principal payments on our term loan.

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. At December 31, 2012, the future minimum payments under these commitments were as follows (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Obligations under capital leases	$ 964	$ 326	$ 417	$ 221	$
Operating lease obligations	41,136	8,318	16,332	10,642	5,844
	$ 42,100	$ 8,644	$ 16,749	$ 10,863	$ 5,844

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.

Critical Accounting Policies and Estimates

Revenue Recognition

Our revenue is derived primarily from recurring revenue management. Other revenues, which have not been significant, include subscriptions to our cloud applications and professional services.

Revenue from recurring revenue management 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, many of our customer contracts include performance-based fees determined by the achievement of specified performance metrics. Our recurring revenue management 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 fees in the event a customer cancels a contract without cause prior to its terminations date.

Revenue is recognized when persuasive evidence of an arrangement exists, services have been provided, the sales price is fixed or determinable and collectability is reasonably assured from customers and we have no significant or unfulfilled obligations. Customer contracts are used to determine the existence of an arrangement. Our contracts are generally cancellable by our customers for convenience, subject to termination fees, or can be cancelled by our customers without a termination fee if we fail to achieve certain performance levels. Recurring revenue management services are deemed delivered when our customers accept purchased orders from their end customers and we have no significant remaining obligations. Our fees from recurring revenue management services are recognized on a net basis since we act as an agent on behalf of our customers. We do not perform the underlying 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. Subscription revenue is recognized ratably over the contract term, commencing when our cloud applications are made available to our customers. Professional services are deemed delivered and revenue recognized when project milestones have been achieved and accepted by the customer.

We have entered into a limited number of multiple element arrangements wherein our customers utilize a combination of recurring revenue management 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 selling prices of each deliverable. However, substantially all fees earned from our recurring revenue management 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 revenue management services are excluded from the allocation of relative selling prices at inception of our multiple element arrangements.

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 historical 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.

The compensation expense of 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.

Capitalized Internal-Use Software

Our software development costs relate to the research, development, enhancement, and maintenance of our technology platforms, Atlas and Renew OnDemand. Software development costs include employee salaries, benefits and third-party contractor fees. Research and development costs, relating principally to the design and development of new products prior to the application development stage and the routine enhancement, and maintenance of existing products, are expensed as incurred.

We capitalize certain internal and external costs related to the development and enhancement of our internal-use software when we enter the application development stage and until software is substantially complete and is ready for its intended use. These capitalized costs include direct external costs of services utilized in developing or obtaining internal-use software, compensation and related expenses of employees who are directly associated with, and who devote substantive time to, internal-use software projects. Capitalization of these costs ceases once the project is substantially complete and the software is ready for its intended use. The related costs are amortized over estimated useful lives ranging from 24 to 60 months. Capitalized internal-use software development costs for projects not yet complete are included as construction in progress. We initiate our review of potential impairment whenever events or changes in circumstances indicate that the carrying amount of the capitalized internal-use software may not be recoverable. Recoverability of assets is assessed by a comparison of the carrying amount of an asset to the expected future undiscounted cash flows expected to be generated by the asset. If it is determined that the carrying value of the internal-use software is not recoverable, an impairment loss is recorded in the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairments to internal-use software in 2012, 2011 or 2010.

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 record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In order for us to realize our deferred tax assets, we must be able to generate sufficient taxable income in those jurisdictions where the deferred tax assets are located. We consider 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 determining the need for a valuation allowance. 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 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.

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.

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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.

Interest Rate Risk

The primary objectives of our investment activities are to preserve principal, provide liquidity and maximize income without significantly increasing risk. By policy, we do not enter into investments for trading or speculative purposes. Some of the securities we invest in are subject to market risk. This means that a change in prevailing interest rates may cause the fair value of the investment to fluctuate. To minimize this risk, we invest in a variety of securities, which primarily consist of money market funds, commercial paper, corporate bonds and other debt securities of domestic corporations. Due to the nature of these investments and relatively short duration of the underlying securities, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future interest income. A 10% appreciation or depreciation in interest rates in 2012 and 2011 would not have had a material impact on our interest income or the fair value of our marketable securities.

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

Note: All other financial statement schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders of

ServiceSource International, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of ServiceSource International, Inc. and its subsidiaries at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 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, 2012, based on criteria established in *Internal Control - Integrated Framework* 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 audits (which was an integrated audit in 2012). 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 8, 2013

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ServiceSource International, Inc.

Consolidated Balance Sheets

(In thousands, except per share amounts)

	December 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 76,568	$ 65,983
Short-term investments	32,874	42,882
Accounts receivable, net of allowances of $253 and $32, respectively	65,238	54,095
Current portion of deferred income taxes	389	3,526
Prepaid expenses and other	5,178	7,945
Total current assets	180,247	174,431
Property and equipment, net	34,513	26,840
Deferred income taxes, net of current portion	2,321	30,238
Other assets, net	1,057	1,118
Goodwill	6,334	6,334
Total assets	$ 224,472	$ 238,961
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 3,293	$ 8,617
Accrued taxes	1,056	924
Accrued compensation and benefits	15,738	21,749
Other accrued liabilities	10,403	7,639
Obligations under capital leases	326	706
Total current liabilities	30,816	39,635
Obligations under capital leases, net of current portion	638	958
Other long-term liabilities	6,091	1,352
Total liabilities	37,545	41,945
Commitments and contingencies (Note 9)		
Stockholders equity:		
Common stock; $0.0001 par value; 1,000,000 shares authorized, 75,758 shares issued and 75,637 shares outstanding as of December 31, 2012; 72,688 shares issued and 72,567 shares outstanding at December 31, 2011	8	7
Treasury stock	(441)	(441)
Additional paid-in capital	210,650	177,796
Retained earnings (accumulated deficit)	(23,398)	19,416
Accumulated other comprehensive income	108	238
Total stockholders equity	186,927	197,016
Total liabilities and stockholders equity	$ 224,472	$ 238,961

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

ServiceSource International, Inc.

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Years Ended December 31,		
	2012	**2011**	**2010**
Net revenue	$ 243,703	$ 205,501	$ 152,935
Cost of revenue	136,321	113,406	90,048
Gross profit	107,382	92,095	62,887
Operating expenses			
Sales and marketing	56,925	48,520	35,119
Research and development	19,255	13,073	7,188
General and administrative	41,135	33,647	19,378
Total operating expenses	117,315	95,240	61,685
Income (loss) from operations	(9,933)	(3,145)	1,202
Interest expense	(236)	(503)	(1,271)
Other (expense) income, net	(538)	(624)	(351)
Loss before provision (benefit) for income taxes	(10,707)	(4,272)	(420)
Income tax provision (benefit)	32,107	(19,383)	2,147
Net income (loss)	$ (42,814)	$ 15,111	$ (2,567)
Net income (loss) per common share:			
Basic	$ (0.58)	$ 0.23	$ (0.04)
Diluted	$ (0.58)	$ 0.21	$ (0.04)
Weighted-average shares used in computing net income (loss) per common share:			
Basic	74,270	66,656	57,284
Diluted	74,270	73,585	57,284

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

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ServiceSource International, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Years Ended December 31,		
	2012	**2011**	**2010**
Net income (loss)	$ (42,814)	$ 15,111	$ (2,567)
Other comprehensive income:			
Foreign currency translation adjustments	(110)	65	213
Unrealized gain (loss) on short-term investments, net of tax	(20)	9	
Total other comprehensive income (loss), net of tax	(130)	74	213
Total comprehensive income (loss), net of tax	$ (42,944)	$ 15,185	$ (2,354)

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

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ServiceSource International, Inc.

Consolidated Statements of Stockholders /Members Equity

(In thousands)

	Common Shares		Common Stock		Treasury Shares/Stock				Accumulated Other Comprehensive	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Additional Paid-in Capital**	**Retained Earnings**	**Income (Loss)**	**Total**
Balances at December 31, 2009	56,920	$ 30,506		$	(35)	$ (126)	$	$	$ (49)	$ 30,331
Cash distributions to members		(2,517)								(2,517)
Issuance of common shares from exercise of share options	707	556								556
Repurchase of common shares					(86)	(315)				(315)
Share-based compensation expense		8,089								8,089
Excess tax benefits from exercise of share options		94								94
Comprehensive loss:										
Net loss		(2,567)								(2,567)
Other comprehensive income									213	213
Total comprehensive loss										(2,354)
Balances at December 31, 2010	57,627	34,161			(121)	(441)			164	33,884
Conversion to corporation	(57,760)	(32,573)	57,760	6			40,684			8,117
Issuance of common stock in connection with initial public offering, net of issuance costs of $10,209			9,791	1			87,701			87,702
Issuance of common stock in connection with follow-on offering, net of issuance costs of $1,055			1,372				22,956			22,956
Issuance of common stock from exercise of stock options and employee stock purchase plan	133	476	3,765				14,569			15,045
Stock-based compensation		2,241					9,358			11,599
Excess tax benefits from exercise of stock options							2,528			2,528
Comprehensive income:										
Net income		(4,305)						19,416		15,111
Other comprehensive income									74	74
Total comprehensive income										15,185
Balances at December 31, 2011			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 December 31, 2012	$	75,258	$	8	(121)	$	(441)	$	210,650	$ (23,398)	$	108	$ 186,927

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, 2012	2011	2010
Cash flows from operating activities			
Net income (loss)	$ (42,814)	$ 15,111	$ (2,567)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,003	9,372	6,137
Loss on disposal of fixed assets		46	
Provision for doubtful accounts	269	32	
Amortization of deferred financing costs	149	351	330
Accretion of premium on short-term investments	591	276	
Deferred income taxes	31,340	(19,259)	(1,340)
Stock-based compensation	20,883	11,599	8,089
Tax benefit from stock-based compensation	(1,488)	(2,835)	(94)
Changes in operating assets and liabilities:			
Accounts receivable	(11,175)	(5,004)	(21,222)
Prepaid expenses and other	3,819	(3,164)	(1,213)
Accounts payable	(2,473)	2,235	1,949
Accrued taxes	115	2,064	(216)
Accrued compensation and benefits	(6,239)	6,617	3,900
Accrued payables to customers		(30,640)	23,642
Other accrued liabilities	7,522	1,968	5,235
Net cash (used in) provided by operating activities	10,502	(11,231)	22,630
Cash flows from investing activities			
Acquisition of property and equipment	(20,353)	(14,050)	(9,170)
Purchases of short-term investments	(64,002)	(53,795)	
Sales of short-term investments	52,051	2,113	
Maturities of short-term investments	21,415	8,190	
Net cash used in investing activities	(10,889)	(57,542)	(9,170)
Cash flows from financing activities			
Net proceeds from issuance of common stock in initial public offering and follow-on offering.		110,753	
Proceeds from revolving credit facility		23,424	
Repayment of revolving credit facility		(23,424)	
Repayment of long-term debt and capital lease obligations	(710)	(16,252)	(1,776)
Payment of deferred debt issuance costs	(141)	(200)	(181)
Cash distributions to members			(2,517)
Proceeds from common stock issuances			