

SERVICESOURCE INTERNATIONAL, INC.

Form 10-K

February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

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

81-0578975

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

717 17th Street, 5th Floor

80202

Denver, Colorado

(Address of principal executive offices)

(Zip Code)

(720) 889-8500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.0001 Par Value The Nasdaq Stock Market LLC

(Title of each class)

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price at which the common stock was sold on June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, as reported on the Nasdaq Global Market, was \$304.3 million. 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 20, 2019, there were approximately 92,934,876 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2019 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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FORWARD LOOKING STATEMENTS

This report includes estimates, projections, statements relating to our business plans, objectives and expected operating results that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may appear throughout this report. These forward-looking statements are generally identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “opportunity,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and variations of such similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially. We describe risks and uncertainties that could cause actual results and events to differ materially in “Risk Factors” (Part I, Item 1.A. of this Form 10-K), “Quantitative and Qualitative Disclosures about Market Risk” (Part II, Item 7.A. of this Form 10-K) and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (Part II, Item 7 of this Form 10-K). We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

“ServiceSource,” “the Company,” “we,” “us,” or “our”, as used herein, refer to ServiceSource International, Inc. and its wholly-owned subsidiaries, unless the context indicates otherwise.

PART I

ITEM 1. BUSINESS

Overview

ServiceSource International, Inc. is a global leader in outsourced, performance-based customer success and revenue growth solutions. Through our people, processes and technology, we grow and retain revenue on behalf of our clients — some of the world’s leading business-to-business companies — in more than 45 languages. Our solutions help our clients strengthen their customer relationships, drive improved customer adoption, expansion and retention and minimize churn. Our technology platform and best-practice business processes combined with our highly-trained, client-focused revenue delivery professionals and data from 20 years of operating experience enable us to provide our clients greater value for our customer success services than attained by our clients’ in-house customer success teams.

Our net revenue was \$238.3 million, \$239.1 million and \$252.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Our Solutions

We leverage deep experience, analytical expertise, high-performance revenue delivery teams and unique technology to drive customer success, renewals, and inside sales through our solutions.

Our client-focused revenue delivery professionals receive extensive training and expertise in our clients’ businesses and are deployed as an extension of our clients’ brands. Through direct interaction with our clients’ end users, our revenue delivery professionals follow a sales process tailored specifically to improve end-customer retention, generate additional sales where needed, and meet our clients’ business objectives. Our solution is designed to optimize recurring revenue, provide customer success and enablement services, and maximize inside sales capabilities across different business-to-business revenue models, distribution models and segments, including hardware, software, Software-as-a-Service, industrial systems, information and media, as well as technology-enabled healthcare and life sciences. Our global revenue delivery centers, located in Bulgaria, Ireland, Japan, Malaysia, the Philippines, Singapore, the United Kingdom and the United States enable us to provide our solutions to our clients in 45 languages.

Our solutions span the entire lifecycle of our clients’ customers, from landing new customers (we provide lead generation, inside sales, and outsourced sales operations services), adoption (we provide customer onboarding and customer success management services), expansion (we provide cross-sell and upsell, warranty conversion, account-based marketing and channel recruitment and enablement) and renewals (we provide renewals management services, including the sale of maintenance and support service contracts for the products used by our clients’ end-users).

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Outsourced Sales Operations. Our sales enablement and quoting solutions, powered by robotic process automation, or RPA, advance our clients' renewal sales process with specialized resources handling the administrative work associated with renewals and subscriptions. We apply a standardized, best-practice approach to sales enablement and quoting across the opportunities we manage through a dedicated, trained team completely focused on quoting, data entry and bookings processing combined with an in-depth understanding of our clients' product SKUs, pricing and systems. In addition, we provide rigorous quality control through a dedicated quote audit team and analytics dashboards to monitor accuracy, throughput and cycle times.

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Customer Onboarding. Our revenue delivery teams proactively welcome our clients' new customers and ensure the customers are established for ongoing success. Using our best-practice processes developed over our 20 year history, we confirm successful implementation of our clients' products or services and promote adoption and use, including thorough reviews of customer usage and initial contact; brief demonstrations and reviews of key product features; identification and, if needed, escalation of support or implementation issues; delivery of basic training and/or product education; and supporting change management initiatives.

Customer Success Management. Our revenue delivery teams continuously monitor the health of our clients' customers; reinforce the unique value and benefits of our clients' products; and share customer feedback with our clients' product and marketing teams. Our revenue delivery professionals are specifically and continuously trained to articulate the value of our clients' products and services to their customers, which drives improved customer loyalty. In addition, we use our technology platform to provide predictive analytics to identify our clients' at-risk customers as well as to provide segmentation and analysis to assist in minimizing or avoiding churn.

Inside Sales, Lead Generation, and Cross-sell and Upsell Services. Our inside sales teams perform and are trained in accordance with high performing sales team methodologies to enable efficient and effective lead generation and inside sales activities for our clients. Our revenue delivery teams are specifically trained in the identification of cross-sell and upsell activities, including upgrading service/support level, uncovering additional assets/licenses, extending term length and product sales lead generation. We do this through expert data analysis, specifically designed account plans and partnerships with our clients' sales teams.

Warranty Conversion. We proactively engage with our clients' warranty customers with skilled revenue delivery teams who are trained to clearly articulate the benefits of an extended support and maintenance contract. In addition, we identify and engage customers who have lapsed warranty agreements.

Renewals Management. We help our clients develop a finely-tuned renewals management and growth strategy. We begin by analyzing our clients' existing business data, systems and processes to accurately diagnose our clients' renewal revenue challenges. The initial analysis is followed by our proposal of a tailored solution of expert selling services, technology and processes to achieve our clients' revenue growth and customer retention objectives. Our revenue delivery teams operate as an extension of our clients' brand and sales team, support either direct or channel selling models and have worldwide sales experience.

Our pay-for-performance model allows our clients to pay us either flat-rate or variable commissions based on the revenue we generate on their behalf. Fixed-fee arrangements are often used in quick deployments to address discrete target areas of our clients' needs or when a fixed fee best addresses our clients' business model. We also generate revenue through our professional services teams, who assist our clients with data optimization.

Our engagement with our clients begins in the pre-sales process and continues through their lifecycle.

Sales Performance Analysis. We typically begin engagements with our prospective clients by conducting in-depth interviews, analyzing their historical performance and future opportunity and evaluating their recurring revenue business using proprietary analytical models. We also use our breadth of experience to benchmark and identify service renewal opportunities, and to calculate our ability to improve our clients' performance based on our performance with similar types of businesses and revenue streams.

Business Case, Pricing and Contract Structuring. We use our reservoir of data and benchmarks to estimate the critical components of the business case and appropriate pricing model for prospective clients, whether for renewals, selling services, or lead generation. This intelligence is fundamental to our pay-for-performance business model.

Data Integration. We deploy our professional services teams to enable data integration at scale, combined with data enhancement, enablement, integration and optimization where needed.

Performance. Once a partnership is in place with one of our clients, we leverage our reporting platform and our data reservoir and performance optimization tools to enable, measure, analyze, benchmark and optimize the performance of our inside sales and revenue delivery teams.

Client Benchmarking and Continuous Improvement. Our extensive platform and the accumulation of 20 years of experience serve as the foundation for benchmarking our clients' evolving recurring revenue and end customer success performance against industry peers and previous period performance. We generally conduct quarterly business review

meetings and annual partnership reviews with our clients to review performance, identify potential weaknesses in their processes and determine opportunities for improvement and make recommendations that we believe will allow our clients and us to achieve higher levels of performance and efficiencies.

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Developing and Delivering Applications. Our data reservoir 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 PRISM, our technology platform.

Our Technology

Our Predictive Relationship Intelligence and Sales Management platform, or PRISM, is a combination of our proprietary tools, best-in-class industry solutions, application integrations, a proprietary recurring revenue data model and proven release management and operational procedures. We use PRISM within our client engagements to enable higher productivity and efficiency from our revenue delivery and operations teams in order to drive better outcomes for our clients. We specifically focus on process and productivity management, analytics that drive high-performing and effective sales teams, and customer retention and customer success insights.

Customer Success Management Technologies

We deploy customer success management technologies to our customer success services teams on behalf of our clients in order to enable our agreed-upon economic outcomes. The applications are our own proprietary intellectual property, based on our years of history supporting recurring revenue management and customer success management, combined with best-in-class third party technology. PRISM correlates product usage, billing and customer revenue management data with success plans to proactively trigger intelligent workflow automations, helping our precision customer success and revenue delivery professionals engage the right end customer with the right sales motion at the right time.

Renewal and Channel Management Technologies

We deploy applications that are uniquely designed for our revenue delivery professionals who are specifically focused on managing renewals, warranty conversions, install base out-of-warranty (IBOW) and channel engagements. These applications allow us to optimize the selling processes between revenue delivery professionals engaging with our clients' customers and operations services responsible for creating quotes and booking orders. These selling processes, and our purpose-built applications that facilitate them, are also extended to channel partners to drive channel sales performance in scenarios where our clients sell via one-tier or two-tier distribution. All of these applications are based on our proprietary data model to effectively capture and track key recurring revenue metrics that drive performance for our customer partnerships.

Inside Sales Technologies

Using the native functionality of PRISM paired with ServiceSource's unique capabilities enables our inside sales teams to support new selling opportunities by capturing and scoring leads, prioritizing engagements, and focusing on cross-sales for current customers.

Productivity Tools

We deploy productivity tools to our revenue delivery professionals that focus on performance management, knowledge management, communication and training. These tools allow managers to monitor and coach our selling teams to improve performance and efficiency and provide real-time communication and client related news to our revenue delivery team members. These tools are available to our selling teams via a proprietary and customized landing page, and include the following features:

Communication. Team chat functionality for easy and immediate communication to managers and other team members; a softphone tie-in that enables recording for training purposes as well as time and task tracking features; and customer contact look-up application.

Knowledge Management. Product knowledge to guide selling and accelerate new team member training/onboarding, including client social media and other client-related news feeds.

Productivity Tools. These features enable managers and team leaders to capture best practices and productivity metrics for training and sharing across teams, as well as suggesting selling motions and task prioritization to enable targeted and efficient selling motions.

Performance Management. All information from the productivity tools, including task tracking and time management, rolls up to the individual representative and managers in both an individual and aggregated manner to allow for

real-time tracking of performance relative to quarter goals.

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Each deployment of the productivity tools is customized to the particular client and region being serviced by the revenue delivery team member. To scale best practices from our highest-performing team members, we also deploy workforce optimization software and desktop analytics. As we learn from our high performers how to navigate complex client systems or manage sophisticated selling activities, we can easily share those practices with new hires, team members or incorporate them into our global learning methodologies. Lastly, much of this information integrates with PRISM, our reporting platform of transactional, productivity and performance information to allow us to offer our clients benchmarking of our clients' results against their industry peers.

Our intellectual property consists primarily of software systems and business methodologies. 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 hold twelve U.S. patents, and additional applications for U.S. patents are currently pending.

Key Benefits of Our Solutions Include:

Financial Benefits

Increased revenue. Our solutions are designed to increase revenues for our clients. We actively monitor the success rates-including contract renewal rates, cross-sell and upsell rates, lead generation, or other services that we drive on behalf of our clients in each engagement. When we generate higher renewal rates, we not only drive incremental client 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 client revenue in future periods. As we expand our solution to include cross-sell and upsell, lead generation and other strategic customer success services, we believe that our opportunity to generate client revenue in future periods through our renewal management services will also increase.

Improved retention and customer success. Our solutions drive end customer retention and revenue growth for some of the world's leading companies, leveraging 20 years of expertise to continuously monitor end customer health, engage each end customer with the right play at the right time and reinforce the unique value and benefits of each end customer's product. The result is reduced end customer churn, increased revenue through up-sell and cross-sell, stronger end customer relationships and higher satisfaction.

Increased margin and profitability. We believe that the variable rate we charge for our solutions is lower than the fully-loaded fixed internal costs incurred by our clients managing renewals internally. As a result, each incremental dollar of recurring revenue generated by our solutions can drive greater profitability for our clients.

Operational Benefits

Greater business insight and analytics. The analytics engines in our technologies allow us to analyze each client's renewals and churn rates against similar transactions, identifying areas for improvement and enabling greater insight into their business. All transactions, regardless of outcome, are recorded in PRISM. We leverage PRISM 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 technologies deliver real-time analytics and visibility into our client's recurring revenue performance, sales efficiency and forecasts. We measure recurring revenue performance across dozens of key performance indicators and provide real-time data to our clients through a clear and impactful web-based interface. Our clients rely on our applications to assist in forecasting their results and to measure progress against their forecasts on a real-time basis.

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

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

- Expand our client base. In order to expand our client base, we are offering rapid, smaller deployments to address our clients' discrete needs or to support fast-growth enterprises.

Increase footprint with existing clients to drive greater revenue per client. Our goal is to manage a greater portion of each client's recurring revenue. We have increasingly taken on the management of more than just one component of a client's recurring revenue, such as a specific product, market segment or geographic region, or adding selling services such as cross-sell and upsell services, to an existing client's renewal services. Because we baseline our clients' performance prior to any engagement, we are able to quantify our results for the client.

Continue to invest in our technologies. We believe that our ability to leverage our technology to drive increased productivity by our revenue delivery professionals through more efficient and engaging training and productivity management, as well as our revenue analytics capabilities, is critical to our value proposition. We will continue to invest in our automation processes and the innovation of PRISM, our technology platform, to lower our operating costs, increase the efficiency and success of our solutions and enhance our competitive differentiation.

Expand our investments in our people. Retention and enablement of our revenue delivery professionals is important to the success of our business. We have invested, and will continue to invest, in specific job-related next-generation training tailored to an individuals' specific role. In addition, we will continue to support and roll out our continuous leadership training and learning management program, designed to identify high potential leaders as well as motivate our workforce and provide avenues for success across our worldwide employee base. We believe these investments will not only result in improved performance for our clients, but will also continue to set us apart from potential competitors and how our clients manage customer success internally.

Our Clients

We target our solutions to business-to-business companies, within a range of industries including computer hardware, software, Software-as-a-Service ("SaaS"), telecommunications, healthcare, life sciences, media and industrial systems. As of December 31, 2018, we managed approximately 156 engagements across 57 clients.

The following table presents the percentage of revenue for our top clients:

	For the Year Ended December 31, 2018 2017 2016		
Top three clients:			
Cisco	14%	15%	14%
VMware	13%	12%	11%
Dell	10%	11%	11%
Top ten clients:	67%	66%	66%

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Our People

As of December 31, 2018, we had the following employees throughout the world:

	December 31, 2018
NALA:	
United States	1,127
EMEA:	
Bulgaria	291
Republic of Ireland	238
United Kingdom	236
APJ:	
Philippines	989
Malaysia	766
Singapore	179
Japan	88
Total ⁽¹⁾	3,914

⁽¹⁾ We are not subject to collective bargaining agreements with any of our employees.

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"). In 2018, we generated 60% of our revenue in NALA, 25% in EMEA and 15% in APJ. See "Item.1A. Risk Factors" for a description of the risks associated with our foreign operations.

We generate client leads, accelerate sales opportunities and build brand awareness through our marketing programs. Our marketing programs target sales, services, customer success, account management, technology and finance executives within the computer hardware, software, SaaS, telecommunications, healthcare, life sciences, media and industrial systems industries. Our marketing programs are organized by geography and industry segment to focus on the unique needs of clients 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 revenue lifecycle management and to promote our services. In addition, we actively seek to collaborate with other like-minded businesses where such collaboration can increase our market penetration or provide value to our customers.

Research and Development

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

Competition

The market for outsourced customer success and revenue growth solutions is evolving. Historically, 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 end-customer relationship management or enterprise resource planning software from vendors such as Oracle Corporation, SAP AG, salesforce.com, inc. and NetSuite, Inc. Some companies have made further investments in this area using firms such as Accenture and McKinsey & Company for technology consulting and education services focused on service renewals. These internally-developed solutions represent the primary alternative to our integrated approach of combining people, processes and technology to provide end-to-end optimized outsourced customer success and revenue growth solutions.

We believe we are the only company of scale operating at the intersection of three key customer-success vectors: business process outsourcing/business process as a service (including offerings from vendors such as Accenture, Genpact and Concentrix);

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business-to-business revenue enablement services (including offerings from vendors such as Omnicom, Publicis and Acxiom); and

data and analytics services (including offerings from vendors such as Lattice Engines, InsideSales.com and 6sense).

We believe our unique market position and our differentiated business model allows us to maintain our market presence, and our global scale and ability to provide our solutions in over 45 languages provides a competitive advantage over smaller companies entering the outsourced customer success space.

We believe our principal competitive differentiators include:

recurring revenue and customer success;

industry expertise, best practices and benchmarks;

ability to increase recurring revenue and renewal rates;

global capabilities;

completeness of solution;

performance-based pricing of solutions;

ability to effectively represent client brands to end customers and channel partners;

quality of the business and client insight and its ability to generate revenue and customer success;

size of upfront investment; and

size and financial stability of operations.

Although we 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.

Additional Information

We were formed as a Delaware limited liability company in 2002 and converted to a Delaware corporation in 2011.

Additional information about us is available on our website at <http://www.servicesource.com>. The information on our website is not incorporated into this annual report by reference and is not a part of this Form 10-K. We make available free of charge on our 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 amended, as soon as reasonably practicable after those reports are electronically filed with, or furnished to, the SEC. In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>. From time to time, we may use our website as a channel of distribution of material information about our company.

Financial and other important information regarding our business is routinely posted on and accessible at <http://ir.servicesource.com>.

ITEM 1A. RISK FACTORS

Investing in our common stock involves risk. Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our common stock. You should carefully consider the risks described below and the other information in this Report on Form 10-K.

Risks Related to Our Business and Industry

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

In order for us to improve our operating results and grow, it is important that our clients renew their agreements with us when the initial contract term expires and that we expand our client relationships to add new market opportunities and the related revenue management opportunity. Our clients may elect not to renew their contracts with us after their initial terms have expired or may elect to otherwise terminate our services, and we cannot assure you that our clients 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 revenue management opportunities. Although our renewal rates have been historically higher than those achieved by our clients prior to their using our solution, some clients have still elected not to renew their agreements with us. Our clients' renewal rates may decline or fluctuate as a result of a number of factors, many of

which are beyond our control, including their satisfaction or

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dissatisfaction with our solution and results, our pricing, mergers and acquisitions affecting our clients or their end customers, the effects of economic conditions or reductions in our clients' or their end customers' spending levels. If our clients do not renew their agreements with us, renew on less favorable terms, terminate their services with us or fail to contract with us for additional services, our revenue may decline and our operating results may be adversely affected.

Our revenue will decline if there is a decrease in the overall demand for our clients' products and services.

A majority of our revenue is based on a pay-for-performance model, which means that we are paid a commission based on the service contracts we sell on behalf of our clients. If a particular client's products or services fail to appeal to its end customers, our revenue will decline for our work with that client. In addition, if end customer demand decreases for other reasons, such as negative news regarding our clients or their products, unfavorable economic conditions, shifts in strategy by our clients away from promoting the service contracts we sell in favor of selling their other products or services to their end customers, or if end customers experience financial constraints and terminate or fail to renew the service contracts we sell, we may experience a decrease in our revenue as the demand for our clients' service contracts declines. Similarly, if our clients come under economic pressure, they may be more likely to terminate their contracts with us or seek to restructure those contracts, and for clients whose contracts are up for renewal, they may seek to renew those contracts on less favorable terms. If one or more of our clients is under economic pressure due to decreasing customer demand, negative news, or other issues that impact the demand for their product or services, our business could suffer and we may experience a significant decrease in our revenue. If our performance falls short of our estimates, our client relationships will be at risk, our revenue will suffer and our ability to grow could be harmed.

A majority of our business depends on driving new or renewal revenue for our clients, and we then receive a commission on the new or renewal revenue that we generate on our clients' behalf. In some cases, our commission rates vary depending on our performance—for example, if we overperform compared to our estimates then we may receive a higher commission. In addition, our clients rely on us to accurately forecast our performance, especially because we drive revenue on their behalf. If our performance for a particular client is lower than anticipated, then our revenue for that client will also be lower than projected. If our performance falls short of expectations across a broad range of clients, or if they fall below expectations for a particularly large client, then the impact on our revenue and our overall business will be significant. In the event our performance is lower than expected for a given client, 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 client relationships can be terminated by the client if we fail to meet certain specified sales targets, including bookings rates, over a sustained period of time. If our performance falls to a level at which our revenue and client contracts are at risk, then our financial performance will decline and we may have difficulty attracting and retaining new clients.

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

The contracts that we enter into with our clients provide for sharing of information with respect to forecasts and plans for the renewal and sale of maintenance, support and subscription agreements of our clients. Our clients may use this forecasted data for a variety of purposes related to their business. Our forecasts are based upon the data our clients 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 clients 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 clients could impact our ability to retain existing clients and harm our business. We depend on a limited number of clients for a significant portion of our revenue, and the loss of business from one or more of our key clients could adversely affect our results of operations.

Our top ten clients accounted for 67% of our revenue for the year ended December 31, 2018, and three clients each represented over 10% of our revenue during this period. A relatively small number of clients may continue to account

for a significant portion of our revenue for the foreseeable future. The loss of revenue from any of our significant clients for any reason, including the failure to renew our contracts, termination of some or all of our services, a change of relationship with any of our key clients, or the acquisition of one of our significant clients, may cause a significant decrease in our revenue.

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

In general, our client engagements are complex and we must undertake lengthy and significant work to implement our offerings. 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 on behalf of our clients. Each client's situation may be different, and unanticipated difficulties and delays may arise as a result of our failure, or that of our client, to meet implementation responsibilities. If the client 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 clients 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 with multiple language skills. 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.

If our security measures are breached or fail, resulting in unauthorized access to client data, our solution may be perceived as insecure, the attractiveness of our solution to current or potential clients 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 clients. 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 client or end customer data may occur. 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 client contracts generally provide that we will indemnify our clients for data privacy breaches caused by our act or omission. If a data privacy 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. Insurance may not be able to cover these costs in full, in particular if the damages are large. 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 clients.

We may be liable to our clients or third parties if we make errors in providing our solution or fail to properly safeguard our clients' 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 clients as we interact with their end customers, or errors arising from our technology solution as it interacts with our clients' systems and the disparate data contained on such systems. For example, our employees enter codes to classify their interactions with our clients' end customers, and incorrect code entry could result in our clients' end customer not receiving the service or solution they requested, which in turn could lead to customer dissatisfaction or termination causing our client relationships to suffer and our revenue and our clients' revenue to decline. The costs incurred in correcting any material errors may be substantial. Any claims based on errors 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 our new and/or enhanced technologies do not work as intended, our business could suffer.

We have invested significant resources in new third-party technologies designed to enhance our product offerings. The adoption of technologies 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 and operational activities; and

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the chance that the technologies may not integrate with our existing tools and systems and fail to achieve the desired result.

If any of our new technologies do not work as intended, are not responsive to user preferences or industry or regulatory changes, are not appropriately timed with market opportunity, or do not enhance our product offerings, we may lose existing and potential clients or related revenue opportunities, in which case our results of operations may suffer.

We conduct operations in a number of countries and are subject to risks of international operations.

In 2018, approximately 40% of our revenue was related to operations located outside of the U.S. In addition, 71% of our employees are located in offices outside of the U.S. We expect to continue our international growth, with international revenue accounting for an increased portion of total revenue in the future. Our international operations involve risks that differ from or are in addition to those faced by our U.S. operations. These risks include different employment laws and rules and related social and cultural factors; different regulatory and compliance requirements, including in the areas of privacy and data protection, anti-bribery and anti-corruption, trade sanctions, marketing and sales and other barriers to conducting business; cultural and language differences; diverse or less stable political, operating and economic environments and market fluctuations; and civil disturbances or other catastrophic events that reduce business activity. If we are not able to efficiently adapt to or effectively manage our business in markets outside of the U.S., our business prospects and operating results could be materially and adversely affected. Although we have business continuity plans in place for our operations, an extended period of civil unrest that halts or significantly impedes operations could have a material adverse effect on our business.

Laws or public perception may eliminate or restrict our ability to use revenue delivery centers not located in the United States, which could have a material adverse impact on our business and results of operations.

The issue of companies outsourcing services to organizations operating in other countries is a politically sensitive topic and has been under heightened scrutiny in many countries, including the United States. We provide our outsourced customer success and revenue growth solutions in several non-U.S. locations, including the Philippines and Malaysia, and our growth strategy includes increasing reliance on these “offshore” revenue delivery centers. Many organizations and public figures in the United States have publicly expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in the United States, and the topic of offshore outsourcing has recently received a great deal of negative attention from the U.S. executive branch. Because of negative public perception about offshore outsourcing, measures aimed at limiting or restricting offshore outsourcing by United States companies are periodically considered in the U.S. Congress. Current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services from onshore to offshore providers to avoid negative perceptions that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends towards offshore outsourcing, including due to the enactment of any legislation restricting offshore outsourcing by U.S. companies, would harm our ability to provide certain of our services to our clients at a competitive and cost-effective price point and would have a material adverse effect on our business and results of operations.

Changes in the legal and regulatory environment that affect our operations, including laws and regulations relating to the handling of personal data, data security and cross-border data flows, may impede the adoption of our services, disrupt our business or result in increased costs, legal claims, or fines against us.

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

Our international operations and global client base relies increasingly on the movement of data across national boundaries. Legal requirements relating to the collection, storage, handling and transfer of personal data continue to

evolve, 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 clients. 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 clients 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 clients. If this flow of data becomes subject to new or different restrictions, our ability to serve our clients and their respective end customers could be seriously impaired for an extended period of time.

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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 are unable to compete effectively, our business and operating results will be harmed.

The market for outsourced inside sales, customer success and revenue retention solutions is evolving and new competitors are emerging. Historically, internally developed solutions have represented the primary alternative to our offerings. However, we also face direct competition from smaller companies that offer specialized revenue management solutions as well as larger business process outsourcers that are moving into the revenue growth space. We believe that more competitors will emerge. Competitors may have greater name recognition, longer operating histories, well-established relationships with clients in our markets and substantially greater financial, technical, personnel and other resources than we have, and even a potentially broader array of offerings. Potential competitors of any size may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or end customer requirements. Even if our solution is more effective than competing solutions, potential clients 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. Consolidation in the technology sector could harm our business in the event that our clients are acquired and their contracts are canceled.

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 clients could lead to cancellation of our contracts with those end customers by the acquiring companies and could reduce the number of our existing and potential clients. For example, in January 2010, Oracle acquired our then-largest client, Sun Microsystems, as well as several of our smaller clients. Oracle elected to terminate our service contracts with each client because Oracle conducted its service revenue management internally. If mergers and acquisitions take place within our customer base, some of the acquiring companies may terminate, renegotiate and/or elect not to renew our contracts with the companies they acquire, which would reduce our revenue. In addition, acquisitions in our customer base may adversely impact our revenue even if the contract is not terminated. The sales we make on behalf of our customers are processed through our customers' billing and quoting platforms. If our customers are acquired or merge with another company and as a result, their billing platforms or the procedures for processing closed sales are changed or slowed down, we will be unable to close our sales and our closure rate, and therefore our revenue and our ability to keep our customers, could suffer.

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

We enter into long-term contracts with our clients that are priced based on multiple factors determined in large part by the performance analysis we conduct for our clients. These factors include opportunity size, anticipated booking 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 client 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.

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, an economic downturn typically results in many businesses deferring technology investments, including purchases of new software, hardware and other equipment, and purchases of additional or supplemental maintenance, support and subscription

services. To a certain extent, these businesses also slow the rate of renewals of maintenance, support and subscription services for their existing technology base. Any future downturn could cause business end 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.

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If our marketing programs fail to generate client leads, accelerate sales opportunities and build brand awareness in a cost-effective manner, it could have a material adverse effect on our business, financial condition and results of operations.

Our marketing programs are an important part of our strategy to generate client leads, accelerate sales opportunities and build brand awareness. The success of our marketing programs in a cost-effective manner is critical to our ability to achieve widespread acceptance of our solutions and attract new clients. However, our marketing activities may not generate client awareness or increase revenues, and even if they do, any increase in revenues may not offset the expenses we incur in our marketing activities. If we fail to successfully promote and maintain our brand or increase client leads and sales opportunities, or incur substantial expenses, we may fail to attract or retain clients necessary to realize a sufficient return on our efforts, or to achieve broad client adoption of our solutions, which could have a material adverse effect on our business, financial condition and results of operations.

A substantial portion of our business consists of supporting our clients' 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 clients, including some of our largest clients, sell service contracts through their channel partners and engage our solution to help those channel partners become more effective at selling service contract renewals. 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 clients. In the event our clients' channel partners become unreceptive to our involvement in the renewals process, those channel partners could discourage our current or future clients 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 clients or prospects, in which case the negative reaction of one or more of those large channel partners could impact multiple client relationships. Accordingly, with respect to those clients and prospective clients 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 clients, which would damage our overall business operations.

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

We face a variable selling cycle to secure new client agreements, typically spanning a number of months and requiring our effort to obtain and analyze our prospect's business through the service performance analysis, 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 client contracts. Moreover, even if we succeed in developing a relationship with a potential new client, 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 client acquisitions. Consequently, we have only a limited ability to predict the timing and size of specific new client relationships.

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

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

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 clients. 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.

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Our revenue and earnings are affected by foreign currency exchange rate fluctuations.

In 2018, approximately 40% of our revenue was generated outside of the United States, as compared to 37% of our revenue in 2017. As a result of our continued focus on international markets, we expect that revenue derived from international sources will continue to represent a significant portion of our total revenue.

A portion of the sales commissions earned from our international clients 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 clients, which could harm our business. We currently do not undertake hedging activities to manage these currency fluctuations. Even if we were to implement hedging strategies to mitigate this risk, these strategies might not eliminate our exposure to foreign exchange rate fluctuations and would involve costs and risks of their own, such as ongoing management time and expense, external costs to implement the strategies and potential accounting implications. In addition, if the effective price of the contracts we sell to end customers were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for such contracts could fall, which in turn would reduce our revenue.

The planned exit of the United Kingdom from the European Union could adversely affect our business.

The upcoming departure of the United Kingdom from the European Union, known as Brexit, could have significant implications for our business. We have a revenue delivery center in Liverpool, United Kingdom, and Brexit has, and could continue to, create uncertainty in our employee base relating to immigration and other cross-border matters.

Brexit could lead to economic and legal uncertainty, including significant volatility in currency exchange rates, reduced customer demand for our services, and increasingly divergent laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. In addition, Brexit could cause a shift or increase in data privacy regulations for data transfers between the United Kingdom and European Union. Any of these effects of Brexit, among others, could adversely affect our operations in the United Kingdom and our financial results.

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.

Our services or solutions could infringe the intellectual property rights of others, impacting our ability to deploy our services or solutions with our clients. From time to time, we receive letters from other parties alleging, or inquiring about, possible breaches of their intellectual property rights. These claims could require us to cease activities, incur expensive licensing costs, or engage in costly litigation, each of which could adversely affect our business and results of operations.

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. These claims could result in significant expense to us, which could harm our business.

If we fail to protect our intellectual property and proprietary rights adequately, our business could be adversely affected.

We believe that proprietary technology is essential to establishing and maintaining our leadership position. We seek to protect our intellectual property through trade secrets, copyrights, confidentiality, non-compete and nondisclosure agreements, trademarks, domain names and other measures, some of which afford only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our technology or to obtain and use information that we regard as proprietary. We cannot assure you that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar or superior technology or design around our intellectual property. Our failure to adequately protect our intellectual property and

proprietary rights could adversely affect our business, financial condition and results of operations.

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Interruption of operations at our data centers and revenue delivery centers could have a materially adverse effect on our business.

If we experience a temporary or permanent interruption in our operations at one or more of our data or revenue delivery centers, through natural disaster, casualty, operating malfunction, cyberattack, sabotage or other causes, we may be unable to provide the services we are contractually obligated to deliver. Failure to provide contracted services could result in contractual damages or clients' termination or renegotiation of their contracts. Although we maintain disaster recovery and business continuity plans and precautions designed to protect our company and our clients from events that could interrupt our delivery of services, there is no guarantee that such plans and precautions will be effective or that any interruption will not be prolonged. Any prolonged interruption in our ability to provide services to our clients for whom our plans and precautions fail to adequately protect us could have a material adverse effect on our business, results of operation and financial condition.

We are dependent on the continued participation and level of service of our third-party platform provider. Any failure or disruption in this service could materially and adversely affect our ability to manage our business effectively.

We rely on salesforce.com to provide the platform supporting many of our technologies and Amazon Web Services ("AWS") to support a significant portion of our data storage. If salesforce.com or AWS stops supporting our technologies or if they fail to provide a platform that consistently and adequately supports our solution, including as a result of errors or failures in their systems or events beyond their control, or refuse to provide their platforms on terms acceptable to us or at all and we are not able to find suitable alternatives, our business may be materially and adversely affected.

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 clients 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 clients, any change in U.S. Food and Drug Administration or foreign equivalent regulation of, or denial, withholding or withdrawal of approval of, our clients' 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.

We may be subject to state, local and foreign taxes that could harm our business.

We operate revenue delivery 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. Any such rate increases may harm our results of operations.

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

We may incur material restructuring charges.

We continually evaluate ways to reduce our operating expenses and adapt to changing industry and market conditions through new restructuring opportunities, including more effective utilization of our assets, workforce and operating facilities. We have recorded restructuring charges in the past and we may incur material restructuring charges in the future. The risk that we incur material restructuring charges may be heightened during economic downturns or with

expanded global operations.

We have incurred indebtedness in connection with our business and may in the future incur additional indebtedness that could limit cash flow available for our operations, limit our ability to borrow additional funds and, if we were unable to repay our debt when due, would have a material adverse effect on our business, results of operations, cash flows and financial condition.

During July 2018, we entered into a \$40.0 million senior secured revolving line of credit. As of February 27, 2019, we had no borrowings outstanding on our revolver. We may incur additional indebtedness in connection with financing acquisitions, strategic transactions or for other purposes. We are subject to the risks normally associated with debt obligations, including the risk that we will be unable to refinance our indebtedness, or that the terms of such refinancing will not be as favorable as the terms of our indebtedness.

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Our indebtedness could have a material adverse effect on our business, results of operations, cash flows and financial condition. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- reduce our ability to use cash to fund acquisitions, working capital and other general corporate purposes;
- make us less able to withstand competitive pressures and limit our flexibility in planning for, or reacting to, changes in our business and economic conditions;
- restrict us from exploiting business opportunities; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, execution of our business strategy or other general corporate purposes.

If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments or otherwise refinance any debt that we incur, our business could suffer.

Our financial condition and results of operations could suffer if there is an impairment of goodwill.

We are required to test goodwill annually or more frequently if certain circumstances change that would more-likely-than-not indicate the carrying value of the reporting unit may not be recoverable. As of December 31, 2018, our goodwill was \$6.3 million. When the carrying value of a reporting unit's goodwill exceeds its implied fair value of goodwill, a charge to operations is recorded. This would result in incremental expenses for that period, which would reduce any earnings or increase any loss for the period in which the impairment was determined to have occurred. Declines in our level of revenues or declines in our operating margins, or sustained declines in our stock price, increase the risk that goodwill may become impaired in future periods. Our goodwill impairment analysis is sensitive to changes in key assumptions used in our analysis, such as expected future cash flows and our stock price. If the assumptions used in our analysis are not realized, it is possible that an impairment charge may need to be recorded in the future. We cannot accurately predict the amount and timing of any impairment of goodwill. However, any such impairment would have an adverse effect on our results of operations.

Risks Relating to Owning Our Common Stock and Capitalization Matters

Our results may differ significantly from any guidance that we may issue.

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

We may be unable to maintain compliance with Nasdaq Marketplace Rules which could cause our common stock to be delisted from the Nasdaq Global Select Market. This could result in the lack of a market for our common stock, cause a decrease in the value of our common stock, and adversely affect our business, financial condition and results of operations.

Under the Nasdaq Marketplace Rules our common stock must maintain a minimum price of \$1.00 per share for continued inclusion on the Nasdaq Global Select Market.

Our stock price was previously below \$1.00 on certain dates during December 2018 and February 2019 and we cannot guarantee that our stock price will remain at or above \$1.00 per share. If the price again drops below \$1.00 per share, our stock could become subject to delisting, and we may seek stockholder approval for a reverse stock split, which in turn could produce adverse effects and may not result in a long-term or permanent increase in the price of our common stock.

In addition to the minimum \$1.00 per share requirement, the Nasdaq Global Select Market has other listing requirements, including: (i) a minimum of \$50.0 million in total asset value and \$50.0 million in revenues in the latest fiscal year or in two of the last three fiscal years; (ii) a minimum of \$50.0 million in market value of listed securities, \$15.0 million in market value of publicly held securities and at least 1.1 million publicly held shares; or (iii) a minimum of \$10.0 million in stockholders' equity. As of December 31, 2018, we were in compliance with these listing requirements. However, we cannot assure you that we will be able to continue to comply with Nasdaq's listing requirements. Should we be unable to remain in compliance with these requirements, our stock could become subject to delisting.

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If our common stock is delisted, trading of the stock will most likely take place on an over-the-counter market established for unlisted securities. An investor is likely to find it less convenient to sell, or to obtain accurate quotations in seeking to buy, our common stock on an over-the-counter market, and many investors may not buy or sell our common stock due to difficulty in accessing over-the-counter markets, or due to policies preventing them from trading in securities not listed on a national exchange or other reasons. For these reasons and others, delisting would adversely affect the liquidity, trading volume and price of our common stock, causing the value of an investment in us to decrease and having an adverse effect on our business, financial condition and results of operations by limiting our ability to attract and retain qualified executives and employees and limiting our ability to raise capital. 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, bylaws 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;
- 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, bylaws 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 depends in part on the research and reports that securities or industry analysts publish about us or our business, which in part depends on our market capitalization. If any 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.

Because we currently do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We currently intend to retain our future earnings, if any, for use in the operation of our business and do not expect to pay any cash dividends in the foreseeable future on our common stock. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Our business or the value of our common stock could be negatively affected as a result of actions by activist stockholders.

Our company values constructive input from investors and regularly engages in dialogues with stockholders regarding strategy and performance. Our board of directors and management team are committed to acting in the best interests of all of our stockholders. There is no assurance that the actions taken by our board of directors and management in seeking to maintain constructive engagement with stockholders will be successful.

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Activist stockholders who disagree with the composition of our board of directors, our strategy, or the way our company is managed may seek to effect change through various strategies that range from private engagement to publicity campaigns, proxy contests, efforts to force transactions not supported by our board of directors, and litigation. Responding to some of these actions can be costly and time-consuming, may disrupt our operations and divert the attention of our board of directors, management, and employees. Such activities could interfere with our ability to execute our strategic plan and to attract and retain qualified executive leadership and could cause concern to our current or potential clients. The perceived uncertainty as to our future direction resulting from activist strategies could also affect the market price and volatility of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The table below presents the location, size and principal function of our leased global facilities. We believe our facilities are adequate to meet business operation needs for the foreseeable future.

Location	Square Footage	Region	Type of Facility
Nashville, TN, United States	120,685	NALA	Revenue Delivery Center
Denver, CO, United States	71,319	NALA	Corporate Headquarters / Revenue Delivery Center
San Francisco, CA, United States	7,215	NALA	Research and Development Center
Manila, Philippines	93,443	APJ	Revenue Delivery Center
Kuala Lumpur, Malaysia	58,985	APJ	Revenue Delivery Center
Singapore	17,626	APJ	Revenue Delivery Center
Yokohama, Japan	8,987	APJ	Revenue Delivery Center
Okinawa, Japan	2,476	APJ	Revenue Delivery Center
Dublin, Republic of Ireland	38,060	EMEA	Revenue Delivery Center
Liverpool, United Kingdom	22,575	EMEA	Revenue Delivery Center
Sofia, Bulgaria*	31,510	EMEA	Revenue Delivery Center

*An expansion lease in Sofia, Bulgaria was signed in 2018 and is expected to commence in 2019.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various legal proceedings and claims arising in the ordinary course of our business, including the cases discussed below. Although the results of litigation and claims cannot be predicted with certainty, the Company is currently not aware of any litigation or threats of litigation in which the final outcome could have a material adverse effect on our business, operating results, financial position, or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors. The Company records a contingent liability when it is probable that a loss has been incurred and the amount is reasonably estimable in accordance with accounting for contingencies. As of December 31, 2018 and 2017, the Company accrued a \$3.8 million and \$1.5 million, respectively, reserve relating to our potential liability for currently pending disputes, reflected in "Other current liabilities" in the Consolidated Balance Sheets.

On August 23, 2016, the United States District Court for the Middle District of Tennessee granted conditional class certification in a lawsuit originally filed on September 21, 2015 by three former senior sales representatives. The lawsuit, Sarah Patton, et al v. ServiceSource Delaware, Inc., asserts a claim under the Fair Labor Standards Act alleging that certain non-exempt employees in our Nashville location were not paid for all hours worked and were not properly paid for overtime hours worked. The complaint also asserts claims under Tennessee state law for breach of contract and unjust enrichment. On September 28, 2018, the plaintiffs filed a motion to certify the state law breach of contract and unjust enrichment claims as a class action. A settlement of all claims was reached at mediation, and the motion for required court approval of the settlement was filed on January 24, 2019. The Company anticipates Court approval of the settlement and conclusion of the lawsuit in the coming months.

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."

Holders

As of February 20, 2019, there were 60 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.

Stock Performance Graph

The following graph shows a comparison of cumulative total stockholder return for our common stock, the Russell Microcap Index and the Nasdaq US Small Cap Business Support Services Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the indexes assumes the 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. Stockholders' returns over the indicated period are based on historical data and should not be considered indicative of future stockholder returns.

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	ServiceSource	Russell Microcap Index	NASDAQ US Small Cap Business Support Services Index
12/31/2013	\$ 100.00	\$ 100.00	\$ 100.00
12/31/2014	\$ 55.85	\$ 102.47	\$ 99.48
12/31/2015	\$ 55.01	\$ 96.03	\$ 91.22
12/31/2016	\$ 67.78	\$ 114.12	\$ 115.06
12/31/2017	\$ 36.87	\$ 127.78	\$ 125.19
12/31/2018	\$ 12.89	\$ 109.90	\$ 123.06

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the related notes included in "Item 8. Financial Statements and Supplementary Data."

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share amounts)				
Net revenue	\$238,340	\$239,127	\$252,887	\$252,203	\$272,180
Cost of revenue ⁽¹⁾	164,693	163,709	165,069	171,369	194,009
Gross profit	73,647	75,418	87,818	80,834	78,171
Operating expenses:					
Sales and marketing ⁽¹⁾	35,600	33,001	41,972	44,086	59,988
Research and development ⁽¹⁾	6,436	5,729	8,344	16,480	25,802
General and administrative ⁽¹⁾	47,288	53,087	52,995	46,299	47,808
Restructuring and other related costs ⁽¹⁾	209	7,308	—	3,662	3,314
Goodwill and other intangible asset impairment	—	—	—	—	25,108
Total operating expenses	89,533	99,125	103,311	110,527	162,020
Loss from operations	(15,886)	(23,707)	(15,493)	(29,693)	(83,849)
Interest and other expense, net	(6,591)	(9,886)	(8,704)	(9,316)	(11,008)
Impairment loss on cost basis equity investment	—	—	(4,500)	—	—
Gain on sale of cost basis equity investment	—	2,100	—	—	—
Impairment loss on investment securities	(1,958)	—	—	—	—
Loss before income taxes	(24,435)	(31,493)	(28,697)	(39,009)	(94,857)
Provision for income tax (expense) benefit	(450)	1,647	(3,429)	(1,584)	(482)
Net loss	\$(24,885)	\$(29,846)	\$(32,126)	\$(40,593)	\$(95,339)
Net loss per common share:					
Basic and diluted	\$(0.27)	\$(0.33)	\$(0.37)	\$(0.48)	\$(1.15)
Weighted-average common shares outstanding:					
Basic and diluted	91,636	89,234	86,318	85,417	82,872

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

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Cost of revenue	\$1,056	\$1,335	\$1,484	\$2,666	\$3,995
Sales and marketing	3,131	3,774	3,004	3,393	6,193
Research and development	180	149	586	1,299	2,800
General and administrative	5,234	8,425	5,678	6,029	7,911
Restructuring and other related costs	—	352	—	2,579	—
Total stock-based compensation	\$9,601	\$14,035	\$10,752	\$15,966	\$20,899

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	As of December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents and short-term investments	\$26,535	\$188,570	\$185,573	\$208,712	\$215,382
Working capital ⁽¹⁾	\$58,265	\$72,538	\$218,585	\$236,431	\$249,590
Total assets	\$136,580	\$295,372	\$306,090	\$317,564	\$337,120
Other long-term liabilities	\$6,540	\$4,603	\$6,495	\$4,311	\$4,660
Convertible notes, net	\$—	\$144,167	\$134,775	\$126,051	\$118,004
Total stockholders' equity	\$101,833	\$112,109	\$126,936	\$147,975	\$169,347

⁽¹⁾ Working capital is defined as current assets less current liabilities.

The following table presents the calculation of adjusted EBITDA reconciled from "Net loss":

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Net loss	\$(24,885)	\$(29,846)	\$(32,126)	\$(40,593)	\$(95,339)
Provision for income tax expense (benefit)	450	(1,647)	3,429	1,584	482
Interest and other expense, net	6,591	9,886	8,704	9,316	11,008
Depreciation and amortization	16,495	22,588	16,165	13,736	13,219
EBITDA ⁽¹⁾	(1,349)	981	(3,828)	(15,957)	(70,630)
Stock-based compensation	9,601	13,683	10,752	13,387	20,899
Amortization of contract acquisition asset costs - ASC 606 initial adoption	1,529	—	—	—	—
Gain on sale of cost basis equity investment	—	(2,100)	—	—	—
Impairment loss on investment securities	1,958	—	—	—	—
Impairment loss of cost basis equity investment	—	—	4,500	—	—
Adjustments to revenue	—	—	—	350	1,346
Acquisition related costs	—	—	—	—	728
Restructuring and other related costs	209	7,308	—	3,662	3,314
Goodwill and other intangible impairment	—	—	—	—	25,108
Litigation reserve	2,250	—	1,500	—	—
Adjusted EBITDA ⁽¹⁾	\$14,198	\$19,872	\$12,924	\$1,442	\$(19,235)

⁽¹⁾ ServiceSource believes net income (loss), as defined by GAAP, is the most appropriate financial measure of our operating performance; however, ServiceSource considers adjusted EBITDA to be a useful supplemental, non-GAAP financial measure of our operating performance. We believe adjusted EBITDA can assist investors in understanding and assessing our operating performance on a consistent basis, as it removes the impact of the Company's capital structure and other non-cash or non-recurring items from operating results and provides an additional tool to compare ServiceSource's financial results with other companies in the industry, many of which present similar non-GAAP financial measures.

EBITDA consists of net income (loss) plus provision for income tax (benefit) expense, interest and other expense, net and depreciation and amortization. Adjusted EBITDA consists of EBITDA plus non-cash stock-based compensation, amortization of contract acquisition costs related to the initial adoption of Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("ASC 606"), gain on sale of cost basis equity investment, impairment loss on investment securities, impairment loss of cost basis equity investment, adjustments to revenue, acquisition related costs, restructuring and other related costs, goodwill and other intangible impairment and litigation reserve.

This non-GAAP measure should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP.

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

The following 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 appearing elsewhere in this annual report on Form 10-K. MD&A contains forward-looking statements. See "Forward-Looking Statements" and "Item 1A. Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those contained in any forward-looking statements.

Overview

ServiceSource International, Inc. is a global leader in outsourced, performance-based customer success and revenue growth solutions. Through our people, processes and technology, we grow and retain revenue on behalf of our clients — some of the world's leading business-to-business companies — in more than 45 languages. Our solutions help our clients strengthen their customer relationships, drive improved customer adoption, expansion and retention and minimize churn. Our technology platform and best-practice business processes combined with our highly-trained, client-focused revenue delivery professionals and data from 20 years of operating experience enable us to provide our clients greater value for our customer success services than attained by our clients' in-house customer success teams.

Our CEO manages and allocates resources on a company-wide basis as a single segment that is focused on service offerings which integrate data, processes and cloud technologies.

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 clients and educate them about our offerings. Educating prospective clients about the benefits of our solutions 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, our solutions design team performs a service performance analysis of our prospect's service revenue. This includes an analysis of best practices, and benchmarks the prospect's service revenue against industry peers. Through this 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 client, inclusive of the service performance analysis process and measured from our first formal discussion with the client until execution of a new client contract, is typically longer than six months and has increased in recent periods.

Implementation Cycle. After entering into an engagement with a new client, and to a lesser extent after adding an engagement with an existing client, we incur sales and marketing expenses related to the commissions owed to our sales personnel. These commissions are generally based on realized revenue that the contract delivers over time with a smaller portion based on the estimated total annual contract value. Commission amounts based on realized revenue are expensed in the period the related revenue is recognized by the Company. Upfront commissions based on estimated total annual contract value are capitalized as Contract acquisition costs and expensed ratably over the expected life of the applicable contract or five years if the contract is between the Company and one of its long-standing clients. We also make upfront investments in technology and personnel to support the engagement. These upfront commissions and investments are typically incurred one to three months before we begin generating sales and recognizing revenue. Accordingly, in a given quarter, an increase in new clients, and, to a lesser extent, an increase in engagements with existing clients, or a significant increase in the contract value associated with such new clients 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 clients.

Although we expect new client engagements to contribute to our operating profitability over time, in the initial periods of a client relationship, the near term impact on our profitability can be negatively impacted by slower-than anticipated growth in revenues for these engagements as well as the impact of the upfront costs we incur, the lower initial level of associated service sales team productivity and lack of mature data and technology integration with the

client. As a result, an increase in the mix of new clients as a percentage of total clients may initially have a negative impact on our operating results. Similarly, a decline in the ratio of new clients to total clients may positively impact our near-term operating results.

Contract Terms. A significant portion 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 clients. In some cases, we earn additional performance-based commissions for exceeding pre-determined service renewal targets.

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Our new client contracts typically have an initial term between two and four years. Our contracts generally require our clients 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 clients do not meet their minimum contractual commitments over a specified period, they may be subject to fees for the shortfall. Our client contracts are cancelable on relatively short notice, subject in most cases to the payment of an early termination fee by the client. The amount of this fee is based on the length of the remaining term and value of the contract.

Merger and Acquisition Activity. Our clients, 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 clients 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 clients can provide us with the opportunity to pursue additional business to the extent the acquired company is not already one of our clients. Similarly, when a client 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 client 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.

Seasonality. We experience a seasonal variance in our revenue which is typically higher in the fourth quarter when many of our clients' products come up for renewal, and for the third quarter of the year which is typically lower as a result of lower or flat renewal volume corresponding to the timing of our customers' product sales particularly in the international regions. The impact of this seasonal fluctuation can be amplified if the economy as a whole is experiencing disruption or uncertainty, leading to deferral of some renewal decisions.

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 clients. We generally invoice our clients for our selling services on a monthly basis for sales commissions, and on a quarterly basis for certain performance sales commissions. 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 clients and their end customers. We also generate revenues from selling professional services. Professional services involves providing data integration at scale with our systems and processes, combined with client data enhancement, enablement and optimization. We typically invoice our clients for professional services on a monthly basis.

Historically, we earned revenue from the sale of subscriptions to our cloud-based applications. To date, subscription revenue is a small percentage of our total revenue. We terminated most of our subscription contracts and expect revenues generated from subscriptions to be insignificant in 2019.

We generate a significant portion of our revenue from a limited number of clients. Our top ten clients accounted for 67%, 66% and 66% of our net revenue for the years ended December 31, 2018, 2017 and 2016, respectively.

The loss of revenue from any of our top clients for any reason, including the failure to renew our contracts, termination of some or all of our services, or a change of relationship with any of our key clients or their acquisition, can cause a significant decrease in our revenue.

Our business is geographically diversified. During 2018, 60% of our net revenue was earned in NALA, 25% in EMEA and 15% in APJ. Net revenue for a particular geography generally reflects commissions earned from sales of service contracts managed from our revenue delivery center in that geography. Predominantly all of the service contracts sold and managed by our revenue delivery centers relate to end customers located in the same geography. In addition, our Kuala Lumpur location is a revenue delivery center where we have centralized, for our worldwide operations, the key contract renewal processes that do not require regional expertise, such as client data management and quoting.

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Cost of Revenue and Gross Profit

Our cost of revenue includes employee compensation, technology costs, including those related to the delivery of our cloud-based technologies, and allocated overhead costs. Employee 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 selling services 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 client base or business with our existing client base expands, we may need to hire additional service sales personnel and invest in infrastructure to support such growth. Our cost of revenue may fluctuate significantly and increase or decrease on an absolute basis and as a percentage of revenue in the near term, including for the reasons discussed under, “Factors Affecting Our Performance-Implementation Cycle.”

Operating Expenses

Sales and Marketing

Sales and marketing expenses are a significant component of our operating costs and consist primarily of compensation expenses and sales commissions for our sales and marketing staff, amortization of contract acquisition costs, 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 generally provide multiple payments of commissions to our sales representatives based in part on the execution of a client contract and then on a percentage of revenue recorded during the first 18 to 21 months of the contract term. Commissions paid as a percentage of recorded revenue is contingent on the sales representatives' continued employment. We generally capitalize the amounts payable upon contract execution and amortize ratably to sales and marketing expense over the estimated contract term for new clients or estimated life of the client for long-standing client relationships. Revenue based commissions are expensed to sales and marketing expense each quarter as revenue is recorded.

Research and Development

Research and development expenses consist primarily of employee compensation expense, allocated costs and the cost of third-party service providers. We focus our research and development efforts on developing new products and applications related to our technology platform. We capitalize certain expenditures related to the development and enhancement of internal-use software related to our technology platform.

General and Administrative

General and administrative expenses consist primarily of employee compensation expense for our executive, human resources, finance and legal functions and related expenses for professional fees for accounting, tax and legal services, as well as allocated expenses, which consist of depreciation, amortization of internally developed software, facility and technology costs.

Restructuring and Other Related Costs

Restructuring and other related costs consist primarily of employees' severance payments and related employee benefits, stock-based compensation related to the accelerated vesting of certain equity awards, related legal fees, asset impairment charges and charges related to leases and other contract termination costs. In February 2019, the Company announced a restructuring effort to better align its cost structure with current business and market conditions, including a headcount reduction. In connection with this restructuring effort, the Company is expected to incur additional costs in severance and other employee related costs during 2019.

Interest and Other Expense, Net

Interest and other expense, net consists of interest expense associated with our convertible notes and revolver, imputed interest from capital lease payments, interest income earned on our cash and cash equivalents and marketable securities, accretion of the debt discount, amortization of debt issuance costs and foreign exchange gains and losses. We recognize accretion of the debt discount and amortization of interest costs using the effective interest rate method.

We expect interest expense and other, net to decrease significantly due to the maturity and payoff of our \$150.0 million convertible notes in August 2018 and minimal activity expected on our revolver in 2019.

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Provision for Income Tax Benefit (Expense)

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

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

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

Key Financial Results – Full Year Ended December 31, 2018

GAAP revenue was \$238.3 million, compared with \$239.1 million reported for the year ended December 31, 2017.

GAAP net loss was \$24.9 million or \$0.27 per diluted share, compared with GAAP net loss of \$29.8 million or \$0.33 per diluted share reported for the year ended December 31, 2017.

Ended the year with \$27.8 million of cash and cash equivalents and restricted cash and no borrowings under the Company's \$40.0 million revolving line of credit.

Results of Operations

For the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Net Revenue, Cost of Revenue and Gross Profit

	For the Year Ended December 31, 2018		2017		\$ Change	% Change
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(in thousands)		(in thousands)		(in thousands)	
Net revenue	\$238,340	100 %	\$239,127	100 %	\$ (787)	— %
Cost of revenue	164,693	69 %	163,709	68 %	984	1 %
Gross profit	\$73,647	31 %	\$75,418	32 %	\$ (1,771)	(2)%

Net revenue decreased by \$0.8 million for the year ended December 31, 2018 compared to the same period in 2017, primarily due to unexpected client churn and lower end user demand at several clients, offset by expansion and increased production within existing clients.

Cost of revenue increased \$1.0 million, or 1%, for the year ended December 31, 2018 compared to the same period in 2017, primarily due to the following:

-

\$4.9 million increase in employee related costs primarily due to operational improvements in managed services, new clients and expansion of business with existing clients resulting in an increase in headcount in lower costs locations; \$1.3 million increase in facility related costs primarily due to increased headcount; and

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- \$0.8 million increase in information technology costs; partially offset by
- \$5.4 million decrease in depreciation and amortization expense primarily due to intangible assets fully depreciated as of January 2018 and internally developed software fully depreciated as of July 2018; and
- \$0.5 million decrease in professional fees.

Operating Expenses

	For the Year Ended December 31,					
	2018		2017		\$ Change	% Change
Amount	% of Net Revenue	Amount	% of Net Revenue	(in thousands)		
	(in thousands)	(in thousands)	(in thousands)	(in thousands)	(in thousands)	(in thousands)
Operating expenses:						
Sales and marketing	\$35,600	15 %	\$33,001	14 %	\$ 2,599	8 %
Research and development	6,436	3 %	5,729	2 %	707	12 %
General and administrative	47,288	20 %	53,087	22 %	(5,799)	(11)%
Restructuring and other related costs	209	— %	7,308	3 %	(7,099)	(97)%
Total operating expenses	\$89,533	38 %	\$99,125	41 %	\$ (9,592)	(10)%

Sales and Marketing

Sales and marketing expense increased \$2.6 million, or 8%, for the year ended December 31, 2018 compared to the same period in 2017, primarily due to the following:

- \$1.8 million increase in amortization of contract acquisition costs due to the adoption of ASC 606, see Notes to the Consolidated Financial Statements “Note 2 - Summary of Significant Accounting Policies” for additional information;
- \$1.3 million increase in employee related costs primarily due to increased headcount and rebuilding of marketing team;

\$0.3 million increase in facility related costs primarily due to increased headcount; and

- \$0.2 million increase in information technology costs; partially offset by

\$0.5 million decrease in depreciation and amortization expense primarily due to intangible assets being fully depreciated as of January 2018; and

\$0.4 million decrease in marketing costs due to re-branding and website updates during 2017 with minimal costs during 2018.

Research and Development

Research and development expense increased \$0.7 million, or 12%, for the year ended December 31, 2018 compared to the same period in 2017, primarily due to the following:

- \$1.1 million increase in information technology costs; and
- \$0.5 million increase in employee related costs primarily due to a reduction in capitalizable costs from the migration from Renew OnDemand to PRISM; partially offset by

\$0.5 million decrease in facility related costs primarily driven by downsizing the San Francisco office; and

\$0.2 million decrease in professional fees.

Internal-use software development capitalization decreased \$1.5 million for the year ended December 31, 2018 compared to the same period in 2017, primarily due to the migration from our Renew OnDemand platform to PRISM. We expect to continue to invest in our technology platforms to support our services offering and thus capitalizing internal-use software costs in the future. However, the amount capitalized will depend on the future level of expenditures on our technology platforms.

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General and Administrative

General and administrative expense decreased \$5.8 million, or 11%, for the year ended December 31, 2018 compared to the same period in 2017, primarily due to the following:

\$7.1 million decrease in employee compensation costs primarily due to change in executive management and decrease in bonus due to lower revenue attainment; and

\$0.8 million decrease in facility related costs primarily related to increased headcount in cost of revenues and sales and marketing; partially offset by

\$2.3 million increase in legal reserves.

Restructuring and Other Related Costs

Restructuring and other related costs decreased \$7.1 million, or 97%, for the year ended December 31, 2018 compared to the same period in 2017 primarily due to the restructuring of the Company in May 2017.

Other Expenses

	For the Year Ended December 31,				\$ Change	% Change
	2018	2017	Amount	% of Net Revenue		
	Amount	% of Net Revenue	Amount	% of Net Revenue	(in thousands)	
	(in thousands)		(in thousands)			
Interest expense	\$ (7,396)	(3)%	\$ (11,683)	(5)%	\$ (4,287)	(37)%
Other expense, net	\$ 805	— %	\$ 1,797	1 %	\$ (992)	(55)%
Gain on sale of cost basis equity investment	\$ —	— %	\$ 2,100	1 %	\$ (2,100)	(100)%
Impairment loss on investment securities	\$ (1,958)	(1)%	\$ —	— %	\$ (1,958)	100 %

Interest expense decreased \$4.3 million, or 37%, for the year ended December 31, 2018 compared to the same period in 2017 primarily due to the repayment of our \$150.0 million convertible notes in August 2018.

Other expense, net decreased \$1.0 million, or 55%, for the year ended December 31, 2018 compared to the same period in 2017 primarily due a decrease in interest income earned on our short-term investments and foreign currency fluctuations.

During 2017, we sold our equity investment in a private company that we fully impaired in 2016 for proceeds of \$2.1 million and recorded the proceeds as a gain.

During 2018, we determined to liquidate the majority of our investment securities during the first half of 2018 to have sufficient cash on hand to repay our \$150.0 million convertible notes due August 1, 2018. Based on our decision to sell these investment securities, we determined an other-than-temporary impairment occurred as of March 31, 2018. Consequently, a \$2.0 million impairment loss was recorded in our Consolidated Statement of Operations for the year ended December 31, 2018.

Income Tax Provision

	For the Year Ended December 31,				\$ Change	% Change
	2018	2017	Amount	% of Net Revenue		
	Amount	% of Net Revenue	Amount	% of Net Revenue	(in thousands)	
	(in thousands)		(in thousands)			
Provision for income tax (expense) benefit	\$ (450)	—%	\$ 1,647	1 %	\$ (2,097)	*

* Not considered meaningful.

For the year ended December 31, 2018, we recorded tax expense of \$0.5 million. The tax expense resulted primarily from profitable jurisdictions where no valuation allowance has been provided. Income tax expense increased \$2.1 million for the year ended December 31, 2018 compared to 2017, due to an increase in profitable operations in certain U.S. and foreign jurisdictions as well as no additional release of valuation allowance. As of December 31, 2018, we recorded a full valuation allowance on our state deferred tax assets. No benefit was provided for losses incurred in

U.S., Ireland and Singapore because those losses are offset by a full valuation allowance.

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For the year ended December 31, 2017, we recorded a tax benefit of \$1.6 million. This primarily represents a \$2.0 million income tax benefit related to the remeasurement of our indefinite-lived intangible deferred tax liability and release of our valuation allowance for certain net operating loss provisions as enacted under the Tax Cuts and Jobs Act. We also recorded \$0.4 million of federal, foreign and state income tax expense. No benefit was otherwise provided for losses incurred in U.S. and Singapore because these losses are offset by a valuation allowance.

For the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Net Revenue, Cost of Revenue and Gross Profit

	For the Year Ended December 31, 2017		2016		\$ Change	% Change
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(in thousands)		(in thousands)		(in thousands)	
Net revenue	\$239,127	100 %	\$252,887	100 %	\$ (13,760)	(5)%
Cost of revenue	163,709	68 %	165,069	65 %	(1,360)	(1)%
Gross profit	\$75,418	32 %	\$87,818	35 %	\$(12,400)	(14)%

Net revenue decreased by \$13.8 million, or 5%, for the year ended December 31, 2017 compared to the same period in 2016, due to contractions and lower production with certain existing clients and the bankruptcy of one of our top 10 clients, partially offset by production related to expansion of business with our existing client base and new business in 2017.

Cost of revenue decreased \$1.4 million, or 1%, for the year ended December 31, 2017 compared to the same period in 2016, primarily due to the following:

\$4.3 million decrease in employee related costs primarily due to operational improvements in our business that resulted in a reduction in headcount, increased productivity from our revenue generating employees and shifting headcount to lower cost locations;

\$1.6 million decrease in professional fees; and

\$1.2 million decrease in information technology costs; partially offset by

\$4.3 million increase in depreciation and amortization expense; and

\$1.2 million increase in facility related costs.

Operating Expenses

	For the Year Ended December 31, 2017		2016		\$ Change	% Change
	Amount	% of Net Revenue	Amount	% of Net Revenue		
	(in thousands)		(in thousands)		(in thousands)	
Operating expenses:						
Sales and marketing	\$33,001	14 %	\$41,972	17 %	\$ (8,971)	(21)%
Research and development	5,729	2 %	8,344	3 %	(2,615)	(31)%
General and administrative	53,087	22 %	52,995	21 %	92	— %
Restructuring and other related costs	7,308	3 %	—	— %	7,308	100 %
Total operating expenses	\$99,125	41 %	\$103,311	41 %	\$(4,186)	(4)%

Sales and Marketing

Sales and marketing expense decreased \$9.0 million, or 21%, for the year ended December 31, 2017 compared to the same period in 2016, primarily due to the following:

\$8.2 million decrease in employee related costs primarily due to lower headcount resulting from our efforts to better align our cost structure; and

\$0.4 million decrease in facility related costs.

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Research and Development

Research and development expense decreased \$2.6 million, or 31%, for the year ended December 31, 2017 compared to the same period in 2016, primarily due our efforts to reduce research and development spend as follows:

\$4.2 million decrease in employee related costs associated with a decrease in headcount; partially offset by \$1.8 million increase in professional fees.

Internal-use software development capitalization decreased \$0.5 million for the year ended December 31, 2017 compared to the same period in 2016, primarily due to the migration from our Renew OnDemand platform to PRISM.

General and Administrative

General and administrative expense increased \$0.1 million for the year ended December 31, 2017 compared to the same period in 2016, primarily due to the following:

\$2.1 million increase in depreciation and amortization expense;

\$1.0 million increase in employee related costs primarily related to performance-based restricted stock awards issued during 2016 and 2017, offset by decreases due to shifting headcount to lower cost locations; and

\$0.7 million increase in information technology spend; partially offset by

\$1.5 million decrease due to a non-recurring legal reserve recorded during 2016;

\$1.2 million decrease in professional fees; and

\$1.1 million decrease in rent and facilities costs driven primarily by downsizing the San Francisco office.

Restructuring and Other Related Costs

Restructuring and other related costs increased \$7.3 million, or 100%, for the year ended December 31, 2017 compared to the same period in 2016 due to the restructuring of the Company in May 2017.

Other Expenses

	For the Year Ended December 31,				\$ Change	% Change
	2017	2016	Amount	% of Net Revenue		
	Amount	% of Net Revenue	Amount	% of Net Revenue	(in thousands)	
	(in thousands)		(in thousands)			
Interest expense	\$(11,683)	(5)%	\$(11,030)	(4)%	\$ 653	6%
Other expense, net	\$1,797	1%	\$2,326	1%	\$(529)	(23)%
Impairment loss on cost basis equity investment	\$—	—%	\$(4,500)	(2)%	\$ 4,500	(100)%
Gain on sale of cost basis equity investment	\$2,100	1%	\$—	—%	\$ 2,100	100%

Interest expense increased \$0.7 million, or 6%, for the year ended December 31, 2017 compared to the same period in 2016 due to the accretion of the debt discount related to our convertible notes issued in August 2013.

Other expense, net decreased \$0.5 million, or 23%, for the year ended December 31, 2017 compared to the same period in 2016 primarily due to foreign currency fluctuations.

During the year ended December 31, 2016, we fully impaired our 2013 cost basis equity investment due to an unfavorable declining financial performance, growth trends and future liquidity needs of the investment and recorded a \$4.5 million impairment. During the year ended December 31, 2017, we sold our equity investment that we fully impaired in 2016 for proceeds of \$2.1 million and recorded the proceeds as a gain.

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Income Tax Provision

	For the Year Ended December 31,		\$ Change	% Change
	2017	2016		
	Amount	% of Net Revenue	Amount	% of Net Revenue
	(in thousands)	(in thousands)	(in thousands)	
Provision for income tax benefit (expense)	\$ 1,647	1 %	\$(3,429)	(1)%
			\$ 5,076	*

* Not considered meaningful.

For the year ended December 31, 2017, we recorded a tax benefit of \$1.6 million. This primarily represents a \$2.0 million income tax benefit related to the remeasurement of our indefinite-lived intangible deferred tax liability and release of our valuation allowance for certain net operating loss provisions as enacted under the Tax Cuts and Jobs Act. Historically, we recorded a deferred income tax expense for indefinite lived deferred tax liabilities, as the Company did not have any indefinite lived deferred tax assets. H.R.1 changed the carryover period for federal net operating losses to indefinite, allowing us to utilize future indefinite lived deferred tax assets in the scheduling of valuation allowance. Our net U.S. deferred tax liability decreased from \$2.2 million as of December 31, 2016 to \$0.2 million as of December 31, 2017. We also recorded \$0.4 million of federal, foreign and state income tax expense. No benefit was otherwise provided for losses incurred in U.S. and Singapore because these losses are offset by a valuation allowance.

For the year ended December 31, 2016, we recorded a charge to income tax expense of \$3.4 million. This amount primarily represents foreign income taxes of \$1.1 million and \$1.8 million of valuation allowance that reflects the portion of certain state deferred tax assets that are not more-likely-than-not to be realized. No benefit was otherwise provided for losses incurred in U.S. and Singapore because these losses are offset by a full valuation allowance.

Liquidity and Capital Resources

Our primary operating cash requirements include the payment of compensation and related costs and costs for our facilities and information technology infrastructure. Historically, we have financed our operations from cash provided by our operating activities, proceeds from common stock offerings and cash proceeds from the exercise of stock options and our employee stock purchase plan. We believe our existing cash and cash equivalents and available funds from our revolving line of credit will be sufficient to meet our working capital and capital expenditure needs over the next twelve months.

As of December 31, 2018, we had cash and cash equivalents of \$26.5 million, which primarily consisted of demand deposits and money market mutual funds. Included in cash and cash equivalents was \$6.3 million held by our foreign subsidiaries used to satisfy their operating requirements. We consider the undistributed earnings of ServiceSource Europe Ltd. and ServiceSource International Singapore Pte. Ltd. permanently reinvested in foreign operations and have not provided for U.S. income taxes on such earnings. As of December 31, 2018, the Company had no unremitted earnings from our foreign subsidiaries.

On August 1, 2018, the Company paid in full the \$150.0 million senior convertible notes issued in August 2013 using proceeds from its short-term investments and operations.

During July 2018, the Company entered into a \$40.0 million senior secured revolving line of credit (the "Revolver") that allows us to borrow against our domestic receivables as defined in the credit agreement. The Revolver matures July 2021 and bears interest at a variable rate per annum based on the greater of the prime rate, the Federal Funds rate plus 0.50% or the one-month LIBOR rate plus 1.00%, plus, in each case, a margin of 1.00% for base rate borrowings or 2.00% for Eurodollar borrowings. Proceeds from the credit facility are used for working capital and general corporate purposes.

As of December 31, 2018, we did not have any borrowings outstanding under the Revolver. Obligations under the credit agreement are secured by substantially all assets of the borrowers and certain of their subsidiaries, including pledges of equity in certain of the Company's subsidiaries. The Revolver has covenants with which we are in compliance as of December 31, 2018.

Share Repurchase Program

In August 2015, our Board of Directors authorized a stock repurchase program (the "Program") to repurchase up to \$30.0 million of our common stock. During the year ended December 31, 2016, the Company repurchased 2.3 million shares of common stock at a weighted-average price of \$3.94 per share for an aggregate purchase price of \$8.9 million. The Program expired August 2017 and no shares were repurchased under the Program during the year ended December 31, 2017.

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Letter of Credit and Restricted Cash

In connection with one of our leased facilities, the Company is required to maintain a \$1.2 million letter of credit. The letter of credit is secured by \$1.2 million of cash in a money market account, which is classified as restricted cash in "Other assets" in our Consolidated Balance Sheets.

Cash Flows

The following table presents a summary of our cash flows:

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net cash provided by operating activities	\$3,717	\$19,797	\$4,452
Net cash provided by (used in) investing activities	122,076	(14,815)	(28,914)
Net cash (used in) provided by financing activities	(150,639)	216	937
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(8)	(1,501)	(1,117)
Net change in cash and cash equivalents and restricted cash	\$(24,854)	\$3,697	\$(24,642)

Our total depreciation and amortization expense was comprised of the following:

	For the Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Purchased intangible asset amortization	\$85	\$1,512	\$1,512
Internally developed software amortization	8,629	13,298	7,634
Property and equipment depreciation	7,781	7,778	7,019
Depreciation and amortization	16,495	22,588	16,165
Adjustments and other	—	—	(113)
Total depreciation and amortization	\$16,495	\$22,588	\$16,052

Operating Activities

Net cash provided by operating activities of \$3.7 million for the year ended December 31, 2018 was primarily the result of \$35.1 million of non-cash adjustments of depreciation and amortization, stock-based compensation, restructuring and other related costs and impairment of our investment securities, partially offset by our net loss of \$24.9 million and a \$6.5 million change in operating assets and liabilities. The \$6.5 million net change in operating assets and liabilities consisted of cash used in operations from a \$2.4 million decrease in accounts payable, a \$4.5 million net decrease in accrued expenses and other liabilities primarily due to payment of bonuses and other employee benefits offset by an increase in estimated legal reserves, a \$1.2 million increase in prepaid expenses and other assets primarily due to contract acquisition costs as a result of the adoption of the new revenue recognition standard as of January 1, 2018, partially offset by a \$1.7 million decrease in accounts receivable, primarily reflective of increased collections during the period.

Net cash provided by operating activities of \$19.8 million for the year ended December 31, 2017 was primarily the result of \$46.9 million of non-cash adjustments of depreciation and amortization, stock-based compensation, deferred income tax and restructuring costs, and a \$4.8 million net change in operating assets and liabilities, partially offset by our net loss of \$29.8 million and a \$2.1 million gain on the sale of our cost base equity investment. The \$4.8 million net change in operating assets and liabilities consisted of cash provided by operations from a \$9.1 million decrease in accounts receivable, primarily reflective of an increase in collections and a decrease of days outstanding, a \$2.5 million increase in accounts payable and a \$1.7 million decrease in prepaid expenses and other, partially offset by a \$5.5 million decrease in accrued expenses and other liabilities, primarily due to payment of bonuses and other employee benefits, and a \$2.9 million decrease in deferred revenue.

Net cash provided by operating activities of \$4.5 million for the year ended December 31, 2016 was primarily the result of \$43.0 million of non-cash adjustments of depreciation and amortization, stock-based compensation, deferred income tax, impairment of cost basis of equity investment and restructuring costs; partially offset by our net loss of \$32.1 million and a \$6.5 million net change in operating assets and liabilities. The \$6.5 million net change in operating assets and liabilities consisted of cash used in operations from a \$7.2 million increase in accounts receivable, a \$1.6 million decrease in deferred revenue and a \$0.7 million increase in prepaid expenses and other assets, partially offset by a \$0.9 million increase in accounts payable and a \$2.1 million increase in accrued expenses and other liabilities.

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Investing Activities

Net cash provided by investing activities increased \$136.9 million to \$122.1 million during the year ended December 31, 2018 compared to \$14.8 million net cash used in investing activities during the same period in 2017, primarily due to the following activities:

\$137.5 million increase in cash inflows from the purchase, sale and maturity of short-term investments; and \$1.5 million decrease in cash outflows related to the acquisition of property and equipment, which includes a \$1.5 million of decrease in internally developed software costs; partially offset by \$2.1 million in proceeds received during 2017 from the sale of our equity investment in a private company.

Net cash used in investing activities decreased \$14.1 million to \$14.8 million during the year ended December 31, 2017 compared to \$28.9 million during the same period in 2016, primarily due to the following activities:

\$9.2 million decrease in cash outflows related to the acquisition of property and equipment, which includes \$0.5 million of decreased internally developed software costs; \$2.8 million decrease in net cash outflows related to the purchase of short-term investments; and \$2.1 million increase in cash inflows related to the proceeds from sale of our cost basis equity investment.

Financing Activities

Net cash used in financing activities increased \$150.9 million to \$150.6 million during the year ended December 31, 2018 compared to \$0.2 million net cash provided by financing activities during the same period in 2017, primarily due to the following activities:

\$150.0 million net increase in cash outflows due to repayment of the convertible notes in August 2018; \$0.4 million increase in cash outflows due to repayment of capital lease obligations; and \$0.2 million increase in cash outflows due to debt issuance costs incurred on the revolver.

Net cash provided by financing activities decreased \$0.7 million to \$0.2 million during the year ended December 31, 2017 compared to \$0.9 million during the same period in 2016, primarily due to the following activities:

\$9.8 million decrease in cash inflows due to proceeds of approximately \$10.9 million from the exercise of stock options and the employee purchase plan during 2016 compared to proceeds of approximately \$1.1 million from the exercise of stock options and the employee purchase plan during 2017; partially offset by \$8.9 million decrease in cash outflows due to the repurchase of approximately 2.3 million shares of our common stock at a weighted-average price of \$3.94 per share during 2016 and no corresponding activity during 2017.

Off-Balance Sheet Arrangements

As of December 31, 2018 and 2017, we did 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 facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations and Commitments

Our contractual obligations primarily consist of obligations under operating lease agreements for office space, capital lease agreements for IT equipment, non-cancelable service contracts and restructuring and other related costs.

The following table summarizes future payments of our contractual obligations as of December 31, 2018 (in thousands):

	Total	Less than 1 year	1- 3 years	4- 5 years	More than 5 years
	(in thousands)				
Capital lease obligations	\$2,464	\$954	\$1,510	\$—	\$ —
Operating lease obligations ⁽¹⁾	36,118	10,511	18,628	6,979	—
Service contracts ⁽³⁾	13,614	7,869	5,730	15	—
Restructuring and other related costs	962	246	491	225	—
Total ⁽²⁾	\$53,158	\$19,580	\$26,359	\$7,219	\$ —

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(1) In January 2018, the Company entered into a sublease with a third-party for our San Francisco office space for the remaining term of the lease. The future minimum payments through November 30, 2022 under the original lease total approximately \$7.5 million and future sublease rental income totals approximately \$7.7 million over the same period.

(2) Excluded from the table is the income tax liability we recorded for the difference between the benefit recognized and measured and the tax position taken or expected to be taken on our tax returns. As of December 31, 2018, our liability for unrecognized tax benefits was \$0.9 million. Reasonably reliable estimate of the amounts and periods of related future payments cannot be made at this time.

(3) During January 2019 a five year purchase commitment for additional expenditures of \$26.1 million was executed. The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding, which specify significant terms, included payment terms, related services and the approximate timing of the transaction. Obligations under contracts that we may cancel without a significant penalty are not included in the above table.

Critical Accounting Policies and Estimates

General

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. (“GAAP”) requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different or different assumptions were made, it is possible that different accounting policies would have been applied, resulting in different financial results or a different presentation of our financial statements. Our discussion and analysis of financial condition and results of operations is based on our Consolidated Financial Statements, which have been prepared in accordance with GAAP. Estimates, judgments and assumptions are based on historical experiences that we believe to be reasonable under the circumstances. From time to time, we re-evaluate those estimates and assumptions.

The Company’s significant accounting policies are described in “Notes to the Consolidated Financial Statements, Note 2 — Summary of Significant Accounting Policies.” These policies were followed in preparing the Consolidated Financial Statements as of and for the year ended December 31, 2018 and are consistent with the year ended December 31, 2017, except for the new accounting policies related to the adoption and application of Accounting Standards Codification Topic 606, as of January 1, 2018.

The Company has identified the following as critical accounting policies. These accounting policies have the most significant impact on our financial condition and results of operations and require management’s most difficult, subjective and/or complex estimates.

Revenue Recognition

The Company derives its revenues primarily from selling and professional services. Other revenues include professional services and subscription services to Renew OnDemand, which phased out in 2017. Revenue is recognized in accordance with ASC 606 when performance obligations identified in a contract are satisfied, which is achieved through the transfer of control of the services to our client.

Selling Services

Selling services primarily consist of variable fees earned from five categories of selling motions: (1) recurring revenue management, (2) customer success activities (3) inside sales efforts, (4) sales enablement services and (5) channel management efforts. The length of a selling services contract is generally 2-3 years.

Professional Services

Professional services primarily consist of fixed fees for providing data integration at scale with our systems and processes, combined with client data enhancement, enablement and optimization. Professional services revenues from fixed consideration are recognized based on proportional performance over the performance period which is typically concluded within 90 days of contract execution.

Multiple Arrangements

The Company enters into contracts with multiple performance obligations that incorporate fixed consideration, pay-for-performance commissions and variable bonus commissions. Judgment is required to estimate the amount of

variable consideration to include when estimating the total contract consideration and how to allocate the consideration if one of the distinct performance obligations is not sold at SSP.

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Performance Obligations

Revenue is measured based on the consideration specified in a contract. Individual services within a single contract are accounted separately if they are distinct. The total contract consideration, or transaction price, is allocated between the separate services identified in the contract based on their stand-alone selling price ("SSP"). SSP is determined based on a cost plus margin analysis for selling services and a standard hourly rate card for professional services. For professional services that are contractually priced differently from SSP, the Company estimates the SSP using a standard hourly rate card and allocates a portion of the total contract consideration to reflect professional services revenue at SSP.

The Company's performance obligations are satisfied over time and revenue is recognized based on monthly or quarterly time increments and the variable volume of closed bookings during the period at the contractual commission rates for selling services, or proportional performance during the period at the SSP for professional services. Because the client simultaneously receives and consumes the benefit of the Company's selling and professional services as provided, the time increment output method depicts the measure of progress in transferring control of the services to the client.

While multiple selling motions in a contract are performed at various times and patterns throughout the month or quarter and the number of closed bookings vary in any given period, each time increment of a service activity is substantially the same and has the same pattern of transfer to the client, and therefore, represents a series of distinct performance obligations that form a single performance obligation. As a result, the Company allocates all variable consideration in a contract to the selling services performance obligation in accordance with the variable consideration allocation exception provisions in ASC 606 (less amounts for which it is probable a significant reversal of revenue will occur when the uncertainties related to the variability are resolved) and applies a single measure of progress to record revenue in the period based on when the output of the variable number of closed bookings occurs or when the variable performance metric is achieved.

Our revenue contracts often include promises to transfer services involving multiple selling motions to a client. Determining whether those services are considered distinct performance obligations and qualify as a series of distinct performance obligations that represent a single performance obligation requires significant judgment. Also, due to the continuous nature of providing services to our clients, judgment is required in determining when control of the services is transferred to the client.

A significant portion of our contracts is based on a pay-for-performance model that provides the Company with commissions and revenue based on a volume of closed bookings each time period and variable consideration if certain performance targets are achieved during a given period of time (such as exceeding quarterly closure rate thresholds or achieving absolute dollar volume sales targets). Significant judgment is required to determine if this type of variable consideration should be constrained, and to what extent, until the risk of a significant revenue reversal is not probable.

Stock-Based Compensation

We estimate the fair value of stock options granted using the Black-Scholes option-pricing model which relies on estimates and assumptions we make related to the length of time an employee will retain vested stock options before exercising them and the historical volatility of our common stock price.

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

Impairment of Goodwill

We evaluate goodwill for possible impairment at least annually or if indicators of impairment arise, such as significant change in key factors such as the industry and competitive environment, stock price, actual revenue performance year over year, EBITDA and cash flow generation that would more-likely-than-not indicate the carrying amount of such assets may not be recoverable. Significant judgments are required to estimate the fair value of the reporting unit which include estimating future cash flows. Changes in these estimates and assumptions could materially affect the determination of fair value for the reporting unit which could trigger impairment.

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.

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We regularly assess the need for a valuation allowance against our deferred tax assets. In making that assessment, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets on a jurisdictional basis to determine, based on the weight of available evidence, whether it is more-likely-than-not that some or all of the deferred tax assets will not be realized. Examples of positive and negative evidence include future growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, historical earnings, taxable income in prior years, if carryback is permitted under the law and prudent and feasible tax planning strategies. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets valuation allowance would be charged to earnings in the period in which we make such a determination, or goodwill would be adjusted at our final determination of the valuation allowance related to an acquisition within the measurement period. If we later determine that it is more-likely-than-not that the net deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance as an adjustment to earnings at such time. We account for unrecognized tax benefits using a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. We record an income tax liability, if any, for the difference between the benefit recognized and measured and the tax position taken or expected to be taken on our tax returns. We recognize interest accrued and penalties related to unrecognized tax benefits in the income tax provision. To the extent that the assessment of such tax positions change, the change in estimate is recorded in the period in which the determination is made. The reserves are adjusted in light of changing facts and circumstances, such as the outcome of a tax audit. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

Recent Accounting Pronouncements

See Notes to the Consolidated Financial Statements “Note 2 — Summary of Significant Accounting Policies” in Item 8. Financial Statements and Supplementary Data for a full description of recent accounting pronouncements including the expected dates of adoption and the anticipated impact to our Consolidated Financial Statements.

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, Philippine Peso, Bulgarian Lev 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 revenue delivery centers. As our international operations grow, we will continue to reassess our approach to managing our risk relating to fluctuations in currency rates. See Item.1A. "Risk Factors" for a description of the risks associated with fluctuations of the foreign currency exchange rate in our foreign operations.

We performed a sensitivity analysis of our foreign currency exposure at December 31, 2018 to assess the potential impact of fluctuations in exchange rates for all foreign denominated assets and liabilities. A 10% appreciation or depreciation for all currencies against the U.S. dollar at December 31, 2018 and December 31, 2017 would not have had a material impact on our results of operations or our cash flows.

Interest Rate Risk

The Revolver bears interest at a per annum rate based on the greater of the prime rate, the Federal Funds rate plus 0.50% or the one-month LIBOR rate plus 1.00%, plus, in each case, a margin of 1.00% for base rate borrowings or one-month LIBOR plus 2.00% for Eurodollar borrowings. The effective interest rate on our Revolver was 6.50% as of December 31, 2018. Our overall interest rate sensitivity is influenced by any amounts borrowed on our Revolver and rate fluctuations. As of December 31, 2018, we did not have any borrowings outstanding on the Revolver, therefore a 1% increase in the effective interest rate would not increase interest expense. We may incur additional expense in future periods if we borrow on the Revolver.

Inflation Risk

We do not believe that inflation has a material effect on our business, financial condition or results of operations as of December 31, 2018 and December 31, 2017. 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.

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ServiceSource International, Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2016.

Denver, Colorado

February 28, 2019

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ServiceSource International, Inc.

Consolidated Balance Sheets

(in thousands, except per share amounts)

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$26,535	\$51,389
Short-term investments	—	137,181
Accounts receivable, net	54,284	56,516
Prepaid expenses and other	5,653	6,112
Total current assets	86,472	251,198
Property and equipment, net	36,593	34,119
Contract acquisition costs	2,660	—
Goodwill and intangible assets, net	6,334	6,419
Other assets	4,521	3,636
Total assets	\$136,580	\$295,372
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$2,424	\$4,574
Accrued compensation and benefits	15,509	19,257
Convertible notes, net	—	144,167
Deferred revenue	—	1,282
Accrued expenses	3,380	6,640
Other current liabilities	6,894	2,740
Total current liabilities	28,207	178,660
Other long-term liabilities	6,540	4,603
Total liabilities	34,747	183,263
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 20,000 shares authorized and none issued and outstanding	—	—
Common stock; \$0.0001 par value; 1,000,000 shares authorized; 92,895 shares issued and 92,774 shares outstanding as of December 31, 2018; 90,380 shares issued and 90,259 shares outstanding as of December 31, 2017	9	8
Treasury stock	(441)	(441)
Additional paid-in capital	369,246	359,347
Accumulated deficit	(267,383)	(246,207)
Accumulated other comprehensive income (loss)	402	(598)
Total stockholders' equity	101,833	112,109
Total liabilities and stockholders' equity	\$136,580	\$295,372

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	For the Year Ended December 31,		
	2018	2017	2016
Net revenue	\$238,340	\$239,127	\$252,887
Cost of revenue	164,693	163,709	165,069
Gross profit	73,647	75,418	87,818
Operating expenses:			
Sales and marketing	35,600	33,001	41,972
Research and development	6,436	5,729	8,344
General and administrative	47,288	53,087	52,995
Restructuring and other related costs	209	7,308	—
Total operating expenses	89,533	99,125	103,311
Loss from operations	(15,886)	(23,707)	(15,493)
Interest and other expense, net	(6,591)	(9,886)	(8,704)
Impairment loss on cost basis equity investment	—	—	(4,500)
Gain on sale of cost basis equity investment	—	2,100	—
Impairment loss on investment securities	(1,958)	—	—
Loss before income taxes	(24,435)	(31,493)	(28,697)
Provision for income tax (expense) benefit	(450)	1,647	(3,429)
Net loss	\$(24,885)	\$(29,846)	\$(32,126)
Net loss per common share:			
Basic and diluted	\$(0.27)	\$(0.33)	\$(0.37)
Weighted-average common shares outstanding:			
Basic and diluted	91,636	89,234	86,318

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	For the Year Ended December 31,		
	2018	2017	2016
Net loss	\$ (24,885)	\$ (29,846)	\$ (32,126)
Other comprehensive income (loss)			
Available for sale securities:			
Unrealized (loss) gain on short-term investments	(705)	(517)	18
Reclassification adjustment for impairment loss included in net loss	1,958	—	—
Net change in available for sale debt securities	1,253	(517)	18
Foreign currency translation adjustments	(253)	710	(1,236)
Other comprehensive income (loss)	1,000	193	(1,218)
Comprehensive income (loss)	\$ (23,885)	\$ (29,653)	\$ (33,344)

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	Common Stock		Treasury Shares/Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2015	86,893	\$ 8	(121)	\$ (441)	\$331,922	\$(183,941)	\$ 427	\$147,975
Cumulative effect of stock compensation standard adoption	—	—	—	—	294	(294)	—	—
Adjusted balance at January 1, 2016	86,893	\$ 8	(121)	\$ (441)	\$332,216	\$(184,235)	\$ 427	\$147,975
Net loss	—	—	—	—	—	(32,126)	—	(32,126)
Other comprehensive loss	—	—	—	—	—	—	(1,218)	(1,218)
Stock-based compensation	—	—	—	—	11,307	—	—	11,307
Issuance of common stock, restricted stock units	1,240	—	—	—	—	—	—	—
Share repurchases	(2,263)	—	—	—	(8,921)	—	—	(8,921)
Proceeds from the exercise of stock options and employee stock purchase plan	2,434	—	—	—	10,866	—	—	10,866
Net cash paid for payroll taxes on restricted stock unit releases	—	—	—	—	(947)	—	—	(947)
Balance at December 31, 2016	88,304	\$ 8	(121)	\$ (441)	\$344,521	\$(216,361)	\$ (791)	\$126,936
Net loss	—	—	—	—	—	(29,846)	—	(29,846)
Other comprehensive income	—	—	—	—	—	—	193	193
Stock-based compensation	—	—	—	—	14,539	—	—	14,539
Issuance of common stock, restricted stock units	1,755	—	—	—	—	—	—	—
Proceeds from the exercise of stock options and employee stock purchase plan	321	—	—	—	1,062	—	—	1,062
Net cash paid for payroll taxes on restricted stock unit releases	—	—	—	—	(775)	—	—	(775)
Balance at December 31, 2017	90,380	\$ 8	(121)	\$ (441)	\$359,347	\$(246,207)	\$ (598)	\$112,109
Cumulative effect of ASC 606 - initial adoption (Note 2)	—	—	—	—	—	3,709	—	3,709
Adjusted balance at January 1, 2018	90,380	\$ 8	(121)	\$ (441)	\$359,347	\$(242,498)	\$ (598)	\$115,818
Net loss	—	—	—	—	—	(24,885)	—	(24,885)
Other comprehensive income	—	—	—	—	—	—	1,000	1,000
Stock-based compensation	—	—	—	—	9,924	—	—	9,924
Issuance of common stock, restricted stock units	2,242	1	—	—	—	—	—	1
Proceeds from the exercise of stock options and employee stock purchase plan	273	—	—	—	759	—	—	759

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Net cash paid for payroll taxes	—	—	—	—	(784)	—	—	(784)	
on restricted stock unit releases											
Balance at December 31, 2018	92,895	\$ 9	(121)	\$ (441)	\$369,246	\$(267,383)	\$ 402	\$101,833

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December		
	31,		
	2018	2017	2016
Cash flows from operating activities:			
Net loss	\$(24,885)	\$(29,846)	\$(32,126)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	16,495	22,588	16,052
Amortization of debt discount and issuance costs	5,868	9,392	8,724
Amortization of contract acquisition costs	1,770	—	—
Amortization of premium on short-term investments	(1,204)	(12)	1,091
Deferred income taxes	33	(1,999)	1,924
Stock-based compensation	9,601	13,683	10,752
Restructuring and other related costs	458	3,063	—
Impairment loss on cost basis equity investment	—	—	4,500
Gain on sale of cost basis equity investment	—	(2,100)	—
Impairment loss on investment securities	1,958	—	—
Other	74	184	—
Changes in operating assets and liabilities:			
Accounts receivable, net	1,724	9,060	(7,156)
Deferred revenue	—	(2,872)	(1,589)
Prepaid expenses and other assets	(150)	1,670	(673)
Contract acquisition costs	(1,085)	—	—
Accounts payable	(2,406)	2,487	872
Accrued compensation and benefits	(3,542)	(2,940)	(119)
Accrued expenses	(3,730)	(1,734)	(49)
Other liabilities	2,738	(827)	2,249
Net cash provided by operating activities	3,717	19,797	4,452
Cash flows from investing activities:			
Acquisition of property and equipment	(15,604)	(17,110)	(26,337)
Proceeds from sale of cost basis equity investment	—	2,100	—
Purchases of short-term investments	(480)	(56,626)	(102,130)
Sales of short-term investments	133,920	53,315	98,028
Maturities of short-term investments	4,240	3,506	1,525
Net cash provided by (used in) investing activities	122,076	(14,815)	(28,914)
Cash flows from financing activities:			
Repayment on capital lease obligations	(413)	(71)	(131)
Repayment of convertible notes	(150,000)	—	—
Debt issuance costs	(201)	—	—
Proceeds from revolving line of credit	32,000	—	—
Repayment of revolving line of credit	(32,000)	—	—
Proceeds from issuance of common stock	759	1,062	10,866
Payments related to minimum tax withholdings on restricted stock unit releases	(784)	(775)	(877)
Repurchase of common stock	—	—	(8,921)
Net cash (used in) provided by financing activities	(150,639)	216	937
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(8)	(1,501)	(1,117)

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Net change in cash and cash equivalents and restricted cash	(24,854)	3,697	(24,642)
Cash and cash equivalents and restricted cash, beginning of period	52,633	48,936	73,578
Cash and cash equivalents and restricted cash, end of period	\$27,779	\$52,633	