



August 6, 2015

ServiceSource Reports Second Quarter 2015 Financial Results

SAN FRANCISCO--(BUSINESS WIRE)-- ServiceSource® (Nasdaq: SREV), the global leader in recurring revenue management, today announced financial results for the second quarter ended June 30, 2015.

"ServiceSource continued to execute in the second quarter and we exceeded expectations across all key financial metrics. Year over year our gross margin increased, operating expenses decreased and EBITDA improved dramatically. We drove operational efficiency, while increasing revenues on behalf of our clients," said Christopher Carrington, CEO of ServiceSource. "Our customer-centric approach continues to tighten our relationships with customers, decrease churn and drive expansion activity. We recognize there is a great deal of work to do to return ServiceSource to growth and profitability, but I feel we are making the right changes in the business to reach that goal."

GAAP revenue was \$61.6 million in the second quarter, representing a 6.6% decrease from the \$66.0 million delivered in same the period in the prior year. Non-GAAP revenue, which excludes the impact of the reduction of deferred revenue in connection with our acquisition of Scout Analytics, was \$61.7 million, reflecting a 7.0% decrease from the same period in the prior year.

For the second quarter of fiscal year 2015, adjusted EBITDA was a loss of \$0.2 million, compared with a loss of \$9.7 million for the same period last year. GAAP net loss in the quarter was \$13.4 million, or \$0.16 per share, compared with GAAP net loss of \$21.1 million, or \$0.25 per share, for the same period last year. Non-GAAP net loss in the quarter was \$1.7 million compared with a net loss of \$7.3 million for the same period last year. Non-GAAP EPS was a \$0.02 loss per basic and diluted share, compared with a loss of \$0.09 per basic and diluted share for the same period last year.

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

Quarterly Conference Call

ServiceSource will discuss its second quarter 2015 results and financial guidance today via teleconference at 1:30 p.m. Pacific Time. To access the call within the U.S., please dial (877) 293-5486, or outside the U.S. (914) 495-8592, at least five minutes prior to the start time. Conference ID number: 85291706. In addition, a live webcast of the call will also be available on the Investor Relations section of the ServiceSource web site under Events & Presentations. A replay of the webcast will also be available on the Company's website at <http://ir.servicesource.com>.

Forward-Looking Statements

This press release contains forward-looking statements, including statements regarding our business opportunities, challenges and market position. These forward-looking statements are based on our current assumptions and beliefs, and involve risks and uncertainties that could cause our results to differ materially from those expressed or implied in our forward-looking statements. Those risks and uncertainties include, without limitation, fluctuations in our quarterly results of operations; our technology; the risk of material defects or errors in our software offerings or their failure to meet customer expectations; migrating customers to our SaaS offerings and the ability to integrate such offerings with other third-party applications used by our customers; errors in estimates as to the renewal rate improvements and/or service revenue we can generate for our customers; our ability to grow the market for service revenue management; changes in market conditions that impact our ability to sell our SaaS solutions and/or generate service revenue on our customers' behalf; the possibility that our estimates of service revenue opportunity under management and other metrics may prove inaccurate; demand for our offering that falls short of expectations; our ability to keep customer data and other confidential information secure; our ability to adapt our solution to changes in the market or new competition; our ability to protect our intellectual property rights; the risk of claims that our offerings infringe the intellectual property rights of others; general political, economic and market conditions and events; and other risks and uncertainties described more fully in our periodic reports and registration statements filed with the Securities and Exchange Commission, which can be obtained online at the Commission's website at <http://www.sec.gov>. All forward-looking statements in this press release are based on information currently available to us, and we assume no obligation to update these forward-looking statements.

About ServiceSource

ServiceSource (NASDAQ:SREV) provides the world's leading B2B companies with expert managed services, cloud software and best-practice processes proven to increase customer success, drive revenue growth and decrease churn from existing customers. ServiceSource's solutions help companies with onboarding and adoption, upsell and cross-sell, retention and renewals-the entire revenue lifecycle. Only ServiceSource brings to market more than 15 years of exclusive focus on customer success and revenue growth, global deployments across 40 languages and 150 countries, and a powerful, purpose-built recurring revenue technology platform. For more information, go to <http://www.servicesource.com>.

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
Net revenue	\$ 61,613	\$ 65,997	\$127,810	\$132,813
Cost of revenue (1)	42,692	48,518	88,507	96,113
Gross profit	18,921	17,479	39,303	36,700
Operating expenses:				
Sales and marketing (1)	10,165	17,212	21,000	32,883
Research and development (1)	4,646	6,881	9,468	13,597
General and administrative (1)	10,701	12,256	22,866	25,121
Restructuring and other	2,988	—	3,739	—
Total operating expenses	28,500	36,349	57,073	71,601
Loss from operations	(9,579)	(18,870)	(17,770)	(34,901)
Interest expense and other, net	(2,739)	(2,196)	(4,584)	(4,770)
Loss before income taxes	(12,318)	(21,066)	(22,354)	(39,671)
Income tax provision	1,089	26	1,223	161
Net loss	<u>\$ (13,407)</u>	<u>\$ (21,092)</u>	<u>\$ (23,577)</u>	<u>\$ (39,832)</u>
Net loss per share, basic and diluted	<u>\$ (0.16)</u>	<u>\$ (0.25)</u>	<u>\$ (0.28)</u>	<u>\$ (0.48)</u>
Weighted average common shares outstanding, basic and diluted	<u>85,072</u>	<u>82,784</u>	<u>84,665</u>	<u>82,432</u>

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
Cost of revenue	\$ 659	\$ 1,099	\$ 1,495	\$ 2,133
Sales and marketing	716	1,583	1,647	3,420
Research and development	444	736	991	1,437
General and administrative	1,158	1,932	3,411	3,942
Total stock-based compensation	<u>\$ 2,977</u>	<u>\$ 5,350</u>	<u>\$ 7,544</u>	<u>\$ 10,932</u>

ServiceSource International, Inc.
Condensed Consolidated Balance Sheets

(In thousands)
(Unaudited)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 78,045	\$ 90,382
Short-term investments	136,202	125,000
Accounts receivable, net	57,172	70,163
Deferred income taxes	390	398
Prepaid expenses and other	7,549	6,815
Total current assets	<u>279,358</u>	<u>292,758</u>
Property and equipment, net	25,540	25,658
Deferred income taxes, net of current portion	1,512	2,488
Goodwill and intangibles, net	10,201	10,957
Other assets, net	8,806	7,985
Total assets	<u>\$ 325,417</u>	<u>\$ 339,846</u>

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts payable	\$ 1,210	\$ 2,922
Accrued taxes	1,101	1,721
Accrued compensation and benefits	18,957	20,056
Deferred revenue	7,311	7,018
Accrued expenses	6,383	8,882
Other current liabilities	2,282	2,569
Total current liabilities	<u>37,244</u>	<u>43,168</u>
Convertible notes, net	124,301	120,730
Other long-term liabilities	4,877	4,660
Total liabilities	<u>166,422</u>	<u>168,558</u>
Stockholders' equity:		
Common stock	8	8
Treasury stock	(441)	(441)
Additional paid-in capital	323,082	312,017
Accumulated deficit	(164,985)	(141,409)
Accumulated other comprehensive income	1,331	1,113
Total stockholders' equity	<u>158,995</u>	<u>171,288</u>
Total liabilities and stockholders' equity	<u>\$ 325,417</u>	<u>\$ 339,846</u>

ServiceSource International, Inc.
Condensed Consolidated Statements of Cash Flows

(In thousands)
(Unaudited)

	<u>Six months ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Net loss	\$(23,577)	\$(39,832)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,783	6,322
Amortization of debt discount and issuance costs	3,903	3,636
Amortization of premium on short-term investments	(497)	40
Deferred income taxes	980	—
Stock-based compensation	7,544	10,932

Restructuring and other	3,450	—
Changes in operating assets and liabilities:		
Accounts receivable, net	11,754	15,504
Deferred revenue	338	(1,983)
Prepaid expenses and other	(852)	(45)
Accounts payable	(2,064)	1,030
Accrued taxes	(555)	315
Accrued compensation and benefits	(1,570)	1,936
Accrued expense	(2,448)	2,499
Other liabilities	125	(446)
Net cash provided by (used in) operating activities	<u>3,314</u>	<u>(92)</u>
Cash flows from investing activities		
Acquisition of property and equipment	(5,114)	(5,577)
Restricted cash	(1,244)	—
Cash paid for acquisition, net of cash acquired	—	(32,551)
Purchases of short-term investments	(51,074)	(46,926)
Sales of short-term investments	40,194	23,134
Maturities of short-term investments	290	3,943
Net cash used in investing activities	<u>(16,948)</u>	<u>(57,977)</u>
Cash flows from financing activities		
Repayment of long-term debt and capital lease obligations	(91)	(212)
Proceeds from common stock issuances	944	3,569
Net cash provided by financing activities	<u>853</u>	<u>3,357</u>
Net decrease in cash and cash equivalents	(12,781)	(54,712)
Effect of exchange rate changes on cash and cash equivalents	444	156
Cash and cash equivalents at beginning of period	90,382	170,132
Cash and cash equivalents at end of period	<u>\$ 78,045</u>	<u>\$ 115,576</u>

Use of Non-GAAP Financial Measures

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

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

Non-GAAP revenue is defined as net revenue plus revenue not recognized in the period for Scout Analytics due to the impact of purchase accounting rules related to deferred revenue acquired. Non-GAAP gross profit consists of gross profit plus adjustments to revenue related to purchase accounting, stock based compensation, amortization of purchased intangible assets and amortization of internally-developed software.

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

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

company's capital structure.

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net Revenue				
GAAP net revenue	\$ 61,613	\$ 65,997	\$127,810	\$132,813
Adjustments to revenue	(A) 84	314	194	760
Non-GAAP net revenue	<u>\$ 61,697</u>	<u>\$ 66,311</u>	<u>\$128,004</u>	<u>\$133,573</u>
Gross Profit				
GAAP gross profit	\$ 18,921	\$ 17,479	\$ 39,303	\$ 36,700
Non-GAAP adjustments:				
Adjustments to revenue	(A) 84	314	194	760
Stock-based compensation	(B) 659	1,099	1,495	2,133
Amortization of internally-developed software	(C) 1,016	505	2,021	1,036
Amortization of purchased intangible assets	(D) 247	348	494	623
Non-GAAP gross profit	<u>\$ 20,927</u>	<u>\$ 19,745</u>	<u>\$ 43,507</u>	<u>\$ 41,252</u>
Gross Profit %				
GAAP gross profit	31%	26%	31%	28%
Non-GAAP adjustments:				
Adjustments to revenue	(A) —%	1%	—%	1%
Stock-based compensation	(B) 1%	2%	1%	2%
Amortization of internally-developed software	(C) 2%	1%	2%	1%
Amortization of purchased intangible assets	(D) —%	1%	—%	—%
Non-GAAP gross profit	<u>34%</u>	<u>30%</u>	<u>34%</u>	<u>31%</u>
<i>Certain totals do not add due to rounding</i>				
Operating Expenses				
GAAP operating expenses	\$ 28,500	\$ 36,349	\$ 57,073	\$ 71,601
Stock-based compensation	(B) (2,318)	(4,251)	(6,049)	(8,799)
Amortization of internally-developed software	(C) (84)	(83)	(168)	(141)
Amortization of purchased intangible assets	(D) (131)	(212)	(263)	(377)
Acquisition related costs	(E) —	(175)	—	(728)
Restructuring and other	(F) (2,988)	—	(3,739)	—
Non-GAAP operating expenses	<u>\$ 22,979</u>	<u>\$ 31,628</u>	<u>\$ 46,854</u>	<u>\$ 61,556</u>
Net loss				
GAAP net loss	\$(13,407)	\$(21,092)	\$(23,577)	\$(39,832)
Non-GAAP adjustments:				
Adjustments to revenue	(A) 84	314	194	760
Stock-based compensation	(B) 2,977	5,350	7,544	10,932
Amortization of internally-developed software	(C) 1,100	588	2,189	1,177
Amortization of purchased intangible assets	(D) 378	560	756	1,000
Acquisition related costs	(E) —	175	—	728
Restructuring and other	(F) 2,988	—	3,739	—
Non-cash interest expense	(G) 1,989	1,877	3,913	3,665
Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate	(H) 2,210	4,907	2,830	8,725

Non-GAAP net loss		<u>\$ (1,681)</u>	<u>\$ (7,321)</u>	<u>\$ (2,412)</u>	<u>\$ (12,845)</u>
Diluted Net Loss Per Share					
GAAP net loss per share		\$ (0.16)	\$ (0.25)	\$ (0.28)	\$ (0.48)
Non-GAAP adjustments:					
Adjustments to revenue	(A)	—	—	—	0.01
Stock-based compensation	(B)	0.03	0.06	0.09	0.13
Amortization of internally-developed software	(C)	0.01	0.01	0.03	0.01
Amortization of purchased intangible assets	(D)	—	0.01	0.01	0.01
Acquisition related costs	(E)	—	—	—	0.01
Restructuring and other	(F)	0.04	—	0.04	—
Non-cash interest expense	(G)	0.02	0.02	0.05	0.04
Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate	(H)	0.03	0.06	0.03	0.11
Non-GAAP diluted net loss per share		<u>\$ (0.02)</u>	<u>\$ (0.09)</u>	<u>\$ (0.03)</u>	<u>\$ (0.16)</u>
<i>Certain totals do not add due to rounding</i>					
Shares used in calculating diluted net income (loss) per share on a non-GAAP basis		<u>85,072</u>	<u>82,784</u>	<u>84,665</u>	<u>82,432</u>

Footnotes to GAAP to Non-GAAP Reconciliation

(A) Adjustments to revenue - Due to purchase accounting rules, upon acquisition, we recorded an adjustment of \$1.7 million to reduce the balance of deferred revenue related to the assumed client contracts acquired from Scout Analytics. As a result of this adjustment, \$0.1 million of revenue was not recognized for the three months ended June 30, 2015. Therefore, revenue is adjusted by an increase of \$0.1 million to arrive at non-GAAP revenue for the three months ended June 30, 2015.

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

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

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

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

(F) Restructuring and other expense. Included in our GAAP presentation, we will incur expenses with our ongoing restructuring effort to reduce expenses to better match revenues. We expect this restructuring effort to continue over the next several quarters. These costs would incur employee severance costs and also costs related to cancellation of contracts or loss of future benefit. These are one-time in nature costs that are not indicative of our core operating performance.

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

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

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

(In thousands)
(Unaudited)

	Three Months Ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net loss	\$ (13,407)	\$ (21,092)	\$(23,577)	\$(39,832)
Income tax provision	1,089	26	1,223	161
Interest expense and other, net	2,739	2,196	4,584	4,770
Depreciation and amortization	3,300	3,293	6,800	6,322
EBITDA	(6,279)	(15,577)	(10,970)	(28,579)
Stock-based compensation	2,977	5,350	7,544	10,932
Adjustments to revenue	84	314	194	760
Acquisition related costs	—	175	—	728
Restructuring and other	2,988	—	3,739	—
Adjusted EBITDA	<u>\$ (230)</u>	<u>\$ (9,738)</u>	<u>\$ 507</u>	<u>\$(16,159)</u>

ServiceSource International, Inc.
Reporting Segments

(In thousands)
(unaudited)

Three Months Ended June 30,

	2015		2014	
	Cloud and Business		Cloud and Business	
	Managed Services	Intelligence	Managed Services	Intelligence
Net Revenue	\$ 56,223	\$ 5,390	\$ 58,575	\$ 7,422
Cost of Revenue	38,909	3,783	42,589	5,929
Gross Profit	<u>\$ 17,314</u>	<u>\$ 1,607</u>	<u>\$ 15,986</u>	<u>\$ 1,493</u>

Six Months Ended June 30,

	2015		2014	
	Cloud and Business		Cloud and Business	
	Managed Services	Intelligence	Managed Services	Intelligence
Net Revenue	\$ 114,237	\$ 13,573	\$ 117,144	\$ 15,669
Cost of Revenue	80,905	7,602	83,895	12,218
Gross Profit	<u>\$ 33,332</u>	<u>\$ 5,971</u>	<u>\$ 33,249</u>	<u>\$ 3,451</u>

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