

ServiceSource Reports Fourth Quarter and Full Year 2013 Financial Results

SAN FRANCISCO, February 6, 2014 - ServiceSource® (Nasdaq: SREV), the global leader in recurring revenue management, today announced financial results for the fourth quarter and fiscal year ended December 31, 2013.

- Reported fourth quarter revenue of \$77.2 million and full year revenue of \$272.5 million, up 15% and 12% year-over-year, respectively
- Achieved 2013 adjusted EBITDA of \$17.7 million and non-GAAP EPS of \$0.06 per diluted share
- Generated Free Cash Flow of \$11.0 million in 2013, ending the year with a cash balance of over \$275.1 million
- Announced 15 customers live on Renew OnDemand
- Entered 2014 with ARR of \$31 million, up 235% year-over-year, with the acquisition of Scout Analytics

"Growth in subscription sales in 2013 plus the addition of Scout Analytics® allows ServiceSource to enter 2014 with 235% growth in ARR for our subscription business," said Mike Smerklo, Chairman & CEO of ServiceSource. "We now offer the most comprehensive portfolio of cloud applications and managed services, and are excited about the opportunities ahead and confident in our ability to help the world's largest and most successful B2B companies maximize subscription and recurring revenues across the customer lifecycle."

Revenue was \$77.2 million in the fourth quarter, representing a 15% increase over the \$67.3 million delivered in the prior year. Revenue for the full year 2013 was \$272.5 million, up 12% from \$243.7 million in 2012.

For the fourth quarter of fiscal year 2013, adjusted EBITDA was \$8.6 million, compared with \$8.3 million for the same period last year. GAAP net loss in the quarter was \$2.0 million, or \$0.02 per share, compared with loss of \$1.2 million, or \$0.02 per share for the same period last year. Non-GAAP net income in the quarter was \$3.2 million compared with \$3.6 million for the same period last year. Non-GAAP EPS was \$0.04 per diluted share, compared with \$0.05 per diluted share for the same period last year.

For the full year 2013, adjusted EBITDA was \$17.7 million, compared with \$20.9 million for fiscal year 2012. GAAP net loss for the year was \$22.9 million, or \$0.29 loss per share, compared with a loss of \$42.8 million, or \$0.58 loss per share for 2012. Non-GAAP net income for the year was \$5.3 million, compared with \$7.9 million in 2012. Non-GAAP EPS was \$0.06 per diluted share, compared with \$0.10 per diluted share for 2012.

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 fourth quarter and 2013 results and provide 2014 financial guidance today via teleconference at 1:30 p.m. Pacific Time. To access the call within the U.S., please dial (877) 293-5486, or outside the U.S. (914) 495-8592, at least five minutes prior to the start time. Conference ID number: 31891416. In addition, a live webcast, including slides, of the call will also be available at <http://ir.servicesource.com/events.cfm> under the Events & Presentations menu. A replay of the webcast will also be available on the Company's website at <http://ir.servicesource.com>.

About ServiceSource

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

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

| | Three Months Ended December 31, | | Twelve months ended December 31, | |
|---|--|-------------|---|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net revenue | \$ 77,182 | \$ 67,345 | \$ 272,482 | \$ 243,703 |
| Cost of revenue ⁽¹⁾ | 45,599 | 35,319 | 162,447 | 136,321 |
| Gross profit | 31,583 | 32,026 | 110,035 | 107,382 |
| Operating expenses: | | | | |
| Sales and marketing ⁽¹⁾ | 14,920 | 15,767 | 58,826 | 56,925 |
| Research and development ⁽¹⁾ | 5,313 | 5,960 | 23,855 | 19,255 |
| General and administrative ⁽¹⁾ | 11,734 | 10,496 | 44,916 | 41,135 |
| Total operating expenses | 31,967 | 32,223 | 127,597 | 117,315 |
| Loss from operations | (384) | (197) | (17,562) | (9,933) |
| Other income (expense): | | | | |
| Interest expense | (2,378) | (56) | (3,754) | (236) |
| Other, net | (545) | (414) | (664) | (538) |
| Loss before income taxes | (3,307) | (667) | (21,980) | (10,707) |
| Income tax provision (benefit) | (1,319) | 518 | 871 | 32,107 |
| Net loss | \$ (1,988) | \$ (1,185) | \$ (22,851) | \$ (42,814) |
| Net loss per share, basic and diluted | \$ (0.02) | \$ (0.02) | \$ (0.29) | \$ (0.58) |
| Weighted average common shares outstanding, basic and diluted | 80,932 | 75,090 | 78,408 | 74,270 |

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

| | Three Months Ended December 31, | | Twelve months ended December 31, | |
|--------------------------------|--|-------------|---|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Cost of revenue | \$ 1,081 | \$ 722 | \$ 3,303 | \$ 2,772 |
| Sales and marketing | 2,435 | 2,310 | 9,831 | 8,146 |
| Research and development | 656 | 425 | 2,414 | 1,880 |
| General and administrative | 2,147 | 2,158 | 8,072 | 8,077 |
| Total stock-based compensation | \$ 6,319 | \$ 5,615 | \$ 23,620 | \$ 20,875 |

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

| | December 31, 2013 | December 31, 2012 |
|---|------------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 170,132 | \$ 76,568 |
| Short-term investments | 105,001 | 32,874 |
| Accounts receivable, net of allowances | 73,113 | 65,238 |
| Deferred income taxes | 412 | 389 |
| Prepaid expenses and other | 6,295 | 5,178 |
| Total current assets | 354,953 | 180,247 |
| Property and equipment, net | 27,998 | 34,513 |
| Deferred income taxes, net of current portion | 2,035 | 2,321 |
| Other assets, net | 8,624 | 1,057 |
| Goodwill | 6,334 | 6,334 |
| Total assets | \$ 399,944 | \$ 224,472 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,610 | \$ 3,293 |
| Accrued taxes | 1,134 | 1,056 |
| Accrued compensation and benefits | 19,610 | 15,738 |
| Other accrued liabilities and capital leases | 15,414 | 10,729 |
| Total current liabilities | 39,768 | 30,816 |
| Convertible notes, net | 113,915 | — |
| Other long-term liabilities | 5,566 | 6,729 |
| Total liabilities | 159,249 | 37,545 |
| Stockholders' equity: | | |
| Common stock | 8 | 8 |
| Treasury stock | (441) | (441) |
| Additional paid-in capital | 286,526 | 210,650 |
| Accumulated deficit | (46,250) | (23,398) |
| Accumulated other comprehensive income | 852 | 108 |
| Total stockholders' equity | 240,695 | 186,927 |
| Total liabilities and stockholders' equity | \$ 399,944 | \$ 224,472 |

ServiceSource International, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

**Twelve months ended
December 31,**

| | 2013 | 2012 |
|---|-------------|--------------|
| Cash flows from operating activities | | |
| Net loss | \$ (22,851) | \$ (42,814) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,652 | 10,003 |
| Amortization of debt discount and issuance costs | 2,761 | 149 |
| Accretion of premium on short-term investments | 750 | 591 |
| Deferred income taxes | 217 | 31,340 |
| Stock-based compensation | 23,620 | 20,883 |
| Tax benefit from stock-based compensation | 359 | (1,488) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (7,470) | (10,906) |
| Prepaid expenses and other | (1,305) | 3,819 |
| Accounts payable | 521 | (2,473) |
| Accrued compensation and benefits | 3,772 | (6,239) |
| Accrued liabilities and other | 3,649 | 7,637 |
| Net cash provided by operating activities | 15,675 | 10,502 |
| Cash flows from investing activities | | |
| Acquisition of property and equipment | (5,261) | (20,353) |
| Other investment | (4,500) | — |
| Purchases of short-term investments | (89,747) | (64,002) |
| Sales of short-term investments | 14,436 | 52,051 |
| Maturities of short-term investments | 2,600 | 21,415 |
| Net cash used in investing activities | (82,472) | (10,889) |
| Cash flows from financing activities | | |
| Proceeds from issuance of convertible notes, net | 145,133 | — |
| Payments of convertible note hedges | (31,408) | — |
| Proceeds from the issuance of warrants | 21,763 | — |
| Principal payment on capital lease obligations | (329) | (710) |
| Payment of deferred debt issuance costs | — | (141) |
| Proceeds from common stock issuances | 24,966 | 10,455 |
| Tax benefit from stock-based compensation | (359) | 1,488 |
| Net cash provided by financing activities | 159,766 | 11,092 |
| Net increase in cash and cash equivalents | 92,969 | 10,705 |
| Effect of exchange rate changes on cash and cash equivalents | 595 | (120) |
| Cash and cash equivalents at beginning of period | \$ 76,568 | \$ 65,983 |
| Cash and cash equivalents at end of period | \$ 170,132 | \$ 76,568 |

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 gross profit consists of gross profit plus stock based compensation and amortization of internally-developed software.

Non-GAAP net income consists of net loss plus stock-based compensation, amortization of internally-developed software, 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. 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 December 31, | | Twelve months ended December 31, | |
|---|-----|------------------------------------|------------------|-------------------------------------|------------------|
| | | 2013 | 2012 | 2013 | 2012 |
| Gross Profit | | | | | |
| GAAP gross profit | | \$ 31,583 | \$ 32,026 | \$ 110,035 | \$ 107,382 |
| Non-GAAP adjustments: | | | | | |
| Stock-based compensation | (A) | 1,081 | 722 | 3,303 | 2,772 |
| Amortization of internally-developed software | (B) | 468 | 577 | 2,974 | 1,467 |
| Non-GAAP gross profit | | <u>\$ 33,132</u> | <u>\$33,325</u> | <u>\$ 116,312</u> | <u>\$111,621</u> |
| Gross Profit % | | | | | |
| GAAP gross profit | | 41 % | 48% | 40% | 44 % |
| Non-GAAP adjustments: | | | | | |
| Stock-based compensation | (A) | 1 % | 1% | 1 % | 1 % |
| Amortization of internally-developed software | (B) | 1 % | 1% | 1 % | 1 % |
| Non-GAAP gross profit | | <u>43 %</u> | <u>49%</u> | <u>43%</u> | <u>46 %</u> |
| <i>Certain totals do not add due to rounding</i> | | | | | |
| Operating Expenses | | | | | |
| GAAP operating expenses | | \$ 31,967 | \$ 32,223 | \$ 127,597 | \$ 117,315 |
| Stock-based compensation | (A) | (5,238) | (4,893) | (20,317) | (18,103) |
| Amortization of internally-developed software | (B) | (120) | (412) | (1,426) | (1,579) |
| Non-GAAP operating expenses | | <u>\$ 26,609</u> | <u>\$ 26,918</u> | <u>\$ 105,854</u> | <u>\$ 97,633</u> |
| Net Income (Loss) | | | | | |
| GAAP net loss | | \$ (1,988) | \$ (1,185) | \$ (22,851) | \$ (42,814) |
| Non-GAAP adjustments: | | | | | |
| Stock-based compensation | (A) | 6,319 | 5,615 | 23,620 | 20,875 |
| Amortization of internally-developed software | (B) | 588 | 989 | 4,400 | 3,046 |
| One-time income tax items | (C) | — | — | — | 33,072 |
| Non-cash interest expense | (D) | 1,794 | — | 2,713 | — |
| Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate | (E) | (3,477) | (1,857) | (2,630) | (6,251) |
| Non-GAAP net income | | <u>\$ 3,236</u> | <u>\$ 3,562</u> | <u>\$ 5,252</u> | <u>\$ 7,928</u> |
| Diluted Net Income (Loss) Per Share | | | | | |
| GAAP net loss per share | | \$ (0.02) | \$ (0.02) | \$ (0.29) | \$ (0.58) |
| Non-GAAP adjustments: | | | | | |
| Stock-based compensation | (A) | 0.07 | 0.07 | 0.29 | 0.26 |
| Amortization of internally-developed software | (B) | 0.01 | 0.01 | 0.05 | 0.04 |
| One-time income tax items | (C) | — | — | — | 0.42 |
| Non-cash interest expense | (D) | 0.02 | — | 0.03 | — |
| Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate | (E) | (0.04) | (0.02) | (0.03) | (0.05) |
| Non-GAAP diluted net income per share | | <u>\$ 0.04</u> | <u>\$ 0.05</u> | <u>\$ 0.06</u> | <u>\$ 0.10</u> |
| <i>Certain totals do not add due to rounding</i> | | | | | |
| Shares used in calculating diluted net income per share on a non-GAAP basis | | <u>84,615</u> | <u>77,831</u> | <u>82,268</u> | <u>79,093</u> |

Footnotes to GAAP to Non-GAAP Reconciliation

(A) 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.

(B) 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.

(C) One-time tax items. During the second quarter of 2012, we recorded a \$33.1 million non-cash charge against a substantial portion of our deferred tax assets, much of which was recorded in connection with electing to be treated as a corporation, because the recoverability of these items for financial reporting purposes is uncertain. We have excluded these items from our non-GAAP measures because they are non-recurring and unique, they are non-cash in nature and are not indicative of our core operating performance.

(D) 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.

(E) Income tax effect on non-GAAP adjustments as well as the impact of normalizing the effective income tax rate and calculating non-GAAP net income per share using a fully-diluted share count. This adjusts (i) the provision for income taxes to reflect the effect of the non-GAAP items A, B, C and D noted above on our non-GAAP net income (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 December 31, | | Twelve months ended December 31, | |
|--------------------------------|--|-------------|---|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net loss | \$ (1,988) | \$ (1,185) | \$ (22,851) | \$ (42,814) |
| Income tax provision (benefit) | (1,319) | 518 | 871 | 32,107 |
| Other expense, net | 2,923 | 470 | 4,418 | 774 |
| Depreciation and amortization | 2,642 | 2,922 | 11,652 | 10,003 |
| EBITDA | 2,258 | 2,725 | (5,910) | 70 |
| Stock-based compensation | 6,319 | 5,615 | 23,620 | 20,875 |
| Adjusted EBITDA | \$ 8,577 | \$ 8,340 | \$ 17,710 | \$ 20,945 |

ServiceSource International, Inc.
Revenue by Segment
(In thousands)
(unaudited)

| | Three Months Ended December 31, | | | |
|------|--|-----------------|-------------|-----------------|
| | 2013 | | 2012 | |
| | \$ | % of Revenue | \$ | % of Revenue |
| NALA | \$ 47,831 | 62 % | \$ 39,320 | 58% |
| EMEA | 22,456 | 29 % | 21,478 | 32% |
| APJ | 6,895 | 9 % | 6,547 | 10% |
| | \$ 77,182 | 100 % | \$ 67,345 | 100 % |

| | Twelve Months Ended December 31, | | | |
|------|---|-----------------|-------------|-----------------|
| | 2013 | | 2012 | |
| | \$ | % of Revenue | \$ | % of Revenue |
| NALA | \$ 173,188 | 64 % | \$ 150,041 | 62% |
| EMEA | 73,839 | 27 % | 66,902 | 27% |
| APJ | 25,455 | 9 % | 26,760 | 11% |
| | \$ 272,482 | 100 % | \$ 243,703 | 100 % |

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