SERVICESOURCE INTERNATIONAL, INC.
Form 10-K
March 06, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-35108

SERVICESOURCE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

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

Registrant s telephone number, including area code: (415) 901-6030

Securities registered pursuant to Section 12(b)	Name of each exchange on which registered
Common Stock, $0.0001 Par Value	The NASDAQ Stock Market LLC

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price at which the common stock was sold on June 30, 2011, the last business day of the registrant s most recently completed second fiscal quarter, as reported on The NASDAQ Global Market, was approximately $697,362,879. Shares of common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status does not reflect a determination that such persons are affiliates of the registrant for any other purpose.

As of February 28, 2012, there were approximately 74,081,978 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its 2012 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS AND INDUSTRY DATA

This Annual Report on Form 10-K contains certain statements that constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward looking statements are based on our management s beliefs and assumptions and on information currently available to our management. The forward looking statements are contained principally in Business, Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations. Forward looking statements include information concerning our possible or assumed future results of operations; estimates of service revenue opportunity under management; our ability to improve our customers renewal rates, margins and profitability; our ability to increase our revenue and contribution margin over time from new and existing customers; business strategies; technology development and the monetization of our cloud applications; protection of our intellectual property; investment and financing plans; liquidity; competitive position; the effects of competition; industry environment; and potential growth opportunities. Forward looking statements include all statements that are not historical facts and can be identified by terms such as anticipates, believes, could, estimates, expects, intends, may, might, likely, plans, potential, predicts, projects, seeks, should, will, would or similar expressions and the negatives of those terms.

Forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. We discuss these risks in greater detail in Risk Factors and elsewhere in this Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on these forward looking statements. Also, forward looking statements represent our management s beliefs and assumptions only as of the date of this Annual Report on Form 10-K. You should read this Annual Report on Form 10-K and the documents that we have filed as exhibits hereto, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward looking statements, even if new information becomes available in the future.

In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate is necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in Risk Factors and elsewhere in this Annual Report on Form 10-K. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

PART I

ITEM 1. BUSINESS

Overview

ServiceSource is the global leader in service revenue management, partnering with technology and technology enabled companies to optimize maintenance, support and subscription revenue streams, while also improving customer relationships and loyalty. We deliver these results via a cloud-based solution, combining our Services Revenue Performance Suite of applications with dedicated service sales teams, leveraging a proprietary Service Revenue Intelligence Platform of transaction data, benchmarks and best practices. By integrating software, managed services and data, we provide end-to-end management and optimization of the service contract renewals process, including data management, quoting, selling and service revenue business intelligence. Our business is built on our pay-for-performance model, whereby customers pay us a commission based on renewal sales that we generate on their behalf, enabling a success-driven, shared-risk partnership with our customers. As of December 31, 2011, we managed over 120 engagements across approximately 70 customers, representing over $7 billion in service revenue opportunity under management. Service revenue opportunity under management (opportunity under management) is a forward-looking metric and is our estimate, as of a given date, of the value of all end customer service contracts that we will have the opportunity to sell on behalf of our customers over the subsequent twelve-month period.

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

Our total revenue was $205.5 million, $152.9 million and $110.7 million for the years ended December 31, 2011, 2010 and 2009, respectively. For summarized financial information by geographic area, see Note 14 of the Notes to Consolidated Financial Statements. For a discussion of the development of our business over the last year, see Management s Discussion and Analysis of Financial Condition and Results of Operations Overview.

Our Solution

Our solution is based on a decade of experience pioneering the service revenue management category and is designed to optimize service revenue performance for our customers. It addresses the critical elements of the renewals process, including data management, quoting, selling and service revenue business intelligence. We believe our solution, which tightly integrates software, managed services and data, reflects the growing trend of delivering enterprise services via the cloud. We believe this approach is critical to addressing the unique requirements of effective service revenue management.

The components of our solution consist of our Service Revenue Performance Suite of applications, our proprietary Service Revenue Intelligence Platform , and our dedicated service sales teams. The foundation of our solution is our Service Revenue Intelligence Platform, a data warehouse of transactional, analytical and industry data that grows with each service renewal transaction and customer. Our suite of cloud applications increase visibility and control of service revenue streams and are utilized by customers, channel partners, end customers and our service sales teams. Our dedicated service sales teams have specific expertise in our customers businesses, are deployed under our customers brands and follow a sales process tailored specifically to increase service contract renewals.

Key benefits of our solution include:

Financial Benefits

Increased service revenue. Our solution is designed to increase service revenues for our customers. Each customer engagement begins with an in-depth analysis of customers current renewal rates, which we call our Service Performance Assessment (SPA). We actively monitor the service contract renewal rates we drive on behalf of our customers in each engagement. When we generate higher renewal rates, we not only drive incremental service revenue for the associated period, but also have a compounding effect in increasing the base number of contracts eligible for renewal in subsequent periods, which expands the opportunity to generate greater revenue in future periods.

Increased margin and profitability. We believe that the costs associated with delivering maintenance, support and subscription services by many of our customers can be relatively fixed, and thus growth of service revenue can benefit our customers bottom line. In addition, customers that deploy our solution can avoid infrastructure expenditures and personnel costs that would otherwise be associated with managing service renewals internally. As a result, each incremental dollar of service revenue generated by our solution can drive greater profitability for our customers.

Operational Benefits

Improved end customer satisfaction. Our regular dialogue with end customers allows us to communicate the value of our customers maintenance, support and subscription services, and capture and address questions and concerns about our customers products, thus driving higher end customer satisfaction.

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Greater business insight and analytics. Our Service Revenue Intelligence Platform allows us to analyze our customers renewals against similar transactions and to identify areas for improvement, enabling greater insight into their renewals business. All transactions, whether or not resulting in a successful renewal by an end customer, are recorded in our intelligence platform. We leverage this platform to provide benchmarking, end customer metrics, sales efficiency data and insight into successful and unsuccessful renewal efforts. The breadth of our data allows us to provide powerful analysis across regions, industries, channel partners and product segments.

Greater visibility and forecasting tools. Our Service Revenue Performance Suite of cloud applications deliver real-time analytics and visibility into a customer s service revenue performance, sales efficiency and forecasts. We measure service revenue performance across over 100 Key Performance Indicators (KPIs) that are housed in our intelligence platform and provide real-time data to our customers through a clear and impactful web-based interface. CFOs and other executives rely on our applications to assist in forecasting their results and to measure progress against their forecasts on a real-time basis.

Strengthened channel loyalty. Our Channel Sales Cloud application and service sales teams empower our customers channel partners to generate higher sales by providing accurate, real-time data on their renewal opportunities and performance relative to quota, as well as tools to sell more effectively to end customers. These cloud applications help our customers develop a closer relationship with their channel partners and enable our customers to increase renewals through the channel.

Global consistency. We are able to maintain a globally consistent renewals process for our customers as all of our five sales centers leverage a unified intelligence platform. Our solution automates the application of best practices to the service renewals process and provides all relevant constituencies with a consistent view of the data. This facilitates service renewals and provides reliable performance management and analytics.

Our Strategy

We intend to continue our industry leadership in service revenue management with the following strategies:

Expand customer base within existing industry verticals. We believe there is a significant opportunity to increase our service revenue opportunity under management. We currently have approximately 70 customers and believe there are over 800 companies in our addressable market. We intend to increase investment in our sales and marketing organization to win new customers in technology and technology-enabled industries.

Increase footprint with existing customers to drive greater revenue per customer. Our goal is to manage a greater portion of each customer s service revenue. Typically, we initially manage one component of a customer s service revenue, such as a specific product, market segment or geographic region. With our pay-for-performance model, we are able to quantify our results for the customer, frequently leading to an increase of service revenue opportunity under management for that customer, and ultimately greater revenue.

Continue to build, deploy and increase the revenue we generate from our cloud applications. We intend to continue to invest in our Service Revenue Performance Suite of cloud applications. We have created a variety of applications for channel partners, direct sellers and end customers that we provide as part of our offerings. In addition to extending and strengthening our suite of applications, we are identifying new opportunities to package and price these applications separately from our managed services.

Develop new solutions on our technology platform. We have developed an intelligence platform and suite of applications that drive increases in efficiency and help to automate tasks associated with service revenue management. For example, we have created a quoting application to automate the service contract quoting process. By continuing to automate processes and innovate on our technology platform, we can lower operating costs, increase the efficiency of our solutions and ultimately enhance our profitability and cash flow.

Add new customers from additional industry verticals. We recognize that service revenue opportunities exist in sectors beyond the technology industry. We currently have a small number of technology-enabled healthcare and life sciences and industrial systems customers for whom we manage equipment maintenance and support contracts. We believe there are additional industry verticals that can benefit from our expertise and best practices, and we intend to pursue these opportunities.

The Components of Our Solution

Our solution consists of our Service Revenue Intelligence Platform, cloud applications and dedicated service sales teams.

Service Revenue Intelligence Platform

Since our inception, we have developed and evolved our Service Revenue Intelligence Platform, a data warehouse of transactional, analytical and industry data that powers our solution, provides insight into the business we manage on behalf of our customers, and enables us to deliver higher performance for those customers.

Transactional data. An integral part of our renewals process is the broad data capture we perform to ensure we have documented the important information about each transaction. With over four million transactions completed since inception, we have been able to build a robust data warehouse of service revenue and renewals information.

Analytical data. We track and leverage the 100 KPIs and benchmarks in our intelligence platform across our business. The data has been analyzed across a number of dimensions, such as by region, customer segment, and contract dollar value, among others.

Industry data. At the core of the intelligence platform is a service revenue-specific data model and benchmarking database that allows us to extract transactional data from customers and capture other structured and unstructured analytical data in a consistent manner. This allows us to benchmark performance across industries and perform cohort analyses to understand where we can apply best practices to increase performance.

The intelligence platform improves with every renewal we manage, every customer we engage, and every benchmarking study we complete. We believe this is the most comprehensive data warehouse built exclusively for managing and optimizing service revenue from maintenance, support and subscription agreements on behalf of third-party customers.

Supporting the intelligence platform is our Data Management Engine. We have found that source data related to customer service renewals is almost universally embedded in fragmented information technology systems.

Our Data Management Engine extracts data from enterprise systems, such as ERP, CRM, billing and order management. This data is typically contained in different formats with disparate levels of completeness, quality and timeliness. After loading the data into our system, the Data Management Engine reconciles, cleanses and reorganizes our customers data providing our service sales teams with more accurate and relevant data, such as an inventory of the assets owned by end users, service quote history and current service contract terms.

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We leverage our Service Revenue Intelligence Platform across critical business processes, including:

Service Performance Analysis. During the SPA process, we conduct interviews of our prospective customers, analyze their historical performance and future opportunity, and evaluate their service revenue business on a number of dimensions. The intelligence platform enables us to benchmark and identify service renewal opportunities and calculate our ability to improve performance based on our performance with similar types of businesses and opportunities.

Business Case, Pricing and Contract Structuring. We utilize our reservoir of data and benchmarks from the intelligence platform to estimate the critical components of the business case and pricing model that we use in discussions with prospective customers. This intelligence is fundamental to our pay-for-performance business model.

Service Revenue Performance. Once a partnership is in place with our customer, we leverage the intelligence platform to enable, measure, analyze, benchmark, optimize, and continuously improve the performance of our service sales teams.

Customer Benchmarking and Continuous Improvement. Our intelligence platform serves as the foundation to benchmark our customers evolving service revenue performance against industry peers and previous period performance. We convene quarterly business review meetings and annual partnership reviews with our customers to review performance, identify potential weaknesses and opportunities, and make recommendations that we believe will allow our customers and us to achieve higher levels of performance and efficiencies.

Developing and Delivering Applications. The intelligence platform includes the data warehouse that fuels the opportunity data, sales methodologies, metrics, and reporting dashboards that we engineer into our applications. Accordingly, we design our applications to leverage the transactional, analytical and industry data housed in our intelligence platform.

Cloud Applications

We have developed a suite of applications, our Service Revenue Performance Suite, designed to optimize specific elements of the renewals process. Our applications reflect our experience in optimizing service revenue and are tested for usability and impact inside our own operations. Our Service Revenue Performance Suite includes:

Analytics Cloud. Our Analytics Cloud serves as an analytics and reporting application. It provides customers with dashboards to view and analyze service revenue performance by customer, revenue tier, channel partner, product line and region. It also provides real-time visibility into expected results, conversion and up-sells, territory analysis, benchmarking and other trending reports. This tool enables the executive staff of our customers to identify trends and update sales strategies.

Service Sales Cloud. Our Service Sales Cloud provides renewals analytics and pipeline management used by our service sales teams. It includes an analytics dashboard for our teams to view their current sales pipeline, top deals and overall performance. It also includes an opportunity management view that incorporates our best practice renewal sales methodology to enable teams to focus on selling by quickly accessing quotes and customer information to maximize performance.

Channel Sales Cloud. Our Channel Sales Cloud provides channel partners and resellers with online access to their specific renewals opportunities and their performance. The application includes an executive dashboard that enables partners to view their renewals pipeline, their performance against key performance targets and how they are trending compared to previous quarters. In addition, an opportunity view allows partners to manage each upcoming renewal opportunity, find account, contact and asset information specific to that opportunity, download pre-built quotes and request assistance from ServiceSource to support the sales process.

eCommerce Cloud. Our eCommerce Cloud provides self-service capabilities to end customers through a secure, online portal. End customers can view their support contract information, modify their support coverage, obtain updated quotes, renew service contracts and secure on-line payment to our customers. In addition, it allows end customers to reach our service sales team should they require assistance or wish to make a purchase offline.

Installed Base Intelligence Cloud. Our Installed Base Intelligence Cloud provides a single repository for cleansed installed base data and deep business intelligence to analyze the integrity and completeness of the data to flag anomalies and missing data elements and to identify cross-sell and up-sell opportunities. The application is tightly integrated with the Service Sales Cloud and Channel Sales Cloud to provide resellers, distributors and sales representatives with an accurate view of the installed base, including information on end customer purchases and usage. The Installed Base Intelligence Cloud also facilitates workflow between sales representatives, channel partners and the ServiceSource sales operations teams to correct installed base data issues in the source systems.

Dynamic Quoting Cloud. Our Dynamic Quoting Cloud provides an easy-to-use tool for sales representatives and channel partners to create and modify service renewal quotes. This application can be deployed through the Channel Sales Cloud and Service Sales Cloud and is tightly integrated with a configurable product and price rules engine.

Service Sales Teams

Our service sales teams consist of individuals with specific expertise in our customers businesses, selling under our customers brand and following sales processes tailored specifically to increase contract renewals, all of which is aimed at maximizing the value of the service revenue opportunity. These teams are deployed in direct sales or channel enablement models, and in each case manage the key components of the renewals process. Our service sales teams currently sell in over 40 languages from five sales centers around the globe and are supported by a global operations support center. Our service sales teams are grouped into two primary areas:

Global Selling. We employ service sales personnel that interact directly with end customers to sell service renewals. They also provide active sales enablement, support and management of channel partners. Our service sales teams act as an extension of our customers brands.

Sales Operations. We provide service revenue forecasting tailored to fit our customers bookings, revenue targets and specific reporting requirements. We supply a dedicated team of resources and tools to build and update customer and channel partner quotes and distribute them to the sales teams, channel partners and customers. Finally, we offer a business analytics team that provides analysis to maximize service revenue performance and provide insight into end customers, competitors and channel partners.

Customers

We sell our solutions to technology and technology-enabled healthcare and life sciences companies. As of December 31, 2011, we managed over 120 engagements across approximately 70 customers, representing over $7 billion in service revenue opportunity under management.

Our top ten customers accounted for approximately 47%, 54% and 65% of our revenue in 2011, 2010 and 2009, respectively. One and two customers represented over 10% of our revenue in 2011 and 2010, respectively.

Sales and Marketing

We sell our solutions through our global sales organization. Our sales representatives are organized by geographic regions, including NALA, EMEA and APJ, and by industry verticals. We deploy quota-carrying sales and solution design professionals to target specific regions and industry verticals.

We generate customer leads, accelerate sales opportunities and build brand awareness through our marketing programs. Our marketing programs target sales, services and finance executives within technology and technology-enabled healthcare and life sciences and industrial systems industries. Our marketing teams and programs are organized by geography and industry segment to focus on the unique needs of customers within the specific target markets.

We host an annual executive summit in each of our three sales geographic regions where customers and industry players participate in a variety of programs designed to share information about the issues of service revenue performance. The summits feature a variety of prominent keynote and customer speakers, panelists and presentations. These events also bring together partners, customers and other key participants in the service revenue management industry. Attendees gain insight into our technology roadmap and participate in interactive sessions that encourage them to express opinions on new features and functionality.

We are actively involved in the Service Executive Industry Board (SEIB), an independent industry board we founded to share best practices and address issues impacting the industry. The board members consist of 21 senior executives, including three of our executives, who manage and grow service revenue at leading technology-based hardware, software, and healthcare companies. SEIB meets regularly to establish industry standards and best practices for benchmarking and measuring the health of global maintenance, support and subscription service revenue and customer satisfaction.

Operations

Our cloud based solution is hosted in a secure third-party data center in the San Francisco Bay Area of California. Physical security features at this facility include 24x7 manned security with biometric access controls. Our technical redundancy features include redundant power, on-site backup generators, and environmental controls and monitoring. Our technology employs a wide range of security features, such as firewalls, server and user authentication access controls, data encryption, secured hosting, multi-tenant database, a global redundant network and secure encrypted offsite backup of sensitive data. We conduct regular security audits and tests for vulnerability and analysis of our infrastructure. We adhere to strict change management procedures and security policies when updating our technology. We proactively monitor and manage our infrastructure at all times for capacity, security and reliability. Our applications are secured via SSL protocols with data contained in a storage area network for high availability and security. Data backups are offsite, encrypted both during the transmission and at rest.

Research and Development

We focus our research and development efforts on enhancing our product and service offerings as well as complementary new capabilities as part of our proprietary solution. Our development strategy is to identify features, business intelligence, applications and other technology elements that are, or are expected to be, needed by service sales professionals, customers, channel partners and end customers to optimize service revenue performance. We are also investing in the development of additional cloud applications to serve our customers needs and enable greater operational efficiencies in our organization.

Our research and development expenses were $13.1 million in 2011, $7.2 million in 2010 and $2.1 million in 2009. In addition, we capitalize certain expenditures related to the development and enhancement of internal-use software. Capitalized software expenses were $6.0 million in 2011, $4.7 million in 2010, and $5.0 million in 2009.

Competition

The market for service revenue management is evolving. Historically, technology companies have managed their service renewals through internal personnel and relied upon technology ranging from Excel spreadsheets to internally-developed software to customized versions of traditional business intelligence tools and CRM or ERP

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software from vendors such as Oracle, SAP, salesforce.com and NetSuite. Some companies have made further investments in this area using firms such as Accenture and McKinsey for technology consulting and education services focused on service renewals. These internally-developed solutions represent the primary alternative to our integrated approach of combining software, managed services and data to provide end-to-end optimized service revenue performance.

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

- service revenue industry expertise, best practices, and benchmarks;
- performance-based pricing of solutions;
- ability to increase service revenue, renewal rates and close rates;
- global capabilities;
- completeness of solution;
- ability to effectively represent customer brands to end customers and channel partners;
- size of upfront investment; and
- size and financial stability of operations.

Although we believe we compete or compare favorably with respect to many of these factors and currently have few direct competitors that offer integrated solutions at our scale, we believe that other competitors will emerge who have greater name recognition, longer operating histories, well-established relationships with customers in our markets and substantially greater financial, technical, personnel and other resources than we have. We expect competition and competitive pressure, from both new and existing competitors, to increase in the future.

Intellectual Property

We rely upon a combination of copyrights, trade secrets and trademarks, in addition to contractual restrictions such as confidentiality agreements, to establish and protect our proprietary rights. We currently have one registered copyright in the United States, and have registered trademarks for ServiceSource in the United States, the European Community, Japan and Singapore. We also have pending trademark applications for the name ServiceSource in other locations and for other trade names in various locations.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or obtain and use our technology and/or brand names to develop products with the same functionality as our solution. Policing unauthorized use of our technology is difficult. The laws of other countries in which we market our solutions may offer little or no effective protection of our proprietary technology. Our competitors could also independently develop technologies equivalent to ours, and our intellectual property rights may not be broad enough for us to prevent competitors from selling products incorporating those technologies. Reverse engineering, unauthorized copying or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without paying us for it, which would significantly harm our business.

We expect that technology solutions in our industry may be increasingly subject to third-party patent infringement claims as the number of competitors grows and the functionality of products in different industry segments overlaps. Such competitors could make a claim alleging that we infringe one or more of their patents, and we do not own any patents which could be asserted against them. Third parties may currently have, or may eventually be issued, patents upon which our current solution or future technology infringe. Any of these third parties might make a claim of infringement against us at any time.

Employees

As of December 31, 2011, we had 2,110 employees. None of our employees is represented by a labor union with respect to his or her employment with us.

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ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K. If any of the following risks is realized, our business, financial condition, results of operations, cash flows, the trading price of our common stock and prospects could be materially and adversely affected. The risks described below are not the only risks facing us. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition, results of operations, cash flows, the trading price of our common stock and prospects.

Risks Related to Our Business and Industry

Our quarterly results of operations may fluctuate as a result of numerous factors, many of which may be outside of our control.

Our quarterly operating results are likely to fluctuate. Some of the important factors that may cause our revenue, operating results and cash flows to fluctuate from quarter to quarter include:

- our ability to attract new customers and retain existing customers;
- fluctuations in the value of end customer contracts delivered to us;
- fluctuations in close rates;
- changes in our commission rates;
- seasonality;
- loss of customers for any reason including due to acquisition;
- the mix of new customers as compared to existing customers;
- the length of the sales cycle for our solution, and our level of upfront investments prior to the period we begin generating sales associated with such investments;
- the timing of customer payments and payment defaults by customers;
- the amount and timing of operating costs and capital expenditures related to the operations of our business;
- the rate of expansion and productivity of our direct sales force;
- the cost and timing of the introduction of new technologies or new services, including additional investments in our cloud applications;

- general economic conditions;
- technical difficulties or interruptions in delivery of our solution;
- changes in foreign currency exchange rates;
- changes in the effective tax rates;
- regulatory compliance costs, including with respect to data privacy;
- costs associated with acquisitions of companies and technologies;
- extraordinary expenses such as litigation or other dispute-related settlement payments; and
- the impact of new accounting pronouncements.

Many of the above factors are discussed in more detail elsewhere in these Risk Factors. Many of these factors are outside our control, and the variability and unpredictability of such factors could result in our failing to meet our revenue or operating results expectations for a given period. In addition, the occurrence of one or more of these factors might cause our operating results to vary widely which could lead to negative impacts on our margins, short-term liquidity or ability to retain or attract key personnel, and could cause other unanticipated issues. Accordingly, we believe that quarter-to-quarter comparisons of our revenue, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

The market for our solution is relatively undeveloped and may not grow.

The market for service revenue management is still relatively undeveloped, has not yet achieved widespread acceptance and may not grow quickly or at all. Our success will depend to a substantial extent on the willingness of companies to engage a third party such as us to manage the sales of their support, maintenance and subscription contracts. Many companies have invested substantial personnel, infrastructure and financial resources in their own internal service revenue organizations and therefore may be reluctant to switch to a solution such as ours. Companies may not engage us for other reasons, including a desire to maintain control over all aspects of their sales activities and customer relations, concerns about end customer reaction, a belief that they can sell their support, maintenance and subscription services more cost-effectively using their internal sales organizations, perceptions about the expenses associated with changing to a new approach and the timing of expenses once they adopt a new approach, general reluctance to adopt any new and different approach to old ways of doing business, or other considerations that may not always be evident. New concerns or considerations may also emerge in the future. Particularly because our market is undeveloped, we must address our potential customers concerns and explain the benefits of our approach in order to convince them to change the way that they manage the sales of support, maintenance and subscription contracts. If companies are not sufficiently convinced that we can address their concerns and that the benefits of our solution are compelling, then the market for our solution may not develop as we anticipate and our business will not grow.

Our customer relationships and overall business will suffer if we encounter significant problems migrating customers to our next-generation technology platform, or if the new platform does not meet expectations.

We have announced plans to launch our next-generation service revenue management platform (code named Avalon) in the latter part of 2012, and we intend to migrate all of our customers to this new technology platform over time. This new platform will be the core foundation for our customer-facing cloud applications, in addition to those we use for our internal operations. We have limited experience migrating customers from one platform to another. Given the complexity and significance of this transition, our customer relationships, our reputation, and our overall business could be severely damaged if these migrations go poorly. Similarly, even if the migrations go smoothly, our business operations and customer relationships will be at high risk if the new platform does not meet our performance expectations, or those of our customers. This could harm our business in numerous ways including, without limitation, a loss of revenue, lost customer contracts, and damage to our reputation.

Delayed or unsuccessful investment in new technology, services and markets may harm our financial results.

We plan to continue to invest significant resources in research and development in order to enhance our existing offerings and introduce new offerings that will appeal to customers and potential customers. We have undertaken the development of new technology to offer improved and more scalable service revenue management, including enhancements to our applications. The development of new products and services entails a number of risks that could adversely affect our business and operating results, including:

- the risk of diverting the attention of our management and our employees from the day-to-day operations of the business;

- insufficient revenue to offset increased expenses associated with research, development, operational and marketing activities; and

- write-offs of the value of such technology investments as a result of unsuccessful implementation or otherwise.

If our new or modified technology does not work as intended, is not responsive to user preferences or industry or regulatory changes, is not appropriately timed with market opportunity, or is not effectively brought to market, we may lose existing and potential customers or related service revenue opportunities, in which case our results of operations may suffer. The cost of future development of new service revenue management offerings or technologies also could require us to raise additional debt or equity financing. These actions could negatively impact the ownership percentages of our existing stockholders, our financial condition or our results of operations.

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

We currently derive a small portion of our revenue from subscriptions to our cloud applications for a few customers, and we are exploring alternatives for packaging and pricing these applications to generate more revenues from them. In the event we choose to expand our technology subscriptions in this manner, we may not find a successful market for our applications. In addition, because we have limited prior experience selling technology subscriptions on a stand-alone basis, we may encounter technical and execution challenges that undermine the quality of the technology offering or cause us to fall short of customer expectations. We also have little experience in pricing our technology subscriptions separately, which could result in under pricing that damages our profit margins and other financial performance. It is also possible that selling a technology solution separate from our integrated solution will result in a reduction in sales of our current offerings that we might otherwise have sold. An unsuccessful expansion of our business to promote a stand-alone subscription model for any of the foregoing reasons or otherwise would lead to a diversion of financial and managerial resources from our existing business and an inability to generate sufficient revenue to offset our investment costs.

Our estimates of service revenue opportunity under management and other metrics may prove inaccurate.

We use various estimates in formulating our business plans and analyzing our potential and historical performance, including our estimate of service revenue opportunity under management. We base our estimates upon a number of assumptions that are inherently subject to significant business and economic uncertainties and contingencies, many of which are beyond our control. Our estimates therefore may prove inaccurate.

Service revenue opportunity under management (opportunity under management) is a forward-looking metric and is our estimate, as of a given date, of the value of all end customer service contracts that we will have the opportunity to sell on behalf of our customers over the subsequent twelve-month period. Opportunity under management is not a measure of our expected revenue. We estimate the value of such end customer contracts based on a combination of factors, including the value of end customer contracts made available to us by customers in past periods, the minimum value of end customer contracts that our customers are required to give us the opportunity to sell pursuant to the terms of their contracts with us, periodic internal business reviews of our expectations as to the value of end customer contracts that will be made available to us by customers, the value of end customer contracts included in the Service Performance Analysis (SPA) and collaborative discussions with our customers assessing their expectations as to the value of service contracts that they will make available to us for sale. While the minimum value of end customer contracts that our customers are required to give us represents a portion of our estimated opportunity under management, a significant portion of the opportunity under management is estimated based on the other factors described above.

When estimating service revenue opportunity under management and other similar metrics, we must, to a large degree, rely on the assumptions described above, which may prove incorrect. These assumptions are inherently subject to significant business and economic uncertainties and contingencies, many of which are beyond our control. Our estimates therefore may prove inaccurate, causing the actual value of end customer contracts delivered to us in a given twelve-month period to differ from our estimate of opportunity under management. These factors include:

- the extent to which customers deliver a greater or lesser value of end customer contracts than may be required or otherwise expected;

- roll-overs of unsold service contract renewals from prior periods to the current period or future periods;
- changes in the pricing or terms of service contracts offered by our customers;
- increases or decreases in the end customer base of our customers;
- the extent to which the renewal rates we achieve on behalf of a customer early in an engagement affect the amount of opportunity that the customer makes available to us later in the engagement;
- customer cancellations of their contracts with us due to acquisitions or otherwise; and
- changes in our customers businesses, sales organizations, sales processes or priorities.

In addition, opportunity under management reflects our estimate for a forward twelve-month period and should not be used to estimate our opportunity for any particular quarter within that period.

If our security measures are breached or fail, resulting in unauthorized access to customer data, our solution may be perceived as insecure, the attractiveness of our solution to current or potential customers may be reduced and we may incur significant liabilities.

Our solution involves the storage and transmission of the proprietary information and protected data that we receive from our customers. We rely on proprietary and commercially available systems, software, tools and monitoring, as well as other processes, to provide security for processing, transmission and storage of such information. If our security measures are breached or fail as a result of third-party action, employee negligence, error, malfeasance or otherwise, unauthorized access to customer or end customer data may occur. Improper activities by third parties, advances in computer and software capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a compromise or breach of our computer systems. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, and we may be unable to anticipate these techniques or implement adequate preventive measures. Our security measures may not be effective in preventing these types of activities, and the security measures of our third-party data centers and service providers may not be adequate.

Our customer contracts generally provide that we will indemnify our customers for data privacy breaches. If such a breach occurs, we could face contractual damages, damages and fees arising from our indemnification obligations, penalties for violation of applicable laws or regulations, possible lawsuits by affected individuals and significant remediation costs and efforts to prevent future occurrences. In addition, whether there is an actual or a perceived breach of our security, the market perception of the effectiveness of our security measures could be harmed significantly and we could lose current or potential customers.

We may be liable to our customers or third parties if we make errors in providing our solution or fail to properly safeguard their confidential information.

The solution we offer is complex, and we make errors from time to time. These may include human errors made in the course of managing the sales process for our customers as we interact with their end customers, or errors arising from our technology solution as it interacts with our customers systems and the disparate data contained on such systems. The costs incurred in correcting any material errors may be substantial. In addition, as part of our business, we collect, process and analyze confidential information provided by our customers and prospective customers. Although we take significant steps to safeguard the confidentiality of customer information, we could be subject to claims that we disclosed their information without appropriate authorization or used their information inappropriately. Any claims based on errors or unauthorized disclosure or use of information could subject us to exposure for damages, significant legal defense costs, adverse publicity and reputational harm, regardless of the merits or eventual outcome of such claims.

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If close rates fall short of our predictions, our revenue will suffer and our ability to grow and achieve broader market acceptance of our solution could be harmed.

Given our pay-for-performance pricing model, our revenue is directly tied to close rates. Close rates represent the percentage of the actual opportunity delivered that we renew on behalf of our customers. If the close rate for a particular customer is lower than anticipated, then our revenue for that customer will also be lower than projected. If close rates fall short of expectations across a broad range of customers, or if they fall below expectations for a particularly large customer, then the impact on our revenue and our overall business will be significant. In the event close rates are lower than expected for a given customer, our margins will suffer because we will have already incurred a certain level of costs in both personnel and infrastructure to support the engagement. This risk is compounded by the fact that many of our customer relationships are terminable if we fail to meet certain specified sales targets over a sustained period of time. If actual close rates fall to a level at which our revenue and customer contracts are at risk, then our financial performance will decline and we will be severely compromised in our ability to retain and attract customers. Increasing our customer base and achieving broader market acceptance of our solution depends, to a large extent, on how effectively our solution increases service sales. As a result, poor performance with respect to our close rates, in addition to causing our revenue, margins and earnings to suffer, will likely damage our reputation and prevent us from effectively developing and maintaining awareness of our brand or achieving widespread acceptance of our solution, in which case we could fail to grow our business and our revenue, margins and earnings would suffer.

Our revenue will decline if there is a decrease in the overall demand for our customers products and services for which we provide service revenue management.

Our revenue is based on a pay-for-performance model under which we are paid a commission based on the service contracts we sell on behalf of our customers. If a particular customer s products or services fail to appeal to its end customers, our revenue may decline. In addition, if end customer demand decreases for other reasons, such as negative news regarding our customers or their products, unfavorable economic conditions, shifts in strategy by our customers away from promoting the service contracts we sell in favor of selling their other products or services to their end customers, or if end customers experience financial constraints and fail to renew the service contracts we sell, we may experience a decrease in our revenue as the demand for our customers service contracts declines.

If we are unable to compete effectively against current and future competitors, our business and operating results will be harmed.

The market for service revenue management is evolving. Historically, technology companies have managed their service renewals through internal personnel and relied upon technology ranging from Excel spreadsheets to internally-developed software to customized versions of traditional business intelligence tools and CRM or ERP software from vendors such as Oracle, SAP, salesforce.com and NetSuite. Some companies have made further investments in this area using firms such as Accenture and McKinsey for technology consulting and education services focused on service renewals. These internally-developed solutions represent the primary alternative to our integrated approach. We also face direct competition from smaller companies that offer specialized service revenue management solutions, typically providing technology for use by their customers internal sales personnel.

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

- service revenue industry expertise, best practices, and benchmarks;
- performance-based pricing of solutions;
- ability to increase service revenue, renewal rates, and close rates;
- global capabilities;
- completeness of solution;

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- ability to effectively represent customer brands to end customers and channel partners;
- size of upfront investment; and
- size and financial stability of operations.

We believe that more competitors will emerge. These competitors may have greater name recognition, longer operating histories, well-established relationships with customers in our markets and substantially greater financial, technical, personnel and other resources than we have. Potential competitors of any size may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer or end customer requirements. Even if our solution is more effective than competing solutions, potential customers might choose new entrants unless we can convince them of the advantages of our integrated solution. We expect competition and competitive pressure, from both new and existing competitors, to increase in the future.

If there is a widespread shift away from business customers purchasing maintenance and support service contracts, we could be adversely impacted if we are not able to adapt to new trends or expand our target markets.

As a result of our historical concentration in the software and hardware industries, a significant portion of our revenue comes from the sale of maintenance and support service contracts for the software and hardware products used by our customers end customers. Although we also sell other types of renewals, such as subscriptions to software-as-a-service offerings, those sales have to date constituted a relatively small portion of our revenue. The emergence of cloud computing and other alternative technology purchasing models, in which technology services are provided on a remote-access basis, may have a significant impact on the size of the market for traditional maintenance and support contracts. If these alternative models continue gaining traction and reduce the size of our traditional market, we will need to continue to adapt our solution to capitalize on these trends or our results of operations will suffer.

The loss of one or more of our key customers could slow our revenue growth or cause our revenue to decline.

A substantial portion of our revenue has to date come from a relatively small number of customers. During the year ended December 31, 2011, our top ten customers accounted for 47% of our revenue with one customer representing over 10% of our revenue. A relatively small number of customers may continue to account for a significant portion of our revenue for the foreseeable future. The loss of any of our significant customers for any reason, including the failure to renew our contracts, a change of relationship with any of our key customers or their acquisition as discussed below, may cause a significant decrease in our revenue.

Supporting our existing and growing customer base could strain our personnel resources and infrastructure, and if we cannot scale our operations and increase productivity, we may be unsuccessful in implementing our business plan.

In recent periods, we have experienced significant growth in our customer base, which has placed a strain on our management, administrative, operational and financial infrastructure. We anticipate that additional investments in sales personnel, information technology, infrastructure and research and development spending will be required to:

- scale our operations and increase productivity;
- address the needs of our customers;
- further develop and enhance our solution and offerings;
- develop new technology; and

expand our markets and opportunity under management, including into new industry verticals and geographic areas.

Our success will depend in part upon our ability to manage our growth effectively. To do so, we must continue to increase the productivity of our existing employees and to hire, train and manage new employees as needed. To manage domestic and international growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting processes and procedures, and implement more extensive and integrated financial and business information systems. These additional investments will increase our operating costs, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term. Moreover, if we fail to scale our operations successfully and increase productivity, our overall business will be at risk.

Consolidation in the technology sector is continuing at a rapid pace, which could harm our business in the event that our customers are acquired and their contracts are cancelled.

Consolidation among technology companies in our target market has been robust in recent years, and this trend poses a risk for us. Acquisitions of our customers could lead to cancellation of our contracts with those customers by the acquiring companies and could reduce the number of our existing and potential customers. For example, Oracle has acquired a number of our customers in recent years, including our then largest customer, Sun Microsystems, in January 2010, and another customer, BEA Systems, in April 2008. Oracle has elected to terminate our service contracts with each customer because Oracle conducts its service revenue management internally. If mergers and acquisitions continue, we expect that some of the acquiring companies, and Oracle in particular, will terminate, renegotiate and/or elect not to renew our contracts with the companies they acquire, which would reduce our revenue.

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

We enter into long-term contracts with our customers that are priced based on multiple factors determined in large part by the SPA we conduct for our customers. These factors include opportunity size, anticipated close rates and expected commission rates at various levels of sales performance. Some of these factors require forward looking assumptions that may prove incorrect. If our assumptions are inaccurate, or if we otherwise fail to correctly price our customer contracts, particularly those with lengthy contract terms, then our revenue, profitability and overall business operations may suffer. Further, if we fail to anticipate any unexpected increase in our cost of providing services, including the costs for employees, office space or technology, we could be exposed to risks associated with cost overruns related to our required performance under our contracts, which could have a negative effect on our margins and earnings.

Many of our customer contracts allow termination for our failure to meet certain performance conditions.

Although most of our customer contracts are subject to multi-year terms, these agreements often have termination rights if we fail to meet specified sales targets. During the SPA and contract negotiation phase with a customer, we typically negotiate minimum performance levels for the engagement. If we fail to meet our required targets and our customers choose to exercise their termination rights, our revenue could decline. These termination rights may also create instability in our revenue forecasts and other forward looking financial metrics.

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

The contracts that we enter into with our customers provide for sharing of information with respect to forecasts and plans for the renewal of maintenance, support and subscription agreements of our customers. Our customers may use such forecasted data for a variety of purposes related to their business. Our forecasts are based upon the data our customers provide to us, and are inherently subject to significant business, economic and competitive uncertainties, many of which are beyond our control. In addition, these forecasted expectations are based upon historical trends and data that may not be true in subsequent periods. Any material inaccuracies related to these forecasts could lead to claims on the part of our customers related to the accuracy of the forecasted data we provide to them, or the appropriateness of our methodology. Any liability that we incur or any harm to our brand that we suffer because of inaccuracies in the forecasted data we provide to our customers could impact our ability to retain existing customers and harm our brand and, ultimately, our business.

Changing global economic conditions and large scale economic shifts may impact our business.

Our overall performance depends in part on worldwide economic conditions that impact the technology sector and other technology-enabled industries such as healthcare, life sciences and industrial systems. For example, the recent economic downturn resulted in many businesses deferring technology investments, including purchases of new software, hardware and other equipment, and purchases of additional or supplemental maintenance, support and subscription services. To a certain extent, these businesses also slowed the rate of renewals of maintenance, support and subscription services for their existing technology base. A future downturn could cause business customers to stop renewing their existing maintenance, support and subscription agreements or contracting for additional maintenance services as they look for ways to further cut expenses, in which case our business could suffer.

Conversely, a significant upturn in global economic conditions could cause business purchasers to purchase new hardware, software and other technology products, which we generally do not sell, instead of renewing or otherwise purchasing maintenance, support and subscription services for their existing products. A general shift toward new product sales could reduce our near term opportunities for these contracts, which could lead to a decline in our revenue.

Our inability to expand our target markets could adversely impact our business and operating results.

We derive substantially all of our revenue from customers in certain sectors in the technology and technology-enabled healthcare and life sciences industries, and an important part of our strategy is to expand our existing customer base and win new customers in these industries. In addition, because of the service revenue opportunities that we believe exist beyond these industries, we intend to target new customers in additional industry vertical markets, such as technology-enabled building services. In connection with the expansion of our target markets, we may not have familiarity with such additional industry verticals, and our execution of such expansion could face risks where our Service Revenue Intelligence Platform is less developed within a particular new vertical. We may encounter customers in these previously untapped markets that have different pricing and other business sensitivities than we are used to managing. As a result of these and other factors, our efforts to expand our solution to additional industry vertical markets may not succeed, may divert management resources from our existing operations and may require us to commit significant financial resources to unproven parts of our business, all of which may harm our financial performance.

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

In order for us to improve our operating results and grow, it is important that our customers renew their agreements with us when the initial contract term expires and that we expand our customer relationships to add new market opportunities and related service revenue opportunity under management. Our customers may elect not to renew their contracts with us after the initial terms have expired, and we cannot assure you that our customers will renew service contracts with us at the same or higher level of service, if at all, or provide us with the opportunity to manage additional opportunity. Although our renewal rates have been historically higher than those achieved by our customers prior to their using our solution, some customers have elected not to renew their agreements with us. Our customers renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our solution and results, our pricing, mergers and acquisitions affecting our customers or their end customers, the effects of economic conditions or reductions in our customers or their end customers spending levels. If our customers do not renew their agreements with us, renew on less favorable terms or fail to contract with us for additional service revenue management opportunities, our revenue may decline and we may not realize improved operating results and growth from our customer base.

A substantial portion of our business consists of supporting our customers channel partners in the sale of service contracts. If those channel partners become unreceptive to our solution, our business could be harmed.

Many of our customers, including some of our largest customers, sell service contracts through their channel partners and engage our solution to help those channel partners become more effective at selling service contract renewals. These channel partners may have access to some of our cloud applications, such as our Channel Sales Cloud, in addition to other sales support services we provide. In this context, the ultimate buyers of the service contracts are end customers of those channel partners, who then receive the actual services from our customers. In the event our customers channel partners become unreceptive to our involvement in the renewals process, those channel partners could discourage our current or future customers from engaging our solution to support channel sales. This risk is compounded by the fact that large channel partners may have relationships with more than one of our customers or prospects, in which case the negative reaction of one or more of those large channel partners could impact multiple customer relationships. Accordingly, with respect to those customers and prospective customers who sell service contracts through channel partners, any significant resistance to our solution by their channel partners could harm our ability to attract or retain customers, which would damage our overall business operations.

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

We face a variable selling cycle to secure new customer agreements, typically spanning a number of months and requiring our effort to obtain and analyze our prospect s business through the SPA, for which we are not paid. Moreover, even if we succeed in developing a relationship with a potential new customer, the scope of the potential service revenue management engagement frequently changes over the course of the business discussions and, for a variety of reasons, our sales discussions may fail to result in new customer acquisitions. Consequently, we have only a limited ability to predict the timing and size of specific new customer relationships.

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

Due to our evolving business model, the uncertain size of our markets and the unpredictability of future general economic and financial market conditions, we may not be able to accurately forecast our growth rate. We plan our expense levels and investments based on estimates of future sales performance for our customers with respect to their end customers, future revenue and future customer acquisition. If our assumptions prove incorrect, we may not be able to adjust our spending quickly enough to offset the resulting decline in growth and revenue. Consequently, we expect that our gross margins, operating margins and cash flows may fluctuate significantly on a quarterly basis.

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

In general, our customer engagements are complex and may require lengthy and significant work to implement our offerings. As a result, we generally incur sales and marketing expenses related to the commissions owed to our sales representatives and make upfront investments in technology and personnel to support the engagements one to three months before we begin selling end customer contracts. Each customer s situation may be different, and unanticipated difficulties and delays may arise as a result of our failure, or that of our customer, to meet respective implementation responsibilities. If the customer implementation process is not executed successfully or if execution is delayed, we could incur significant costs without yet generating revenue, and our relationships with some of our customers may be adversely impacted.

Because competition for our target employees is intense, we may be unable to attract and retain the highly skilled employees we need to support our planned growth.

To continue to execute on our growth plan, we must attract and retain highly qualified sales representatives, engineers and other key employees in the international markets in which we have operations. Competition for these personnel is intense, especially for highly educated, qualified sales representatives. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled key employees with appropriate qualifications. If we fail to attract new sales representatives, engineers and other key employees, or fail to retain and motivate our most successful employees, our business and future growth prospects could be harmed.

The length of time it takes our newly-hired sales representatives to become productive could adversely impact our success rate, the execution of our overall business plan and our costs.

It can take twelve months or longer before our internal sales representatives are fully trained and productive in selling our solution to prospects and customers. This long ramp period presents a number of operational challenges as the cost of recruiting, hiring and carrying new sales representatives cannot be offset by the revenue such new sales representatives produce until after they complete their long ramp periods. Further, given the length of the ramp period, we often cannot determine if a sales representative will succeed until he or she has been employed for a year or more. If we cannot reliably develop our sales representatives to a productive level, or if we lose productive representatives in whom we have heavily invested, our future growth rates and revenue will suffer.

If we lose our top executives, or if we are unable to attract, hire, integrate and retain key personnel and other necessary employees, our business will be harmed.

Our future success depends on the continued contributions of our executives, each of whom may be difficult to replace. Our future success also depends in part on our ability to attract, hire, integrate and retain qualified service sales personnel, sales representatives and management level employees to oversee such sales forces. In particular, Michael Smerklo, our chairman of the board of directors and chief executive officer, is critical to the management of our business and operations and the development of our strategic direction. The loss of Mr. Smerklo s services or those of our other executives, or our inability to continue to attract and retain high-quality talent, could harm our business.

We depend on revenue from sources outside the United States, and our international business operations and expansion plans are subject to risks related to international operations, and may not increase our revenue growth or enhance our business operations.

For the year ended December 31, 2011, approximately 38% of our revenue was generated from sales centers located outside of the United States. As a result of our continued focus on international markets, we expect that future revenue derived from international sources will continue to represent a significant portion of our total revenue.

A portion of the sales commissions earned from our international customers is paid in foreign currencies. As a result, fluctuations in the value of these foreign currencies may make our solution more expensive or cause resulting fluctuations in cost for international customers, which could harm our business. We currently do not undertake hedging activities to manage these currency fluctuations. In addition, if the effective price of the

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contracts we sell to the end customers were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for such contracts could fall, which in turn would reduce our revenue.

Our growth strategy includes further expansion into international markets. Our international expansion may require significant additional financial resources and management attention, and could negatively affect our financial condition, cash flows and operating results. In addition, we may be exposed to associated risks and challenges, including:

- the need to localize and adapt our solution for specific countries, including translation into foreign languages and associated expenses;
- difficulties in staffing and managing foreign operations;
- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- new and different sources of competition;
- weaker protection for our intellectual property than in the United States and practical difficulties in enforcing our rights abroad;
- laws and business practices favoring local competitors;
- compliance obligations related to multiple, conflicting and changing foreign governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- adverse tax consequences; and
- unstable regional and economic political conditions.

We cannot assure you we will succeed in creating additional international demand for our solution or that we will be able to effectively sell service agreements in all of the international markets we enter.

We could experience significant problems implementing various new business software applications, including our new financial ERP system, which may negatively impact our internal operations.

We are in the process of upgrading and/or replacing various software systems, including our financial ERP system. If the implementations of these new applications are delayed, or if we encounter unforeseen problems with our new systems or in migrating away from our existing applications and systems, our operations and our ability to plan and forecast our business could be negatively impacted.

We incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our operating results.

As a newly public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, and greater expenditures may be necessary in the future with the advent of new laws, regulations and stock exchange listing requirements pertaining to public companies. The Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010, as well as rules subsequently implemented by the Securities and Exchange Commission and The NASDAQ Stock Market LLC, impose various requirements on public companies, including establishing effective internal controls and certain corporate governance practices. Our management and other personnel devote a substantial amount of time to these compliance initiatives, and additional laws and regulations may divert further management resources. Moreover, if we are not able to comply with the requirements of new compliance initiatives in a timely manner, the market price of our stock could decline, and we could be subject to investigations and other actions by The NASDAQ Stock Market LLC, the Securities and Exchange Commission, or other regulatory authorities, which would require additional financial and management resources.

In particular, we are required to evaluate our internal control over financial reporting in connection with Section 404 of the Sarbanes-Oxley Act, and our independent registered public accounting firm will be required to attest to our internal control over financial reporting starting with our Annual Report on Form 10-K for 2012. This assessment will need to include disclosure of any material weaknesses in our internal control over financial reporting identified by our management, as well as our independent registered public accounting firm s report on our internal control over financial reporting. Compiling the system and processing documentation needed to comply with such requirements is costly and challenging, and as a public company and to manage our growth, we are required to implement and maintain various other control and business systems related to our equity, finance, treasury, information technology, other recordkeeping systems and other operations. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing processes, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. If we are unable to assert that our internal control over financial reporting is effective, if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting, or if we are unable to remedy any material weakness in our internal control over financial reporting or implement or maintain other effective control or business systems, our financial statements may be inaccurate, we may face restricted access to the capital markets and our stock price may be adversely affected.

Changes in the U.S. and foreign legal and regulatory environment that affect our operations, including those relating to privacy, data security and cross-border data flows, could pose a significant risk to our company by disrupting our business and increasing our expenses.

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

Privacy and data security are rapidly evolving areas of regulation, and additional regulation in those areas, some of it potentially difficult and costly for us to accommodate, is frequently proposed and occasionally adopted. Laws in many countries and jurisdictions, particularly in the European Union and Canada, govern the requirements related to how we store, transfer or otherwise process the private data provided to us by our customers. In addition, the centralized nature of our information systems at the data and operations centers that we use requires the routine flow of data relating to our customers and their respective end customers across national borders, both with respect to the jurisdictions within which we have operations and the jurisdictions in which we provide services to our customers. If this flow of data becomes subject to new or different restrictions, our ability to serve our customers and their respective customers could be seriously impaired for an extended period of time. For example, we participate in the U.S. Department of Commerce Safe Harbor Framework to govern our treatment of data and data flow with respect to our customers and their respective customers across various jurisdictions. We also have entered into various model contracts and related contractual provisions to enable these data flows. For any jurisdictions in which these measures are not recognized or otherwise not compliant with the laws of the countries in which we process data, or where more stringent data privacy laws are enacted irrespective of international treaty arrangements or other existing compliance mechanisms, we could face increased compliance expenses and face penalties for violating such laws or be excluded from those markets altogether, in which case our operations could be materially damaged.

If we do not adequately protect our intellectual property rights, our competitive position and our business may suffer.

We rely upon a combination of trademark, copyright and trade secret law and contractual terms to protect our intellectual property rights, all of which provide only limited protection. Our success depends, in part, upon our ability to establish, protect and enforce our intellectual property and other proprietary rights. If we fail to protect or effectively enforce our intellectual property rights, others may be able to compete against us using intellectual property that is the same as or similar to our own. In addition, we cannot assure you that our intellectual property rights are sufficient to provide us with a competitive advantage against others who offer services similar to ours.

While we have no patents or pending patent applications, we may file patent applications in the future. If we do file patent applications, we cannot assure you that any issued patents arising from future applications will provide the protection we seek, or that any future patents issued to us will not be challenged, invalidated or circumvented. Also, we cannot assure you that we will obtain any copyright or trademark registrations from our pending or future applications or that any of our trademarks will be enforceable or provide adequate protection of our proprietary rights.

We also rely in some circumstances on trade secrets to protect our technology. Trade secrets may lose their value if not properly protected. We endeavor to enter into non-disclosure agreements with our employees, customers, contractors and business partners to limit access to and disclosure of our proprietary information. The steps we have taken, however, may not prevent unauthorized use of our technology, and adequate remedies may not be available in the event of unauthorized use or disclosure of our trade secrets and proprietary technology. However, trade secret protection does not prevent others from reverse engineering or independently developing similar technologies. In addition, reverse engineering, unauthorized copying or other misappropriation of our trade secrets could enable third parties to benefit from our technology without paying for it.

Accordingly, despite our efforts, we may be unable to prevent third parties from infringing or misappropriating our intellectual property and using our technology for their competitive advantage. Any such infringement or misappropriation could have a material adverse effect on our business, results of operations and financial condition. Monitoring infringement of our intellectual property rights can be difficult and costly, and enforcement of our intellectual property rights may require us to bring legal actions against infringers. Infringement actions are inherently uncertain and therefore may not be successful, even when our rights have been infringed. Even if such actions are successful, they may require a substantial amount of resources and divert our management s attention.

Claims by others that we infringe or violate their intellectual property could force us to incur significant costs and require us to change the way we conduct our business.

Numerous technology companies including potential competitors protect their intellectual property rights by means such as patents, trade secrets, copyrights and trademarks. We have not conducted an independent review of patents issued to third parties. Additionally, because patent applications in the United States and many other jurisdictions are kept confidential for 18 months before they are published, we may be unaware of pending patent applications that relate to our proprietary technology. From time to time we may receive letters from other parties alleging, or inquiring about, possible breaches of their intellectual property rights.

Any party asserting that we infringe its proprietary rights would force us to defend ourselves, and possibly our customers, against the alleged infringement. The technology industry is characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. Moreover, the risk of such a lawsuit will likely increase as we become larger, the scope of our solution and technology expands and the number of competitors in our market increases. Any such claims or litigation could:

- be time-consuming and expensive to defend, and deplete our financial resources, whether meritorious or not;

- require us to stop providing the services that use the technology that infringes the other party s intellectual property;

- divert the attention of our technical and managerial resources away from our business;

- require us to enter into royalty or licensing agreements with third parties, which may not be available on terms that we deem acceptable, if at all;

- prevent us from operating all or a portion of our business or force us to redesign our technology, which could be difficult and expensive and may make the performance or value of our solution less attractive;

- subject us to significant liability for damages or result in significant settlement payments; or

- require us to indemnify our customers as we are required by contract to indemnify some of our customers for certain claims based upon the infringement or alleged infringement of any third party s intellectual property rights resulting from our customers use of our intellectual property.

During the course of any intellectual property litigation, confidential information may be disclosed in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. Disclosure of our confidential information and our involvement in intellectual property litigation could harm us. In addition, any uncertainties resulting from the initiation and continuation of any litigation could significantly limit our ability to continue our operations and could harm our relationships with current and prospective customers. Any of the foregoing could disrupt our business and have a material adverse effect on our operating results and financial condition.

In addition, we may incorporate open source software into our technology solution. The terms of many open source licenses have not been interpreted by United States or foreign courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our commercialization of any of our solutions that may include open source software. As a result, we will be required to analyze and monitor our use of open source software closely. As a result of the use of open source software, we could be required to seek licenses from third parties in order to develop such future products, re-engineer our products, discontinue sales of our solutions or release our software code under the terms of an open source license to the public. Given the nature of open source software, there is also a risk that third parties may assert copyright and other intellectual property infringement claims against us based on any use of such open source software, as more generally discussed with respect to general intellectual property claims.

Various risks could affect our worldwide operations, including numerous events outside of our control, exposing us to significant costs that could adversely affect our operations and customer confidence.

We conduct operations throughout the world, including our headquarters in the United States and various operations in Ireland, Malaysia, Singapore and the United Kingdom. Such worldwide operations expose us to potential operational disruptions and costs as a result of a wide variety of events, including local inflation or economic downturn, currency exchange fluctuations, political turmoil, labor issues, terrorism, natural disasters and pandemics. Any such disruptions or costs could have a negative effect on our ability to provide our solution or meet our contractual obligations, the cost of our solution, customer satisfaction, our ability to attract or maintain customers, and, ultimately, our profits.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. Such events could make it difficult or impossible for us to deliver our solution to our customers, and could decrease demand for our solution. The majority of our research and development activities, corporate headquarters, information technology systems and other critical business operations are located near major seismic faults in the San Francisco Bay Area. Because we may not have insurance coverage that would cover quake-related losses, and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected in the event of a major earthquake or catastrophic event.

Terrorist attacks and other acts of violence or war may adversely affect worldwide financial markets and could potentially lead to economic recession, which could adversely affect our business, results of operations, financial condition and cash flows. These events could adversely affect our customers levels of business activity and precipitate sudden significant changes in regional and global economic conditions and cycles.

The technology we currently use may not operate properly, which could damage our reputation, give rise to claims against us or divert application of our resources from other purposes, any of which could harm our business and operating results.

The technology we currently use, which includes our cloud based applications as well as the technology components of our Service Revenue Intelligence Platform, may contain or develop unexpected defects or errors. There can be no assurance that performance problems or defects in our technology will not arise in the future. Errors may result from receipt, entry or interpretation of customer or end customer information or from the interface of our technology with legacy systems and data that are outside of our control. Despite testing, defects or errors may arise in our solution. Any defects and errors that we discover in our technology and any failure by us to identify and effectively address them could result in loss of revenue or market share, liability to customers or others, failure to achieve market acceptance or expansion, diversion of development resources, injury to our reputation, and increased costs. Defects or errors in our technology may discourage existing or potential customers from contracting with us. Correction of defects or errors could prove impossible or impracticable. The costs incurred in correcting any defects or errors or in responding to resulting claims or liability may be substantial and could adversely affect our operating results.

Disruptions in service or damage to the data center that hosts our data and our locations could adversely affect our business.

Our operations depend on our ability to maintain and protect our data servers and cloud applications, which are located in a data center operated for us by a third party. We cannot control or assure the continued or uninterrupted availability of this third-party data center. In addition, our information technologies and systems, as well as our data center, are vulnerable to damage or interruption from various causes, including natural disasters, war and acts of terrorism and power losses, computer systems failures, Internet and telecommunications or data network failures, operator error, losses of and corruption of data and similar events. Although we conduct business continuity planning and maintain certain insurance for certain events, the situations for which we plan, and the amount of insurance coverage we maintain, may prove inadequate in any particular case. In addition, the occurrence of any of these events could result in interruptions, delays or cessations in the delivery of the solutions we offer to our customers. Any of these events could impair or prohibit our ability to provide our solution, reduce the attractiveness of our solution to current or potential customers and adversely impact our financial condition and results of operations.

In addition, despite the implementation of security measures, our infrastructure, data center, operations and other centers or systems that we interface with, including the Internet and related systems, may be vulnerable to physical intrusions, hackers, improper employee or contractor access, computer viruses, programming errors, denial-of-service attacks or other attacks by third parties.

Any failure or interruptions in the Internet infrastructure, bandwidth providers, data center providers, other third parties or our own systems for providing our solution to customers could negatively impact our business.

Our ability to deliver our solution is dependent on the development and maintenance of the infrastructure of the Internet and other telecommunications services by third parties. Such services include maintenance of a reliable network backbone with the necessary speed, data capacity and security for providing reliable Internet access and services and reliable telecommunications systems that connect our global operations. While our solution is designed to operate without interruption, we have experienced and expect that we will in the future experience interruptions and delays in services and availability from time to time. We rely on internal systems as well as third-party vendors, including data center, bandwidth, and telecommunications equipment providers, to provide our solution. We do not maintain redundant systems or facilities for some of these services. In the event of a catastrophic event with respect to one or more of these systems or facilities, we may experience an extended period of system unavailability, which could negatively impact our relationship with our customers.

Additional government regulations may reduce the size of market for our solution, harm demand for our solution and increase our costs of doing business.

Any changes in government regulations that impact our customers or their end customers could have a harmful effect on our business by reducing the size of our addressable market or otherwise increasing our costs. For example, with respect to our technology-enabled healthcare and life sciences customers, any change in U.S. Food and Drug Administration or foreign equivalent regulation of, or denial, withholding or withdrawal of approval of, our customers products could lead to a lack of demand for service revenue management with respect to such products. Other changes in government regulations, in areas such as privacy, export compliance or anti-bribery statutes, such as the U.S. Foreign Corrupt Practices Act, could require us to implement changes in our services or operations that increase our cost of doing business and thereby hurt our financial performance.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting data privacy and the use of the Internet as a commercial medium. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, result in a decline in the use of the Internet and the viability of Internet-based applications such as ours and reduce the demand for our solution.

We operate and offer our services in many jurisdictions and, therefore, may be subject to state, local and foreign taxes that could harm our business.

We operate service sales centers in multiple locations. Some of the jurisdictions in which we operate, such as Ireland, give us the benefit of either relatively low tax rates, tax holidays or government grants, in each case that are dependent on how we operate or how many jobs we create and employees we retain. We plan on utilizing such tax incentives in the future as opportunities are made available to us. Any failure on our part to operate in conformity with applicable requirements to remain qualified for any such tax incentives or grants may result in an increase in our taxes. In addition, jurisdictions may choose to increase rates at any time due to economic or other factors, such as the current economic situation in Ireland. Any such rate increases may harm our results of operations.

In addition, we may lose sales or incur significant costs should various tax jurisdictions impose taxes on either a broader range of services or services that we have performed in the past. We may be subject to audits of the taxing authorities in any such jurisdictions 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 customers and may adversely affect our ability to retain existing customers or to gain new customers in the areas in which such taxes are imposed.

If we acquire companies or technologies in the future, they could prove difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our operating results and the value of our common stock.

As part of our business strategy, we may acquire, enter into joint ventures with, or make investments in companies, services and technologies that we believe to be complementary. Acquisitions and investments involve numerous risks, including:

- difficulties in identifying and acquiring technologies or businesses that will help our business;

- difficulties in integrating operations, technologies, services and personnel;
- diversion of financial and managerial resources from existing operations;
- the risk of entering new markets in which we have little to no experience;
- risks related to the assumption of known and unknown liabilities;
- potential litigation by third parties, such as claims related to intellectual property or other assets acquired or liabilities assumed;
- the risk of write-offs of goodwill and other intangible assets;
- delays in customer engagements due to uncertainty and the inability to maintain relationships with customers of the acquired businesses;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- incurrence of acquisition-related costs;
- harm to our existing business relationships with business partners and customers as a result of the acquisition;
- the key personnel of the acquired entity or business may decide not to work for us or may not perform according to our expectations; and
- use of substantial portions of our available cash or dilutive issuances of equity securities or the incurrence of debt to consummate the acquisition.

As a result, if we fail to properly evaluate acquisitions or investments, we may not achieve the anticipated benefits of any such acquisitions, we may incur costs in excess of what we anticipate and management resources and attention may be diverted from other necessary or valuable activities.

Risks Relating to Owning Our Common Stock

Our share price has been volatile and is likely to be volatile in the future.

The trading price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to various factors. Further, our common stock has a limited trading history. In addition to the risks described in this section, factors that may cause the market price of our common stock to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us as discussed in more detail elsewhere in these Risk Factors;

failing to achieve our revenue or earnings expectations, or those of investors or analysts;

changes in estimates of our financial results or recommendations by securities analysts;

recruitment or departure of key personnel;

investors general perception of us;

volatility inherent in prices of technology company stocks;

adverse publicity;

the volume of trading in our common stock, including sales upon exercise of outstanding options;

sales of shares of our common stock by existing stockholders;

regulatory developments in our target markets affecting us, our customers or our competitors;

- terrorist attacks or natural disasters or other such events impacting countries where we or our customers have operations; and

- actual or perceived changes in general economic, industry and market conditions.

In addition, if the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations.

Some companies that have had volatile market prices for their securities have had securities class actions filed against them. If a suit were filed against us, regardless of its merits or outcome, it would likely result in substantial costs and divert management s attention and resources. This could have a material adverse effect on our business, operating results and financial condition.

Our actual results may differ significantly from any guidance that we may issue in the future.

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

Concentration of ownership among our existing executive officers, directors and their affiliates may prevent new investors from influencing significant corporate decisions.

Our directors and executive officers and their affiliates beneficially own, in the aggregate, approximately 41% of our outstanding common stock as of December 31, 2011. As a result, these stockholders will be able to determine substantially all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit the ability of other stockholders to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

Anti-takeover provisions contained in our certificate of incorporation and by laws, as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation, by laws and Delaware law contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions:

- authorizing blank check preferred stock, which could be issued by our board of directors without stockholder approval, with voting, liquidation, dividend and other rights superior to our common stock;

- classifying our board of directors, staggered into three classes, only one of which is elected at each annual meeting;

- limiting the liability of, and providing indemnification to, our directors and officers;

- limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;

requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;

controlling the procedures for the conduct and scheduling of stockholder meetings;

providing the board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;

limiting the determination of the number of directors on our board and the filling of vacancies or newly created seats on the board to our board of directors then in office; and

providing that directors may be removed by stockholders only for cause.

These provisions, alone or together, could delay hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which limits the ability of stockholders owning in excess of 15% of our outstanding common stock to merge or combine with us.

Any provision of our certificate of incorporation, by laws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If any of these analysts cease coverage of our company, the trading price and trading volume of our stock could be negatively impacted. If analysts downgrade our stock or publish unfavorable research about our business, our stock price would also likely decline.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and principal administrative, sales and marketing and product development operations are located in San Francisco, CA. We also have five globally distributed sales centers. We have two sales centers in North America, one in each of Denver and Nashville. We have additional international sales centers in Dublin, Ireland; Liverpool, United Kingdom; and Singapore. We also have a global sales operations center in Kuala Lumpur, Malaysia. We use this center to centralize key contract renewal processes that do not require regional expertise, such as customer data management and quoting. We do not own any real estate. All of our office space is leased under long-term leases with varying expiration dates. We believe that our facilities are adequate to meet our needs in the near future.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has traded on The NASDAQ Global Market under the symbol SREV since it began trading on March 25, 2011. Our initial public offering was priced at $10.00 per share on March 24, 2011. The following table sets forth, for the time period indicated, the high and low closing prices of our common stock as reported on The NASDAQ Global Market.

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

Holders

As of February 28, 2012, there were 125 holders of record of our common stock. A substantially greater number of holders of our common stock are street name or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

Dividends

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our common stock in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant. In addition, our credit facility contains restrictions on our ability to declare and pay cash dividends on our capital stock.

Stock Performance Graph

This performance graph shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of ServiceSource under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph shows a comparison from March 25, 2011(the date our common stock commences trading on The NASDAQ Global Market) through December 31, 2011, of the cumulative total return for (1) our common stock, (2) Morgan Stanley Technology Index, and (3) the NASDAQ Composite Index. Such returns are

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based on historical results and are not intended to suggest future performance. Data for The NASDAQ Composite Index and Morgan Stanley Technology Index assume reinvestment of dividends. We have never declared or paid cash dividends on our capital stock nor do we anticipate paying any such cash dividends in the foreseeable future.

	3/25/2011	4/30/2011	5/31/2011	6/30/2011	7/31/2011	8/31/2011	9/30/2011	10/31/2011	11/30/2011	12/31/2011
ServiceSource	100.00	102.63	159.69	182.43	153.28	148.36	108.46	109.28	109.52	128.82
Morgan Stanley Technology Index	100.00	103.71	101.47	97.07	93.71	86.98	82.25	94.11	90.53	86.91
NASDAQ Composite Index	100.00	104.76	103.36	101.11	100.49	94.04	88.05	97.86	95.53	94.97

Recent Sales of Unregistered Securities

None.

Use of Proceeds

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

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

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

There was no material change in the use of proceeds from our initial and follow-on public offerings as described in our final prospectus filed with the SEC pursuant to Rule 424(b). From the effective date of the registration statement through December 31, 2011, we have used the net proceeds of the offering for repayment of a term-loan and borrowing under a revolving credit facility and for working capital and other general corporate purposes.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Net revenue	$ 205,501	$ 152,935	$ 110,676	$ 100,280	$ 75,189
Cost of revenue[(1)]	113,406	90,048	58,877	56,965	39,224
Gross profit	92,095	62,887	51,799	43,315	35,965
Operating expenses					
Sales and marketing[(1)]	48,520	35,119	23,182	20,486	13,119
Research and development[(1)]	13,073	7,188	2,054	1,160	
General and administrative[(1)]	33,647	19,378	13,777	10,571	10,475
Amortization of intangible assets[(1)]			68	857	912
Total operating expenses	95,240	61,685	39,081	33,074	24,506
Income from operations	(3,145)	1,202	12,718	10,241	11,459
Interest expense	(503)	(1,271)	(1,116)	(2,209)	(2,305)
Loss on extinguishment/modification of debt	(235)	(144)		(561)	
Other income (expense), net	(389)	(207)	639	(1,497)	(118)
Income (loss) before provision for (benefit from) income taxes	(4,272)	(420)	12,241	5,974	9,036
Income tax (benefit) provision	(19,383)	2,147	1,866	1,153	(632)
Net income (loss)	$ 15,111	$ (2,567)	$ 10,375	$ 4,821	$ 9,668
Net income (loss) per common share:					
Basic	$ 0.23	$ (0.04)	$ 0.18	$ 0.09	$ 0.17
Diluted	$ 0.21	$ (0.04)	$ 0.18	$ 0.08	$ 0.16
Cash distributions per common share[(2)]	$	$ 0.04	$	$ 0.09	$ 0.09
Weighted-average shares used in computing net income (loss) per common share:					
Basic	66,656	57,284	56,750	56,209	55,936
Diluted	73,585	57,284	58,912	58,733	58,706

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

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands)				
Cost of revenue	$ 1,877	$ 1,126	$ 914	$ 1,271	$ 1,096

Sales and marketing	4,456	2,993	2,340	1,570	1,100
Research and development	1,167	803	541		
General and administrative	4,099	3,167	2,265	2,608	1,680
Total stock-based compensation	$ 11,599	$ 8,089	$ 6,060	$ 5,449	$ 3,876

(2) Pursuant to our previous limited liability company agreement, we were required to pay cash distributions to our members to fund their tax obligations in respect of their equity interests. All other distributions are

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determined by our directors in their sole discretion. Tax distributions to members were $0, $2.5 million, $0, $5.2 million, and $5.1 million in 2011, 2010, 2009, 2008, and 2007, respectively. Effective with our initial public offering, we converted from a limited liability company into a Delaware Corporation.

	As of December 31,				
	2011	**2010**	**2009**	**2008**	**2007**
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 108,865	$ 22,652	$ 13,169	$ 3,780	$ 13,147
Working capital	134,796	18,135	19,099	12,319	15,175
Total assets	238,961	108,103	69,580	51,712	45,367
Term loan, current and non-current		15,459	16,835	19,625	20,000
Obligations under capital leases, current and non-current	1,664	1,759	773	151	
Total members /stockholders equity	197,016	33,884	30,331	13,482	7,937

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

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our annual consolidated financial statements and notes thereto which appear elsewhere in this Annual Report on Form 10-K.

These discussions contain forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. These forward-looking statements include, but are not limited to, statements related to changes in market conditions that impact our ability to generate service revenue on our customers behalf; errors in estimates as to the service revenue we can generate for our customers; risks associated with material defects or errors in our software or the effect of data security breaches; our ability to adapt our solution to changes in the market or new competition; our ability to improve our customers renewal rates, margins and profitability; our ability to increase our revenue and contribution margin over time from new and existing customers; the potential effect of mergers and acquisitions on our customer base; business strategies; technology development; protection of our intellectual property; investment and financing plans; liquidity; competitive position; the effects of competition; industry environment; and potential growth opportunities. Forward-looking statements are also often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estimate, expect, intend, may, plan, project, seek, should, target, will, would, and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section of this Annual Report on Form 10-K titled Risk Factors . Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

All dollar amounts expressed as numbers in this MD&A (except per share amounts) are in millions.

Overview

We manage the service contract renewals process for renewals of maintenance, support and subscription agreements on behalf of our customers. Our integrated solution consists of a suite of cloud applications, dedicated service sales teams working under our customers brands and a proprietary Service Revenue Intelligence Platform. By integrating software, managed services and data, we address the critical steps of the renewals process including data management, quoting, selling and service revenue business intelligence. Our business is built on our pay-for-performance model, whereby our revenues are based on the service renewals customers achieve with our solution. As of December 31, 2011, we managed over 120 engagements across approximately 70 customers, representing over $7 billion in service revenue opportunity under management.

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

Our revenue has increased from $152.9 million in 2010 to $205.5 million in 2011, representing an increase of 34%.

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Our engagements have grown from approximately 100 as of December 31, 2010 to over 120 as of December 31, 2011. We are currently in the midst of a significant investment cycle in which we have taken steps designed to drive our future growth and profitability. We plan to offer additional cloud based applications, hire additional sales, service sales and other personnel and further build out our infrastructure to develop our technology. These steps impacted our expenses in recent periods and are expected to continue to impact our profitability in future periods.

On March 24, 2011, our registration statement on Form S-1 relating to our initial public offering (IPO) was declared effective by the Securities and Exchange Commission (SEC). The IPO closed on March 30, 2011, at which time we sold 9,791,020 shares of our common stock (inclusive of 1791,020 shares of common stock from the full exercise of the over-allotment option granted to the underwriters) and the selling stockholders sold 3,940,133 of our common stock. The price of the shares sold in the offering was $10.00 per share. After deducting underwriting discounts, commissions and estimated offering expenses payable by us, the aggregate net proceeds received by us totaled approximately $87.7 million. We did not receive any proceeds from the sales of shares by the selling stockholders.

On March 24, 2011, prior to the effective time of the IPO, we converted from a limited liability company into a Delaware corporation and changed our name from ServiceSource International, LLC to ServiceSource International, Inc. In conjunction with the conversion, all of our outstanding common shares automatically converted into shares of our common stock.

On August 3, 2011, we closed a secondary public offering of 10,350,000 shares of our common stock, which included 1,372,061 shares of common stock sold by us (inclusive of 1,350,000 shares of common stock from the full exercise of the over-allotment option granted to the underwriters) and 8,977,939 shares of common stock sold by the selling stockholders. The price of the shares sold in the offering was $17.50 per share. The total gross proceeds from the follow-on offering to us were $24.0 million. After deducting underwriting discounts, commissions and estimated offering expenses payable by us, the aggregate net proceeds received by us totaled approximately $23.0 million. We did not receive any proceeds from the sales of shares by the selling stockholders (other than approximately $2.9 million in additional cash received from the exercise of stock options by certain of the selling stockholders).

Key Business Metrics

In assessing the performance of our business, we consider a variety of business metrics in addition to the financial metrics discussed below under Basis of Presentation. These key metrics include service revenue opportunity under management and number of engagements.

Service Revenue Opportunity Under Management. At December 31, 2011, we estimated our opportunity under management to be over $7 billion. Service revenue opportunity under management (opportunity under management) is a forward-looking metric and is our estimate, as of a given date, of the value of all end customer service contracts that we will have the opportunity to sell on behalf of our customers over the subsequent twelve-month period. Opportunity under management is not a measure of our expected revenue. In addition, opportunity under management reflects our estimate for a forward twelve-month period and should not be used to estimate our opportunity for any particular quarter within that period. The value of end customer contracts actually delivered during a twelve-month period should not be expected to occur in even quarterly increments due to seasonality and other factors impacting our customers and their end customers.

We estimate the value of such end customer contracts based on a combination of factors, including the value of end customer contracts made available to us by customers in past periods, the minimum value of end customer contracts that our customers are required to give us the opportunity to sell pursuant to the terms of their contracts with us, periodic internal business reviews of our expectations as to the value of end customer contracts that will be made available to us by customers, the value of end customer contracts included in the SPA and collaborative discussions with our customers assessing their expectations as to the value of service contracts that they will make available to us for sale. While the minimum value of end customer contracts that our customers are required to give us represents a portion of our estimated opportunity under management, a significant portion of the opportunity under management is estimated based on the other factors described above. As our experience with our business, our customers and their contracts has grown, we have continually refined the process, improved the assumptions and expanded the data related to our calculation of opportunity under management.

When estimating service revenue opportunity under management, we must, to a large degree, rely on the assumptions described above, which may prove incorrect. These assumptions are inherently subject to significant business and economic uncertainties and contingencies, many of which are beyond our control. Our estimates therefore may prove inaccurate, causing the actual value of end customer contracts delivered to us in a given twelve-month period to differ from our estimate of opportunity under management. These factors include:

- the extent to which customers deliver a greater or lesser value of end customer contracts than may be required or otherwise expected;
- roll-overs of unsold service contract renewals from prior periods to the current period or future periods;
- changes in the pricing or terms of service contracts offered by our customers;
- increases or decreases in the end customer base of our customers;
- the extent to which the renewal rates we achieve on behalf of a customer early in an engagement affect the amount of opportunity that the customer makes available to us later in the engagement;
- customer cancellations of their contracts with us; and
- changes in our customers businesses, sales organizations, sales processes or priorities.

Our revenue also depends upon our close rates and commissions. Our close rate is the percentage of our opportunity under management that we renew on behalf of our customers. Our commission rate is an agreed-upon percentage of the renewal value of end customer contracts that we sell on behalf of our customers.

Our close rate is impacted principally by our ability to successfully sell service contracts on behalf of our customers. Other factors impacting our close rate include: the manner in which our customers price their service contracts for sale to their end customers; the stage of life-cycle associated with the products and underlying technologies covered by the service contracts offered to the end customer; the extent to which our customers or their competitors introduce new products or underlying technologies; the nature, size and age of the service contracts; and the extent to which we have managed the renewals process for similar products and underlying technologies in the past.

In determining commission rates for an individual engagement, various factors, including our close rates, as described above, are evaluated. These factors include: historical, industry-specific and customer-specific renewal rates for similar service contracts; the magnitude of the opportunity under management in a particular engagement; the number of end customers associated with these opportunities; and the opportunity to receive additional performance commissions when we exceed certain renewal levels. We endeavor to set our commission rates at levels commensurate with these factors and other factors that may be relevant to a particular engagement. Accordingly, our commission rates vary, often significantly, from engagement to engagement. In addition, we sometimes agree to lower commission rates for engagements with significant opportunity under management.

Number of Engagements. We track the number of engagements we have with our customers. We often have multiple engagements with a single customer, particularly where we manage the sales of service renewals relating to different product lines, technologies, types of contracts or geographies for the customer. When the set

of renewals we manage on behalf of a customer is associated with a separate customer contract or a distinct product set, type of end customer contract or geography and therefore requires us to assign a dedicated service sales team to manage the renewals, we designate the set of renewals, and associated revenues and costs to us as a unique engagement. For example, we may have one engagement consisting of a dedicated service sales team selling maintenance contract renewals of a particular product for a customer in the United States and another engagement consisting of a dedicated sales team selling warranty contract renewals of a different product for the same customer in Europe. These would count as two engagements. We had approximately 120, 100 and 80 engagements as of December 31, 2011, 2010 and 2009, respectively.

Factors Affecting our Performance

Sales Cycle. We sell our integrated solution through our sales organization. At the beginning of the sales process, our quota-carrying sales representatives contact prospective customers and educate them about our offerings. Educating prospective customers about the benefits of our solution can take time, as many of these prospects have not historically relied upon integrated solutions like ours for service revenue management, nor have they typically put out a formal request for proposal or otherwise made a decision to focus on this area. As part of the education process, we utilize our solutions design team to perform the SPA of our prospect s service revenue. The SPA includes an analysis of best practices and benchmarks the prospect s service revenue against industry peers. Through the SPA process, which typically takes several weeks, we are able to assess the characteristics and size of the prospect s service revenue, identify potential areas of performance improvement, and formulate our proposal for managing the prospect s service revenue. The length of our sales cycle for a new customer, inclusive of the SPA process and measured from our first formal discussion with the customer until execution of a new customer contract, is typically longer than six months.

We generally contract with new customers to manage a specified portion of their service revenue opportunity, such as the opportunity associated with a particular product line or technology, contract type or geography. We negotiate the customized terms of our customer contracts, including commission rates, based on the output of the SPA, including the areas identified for improvement. Once we demonstrate success to a customer with respect to the opportunity under contract, we seek to expand the scope of our engagement to include other opportunities with the customer. For some customers, we manage all or substantially all of their service contract renewals.

Implementation Cycle. After entering into an engagement with a new customer, and to a lesser extent after adding an engagement with an existing customer, we incur sales and marketing expenses related to the commissions owed to our sales personnel. The commissions are based on the estimated total contract value, a material portion of which is expensed upfront and the remaining portion of which is expensed over a period of eight to fourteen months, including commissions paid on multi-year contracts. We also make upfront investments in technology and personnel to support the engagement. These expenses are typically incurred one to three months before we begin generating sales and recognizing revenue. Accordingly, in a given quarter, an increase in new customers, and, to a lesser extent, an increase in engagements with existing customers, or a significant increase in the contract value associated with such new customers and engagements, will negatively impact our gross margin and operating margins until we begin to achieve anticipated sales levels associated with the new engagements.

Although we expect new customer engagements to contribute to our operating profitability over time, in the initial periods of a customer relationship, the near term impact on our profitability can be negative due to upfront costs we incur, the lower initial level of associated service sales team productivity and lack of mature data and technology integration with the customer. As a result, an increase in the mix of new customers as a percentage of total customers may initially have a negative impact on our operating results. Similarly, a decline in the ratio of new customers to total customers may positively impact our operating results.

Although we believe the estimates and assumptions we used to estimate the expenses are reasonable, the estimated expenses and resulting direct contribution margin could vary significantly from the amounts disclosed above had we used different estimates and assumptions. Moreover, we cannot assure you that we will experience similar contribution margins from customers added in other years or in future periods. You should not rely on the estimated expenses or direct contribution margin as being indicative of our future performance. Because of our growing customer base, we expect that there will be times when large numbers of our customers are in the initial phases of their relationship with us or have a material expansion of their existing engagements with us. In these scenarios, our operating results will be negatively impacted over the near term. We expect, for example, that our recent addition of significant new customers, and expansion of certain existing customer relationships, will continue to impact our margins in 2012.

Contract Terms. Substantially all of our revenue comes from pay-for-performance model. Under our pay-for-performance model, we earn commissions based on the value of service contracts we sell on behalf of our customers. In some cases, we earn additional performance-based commissions for exceeding pre-determined service renewal targets.

Since 2009, our new customer contracts have typically had a term of approximately 36 months, although we sometimes have contract terms of up to 60 months. Our contracts generally require our customers to deliver a minimum value of qualifying service revenue contracts for us to renew on their behalf during a specified period. To the extent that our customers do not meet their minimum contractual commitments over a specified period, they may be subject to fees for the shortfall. Our customer contracts are cancelable on relatively short notice, subject in most cases to the payment of an early termination fee by the customer. The amount of this fee is based on the length of the remaining term and value of the contract.

We invoice our customers on a monthly basis based on commissions we earn during the prior month, and with respect to performance-based commissions, on a quarterly basis based on our overall performance during the prior quarter. Amounts invoiced to our customers are recognized as revenue in the period in which our services are performed or, in the case of performance commissions, when the performance condition is determinable. Because the invoicing for our services generally coincides with or immediately follows the sale of service contracts on behalf of our customers, we do not generate or report a significant deferred revenue balance. However, the combination of minimum contractual commitments, combined with our success in generating improved renewal rates for our customers, and our customers historical renewal rates, provides us with revenue visibility. In addition, the performance improvement potential identified by our SPA process provides us with revenue visibility for new customers.

M&A Activity. Our customers, particularly those in the technology sector, participate in an active environment for mergers and acquisitions. Large technology companies have maintained active acquisition programs to increase the breadth and depth of their product and service offerings and small and mid-sized companies have combined to better compete with large technology companies. A number of our customers have merged, purchased other companies or been acquired by other companies. We expect merger and acquisition activity to continue to occur in the future.

The impact of these transactions on our business can vary. Acquisitions of other companies by our customers can provide us with the opportunity to pursue additional business to the extent the acquired company is not already one of our customers. Similarly, when a customer is acquired, we may be able to use our relationship with the acquired company to build a relationship with the acquirer. In some cases we have been able to maintain our relationship with an acquired customer even where the acquiring company handles its other service contract renewals through internal resources. In other cases, however, acquirers have elected to terminate or not renew our contract with the acquired company. For example, Oracle terminated our contracts with Sun Microsystems effective as of September 30, 2010, as discussed in more detail under Results of Operations Years Ended December 31, 2010 and 2009 Net Revenue, and had previously terminated our contract with another customer, BEA Systems, in April 2008.

Economic Conditions. An improving economic outlook generally has a positive, but mixed, impact on our business. As with most businesses, improved economic conditions can lead to increased end customer demand

and sales. In particular, within the technology sector, we believe that the recent economic downturn led many companies to cut their expenses by choosing to let their existing maintenance, support and subscription agreements lapse. An improving economy may have the converse effect.

However, an improving economy may also cause companies to purchase new hardware, software and other technology products, which we generally do not sell on behalf of our customers, instead of purchasing maintenance, support and subscription services for existing products. To the extent this occurs, it would have a negative impact on our opportunities in the near term that would partially offset the benefits of an improving economy.

Adoption of Software-as-a-Service Solutions. Within the software industry, there is a growing trend toward providing software to customers using a software-as-a-service model. Under this model, software-as-a-service companies provide access to software applications to customers on a remote basis, and provide their customers with a subscription to use the software, rather than licensing software to their customers. Software-as-a-service companies face a distinct set of challenges with respect to customer renewals, given the potentially lower switching costs for customers utilizing their solutions, and are more reliant on renewals for their long-term revenues than traditional software companies. Given the strategic importance of renewals to their model, software-as-a-service companies may be less inclined than traditional software companies to rely on third-party solutions such as ours to manage the sale of renewals of subscription contracts. We have tailored our solution to address the needs of software-as-a-service companies in this area and expect to continue to develop and enhance our solution as this market grows.

Basis of Presentation

Net Revenue

Substantially all of our net revenue is attributable to commissions we earn from the sale of renewals of maintenance, support and subscription agreements on behalf of our customers. We generally invoice our customers for our services in arrears on a monthly basis for sales commissions, and on a quarterly basis for certain performance sales commissions; accordingly, we typically have no deferred revenue related to these services. We do not set the price, terms or scope of services in the service contracts with end customers and do not have any obligations related to the underlying service contracts between our customers and their end customers.

For a limited number of historical engagements, our services included the sale of service contracts as well as the related invoicing and cash collections on behalf of customers. Under these arrangements, commissions are considered earned when we receive cash payment from end customers. As of December 31, 2010, we no longer had any such customer engagements.

We also earn revenue from the sale of subscriptions to our cloud based applications. To date, subscription revenue has been insignificant. Subscription fees are accounted for separately from commissions and they are billed on either a monthly or quarterly basis in advance and revenue is recognized ratably over the related subscription term.

We have generated a significant portion of our revenue from a limited number of customers. For the years ended December 31, 2011, 2010 and 2009, our top ten customers in each period accounted for 47%, 54%, and 65%, of our net revenue, respectively. One customer accounted for over 10% of our revenues in 2011. In addition, during the same periods, Sun Microsystems accounted for 1%, 13% and 24%, of our net revenue, respectively. As discussed elsewhere in this Annual Report on Form 10-K, Oracle terminated our contracts with Sun Microsystems effective as of September 30, 2010. In connection with a settlement agreement with Oracle dated February 28, 2011, we recognized net revenue of approximately $1.8 million in the first quarter of 2011 from Sun Microsystems from fees associated with the transition of remaining active end user contracts to Oracle, the termination of the related account management services and as a result of our net final payment to Oracle being less than estimated as of December 31, 2010.

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Our business is geographically diversified. During 2011, 62% of our net revenue was earned in North America and Latin America (NALA), 28% in Europe, Middle East and Africa (EMEA) and 10% in Asia Pacific-Japan (APJ). Net revenue for a particular geography generally reflects commissions earned from sales of service contracts managed from our sales centers in that geography. Predominantly all of the service contracts sold and managed by our sales centers relate to end customers located in the same geography.

Cost of Revenue and Gross Profit

Our cost of revenue expenses include compensation, technology costs, including those related to the delivery of our cloud-based solutions, and allocated overhead costs. Compensation includes salary, bonus, benefits and stock-based compensation for our dedicated service sales teams. Our allocated overhead includes costs for facilities, information technology and depreciation, including amortization of internal-use software associated with our service revenue technology platform and cloud applications. Allocated costs for facilities consist of rent, maintenance and compensation of personnel in our facilities departments. Our allocated costs for information technology include costs associated with a third-party data center 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. Our overhead costs are allocated to all departments based on headcount. To the extent our customer base or opportunity under management expands, we may need to hire additional service sales personnel and invest in infrastructure to support such growth. We currently expect that our cost of revenue will fluctuate significantly and may increase on an absolute basis and as a percentage of revenue in the near term, including for the reasons discussed above under Factors Affecting Our Performance Implementation Cycle.

Operating Expenses

Sales and Marketing. Sales and marketing expenses are the largest component of our operating expenses and consist primarily of compensation and sales commissions for our sales and marketing staff, allocated expenses and marketing programs and events. We sell our solutions through our global sales organization, which is organized across three geographic regions: NALA, EMEA and APJ. Our commission plans provide that payment of commissions to our sales representatives is contingent on their continued employment, and we recognize expense over a period that is generally between twelve and fourteen months following the execution of the applicable contract. We currently expect sales and marketing expense to increase on an absolute basis and as a percentage of revenue in the near term based on commissions earned on customer contracts entered into in prior periods, as well as continued investments in sales and marketing personnel and programs as we expand our business domestically and internationally.

Research and Development. Research and development expenses consist primarily of compensation, allocated costs and the cost of third-party service providers. We focus our research and development efforts on developing new products and adding new features to our existing technology platform. In addition, we capitalize certain expenditures related to the development and enhancement of internal-use software related to our technology platform. We expect research and development spending, and the related expenses and capitalized costs, to increase on an absolute basis as a percentage of revenue in the near term as we continue to invest in our next-generation technology platform and cloud applications.

General and Administrative. General and administrative expenses consist primarily of compensation for our executive, human resources, finance and legal functions, and related expenses for professional fees for accounting, tax and legal services, as well as allocated expenses. We expect that our general and administrative expenses will increase on an absolute basis and as a percentage of revenue in the near term as our operations continue to expand and as a result of incremental personnel, informational technology and other costs associated with being a publicly-traded company.

Amortization of Intangible Assets. Our intangible assets consist of goodwill, customer contracts and related relationships, trademarks and trade names and a non-competition agreement. Except for goodwill, which is not amortized, all of our intangible assets were fully amortized as of March 31, 2009.

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Other Income (Expense)

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

Income Tax (Benefit) Provision

Prior to March 1, 2011, we conducted our U.S. operations through ServiceSource International, LLC (the LLC), a pass-through entity for tax purposes that filed its income tax return as a partnership for federal and state income tax purposes, and through LLC s wholly-owned U.S. taxable subsidiary. Effective March 1, 2011, the LLC elected to be taxable as a corporation for U.S. Federal and State tax purposes. Accordingly, ServiceSource International, Inc., formerly the LLC, is subject to normal U.S. corporation income taxes beginning March 1, 2011. We also have several subsidiaries formed in foreign jurisdictions which are subject to local income taxes.

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

Results of Operations

The table below sets forth our consolidated results of operations for the periods presented. The period-to-period comparison of financial results presented below is not necessarily indicative of financial results to be achieved in future periods.

	Years Ended December 31, (in thousands)		
	2011	2010	2009
Consolidated statement of operations data:			
Net revenue	$ 205,501	$ 152,935	$ 110,676
Cost of revenue	113,406	90,048	58,877
Gross profit	92,095	62,887	51,799
Operating expenses:			
Sales and marketing	48,520	35,119	23,182
Research and development	13,073	7,188	2,054
General and administrative	33,647	19,378	13,777
Amortization of intangible assets			68
Total operating expenses	95,240	61,685	39,081
Income (loss) from operations	(3,145)	1,202	12,718
Other expense, net	(1,127)	(1,622)	(477)
Income (loss) before provision for (benefit from) income taxes	(4,272)	(420)	12,241
Income tax provision (benefit)	(19,383)	2,147	1,866
Net income (loss)	$ 15,111	$ (2,567)	$ 10,375
Includes stock-based compensation of:			
Cost of revenue	$ 1,877	$ 1,126	$ 914
Sales and marketing	4,456	2,993	2,340
Research and development	1,167	803	541
General and administrative	4,099	3,167	2,265
Total	$ 11,599	$ 8,089	$ 6,060

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

	Years Ended December 31, 2011	2010	2009
	(as a % of net revenue)		
Net revenue	100%	100%	100%
Cost of revenue	55%	59%	53%
Gross profit	45%	41%	47%
Operating expenses:			
Sales and marketing	24%	23%	21%
Research and development	6%	5%	2%
General and administrative	16%	12%	12%
Amortization of intangible assets	0%	0%	0%
Total operating expenses	46%	40%	35%
Income (loss) from operations	(2)%	1%	12%

Years Ended December 31, 2011 and 2010

Net Revenue

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

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

Cost of Revenue and Gross Profit

	Years Ended December 31, 2011	2010	Change	% Change
	(in thousands)			
Cost of revenue	$ 113,406	$ 90,048	$ 23,358	26%
Includes stock-based compensation of:	1,877	1,126	751	67%

Gross profit	92,095	62,887	29,208	46%
Gross profit percentage	45%	41%	4%	

The 26% increase in our cost of revenue in 2011 reflected an increase in the number of service sales personnel, primarily in APJ, resulting in a $18.1 million increase in compensation, a $2.9 million increase in allocated costs for facilities, including incremental facility costs related to an expansion of an existing facility,

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and greater allocations for information technology and depreciation and a $2.1 million increase in temporary labor to ramp up our new engagements. The improvement in our gross profit was driven primarily by the improved revenue performance we saw across all of our service sales centers in 2011 and increasing use of our applications to drive automation and operating scale across the company as well as the ramp of new engagements. Gross margins for 2011 and 2010 were favorably impacted by one-time events including $1.8 million in settlement fees and $3.8 million in contract termination fees, respectively, both of which had no direct costs.

Operating Expenses

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

Sales and marketing expenses

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

Research and development expenses

The increase in research and development expense in 2011 reflected an increase in the number of research and development personnel in NALA, resulting in a $4.5 million increase in compensation, a $1.8 million increase in outside consulting services related to contract research and development services and a $1.4 million increase in allocated costs. The increase is a result of our continued investment in the development of additional cloud based applications to enable greater operational efficiencies and enhanced functionality for our customers. The increase was partially offset by capitalization of $5.6 million of internal labor and third party costs for development of internal-use software in 2011 compared to $3.8 million of capitalized costs in 2010.

General and administrative expenses

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

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Other Expense, Net

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

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

Income Tax Provision

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

* Not meaningful.

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

Years Ended December 31, 2010 and 2009

Net Revenue

	Years Ended December 31, 2010 Amount	2010 % of Net Revenue	2009 Amount	2009 % of Net Revenue	Change	% Change
	(in thousands)					
Net revenue by geography:						
NALA	$ 102,411	67%	$ 77,283	70%	$ 25,128	33%
EMEA	43,069	28%	31,995	29%	11,074	35%
APJ	7,455	5%	1,398	1%	6,057	*
Total net revenue	$ 152,935	100%	$ 110,676	100%	$ 42,259	38%

* Not meaningful.

The 38% increase in net revenue in 2010 reflects an increase in the number of engagements and the value of service contracts sold on behalf of our customers. The actual value of qualified end customer contracts available for us to sell increased from $2.8 billion in 2009 to $3.7 billion in 2010. The number of customer engagements increased from approximately 80 as of December 31, 2009 to over 100 as of December 31, 2010.

The $42.3 million increase in our 2010 net revenue as compared to 2009 reflected a $19.7 million net increase in revenues from pre-2009 engagements; a $22.8 million increase in revenues resulting from the ramp of new engagements entered into in 2009; a $6.5 million increase in revenues from new engagements entered into in 2010; and a $6.7 million decrease in revenues from our largest customer in both 2009 and 2010, Sun Microsystems. Sun Microsystems represented $26.3 million and $19.6 million of our net revenue in 2009 and 2010, respectively. Revenue from Sun Microsystems decreased following its acquisition by Oracle in the first quarter of 2010. Net revenue in 2010 included $3.8 million in fees resulting from the termination of the Sun Microsystems contracts. When expressed as a percentage of net revenue, revenue from Sun Microsystems decreased from 24% in 2009 to 13% in 2010, which reflects the offset of revenue growth from both new and existing engagements with other customers. International revenue increased 51% during 2010 as compared to 2009 with this growth supported by the addition of new service sales centers in APJ and EMEA.

Cost of Revenue and Gross Profit

	Years Ended December 31, 2010	2009	Change	% Change
		(in thousands)		
Cost of revenue	$ 90,048	$ 58,877	$ 31,171	53%
Includes stock-based compensation of:	1,126	914	212	23%
Gross profit	62,887	51,799	11,088	21%
Gross profit percentage	41%	47%	(6)%	

The 53% increase in our cost of revenue in 2010 reflected an increase in the number of service sales personnel, primarily in NALA and APJ, resulting in a $22.9 million increase in compensation, a $4.3 million increase in allocated costs for facilities (due to opening of new offices in EMEA and APJ), and information technology and depreciation and a $1.4 million increase in outside fees primarily due to the recruitment of service sales personnel. Gross profit percentage decreased from 47% in 2009 to 41% in 2010. The decrease in gross profit percentage reflects additional compensation associated with staffing new and expanded engagements which typically have minimal revenue during the initial start-up phase and facility costs associated with the opening of two new international sales centers, partially offset by the favorable gross margin impact resulting from the Sun Microsystems termination fees.

Operating Expenses

	Years Ended December 31, 2010		2009			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
			(in thousands)			
Operating expenses:						
Sales and marketing	$ 35,119	23%	$ 23,182	21%	$ 11,937	51%
Research and development	7,188	5%	2,054	2%	5,134	*
General and administrative	19,378	12%	13,777	12%	5,601	41%
Amortization of intangible assets		0%	68	0%	(68)	(100)%
Total operating expenses	$ 61,685	40%	$ 39,081	35%	$ 22,604	58%
Includes stock-based compensation of:						
Sales and marketing	$ 2,993		$ 2,340		$ 653	
Research and development	803		541		262	
General and administrative	3,167		2,265		902	
Total	$ 6,963		$ 5,146		$ 1,817	

* Not meaningful.

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Sales and marketing expenses

The 51% increase in sales and marketing expenses in 2010 reflected an increase in the number of sales and marketing personnel, primarily in NALA and APJ, and higher sales commissions for new multi-year customer engagements, resulting in a $7.9 million increase in compensation. The increase also resulted from a $0.9 million increase in expenses due to marketing programs, a $0.9 million increase in allocated costs and a $0.8 million increase in outside fees primarily due to the recruitment of sales and marketing personnel. The increase in headcount reflected our investment in sales and marketing resources aimed at expanding our customer base.

Research and development expenses

The increase in research and development expense in 2010 reflected an increase in the number of research and development personnel in NALA, resulting in a $2.3 million increase in compensation, a $2.2 million increase in outside consulting services related to contract research and development services and a $0.3 million increase in allocated costs. The increase is a result of our continued investment in the development of additional cloud based applications to enable greater operational efficiencies and enhanced functionality for our customers.

General and administrative expenses

The 41% increase in general and administrative expense in 2010 reflected a $2.8 million increase in compensation due to an increase in headcount in the general and administrative function, primarily in NALA, a $1.1 million increase in professional fees and a $0.4 million increase in outside consulting services.

Amortization of intangible assets

The decrease in amortization of intangible assets is a result of the related assets being fully amortized as of March 31, 2009.

Other Expense, Net

	Years Ended December 31, 2010		2009			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands)					
Other expense, net	$ 1,622	1%	$ 477	0%	$ 1,145	240%

The increase in other expense in 2010 primarily resulted from a $0.8 million increase in losses on foreign exchange transactions due in part to a decline in the value of the U.S. dollar relative to international currencies, most notably the Canadian dollar. Also contributing to the year-over-year rise in other expense was a $0.1 million charge to reduce the carrying value of deferred debt issuance costs as a result of a modification of the term loan agreement, a $0.1 million increase in interest expense on our term loan as a result of higher interest rates and a $0.1 million increase in interest expense related to our capital lease obligations.

Income Tax Provision

	Years Ended December 31, 2010	2009	Change	% Change
	(in thousands)			
Income tax provision	$ 2,147	$ 1,866	$ 281	15%

Our effective tax rate in 2009 was 15% due to a portion of our income allocated to the non-taxable limited liability parent company and a taxable subsidiary subject to a lower tax rate. Because our income tax provision exceeded our consolidated pre-tax income in 2010, the effective tax rate for such period is not comparable to the prior period. In 2010, we had taxable income at our taxable subsidiaries and losses incurred by the non-taxable limited liability parent company that did not result in a tax benefit for us.

Liquidity and Capital Resources

At December 31, 2011, we had cash, cash equivalents and short-term investments of $108.9 million, which primarily consisted of money market mutual funds, municipal securities, commercial paper, and corporate bonds held by financial institutions. In addition we had a $20.0 million revolving credit facility. Our primary source of cash is receipts from revenue. The primary uses of cash are payroll-related expenses and general operating expenses including facilities, information technology, travel and marketing. Other sources of cash are proceeds from exercises of employee stock options and proceeds from our employee stock purchase plan (ESPP). Historically, we have financed our operations principally from cash provided by our operating activities and to a lesser extent from borrowings under various credit facilities. We believe our existing cash, cash equivalents and short-term investments and our currently available credit facility will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months.

Credit Facility

At December 31, 2011, we had a revolving credit facility which expires in February 2013 and provides borrowings of up to $20 million including amounts under letters of credit. Amounts outstanding on the facility at December 31, 2011 consisted of a letter of credit of $1.1 million as required under an operating lease agreement for office space. In February 2011 we entered into a New Facility which has a non-use fee of 0.50% per annum based on the average monthly available borrowing base. Borrowings on the facility, including amounts outstanding under letter of credit, bear interest at either: (i) the LIBOR Rate plus an additional margin; or (ii) the Base Rate (i.e., prime rate) plus an additional margin. At December 31, 2011 the interest rate for borrowings under the facility was 5.0 %.

The revolving credit facility provides us the option to terminate the facility at no cost; prior to February 25, 2012, we were subject to an early termination fee of $0.2 million.

The credit facility is collateralized by substantially all of our assets and has certain financial covenants which include a maximum consolidated leverage ratio and a minimum liquidity. At December 31, 2011 we were in compliance with our borrowing covenants.

The New Facility amended a previous credit arrangement wherein $15.5 million of term loans were converted to the new revolving credit facility which initially provided for maximum borrowings of up to $30 million. During the first quarter of 2011, an additional $7.9 million was drawn against the credit facility in connection with payments to Oracle in connection with the termination of our engagements with Sun Microsystems and to fund our operations. On March 30, 2011, net proceeds from our initial public offering were used to prepay $23.4 million borrowed under the credit facility. In April 2011, as provided for in the borrowing agreement, we elected to reduce the maximum borrowing under the facility to $20 million.

Summary Cash Flows

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

	Years Ended December 31,		
	2011	2010	2009
Net cash (used in) provided by operating activities	$ (11,231)	$ 22,630	$ 19,504
Net cash used in investing activities	(57,542)	(9,170)	(7,476)
Net cash provided by (used in) financing activities	112,181	(4,139)	(2,379)
Net increase in cash and cash equivalents, net of impact of exchange charges on cash	$ 43,331	$ 9,483	$ 9,389

Operating Activities

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

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

In 2009, cash inflows from our operating activities of $19.5 million primarily resulted from our net income of $10.4 million, adjusted by non-cash charges of $6.1 million for stock-based compensation and $3.5 million for depreciation and amortization. The remainder of our sources of net cash inflows was from changes in our working capital, including a decrease in advances to customers of $3.6 million, an increase in other accrued liabilities of $2.5 million and an increase in accrued payables to customers of $2.5 million, partially offset by an increase in accounts receivable of $4.5 million and a decrease in accrued taxes of $1.9 million. The decrease in our advances to customers was due to the loss of a significant customer with whom this type of arrangement was agreed upon, hence fewer payments were due to customers before the receipt of the related amounts due from end customers. The increase in accrued payables to customers, which are reported net of our commissions, was due to an increase in the amounts of payments received from end customers which we had not yet remitted to our customers at year end. The increase in our accounts receivable reflects growth in our service revenue in the fourth quarter of 2009 as compared to the fourth quarter in 2008.

Investing Activities

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

In 2010 and 2009, net cash used in investing activities was $9.2 million and $7.5 million, respectively, and related to the purchase of property and equipment, including costs capitalized for the development of internal-use software.

Financing Activities

Cash provided by financing activities were $112.2 million during 2011 and comprised primarily of proceeds from our IPO, net of issuance costs, of $87.7 million and proceeds from our follow-on offering, net of issuance costs of $23.0 million. In addition we received proceeds of $15.0 million from the exercise of common stock

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options and the purchase of common stock under our employee stock purchase plan, partially offset by $16.3 million in net payments to payoff our term loan and for payment under capital lease obligations.

In 2010 and 2009, cash used in financing activities was $4.1 million and $2.4 million, respectively, primarily resulting from principal payments on our term loan. Additionally, during 2010 we had a $2.5 million cash distribution to our equity holders as required under our limited liability company agreement.

Off-Balance Sheet Arrangements

We do not have any relationships with other entities or financial partnerships, such as entities often referred to as structured finance or special-purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations and Commitments

Our principal commitments consist of obligations under operating leases for office space and computer equipment. At December 31, 2011, the future minimum payments under these commitments were as follows (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Obligations under capital leases	$ 1,664	$ 706	$ 666	$ 154	$ 138
Operating lease obligations	33,639	7,745	15,374	6,696	3,824
	$ 35,303	$ 8,451	$ 16,040	$ 6,850	$ 3,962

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding, which specify significant terms including payment terms, related services and the approximate timing of the transaction. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

Critical Accounting Policies and Estimates

Revenue Recognition

Substantially all of our revenue is generated from commissions earned from selling renewals of maintenance, support and subscription agreements on behalf of our customers. We recognize revenue when persuasive evidence of an arrangement exists, services have been provided, the sales price is fixed or determinable and collectibility is reasonably assured from our customer and no significant obligations remain unfulfilled. Customer contracts are generally used to determine the existence of an arrangement. Under the terms of our customer contracts, our service obligations are completed when end customer purchase orders are accepted by our customers. We assess whether our fee is fixed or determinable based on the payment terms with our customers and whether any part of our fee is subject to refund or adjustment. We assess collectibility based primarily on the creditworthiness of our customers determined primarily through financial analysis and an evaluation of the customer s payment history with us.

Our revenue management services are limited to renewing contracts on behalf of our customers. Therefore, we have no other obligations or responsibilities to our customers after they accept purchase orders from their end customers. Moreover, we do not set the sales price, terms or scope of services contained in the service contracts we sell on behalf of our customers to their end customers. In addition, we are not a party to contracts between our customers and their end customers.

Some of our customer contracts include performance-based commissions that we earn for exceeding pre-determined performance targets, including the achievement of renewal rates in excess of specified targets. Our customer contracts also entitle us to fees and adjustments which are invoked in various circumstances,

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including the failure of our customers to provide us with a specified minimum value of service contracts or when contract renewal data is not provided to us in a timely fashion. Our contracts generally contain early termination fees. Revenue related to performance-based commissions, adjustments and early termination fees is recorded when the performance criteria have been met, or the triggering event has occurred and the amount earned is not subject to claw-back or future adjustment.

For multiple element arrangements, including deliverables such as sales of service contracts, account management services, subscriptions to our hosted technology platform and professional services, we separate each revenue stream at the inception of the arrangement on a relative fair-value basis, provided that each deliverable meets the criteria for treatment as a separate unit of accounting. An item is considered a separate unit of accounting if it has value to the customer on a stand-alone basis and there is objective and reliable fair value of the undelivered services. The fair value of the undelivered elements is determined by the price we charge when the element is sold separately, or in the cases where the item is not sold separately, by using other acceptable objective evidence.

Effective January 1, 2011, we adopted on a prospective basis an accounting standard issued by the Financial Accounting Standards Board (FASB) that changed the accounting for arrangements with multiple deliverables. The new standard requires that we allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. When vendor specific objective evidence of selling price (VSOE) and third-party evidence of selling price (TPE) are not available for all deliverables, we use best estimated selling prices (BESP) in our allocation of arrangement consideration.

Revenue earned from sales of service contracts and account management services are contingent in nature because the fees we earn from these services are based on formulas stipulated in customer contracts based on our performance against the specific terms of each contract. Accordingly, we concluded that the updated accounting standard is not applicable to sales of service contracts on behalf of our customers. Therefore, sales of service contracts and account management services are excluded from the allocation of relative selling prices at the inception of our multiple-deliverable arrangements

We have a limited number of multiple-element arrangements where we are responsible for selling service contracts and providing subscriptions to our cloud applications and/or providing professional services. In these instances, our service sales revenue is recognized on a monthly basis as services are performed and all contingencies have been resolved, while subscription revenue is recognized ratably over the subscription term, generally one-to-three years, and professional services are recognized under proportional performance method or accepted by our customers, if applicable.

To date, professional services revenue and subscriptions earned from access to our cloud applications has been insignificant.

Under a limited number of historical customer engagements, we were responsible for selling service contracts and the related invoicing and cash collections from end customers. Under these arrangements, we collected the gross amount of payment due from end customers and remitted to our customers an amount equal to the gross billing less our sales commission and sales taxes or other indirect taxes invoiced to the end customers. Under these arrangements, revenue is recognized when the service has been delivered and the fee is fixed or determinable, which is upon receipt of cash payment from the end customer.

Stock-Based Compensation

We measure and recognize compensation expense for all stock-based payment made to employees and directors based on the grant date fair values of the awards. For stock based awards with service-based vesting conditions, the fair value is estimated using the Black-Scholes option pricing model. The value of awards that are ultimately expected to vest is recognized as expense on a str