UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission file number 001-35108

SERVICESOURCE INTERNATIONAL, INC.
(Exact name of registrant as specified in our charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**No. 81-0578975** (I.R.S. Employer Identification No.)
634 Second Street **San Francisco, California** (Address of Principal Executive Offices)	**94107** (Zip Code)

(415) 901-6030
(Registrant's Telephone Number, Including Area Code)

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 of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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 the definitions 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	☒ (Do not check if a smaller reporting company)	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 ☒

Indicate number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Class	Outstanding as of October 29, 2012
Common Stock	75,557,632

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

SERVICESOURCE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 110,277	$ 65,983
Short-term investments	—	42,882
Accounts receivable, net	58,506	54,095
Current portion of deferred income taxes	363	3,526
Prepaid expenses and other	6,965	7,945
Total current assets	176,111	174,431
Property and equipment, net	35,332	26,840
Deferred income taxes, net of current portion	1,496	30,238
Other assets, net	1,193	1,118
Goodwill	6,334	6,334
Total assets	$ 220,466	$ 238,961
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,577	$ 8,617
Accrued taxes	1,026	924
Accrued compensation and benefits	16,775	21,749
Other accrued liabilities	9,237	7,639
Obligations under capital leases	733	706
Total current liabilities	33,348	39,635
Obligations under capital leases, net of current portion	707	958
Other long-term liabilities	5,353	1,352
Total liabilities	39,408	41,945
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock; $0.0001 par value; 1,000,000 shares authorized; 75,650 shares issued and 75,529 shares outstanding as of September 30, 2012; 72,688 shares issued and 72,567 shares outstanding as of December 31, 2011	8	7
Treasury stock	(441)	(441)
Additional paid-in capital	203,667	177,796
Retained earnings (accumulated deficit)	(22,213)	19,416
Accumulated other comprehensive income	37	238
Total stockholders' equity	181,058	197,016
Total liabilities and stockholders' equity	$ 220,466	$ 238,961

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

SERVICESOURCE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net revenue	$59,090	$50,088	$176,358	$144,722
Cost of revenue	34,544	28,034	101,002	82,399
Gross profit	24,546	22,054	75,356	62,323
Operating expenses:				
Sales and marketing	13,512	12,144	41,158	34,664
Research and development	4,416	3,547	13,295	9,650
General and administrative	10,000	8,969	30,639	24,692
Total operating expenses	27,928	24,660	85,092	69,006
Loss from operations	(3,382)	(2,606)	(9,736)	(6,683)
Interest expense	(70)	(27)	(180)	(349)
Other income (expense), net	190	309	(124)	(662)
Loss before income taxes	(3,262)	(2,324)	(10,040)	(7,694)
Income tax (benefit) provision	322	501	31,589	(21,152)
Net income (loss)	$ (3,584)	$ (2,825)	$ (41,629)	$ 13,458
Net income (loss) per common share:				
Basic	$ (0.05)	$ (0.04)	$ (0.56)	$ 0.21
Diluted	$ (0.05)	$ (0.04)	$ (0.56)	$ 0.19
Weighted-average shares used in computing net income (loss) per common share:				
Basic	74,667	69,464	73,994	64,989
Diluted	74,667	69,464	73,994	72,208

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

SERVICESOURCE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	$(3,584)	$(2,825)	$(41,629)	$13,458
Other comprehensive income:				
Foreign currency translation adjustments	(119)	(576)	(192)	52
Unrealized loss on investments, net of tax	(36)	(4)	(10)	(11)
Total other comprehensive income (loss), net of tax	(155)	(580)	(202)	41
Total comprehensive income (loss), net of tax	$(3,739)	$(3,405)	$(41,831)	$13,499

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SERVICESOURCE INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities		
Net income (loss)	$ (41,629)	$ 13,458
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,092	7,109
Loss on disposal of fixed assets	—	46
Amortization of deferred financing costs	135	325
Amortization of premium on short-term investments	577	87
Deferred income taxes	32,534	(22,229)
Stock-based compensation	15,260	8,104
Tax benefit from stock-based compensation	(266)	(2,382)
Changes in operating assets and liabilities:		
Accounts receivable	(4,237)	6,433
Prepaid expenses and other	734	(2,169)
Accounts payable	(1,087)	73
Accrued taxes	85	3,201
Accrued compensation and benefits	(5,094)	3,410
Accrued payables to customers	—	(30,640)
Other accrued liabilities	5,050	789
Net cash provided by (used in) operating activities	9,154	(14,385)
Cash flows from investing activities		
Acquisition of property and equipment	(17,049)	(8,784)
Purchases of short-term investments, net	(31,100)	(47,854)
Sales of marketable securities	52,050	961
Maturities of marketable securities	21,415	1,000
Net cash provided by (used in) investing activities	25,316	(54,677)
Cash flows from financing activities		
Net proceeds from issuance of common stock in initial public offering	—	111,105
Proceeds from revolving credit facility	—	23,424
Repayment of revolving credit facility	—	(23,424)
Repayment on long-term debt	(234)	(15,747)
Payment of deferred debt issuance costs	—	(200)
Proceeds from common stock issuances	10,279	7,198
Tax benefit from stock-based compensation	266	2,382
Net cash provided by financing activities	10,311	104,738
Net increase in cash and cash equivalents	44,781	35,676
Effect of exchange rate changes on cash and cash equivalents	(487)	(35)
Cash and cash equivalents at beginning of period	65,983	22,652
Cash and cash equivalents at end of period	$110,277	$ 58,293

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

SERVICESOURCE INTERNATIONAL, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Description of Business and Basis of Presentation

ServiceSource manages the service contract renewals process of maintenance, support and subscription agreements on behalf of its customers. The Company's integrated solution consists of a suite of cloud applications, dedicated service sales teams working under its customers' brands and its proprietary Renew OnDemand platform and applications. By integrating software, managed services and data, the Company provides end-to-end management and optimization of the service contract renewals process, including data management, quoting, selling and service revenue business intelligence. The Company's business is built on a pay-for-performance model, whereby customers pay the Company based on renewal sales that the Company generates on the customers' behalf. The Company's corporate headquarters is located in San Francisco, California. The Company has additional offices in Colorado, Tennessee, the United Kingdom, Ireland, Malaysia and Singapore.

The accompanying unaudited interim condensed consolidated financial statements ("condensed consolidated financial statements") include the accounts of ServiceSource International Inc. and its subsidiaries ("SSI" or "Company"). Intercompany accounts and transactions have been eliminated in consolidation.

These condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP" or "GAAP") for interim financial information, rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements, and accounting policies, consistent in all material respects with those applied in preparing our audited annual consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011. These condensed consolidated financial statements and accompanying notes should be read in conjunction with our annual consolidated financial statements and the notes thereto for the year ended December 31, 2011, included in our Annual Report on Form 10-K. In the opinion of management, these condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments, management considers necessary for a fair statement of our financial position, operating results, and cash flows for the interim periods presented. The results for the interim periods are not necessarily indicative of results for the entire year. Certain prior year amounts in the financial statements and notes thereto have been reclassified to conform to the current year's presentation.

The December 31, 2011 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2011 included in the Company's Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements

Effective January 1, 2012, the Company adopted revised guidance related to the presentation of comprehensive income that increases comparability between U.S. GAAP and International Financial Reporting Standards. This guidance eliminates the current option to report other comprehensive income (OCI) and its components in the statement of changes in stockholders' equity. The Company adopted this guidance during the first quarter of 2012 and elected to disclose OCI as a separate statement.

Note 2 — Related Party Transactions

In the first quarter of 2012, the Company purchased a software license and related services from Jive Software, Inc. Anthony Zingale, who is Chief Executive Officer and Chairman of the Board of Jive Software, is a member of the Company's board of directors and serves on the Company's nominating and governance committee. The aggregate value of the purchase slightly exceeds, per annum, the $120,000 related party disclosure threshold over the 15-month term of the license and was made in the ordinary course of business. Also in the second quarter of 2012, Jive Software signed an agreement with the Company to use the Company's service. The fees for this agreement are variable based upon sales commissions, but the estimated annual fees from this agreement are not expected to exceed one million dollars. Both transactions were pre-approved by the Company's audit committee and have been negotiated at arm's length, on normal commercial terms and reflect normal market prices. Mr. Zingale is not a member of the Company's audit committee and did not participate in the audit committee's approval process.

Note 3 — Cash, Cash Equivalents and Short-term Investments

Cash equivalents consist of highly liquid fixed-income investments with original maturities of three months or less at the time of purchase, including money market funds. Short-term investments consist of readily marketable securities with a remaining maturity of more than three months from time of purchase. The Company classifies all of its cash equivalents and short-term investments as "available for sale," as these investments are free of trading restrictions. These marketable securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as accumulated other comprehensive income and included as a separate component of stockholders' equity. Gains and losses are recognized when realized. When the Company determines that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is recognized in earnings. Gains and losses are determined using the specific identification method. The Company's realized gains and losses in the three and nine months ended September 30, 2012 and 2011 were insignificant.

Cash and cash equivalents and short-term investments consisted of the following as of September 30, 2012 and December 31, 2011 (in thousands):

September 30, 2012

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash	$ 59,845	$ —	$ —	$ 59,845
Cash equivalents:				
Money market mutual funds	50,432	—	—	50,432
Total cash and cash equivalents	$110,277	—	—	$110,277

December 31, 2011

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash	$ 59,033	$ —	$ —	$ 59,033
Cash equivalents:				
Money market mutual funds	4,201	—	—	4,201
Commercial paper	2,749	—	—	2,749
Total cash equivalents	6,950	—	—	6,950
Total cash and cash equivalents	65,983	—	—	65,983
Short-term investments:				
Certificate of deposit	750	—	(4)	746
Municipal securities	33,568	30	(6)	33,592
Commercial paper	3,645	1	(1)	3,645
Corporate bonds	4,910	3	(14)	4,899
Total short-term investments	42,873	34	(25)	42,882
Cash, cash equivalents and short-term investments	$108,856	$ 34	$ (25)	$108,865

As of September 30, 2012, the Company did not consider any of its investments to be other-than-temporarily impaired.

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Note 4 — Fair Value of Financial Instruments

The Company measures certain financial instruments at fair value on a recurring basis. The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 valuations are based on quoted prices in active markets for identical assets or liabilities.

Level 2 valuations are based on inputs that are observable, either directly or indirectly, other than quoted prices included within Level 1. Such inputs used in determining fair value for Level 2 valuations include quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 valuations are based on information that is unobservable and significant to the overall fair value measurement.

All of the Company's cash equivalents and short-term investments are classified within Level 1 or Level 2.

The following table presents information about the Company's financial instruments that are measured at fair value as of September 30, 2012 and indicates the fair value hierarchy of the valuation (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Cash equivalents:				
Money market mutual funds	$50,432	$ 50,432	$ —	$ —

The following table presents information about the Company's financial instruments that are measured at fair value as of December 31, 2011 and indicates the fair value hierarchy of the valuation (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Cash equivalents:				
Money market mutual funds	$4,201	$ 4,201	$ —	$ —
Commercial paper	2,749	—	2,749	—
Total cash equivalents	6,950	4,201	2,749	—

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	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments:				
Certificate of deposit	746	—	746	—
Municipal securities	33,592	—	33,592	—
Commercial paper	3,645	—	3,645	—
Corporate bonds	4,899	—	4,899	—
Total short-term investments	42,882	—	42,882	—
Cash equivalents and short-term investments	$49,832	$ 4,201	$45,631	$ —

The Company did not have any financial liabilities measured at fair value on a recurring basis as of September 30, 2012 or December 31, 2011.

Note 5 — Property and Equipment, Net

Property and equipment balances were comprised of the following (in thousands):

	September 30, 2012	December 31, 2011
Computers and equipment	$ 14,137	$ 11,562
Software	24,371	19,487
Furniture and fixtures	8,188	5,879
Leasehold improvements	10,385	4,957
	57,081	41,885
Less: accumulated depreciation and amortization	(29,720)	(23,187)
	27,361	18,698
Construction in progress	7,971	8,142
	$ 35,332	$ 26,840

Depreciation and amortization expense during the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011 was $2.5 million, $7.1 million, $2.6 million and $7.1 million, respectively.

Total property and equipment assets under capital lease at September 30, 2012 and December 31, 2011, was $3.2 and $3.3 million, respectively. Accumulated depreciation related to assets under capital lease as of these dates was $2.0 million and $1.6 million, respectively.

The Company capitalized internal-use software development costs of $1.5 million and $1.8 million during the three months ended September 30, 2012 and 2011, respectively and $6.6 million and $3.8 million during the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012 and December, 31 2011, the carrying value of capitalized costs related to internal-use software was $11.3 million and $9.2 million, respectively. Amortization of capitalized costs related to internal-use software for the three months ended September 30, 2012 and 2011 was $0.8 million and $1.2 million, respectively, and for the nine months ended September 30, 2012 and 2011 was $2.1 million and $3.1 million, respectively.

Note 6 — Other Accrued Liabilities

Other accrued liabilities balances were comprised of the following (in thousands):

	September 30, 2012	December 31, 2011
Deferred revenue	$ 2,815	$ 593
Accrued professional fees	2,646	1,394
Amounts refundable to end customers	—	582
Deferred rent obligations	962	734
Employee related	402	379
Other (includes ESPP contributions of $349 and $1,106 at September 30, 2012 and December 31, 2011, respectively)	2,412	3,957
	$ 9,237	$ 7,639

Note 7 — Credit Facility and Capital Leases

Revolving Credit Facility

On July 5, 2012, the Company, entered into a new three-year credit agreement which provides for a secured revolving line of credit in the amount of $25.0 million on and before July 5, 2013 and $30.0 million thereafter, in each case with a $2.0 million letter of credit sublimit. Proceeds available under the agreement may be used for working capital and other general corporate purposes. The Company may prepay borrowing under the agreement in whole or in part at any time without premium or penalty. The Company may terminate the commitments under the credit agreement in whole at any time, and may reduce the commitments by up to $10.0 million between July 1, 2013 and June 30, 2014.

Amounts outstanding on the facility at September 30, 2012 consisted of a letter of credit of $850,000 as required under an operating lease agreement for office space at the Company's San Francisco headquarters. The loans bear interest, at the Company's option, at a base rate determined in accordance with the credit agreement, minus 0.50%, or at a LIBOR rate plus 2.00%. Principal, together with all accrued and unpaid interest, is due and payable on the maturity date. The Company is also obligated to pay a quarterly commitment fee, payable in arrears, based on the available commitments at a rate of 0.45%. At September 30, 2012, the interest rate for borrowings under the facility was 2.2%.

The credit agreement contains customary affirmative and negative covenants, as well as financial covenants. Affirmative covenants include, among others, delivery of financial statements, compliance certificates and notices of specified events, maintenance of properties and insurance, preservation of existence, and compliance with applicable laws and regulations. Negative covenants include, among others, limitations on the ability of the Company and its subsidiaries to grant liens, incur indebtedness, engage in mergers, consolidations and sales of assets and engage in affiliate transactions. The agreement requires the Company to maintain a maximum leverage ratio and a minimum liquidity amount, each as defined in the agreement.

The credit agreement also contains customary events of default including, among other things, payment defaults, breaches of covenants or representations and warranties, cross-defaults with certain other indebtedness, bankruptcy and insolvency events and change in control of the Company, subject to grace periods in certain instances. Upon an event of default, the lender may declare the outstanding obligations of the Company under the agreement to be immediately due and payable and exercise other rights and remedies provided for under the credit agreement.

The Company's obligations under the credit agreement are guaranteed by its subsidiary, ServiceSource Delaware, Inc. (the "Guarantor") and are secured by substantially all of the assets of the Company and the Guarantor.

Effective June 29, 2012, the Company terminated a $20 million credit facility. At the time of the termination, no borrowings and a letter of credit in the face amount of $850,000 were outstanding under this facility.

Capital Leases

The Company has capital lease agreements that are collateralized by the underlying property and equipment and expire through September 2019. The weighted-average imputed interest rates for the capital lease agreements were 3.8% and 4.2% at September 30, 2012 and 2011, respectively.

Future minimum annual payments under capital lease obligations as of September 30, 2012 were as follows (in thousands):

Years Ending December 31,	
2012 (remaining three months)	$ 490
2013	324
2014	265
2015	72
2016	74
Thereafter	215
	$1,440

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Note 8 — Commitments and Contingencies

Operating Leases

The Company leases its office space and certain equipment under non-cancelable operating lease agreements with various expiration dates through September 30, 2022. Rent expense for the three and nine months ended September 30, 2012 and the three and nine months ended September 30, 2011, was $2.1million, $6.4 million, $1.6 million, and $4.8 million, respectively. The Company recognizes rent expense on a straight-line basis over the lease period and accrues for rent expense incurred but not paid.

Future annual minimum lease payments under all noncancelable operating leases as of September 30, 2012 were as follows (in thousands):

Years Ending December 31,	
2012 (remaining three months)	$ 2,207
2013	7,954
2014	6,752
2015	5,052
2016	3,647
Thereafter	16,174
	$41,786

Other Matters

The Company may be subject to litigation or other claims in the normal course of business. In the opinion of management, the Company's ultimate liability, if any, related to any currently pending or threatened litigation or claims would not materially affect its consolidated financial position, results of operations or cash flows.

Note 9 — Stockholders' Equity

Stock Option Plans

The Company maintains the following stock plans: the 2011 Equity Incentive Plan (the "2011 Plan"), and the 2011 Employee Stock Purchase Plan. The Company's board of directors, by delegation to its compensation committee, administers the 2011 Plan and has authority to determine the directors, officers, employees and consultants to whom options or restricted stock may be granted, the option price or restricted stock purchase price, the timing of when each share is exercisable and the duration of the exercise period and the nature of any restrictions or vesting periods applicable to an option or restricted stock grant

Under the 2011 Plan, options granted are generally subject to a four-year vesting period whereby options become 25% vested after a one-year period and the remainder then vests monthly through the end of the vesting period. Vested options may be exercised up to ten years from the vesting commencement date, as defined in the 2011 Plan. Vested but unexercised options expire three months after termination of employment with the Company. The restricted stock units typically vest over four years with a yearly cliff contingent upon employment with the Company on the dates of vest.

The Company has elected to recognize the compensation cost of all stock-based awards on a straight-line basis over the vesting period of the award. Further, the Company applied an estimated forfeiture rate to unvested awards when computing the share compensation expenses. The Company estimated the forfeiture rate for unvested awards based on its historical experience on employee turnover behavior and other factors.

On February 8, 2012, the Company issued 200,000 performance-based equity awards to an executive which vest upon the achievement of certain financial performance goals, including revenue and an internal metric that is used for measuring customer contract commitments based on a net recurring revenue amount in which the Company measures customer revenue gains offset by losses during the measurement period. Determining the appropriate amount to expense based on the anticipated achievement of the stated goals requires judgment, including forecasting future financial results. The estimate of the timing of the expense recognition is revised periodically based on the probability of achieving the required performance targets and adjustments are made as appropriate. The cumulative impact of any revision is reflected in the period of the change. If the financial performance goals are not met, the award does not vest, no compensation cost is recognized and any previously stock-recognized stock-based compensation expense is reversed. No expense was recorded for the performance –based equity award during the three or nine months ended September 30, 2012.

At the end of each fiscal year, the share reserve under the 2011 Plan will increase automatically by an amount equal to 4% of the outstanding shares as of the end of the most recently completed fiscal year or 3,840,000 shares, whichever is less. On January 1, 2012, 2.9 million additional shares were reserved under the 2011 Plan pursuant to the automatic increase.

Determining Fair Value of Stock Options

The Company estimates the fair value of stock option awards at the date of grant using the Black-Scholes option-pricing model. Options are granted with an exercise price equal to the fair value of the common stock as of the date of grant. Compensation expense is amortized net of estimated forfeitures on a straight-line basis over the requisite service period of the options, which is generally four years. Restricted stock, upon vesting entitles the holder to one share of common stock for each restricted stock and has an exercise price of $0.0001 per share, which is equal to the par value of the Company's common stock, and vests over four years. The fair value of the restricted stock is based on the Company's closing stock price on the date of grant, and compensation expense, net of estimated forfeitures, is recognized on a straight-line basis over the vesting period.

The weighted average Black-Scholes model assumptions for the three and nine months ended September 30, 2012 and 2011 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Expected term (in years)	5.0	5.1	5.1	5.3
Expected volatility	46%	45.0%	46%	51%
Risk-free interest rate	0.67%	0.90%	0.78%	1.65%
Expected dividend yield	—	—	—	—

Option and restricted stock activity under the Company's Plans for the nine months ended September 30, 2012 were as follows: (shares in thousands):

		Options Outstanding		Restricted Stock Outstanding
	Shares and Units Available for Grant	Number of Shares	Weighted-Average Exercise Price	Number of Shares
Outstanding — December 31, 2011	6,409	15,335	$ 5.70	802
Additional shares reserved under the 2012 equity incentive plan	2,903	—	—	—
Granted	(4,317)	2,115	14.98	2,202
Options exercised/ Restricted stock released	—	(2,053)	3.86	(148)
Forfeited	882	(750)	9.00	(132)
Outstanding — September 30, 2012	5,877	14,647		2,724

The weighted average grant-date fair value of employee stock options granted during the three months ended September 30, 2012 and 2011 was $3.41 and $7.31 per share, respectively and for the nine months ended September 30, 2012 and 2011 was $6.07 and $6.71 per share, respectively.

The following table summarizes the consolidated stock-based compensation expense by line item in the Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cost of revenue	$ 763	$ 470	$ 2,050	$1,286
Sales and marketing	2,180	1,111	5,836	2,981
Research and development	562	327	1,455	864
General and administrative	2,148	1,060	5,919	2,973
Total stock-based compensation	$5,653	$ 2,968	$15,260	$8,104

Employee Stock Purchase Plan

The Company's 2011 Employee Stock Purchase Plan (the "ESPP") is intended to qualify under Section 423 of the Internal Revenue Code of 1986. Under the ESPP, employees are eligible to purchase common stock through payroll deductions of up to 10% of their eligible compensation, subject to any plan limitations. The purchase price of the shares on each purchase date is equal to 85% of the lower of the fair market value of the Company's common stock on the first and last trading days of each six-month offering period.

The Company estimates the fair value of purchase rights under the ESPP using the Black-Scholes valuation model. The fair value of each purchase right under the ESPP was estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with the following weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Expected term (in years)	0.50	0.50	0.50	0.39
Expected volatility	45%	45%	45%	36%
Risk-free interest rate	0.14%	0.07%	0.14%	0.18%
Expected dividend yield	—	—	—	—

The ESPP provides that additional shares are reserved under the plan annually on the first day of each fiscal year in an amount equal to the lesser of (i) 1.5 million shares, (ii) one percent of the outstanding shares of common stock on the last day of the immediately preceding fiscal year, or (iii) an amount determined by the board of directors and/or the compensation committee of the board of directors. As of September 30, 2012, 350,762 shares had been issued under the ESPP and 1,274,912 shares were available for future issuance.

Note 10 — Income Taxes

The Company files U.S. federal and state and foreign income tax returns in jurisdictions with varying statutes of limitations. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. These audits include questioning the timing and amount of deductions, the allocation of income among various tax jurisdictions and compliance with federal, state, local and foreign tax laws. The Company is not currently undergoing any examination of its income tax returns. Tax returns for the years 2007 through 2011 generally remain subject to examination by federal, state and foreign tax authorities. The Company's gross amount of unrecognized tax benefits increased from zero as of December 31, 2011 to $0.4 million as of September 30, 2012, all of which, if recognized, would affect the company's effective tax rate. It is difficult to predict the final timing and resolution of any particular uncertain tax position. Based on the Company's assessment of many factors, the Company does not expect that changes in the liability for unrecognized tax benefits for the next twelve months will have a significant impact on the Company's consolidated financial position or results of operations.

In evaluating its ability to recover its deferred tax assets, the Company considers all available positive and negative evidence including its past operating results, the existence of cumulative losses and its forecast of future taxable income. In determining future taxable income, the Company is responsible for assumptions utilized including the amount of state, federal and international pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company is using to manage the underlying businesses. As a result of the Company's assessment of the available evidence, the Company provided a valuation allowance in the second quarter of 2012 of $31.8 million on the deferred tax assets as of December 31, 2011. The tax benefits relating to any subsequent reversal of all or part of the valuation allowance will be accounted for as a reduction of income tax expense. No valuation allowance has been provided for deferred tax assets arising from jurisdictions where the Company reports taxable profits.

Note 11 — Reportable Segments

The Company's operations are principally managed on a geographic basis and are comprised of three reportable and operating segments: NALA, EMEA, and APJ, as defined below.

The Company reports segment information based on the management approach. The management approach designates the internal reporting used by the Company's Chief Operating Decision Maker ("CODM"), for making decisions and assessing performance as the source of the Company's reportable segments. The CODM is the Company's Chief Executive Officer. The CODM allocates resources to and assesses the performance of each of the operating segment using information about its revenue and direct profit contribution, which is management's measure of segment profitability. Management has determined that the Company's reportable and operating segments are as follows, based on the information used by the CODM:

NALA — Includes operations from offices in San Francisco, California; Denver, Colorado and Nashville, Tennessee related primarily to end customers in North America.

EMEA — Includes operations from offices in Liverpool, United Kingdom and Dublin, Ireland related primarily to end customers in Europe.

APJ — Includes operations from offices in Kuala Lumpur, Malaysia and Singapore related primarily to end customers in Asia Pacific and Japan.

The Company does not allocate sales and marketing, research and development, or general and administrative expenses to its geographic regions because management does not include the information in its measurement of the performance of the operating segments. The Company excludes certain items such as stock-based compensation, overhead allocations and other items from direct profit contribution. Revenue for a particular geography reflects fees the Company earns from its customers for sales and renewals of maintenance, support and subscription contracts on their behalf and managed from the Company's sales center in that geography.

Summarized financial information by geographic location based on the Company's internal management reporting and as utilized by the Company's CODM, is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net revenue				
NALA	$ 37,647	$ 31,952	$ 110,720	$ 88,383
EMEA	14,159	12,365	45,425	41,612
APJ	7,284	5,771	20,213	14,727
Total net revenue	$ 59,090	$ 50,088	$ 176,358	$ 144,722
Direct profit contribution				
NALA	$ 20,928	$ 18,263	$ 60,101	$ 48,765
EMEA	6,739	5,042	23,809	18,537
APJ	873	538	2,627	1,674
Total direct profit contribution	28,540	23,843	86,537	68,976
Adjustments:				
Stock-based compensation	(763)	(470)	(2,050)	(1,286)
Overhead allocations	(5,998)	(4,413)	(16,933)	(12,985)
Other, net	2,767	3,094	7,802	7,618
Gross Profit	$ 24,546	$ 22,054	$ 75,356	$ 62,323

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2011.

This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. These forward-looking statements include, but are not limited to, statements related to changes in market conditions that impact our ability to generate service revenue on our customers' behalf; errors in estimates as to the service revenue we can generate for our customers; risks associated with material defects or errors in our software or the effect of data security breaches; our ability to adapt our solution to changes in the market or new competition; our ability to improve our customers' renewal rates, margins and profitability; our ability to increase our revenue and contribution margin over time from new and existing customers, including as a result of sales of our next-generation technology platform, Renew OnDemand, on a stand-alone subscription basis; our ability to effectively sell and/or implement Renew OnDemand; the potential effect of mergers and acquisitions on our customer base; business strategies and new sales initiatives; technology development; protection of our intellectual property; investment and financing plans; liquidity; competitive position; the effects of competition; industry environment; and potential growth opportunities. Forward-looking statements 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 Quarterly Report on Form 10-Q titled "Risk Factors." Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

OVERVIEW

We 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 our proprietary Renew OnDemand platform and applications. 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.

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 further build out our infrastructure, develop our technology and release and support Renew OnDemand, our next-generation technology platform, offer additional cloud-based applications, including on a stand-alone, subscription basis, and hire additional sales, service sales and other personnel. These steps impacted our expenses in recent periods as well as our spending for capital expenditures, and are expected to continue to impact our profitability and cash flows in future periods. We have devoted significant resources to developing Renew OnDemand, our software application suite which was recently introduced, and we expect our investment in Renew OnDemand to continue. In addition, we plan to devote significant resources to expand our sales organization, build out the related partner ecosystem, and further develop our service organization to support the platform. The capital expenditures and expenses related to Renew OnDemand are in addition to the expenses of operating our existing technology platform. While these expenses will be incurred and recognized in the near-term, we expect to generate revenues from subscriptions to Renew OnDemand commencing in 2013.

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 a Service Performance Analysis ("SPA") of our prospect's service revenue. The SPA includes an analysis of best practices and benchmarks the prospect's service revenue against industry peers. Through the SPA process, which typically takes several weeks, we are able to assess the characteristics and size of the prospect's service revenue, identify potential areas of performance improvement, and formulate our proposal for managing the prospect's service revenue. The length of our sales cycle for a new customer, inclusive of the SPA process and measured from our first formal discussion with the customer until execution of a new customer contract, is typically longer than six months.

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 negatively impacted by slower-than anticipated growth in revenues for these engagements as well as the impact of the upfront costs we incur, the lower initial level of associated service sales team productivity and lack of mature data and technology integration with the customer. As a result, an increase in the mix of new customers as a percentage of total customers may initially have a negative impact on our operating results. Similarly, a decline in the ratio of new customers to total customers may positively impact our operating results.

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

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

We invoice our customers on a monthly basis based on commissions we earn during the prior month, and with respect to performance-based commissions, on a quarterly basis based on our overall performance during the prior quarter. Amounts invoiced to our customers are recognized as revenue in the period in which our services are performed or, in the case of performance commissions, when the performance condition is determinable. Because the invoicing for our services generally coincides with or immediately follows the sale of service contracts on behalf of our customers, we do not generate or report a significant deferred revenue balance. However, the combination of minimum contractual commitments, 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 and had previously terminated our contract with another customer, BEA Systems, in April 2008.

Economic Conditions and Seasonality. An improving economic outlook generally has a positive, but mixed, impact on our business. As with most businesses, improved economic conditions can lead to increased end customer demand and sales. In particular, within the technology sector, we believe that the recent economic downturn led many companies to cut their expenses by choosing to let their existing maintenance, support and subscription agreements lapse. An improving economy may have the 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.

We believe the current uncertainty in the economy, combined with shifting market forces toward subscription-based models, is impacting a number of our customers and prospective customers, particularly in the traditional enterprise software and hardware segments. These forces have placed pressure on end customer demand for their renewal contracts and also have led to some slower decision making in general. This economic and industry environment has adversely affected the conversion rates for end customers and contracts. To the extent these conditions continue they will impact our future revenues.

We have added new customers in the fourth quarter of 2011 and during the first nine months of 2012 and have not yet fully ramped-up some of these customers. As a result, our revenues have not reflected, and are not expected in the fourth quarter of 2012 to reflect, the full potential contribution from these customers. In addition to the uncertainty in the macroeconomic environment, we experience a seasonal variance in our revenue typically for the third quarter of the year as a result of lower or flat renewal volume corresponding to the timing of our customers' product sales. The impact of this seasonal fluctuation can be amplified if the economy as a whole is experiencing disruption or uncertainty, leading to deferral of some renewal decisions.

Adoption of "Software-as-a-Service" Solutions. Within the software industry, there is a growing trend toward providing software to customers using a software-as-a-service 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, especially with our Renew OnDemand application suite.

Basis of Presentation

Net Revenue

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

We also earn revenue from the sale of subscriptions to our cloud based applications. To date, subscription revenue has been insignificant. However, we expect to generate revenues from subscriptions to Renew OnDemand commencing in 2013. Subscription fees are accounted for separately from commissions and they are billed on either a monthly or quarterly basis in advance and revenue is recognized ratably over the related subscription term.

We have generated a significant portion of our revenue from a limited number of customers. Our top ten customers accounted for 49% and 47% of our net revenue for the three months ended September 30, 2012 and 2011, respectively, and 48% and 48% for the nine months ended September 30, 2012 and 2011, respectively. Our business is geographically diversified. During the third quarter of 2012, 64 % of our net revenue was earned in North America and Latin America ("NALA"), 24% in Europe, Middle East and Africa ("EMEA") and 12% 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" and as a result of our near term plans to run dual technology platforms for several quarters as we commence the launch of Renew OnDemand while maintaining our existing technology platform.

Operating Expenses

Sales and Marketing. Sales and marketing expenses are the largest component of our operating expenses and consist primarily of compensation and sales commissions for our sales and marketing staff, allocated expenses and marketing programs and events. We sell our solutions through our global sales organization, which is organized across three geographic regions: NALA, EMEA and APJ. Our commission plans provide that payment of commissions to our sales representatives is contingent on their continued employment, and we recognize expense over a period that is generally between twelve and fourteen months following the execution of the applicable contract. We currently expect sales and marketing 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 and pursue new sales initiatives.

Research and Development. Research and development expenses consist primarily of compensation, allocated costs and the cost of third-party service providers. We focus our research and development efforts on developing new products, including Renew OnDemand, our next-generation technology platform, and adding new features to our existing technology platform. In 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.

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 and interest income.

Income Tax (Benefit) Provision

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

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

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Net revenue	$59,090	$50,088	$176,358	$144,722
Cost of revenue	34,544	28,034	101,002	82,399
Gross profit	24,546	22,054	75,356	62,323
Operating expenses:				
Sales and marketing	13,512	12,144	41,158	34,664
Research and development	4,416	3,547	13,295	9,650
General and administrative	10,000	8,969	30,639	24,692
Total operating expenses	27,928	24,660	85,092	69,006
Loss from operations	(3,382)	(2,606)	(9,736)	(6,683)
Other income (expense), net	120	282	(304)	(1,011)
Loss before income taxes	(3,262)	(2,324)	(10.040)	(7,694)
Income tax (benefit) provision	322	501	31,589	(21,152)
Net Income (loss)	$ (3,584)	$ (2,825)	$ (41,629)	$ 13,458

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Includes stock-based compensation of:				
Cost of revenue	$ 763	$ 470	$ 2,050	$ 1,286
Sales and marketing	2,180	1,111	5,836	2,981
Research and development	562	327	1,455	864
General and administrative	2,148	1,060	5,919	2,973
Total stock-based compensation	$ 5,653	$ 2,968	$ 15,260	$ 8,104

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(as % of net revenue)			
Net revenue	100%	100%	100%	100%
Cost of revenue	58%	56%	57%	57%
Gross profit	42%	44%	43%	43%
Operating expenses				
Sales and marketing	23%	24%	23%	24%
Research and development	7%	7%	8%	7%
General and administrative	17%	18%	17%	17%
Total operating expenses	47%	49%	48%	48%
Loss from operations	(5)%	(5)%	(5)%	(5)%

Three months ended September 30, 2012 and September 30, 2011

Net Revenue

	Three Months Ended September 30, 2012 Amount	2012 % of Net Revenue	2011 Amount	2011 % of Net Revenue	Change	% Change
	(in thousands)					
Net revenue by geography:						
NALA	$37,647	64%	$31,952	64%	$5,695	18%
EMEA	14,159	24%	12,365	25%	1,794	15%
APJ	7,284	12%	5,771	11%	1,513	26%
Total net revenue	$59,090	100%	$50,088	100%	$9,002	18%

Net revenue increased $9.0 million, or 18%, for the third quarter of 2012, compared to the third quarter of 2011. Our revenue performance was driven by a combination of growth in opportunity from new and existing customers, as well as strong performance across all of our service sales centers around the world in closing service revenue renewals. The increase in the number of customer engagements resulted from expansions of customer engagements with our existing customers due to the success of our solution with the customers as well as new customer acquisitions due to our investments in our sales organization primarily in NALA and APJ. The increase in net revenue reflects revenue growth in all geographies, particularly NALA and APJ, due to an increase in the number and value of service contracts sold on behalf of our customers and the ramp of new engagements entered into in 2011.

Cost of Revenue and Gross Profit

	Three Months Ended September 30, 2012	2011	Change	% Change
	(in thousands)			
Cost of revenue	$ 34,544	$ 28,034	$6,510	23%
Includes stock-based compensation of:	763	470	293	
Gross profit	24,546	22,054	2,492	11%
Gross profit percentage	42%	44%		(2)%

The 23% increase in our cost of revenue in the third quarter of 2012 reflected an increase in the number of service sales personnel, primarily in NALA and APJ as we pursue new sales initiatives resulting in a $4.6 million increase in compensation and a $1.6 million increase in allocated costs for facilities, including incremental facility costs related to an expansion of an existing facility, and greater allocations for information technology and depreciation. Gross profit in the third quarter of 2012 was also adversely impacted by the slower ramp of some of our new engagements and due to staffing and technology costs associated with the deployment of our cloud applications. For the next several quarters, we expect that our spending will reflect increased spending to support our legacy service revenue intelligence platform in addition to our recently-announced Renew OnDemand application suite.

Operating Expenses

	Three Months Ended September 30,					
	2012		2011			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands)					
Operating expenses:						
Sales and marketing	$13,512	23%	$12,144	24%	$1,368	11%
Research and development	4,416	7%	3,547	7%	869	24%
General and administrative	10,000	17%	8,969	18%	1,031	11%
Total operating expenses	$27,928	47%	$24,660	49%	$3,268	13%
Includes stock-based compensation of:						
Sales and marketing	$ 2,180		$ 1,111		$1,069	
Research and development	562		327		235	
General and administrative	2,148		1,060		1,088	
Total	$ 4,890		$ 2,498		$2,392	

Sales and marketing expenses

The 11% increase in sales and marketing expenses in the third quarter of 2012 reflected an increase in the number of sales and marketing personnel, primarily in NALA and EMEA, resulting in a $1.8 million increase in compensation. 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 the third quarter of 2012 reflected a $1.0 million increase in outside consulting services related to contract research and development services primarily in NALA. The increase was partially offset by capitalization of $1.5 million of labor and third party costs for development of internal-use software in the third quarter of 2012 as compared to $1.8 million capitalized costs in the third quarter of 2011. The increase in our spending on research in development reflects our continued investment in the development of our Renew OnDemand suite of applications designed to enable greater operational efficiencies and enhanced functionality for our customers.

General and administrative expenses

The 11% increase in general and administrative expense in the third quarter of 2012 as compared to the second quarter of 2011 reflected a $1.1 million increase in compensation due to an increase in headcount in general and administrative primarily in NALA and APJ to support our expansion efforts.

Other Income, Net

	Three Months Ended September 30,					
	2012		2011			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands)					
Other income, net	$ 120	0%	$ 282	(1)%	$(162)	(57)%

The decrease in other income in the third quarter of 2012 primarily resulted from a loss on foreign exchange transactions due in part to a decrease in the value of the U.S. dollar relative to international currencies, most notably the Euro.

Income Tax Provision

	Three Months Ended September 30, 2012	2011	Change	% Change
	(in thousands)			
Income tax provision	$ 322	$ 501	$(179)	(36)%

The computation of the effective tax rate does not include US losses, nor does it include losses incurred by our Singapore subsidiary, which are offset by a full valuation allowance. In the current quarter, we recorded a tax provision of $0.3 million, primarily reflecting expected cash taxes in jurisdictions where we have profitable operations.

Nine months ended September 30, 2012 and September 30, 2011

Net Revenue

	Nine Months Ended September 30, 2012 Amount	2012 % of Net Revenue	2011 Amount	2011 % of Net Revenue	Change	% Change
	(in thousands)					
Net revenue by geography:						
NALA	$110,720	63%	$ 88,383	61%	$22,337	25%
EMEA	45,425	26%	41,612	29%	3,813	9%
APJ	20,213	11%	14,727	10%	5,486	37%
Total net revenue	$176,358	100%	$144,722	100%	$31,636	22%

Net revenue increased $31.6 million, or 22%, in the nine months ended September 30, 2012, compared to the nine months ended September 30, 2011. Our revenue performance was driven by a combination of growth in opportunity from new and existing customers, as well as strong performance across all of our service sales centers around the world in closing service revenue renewals. The increase in number of customer engagements resulted from expansion of customer engagements with our existing customers due to the success of our solution with these customers as well as new customer acquisitions due to our investments in our sales organization primarily in NALA and APJ. The increase in net revenue reflects revenue growth in all geographies, particularly NALA and APJ, due to an increase in the number and value of service contracts sold on behalf of our customers and the ramp of new engagements entered into in 2011.

Cost of Revenue and Gross Profit

	Nine Months Ended September 30, 2012	2011	Change	% Change
	(in thousands)			
Cost of revenue	$ 101,002	$ 82,399	$18,603	23%
Includes stock-based compensation of:	2,050	1,286	764	
Gross profit	75,356	62,323	13,033	21%
Gross profit percentage	43%	43%		0%

The 23% increase in our cost of revenue in the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, reflected an increase in the number of service sales personnel, primarily in NALA and APJ, as we pursue new sales initiatives resulting in a $12.4 million increase in compensation and a $4.0 million increase in allocated costs for facilities, including incremental facility costs related to expansion of facilities in NALA and APJ, and greater allocations for information technology and depreciation. For the next several quarters, we expect that our spending will reflect increased amounts to support our legacy service revenue intelligence platform in addition to our recently-announced Renew OnDemand application suite as well as increased spending on deployments of our cloud applications.

Operating Expenses

	Nine Months Ended September 30, 2012 Amount	2012 % of Net Revenue	2011 Amount	2011 % of Net Revenue	Change	% Change
	(in thousands)					
Operating expenses:						
Sales and marketing	$41,158	23%	$34,664	24%	$ 6,494	19%
Research and development	13,295	8%	9,650	7%	3,645	38%
General and administrative	30,639	17%	24,692	17%	5,947	24%
Total operating expenses	$85,092	48%	$69,006	48%	$16,086	23%
Includes stock-based compensation of:						
Sales and marketing	$ 5,836		$ 2,981		$ 2,855	
Research and development	1,455		864		591	
General and administrative	5,919		2,973		2,946	
Total	$13,210		$ 6,818		$ 6,392	

Sales and marketing expenses

The 19% increase in sales and marketing expenses in the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, reflected higher stock-based compensation and an increase in the number of sales and marketing personnel, primarily in NALA and EMEA resulting in a $3.4 million increase in compensation. The increase also resulted from a 2.0 million increase in marketing expenses as a result of additional investments in brand development to heighten awareness and maximize the strength of our brand and an increase in allocations for facilities and IT of $0.8 million.

Research and development expenses

The increase in research and development expense in the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, reflected an increase in the number of research and development personnel primarily in NALA, resulting in a $1.1 million increase in compensation, a $2.1million increase in outside consulting services related to contract research and development services and a $0.4 million increase in allocated costs. The increase was partially offset by capitalization of $5.8 million of labor and third party costs for development of internal-use software in the nine months ended September 30, 2012 compared to $3.5 million capitalized costs in the nine months ended September 30, 2011. The increase in our spending on research and development reflects our continued investment in the development of Renew OnDemand and additional cloud based applications designed to enable greater operational efficiencies and enhanced functionality for our customers.

General and administrative expenses

The 24% increase in general and administrative expense in the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 reflected a $6.9 million increase in compensation due to an increase in headcount in the general and administrative functions primarily in NALA to support our global expansion, partially offset by a $0.9 million decrease in professional fees primarily related to expenses incurred in connection with our initial public offering in the first quarter of 2011.

Other Expense, Net

	Nine Months Ended September 30, 2012 Amount	2012 % of Net Revenue	2011 Amount	2011 % of Net Revenue	Change	% Change
	(in thousands)					
Other expense, net	$ 304	0%	$1,011	1%	$(707)	(70)%

The decrease in other expense in the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, resulted from a $0.3 million decrease in interest expense and the write-off of costs associated with the borrowing due to the repayment of outstanding balances on our term loan and borrowings under our revolving credit facility in March 2011. Also contributing to the decrease was a $0.2 million increase in interest income in the nine months ended September 30, 2012 from our short-term investments.

Income Tax (Benefit) Provision

	Nine Months Ended September 30, 2012	2011	Change	% Change
	(in thousands)			
Income tax (benefit) provision	$ 31,589	$ (21,152)	$52,741	*

* not meaningful

During the second quarter of 2012, a valuation allowance against our U.S. deferred tax assets was recorded in the amount of $31.8 million. Accordingly, the computation of the effective tax rate does not include US losses, nor does it include losses incurred by our Singapore subsidiary, which are offset by a full valuation allowance. Current year-to-date tax expense also reflect the reversal of prior quarter deferred tax benefits, plus tax expense in jurisdictions we have tax profitable operations.

Liquidity and Capital Resources

At September 30, 2012, we had cash and cash equivalents of $110.3 million, which primarily consisted of money market mutual funds held by well-capitalized financial institutions. During the quarter, we liquidated our short-term investment portfolio which consisted primarily of tax-exempt municipal bonds as well as commercial paper, with the proceeds reinvested in a money market fund with a well-capitalized domestic financial institution. The liquidation of these securities was primarily driven by the fact that we have operating losses in the U.S. and are unable to benefit from tax-exempt municipal securities which represented approximately 60 percent of our short-term investments. We anticipate re-investing a portion of its excess cash reserves with domestic fund managers during the fourth quarter of 2012.

Our quarterly cash from operations can vary significantly from period-to-period due to a number of factors including: the timing of our revenues and related customer billings; payment practices by our clients; the timing of our various operating expenses and our repayment terms with suppliers; and, the timing of payments to employees for our variable compensation arrangements.

Our primary operating cash requirements include the payment of compensation and related costs, working capital requirements related to accounts receivable, accounts payable and prepaid expenses, as well as costs for our facilities and information technology infrastructure. Historically, we have financed our operations principally from cash provided by our operating activities and to a lesser extent from borrowings under various credit facilities. We believe our existing cash and cash equivalents and short-term investments and our currently available credit facility will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months.

Credit Facility

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

On July 5, 2012, we entered into a new three-year credit agreement (the “Credit Agreement”). The Credit Agreement provides for a secured revolving line of credit in the amount of $25.0 million on and before July 5, 2013 and $30.0 million thereafter, in each case with a $2.0 million letter of credit sublimit. The line of credit is scheduled to terminate on July 5, 2015 (the “Maturity Date”). Proceeds available under the Credit Agreement may be used for working capital and other general corporate purposes. We have the option to prepay the loans under the Credit Agreement in whole or in part at any time without premium or penalty. We also have the option to terminate the commitments under the Credit Agreement in whole at any time, and may reduce the commitments by up to $10.0 million between July 1, 2013 and June 30, 2014.

Amounts outstanding on the facility at September 30, 212 consisted of a letter of credit of $850,000 as required under an operating lease agreement for office space. The loans bear interest, at our option, at a base rate determined in accordance with the Credit Agreement, minus 0.50%, or at a LIBOR rate plus 2.00%. Principal, together with all accrued and unpaid interest, is due and payable on the Maturity Date. We are also obligated to pay a quarterly commitment fee, payable in arrears, based on the available commitments at a rate of 0.45%. At September 30, 2012, the interest rate for borrowings under the facility was 2.2%.

The Credit Agreement contains customary affirmative and negative covenants, as well as financial covenants. Affirmative covenants include, among others, delivery of financial statements, compliance certificates and notices of specified events, maintenance of properties and insurance, preservation of existence, and compliance with applicable laws and regulations. Negative covenants include, among others, limitations on the ability of us and our subsidiaries to grant liens, incur indebtedness, engage in mergers, consolidations and sales of assets and engage in affiliate transactions. The Credit Agreement requires us to maintain a maximum leverage ratio and a minimum liquidity amount, each as defined in the Credit Agreement.

The Credit Agreement also contains customary events of default including, among other things, payment defaults, breaches of covenants or representations and warranties, cross-defaults with certain other indebtedness, bankruptcy and insolvency events and change in control of the Company, subject to grace periods in certain instances. Upon an event of default, the lender may declare the outstanding obligations of the Company under the Credit Agreement to be immediately due and payable and exercise other rights and remedies provided for under the Credit Agreement.

Our obligations under the Credit Agreement are guaranteed by our subsidiary, ServiceSource Delaware, Inc., and are secured by substantially all of our assets and our subsidiary's assets.

Summary Cash Flows

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

	Nine Months Ended September 30,	
	2012	2011
Net cash provided by (used in) operating activities	$ 9,154	$ (14,385)
Net cash provided by (used in) investing activities	25,316	(54,677)
Net cash provided by financing activities	10,311	104,738
Net increase in cash and cash equivalents, net of impact of foreign exchange changes on cash	$44,294	$ 35,641

Operating Activities

Net cash provided by operating activities was $9.1 million during the nine months ended September 30, 2012. Our net loss during the period was $41.6 million, which was impacted by a valuation allowance of $33.1 million for a substantial portion of our deferred tax assets and adjusted by non-cash charges of $7.1 million for depreciation and amortization and $15.3 million for stock-based compensation. Cash provided for operations resulted from changes in our working capital, including a $5.1 million increase in other accrued liabilities. Uses of cash were related to a $4.2 million increase in accounts receivable, a $5.1 million decrease in accrued compensation and benefits largely due to bonuses that were accrued at December 30, 2011 and were paid out during the first quarter of 2012 and a $1.1 million decrease in accounts payable.

Net cash used in operating activities was $14.4 million during the nine months ended September 30, 2011. Our net income during the period was $13.5 million which reflected a one-time, non-cash tax benefit of $21.4 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 $7.1 million for depreciation and amortization and $8.1 million for stock-based compensation. Cash used for operations during the nine months ended September 30, 2011 principally resulted from $18.1 million in payments to Oracle/Sun Microsystems and the related settlement of accrued payables owed to Oracle/Sun Microsystems and amounts owed to us by Oracle/Sun Microsystems. Additional sources of cash resulted from changes in our working capital, including a $6.4 million decrease in accounts receivable a $3.4 million increase in accrued compensation and benefits, and a $0.8 million increase in other accrued liabilities. Uses of cash were related to a $2.2 million increase in prepaid expenses and other assets.

Investing Activities

During the nine months ended September 30, 2012 cash provided by investing activities was principally from the sales of short-term investments, net of purchases and maturities, of $42.4 million. Use of cash was related to purchases of property and equipment of $17.0 million, including costs capitalized for development of internal-use software. The $54.7 million of cash used by investing activities during the nine months ending September 30, 2011 related to the purchase of available-for-sale short-term investments of $45.9 million and to a lesser extent for purchase of property and equipment, of $8.8 million, including costs capitalized for development of internal-use software.

Financing Activities

Cash provided by financing activities was $10.3 million during the nine months ended September 30, 2012 and principally resulted from proceeds of $10.3 million from the exercise of common stock options and the purchase of common stock under our employee stock purchase plan.

During the nine months ended September 30, 2011, cash provided by financing activities was $104.7 million and comprised primarily of proceeds from our initial public offering, net of issuance costs, of $87.7 million, and proceeds of $22.2 million from the exercise of stock options to purchase our common stock, partially offset by $15.7 million in net payments to payoff our term loan and payment of capital lease obligations.

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 September 30, 2012, the future minimum payments under these commitments were as follows (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Obligations under capital leases	$ 1,440	$ 733	$ 456	$ 153	$ 98
Operating lease obligations	41,786	8,308	16,388	7,384	9,706
	$43,226	$ 9,041	$16,844	$7,537	$ 9,804

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

Management has determined that our most critical accounting policies are those related to revenue recognition, stock-based compensation, capitalized internal-use software and income taxes. We continue to monitor our accounting policies to ensure proper application of current rules and regulations. There have been no material changes in our critical accounting policies and estimates during the three and nine months ended September 30, 2012 as compared to the critical accounting policies and estimates disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations–Critical Accounting Policies and Estimates of our Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on March 6, 2012.

Recent Accounting Pronouncements

The information contained in Note 1 to our condensed consolidated financial statements in Item 1 under the heading, "Recently Adopted Accounting Pronouncements," is incorporated by reference into this Item 2.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These risks primarily include foreign currency, interest rate and inflation risks, as well as risks relating to changes in the general economic conditions in the countries where we conduct business. To date, we have not used derivative instruments to mitigate the impact of our market-risk exposures. We have also not used, nor do we intend to use, derivatives for trading or speculative purposes.

Foreign Currency Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the euro, British pound, Singapore dollar and Malaysian Ringgit. To date, we have not entered into any foreign currency hedging contracts, but may consider entering into such contracts in the future. We believe our operating activities act as a natural hedge for a substantial portion of our foreign currency exposure because we typically collect revenue and incur costs in the currency in the location in which we provide our solution from our sales centers. However, our global sales operations center in Kuala Lumpur incurs costs in the Malaysian Ringgit but we do not generate revenue or cash proceeds in this currency and, as a result, have some related foreign currency risk exposure. As our international operations grow, we will continue to reassess our approach to managing our risk relating to fluctuations in currency rates.

Interest Rate Risk

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

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") of the end of the period covered by this report.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management's evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the most recently completed quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. ***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 results of operations, cash flows or financial position.

Item 1A. ***Risk Factors***

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this Quarterly Report on Form 10-Q. If any of such risks actually occur, our business, operating results or financial condition could be adversely affected. In those cases, the trading price of our common stock could decline and you may lose all or part of your investment.

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;
- our ability to effectively sell and implement Renew OnDemand;
- fluctuations in the value of end customer contracts delivered to us;
- fluctuations in close rates;
- changes in our commission rates;
- seasonality;
- loss of customers for any reason including due to acquisition;
- the mix of new customers as compared to existing customers;
- the length of the sales cycle for our solution, and our level of upfront investments prior to the period we begin generating 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; including the development of new technologies such as Renew OnDemand;
- the rate of expansion, productivity and realignment of our direct sales force;
- the cost and timing of the introduction of new technologies or new services, including additional investments in Renew OnDemand;
- general economic conditions;
- technical difficulties or interruptions in delivery of our solution;
- changes in foreign currency exchange rates;
- changes in 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.

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

We recently introduced Renew OnDemand, our next-generation service revenue management platform. This new platform will be the core foundation for our customer-facing cloud applications to be offered on a subscription basis, in addition to those we use for our internal operations. As of today, Renew OnDemand is largely unproven and we have little experience selling and/or implementing it for customers. We also have limited experience migrating customers from one platform to another. Given the complexity and significance of this transition, including as a result of the amount of customer data within our systems that will need to be accessed and migrated, our customer relationships, our reputation, and our overall business could be severely damaged if our implementations or migrations go poorly. In addition, we expect to incur additional expenses as a result of our near term plans to run dual technology platforms for several quarters as we commence the launch of Renew OnDemand while maintaining our existing technology platform, and if we experience any delay or technical problems as a result of the launch of and migration to Renew OnDemand, we may incur such expenses for much longer than anticipated. 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.

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

Our revenue is based on a pay-for-performance model under which we are paid a commission based on the service contracts we sell on behalf of our customers. If a particular customer's products or services fail to appeal to its end customers, our revenue may decline. In addition, if end customer demand decreases for other reasons, such as negative news regarding our customers or their products, unfavorable economic conditions, shifts in strategy by our customers away from promoting the service contracts we sell in favor of selling their other products or services to their end customers, or if end customers experience financial constraints and fail to renew the service contracts we sell, we may experience a decrease in our revenue as the demand for our customers' service contracts declines. Similarly, if our customers come under economic pressure, they may be more likely to terminate their contracts with as and/or seek to restructure those contracts, and for customers whose contracts are up for renewal, they may seek to renew those contracts on less favorable terms.

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

The market for service revenue management is still relatively undeveloped, has not yet achieved widespread acceptance and may not grow quickly or at all. Our success will depend to a substantial extent on the willingness of companies to engage a third party such as us to manage the sales of their support, maintenance and subscription contracts. Many companies have invested substantial personnel, infrastructure and financial resources in their own internal service revenue organizations 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.

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 managed services offerings, Renew OnDemand and other new offerings that will appeal to customers and potential customers. We have undertaken the development of Renew OnDemand as our new technology to offer improved and more scalable service revenue management, including enhancements to our applications. The development of new products and services entails a number of risks that could adversely affect our business and operating results, including:

- the risk of diverting the attention of our management and our employees from the day-to-day operations of the business;
- insufficient revenue to offset increased expenses associated with research, development, operational and marketing activities; and
- write-offs of the value of such technology investments as a result of unsuccessful implementation or otherwise.

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

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

We currently derive a small portion of our revenue from subscriptions to our cloud applications for a few customers, and we plan to package and price the applications we offer on Renew OnDemand in a manner to generate more revenues from them using a subscription model. We may not find a successful market for our Renew OnDemand subscription applications. In addition, because we have limited prior experience selling technology subscriptions on a stand-alone basis, we may encounter technical and execution challenges that undermine the quality of the technology offering or cause us to fall short of customer expectations. We also have little experience 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 via Renew OnDemand from our integrated solution will result in a reduction in sales of our current offerings that we might otherwise have sold. An unsuccessful expansion of our business to promote a stand-alone subscription model for any of the foregoing reasons or otherwise would lead to a diversion of financial and managerial resources from our existing business and an inability to generate sufficient revenue to offset our investment costs.

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

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

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

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

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

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

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

Our solution involves the storage and transmission of the proprietary information and protected data that we receive from our customers. We rely on proprietary and commercially available systems, software, tools and monitoring, as well as other processes, to provide security for processing, transmission and storage of such information. If our security measures are breached or fail as a result of third-party action, employee negligence, error, malfeasance or otherwise, unauthorized access to customer or end customer data may occur. Improper activities by third parties, advances in computer and software capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a compromise or breach of our computer systems. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, and we may be unable to anticipate these techniques or implement adequate 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. Errors may also arise from the launch of and migration of our offerings to Renew OnDemand. The costs incurred in correcting any material errors may be substantial. In addition, as part of our business, we collect, process and analyze confidential information provided by our customers and prospective customers. Although we take significant steps to safeguard the confidentiality of customer information, we could be subject to claims that we disclosed their information without appropriate authorization or used their information inappropriately. Any claims based on errors or unauthorized disclosure or use of information could subject us to exposure for damages, significant legal defense costs, adverse publicity and reputational harm, regardless of the merits or eventual outcome of such claims.

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

Given our pay-for-performance pricing model, our revenue is directly tied to close rates. Close rates represent the percentage of the actual opportunity delivered that we renew on behalf of our customers. If the close rate for a particular customer is lower than anticipated, then our revenue for that customer will also be lower than projected. If close rates fall short of expectations across a broad range of customers, or if they fall below expectations for a particularly large customer, then the impact on our revenue and our overall business will be significant. In the event close rates are lower than expected for a given customer, our margins will suffer because we will have already incurred a certain level of costs in both personnel and infrastructure to support the engagement. This risk is compounded by the fact that many of our customer relationships are terminable if we fail to meet certain specified sales targets over a sustained period of time. If actual close rates fall to a level at which our revenue and customer contracts are at risk, then our financial performance will decline and we will be severely compromised in our ability to retain and attract 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.

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

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

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

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

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

A substantial portion of our revenue has to date come from a relatively small number of customers. For the nine months ended September 30, 2012, our top ten customers accounted for 49% 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 nine months ended September 30, 2012, approximately 37% of our revenue was generated from sales centers located outside of the United States. As a result of our continued focus on international markets, we expect that future revenue derived from international sources will continue to represent a significant portion of our total revenue.

A portion of the sales commissions earned from our international customers is paid in foreign currencies. As a result, fluctuations in the value of these foreign currencies may make our solution more expensive or cause resulting fluctuations in cost for international customers, which could harm our business. We currently do not undertake hedging activities to manage these currency fluctuations. In addition, if the effective price of the contracts we sell to the end customers were to increase as a result of fluctuations in the exchange rate of the relevant currencies, demand for such contracts could fall, which in turn would reduce our revenue.

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

- the need to localize and adapt our solution for specific countries, including translation into foreign languages and associated expenses;
- difficulties in staffing and managing foreign operations;
- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- new and different sources of competition;
- weaker protection for our intellectual property than in the United States and practical difficulties in enforcing our rights abroad;
- laws and business practices favoring local competitors;
- compliance obligations related to multiple, conflicting and changing foreign governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- adverse tax consequences; and
- unstable regional 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 and we, recently implemented a new 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 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 report on 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 filed patent applications to protect our intellectual property, we cannot assure you that any issued patents arising from our applications will provide the protection we seek, or that any future patents issued to us will not be challenged, invalidated or circumvented. Also, we cannot assure you that we will obtain any copyright or trademark registrations from our pending or future applications or that any of our trademarks will be enforceable or provide adequate protection of our proprietary rights.

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

Accordingly, despite our efforts, we may be unable to prevent third parties from infringing or misappropriating our intellectual property and using our technology for their competitive advantage. Any such infringement or misappropriation could have a material adverse effect on our business, results of operations and financial condition. Monitoring infringement of our intellectual property rights can be difficult and costly, and enforcement of our intellectual property rights may require us to bring legal actions against infringers. Infringement actions are inherently uncertain and therefore may not be successful, even when 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 26% of our outstanding common stock as of September 30, 2012. As a result, these stockholders will have substantially influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of 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 bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

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

- authorizing blank check preferred stock, which could be issued by our board of directors without stockholder approval, with voting, liquidation, dividend and other rights superior to our common stock;
- classifying our board of directors, staggered into three classes, only one of which is elected at each annual meeting;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- controlling the procedures for the conduct and scheduling of stockholder meetings;
- providing the board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;

- limiting the determination of the number of directors on our board and the filling of vacancies or newly created seats on the board to our board of directors then in office; and
- providing that directors may be removed by stockholders only for cause.

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

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

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

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

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If any of these analysts cease coverage of 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.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

None.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Mine Safety Disclosures***

None.

Item 5. ***Other Information***

None

Item 6. ***Exhibits***

See the Exhibit Index, which follows the signature page to this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SERVICESOURCE INTERNATIONAL, INC.
(Registrant)

Date: November 9, 2012

By: /s/ David S. Oppenheimer
David S. Oppenheimer
(Principal Financial Officer and Duly Authorized Officer)

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INDEX TO EXHIBITS

Exhibit Number	Description of Document
3.1(1)	Certificate of Incorporation of the Company filed March 24, 2011
3.2(1)	Bylaws of the Company dated March 24, 2011
10.1	Credit Agreement dated as of July 5, 2012 between the Company and JPMorgan Chase Bank, National Association
31.1	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files (XBRL) pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011, (ii) the Condensed Consolidated Statement of Operations for the three months and nine months ended September 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2012 and 2011(iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011 and (v) the Notes to Condensed Consolidated Financial Statements. **

(1) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 1, 2011.

* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Exhibit 10.1

CREDIT AGREEMENT

Dated as of July 5, 2012

between

ServiceSource International, Inc.

as Borrower,

and

JPMorgan Chase Bank, National Association,

as Issuing Bank and as Lender

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CREDIT AGREEMENT

This Credit Agreement (this "Agreement") is entered into as of July 5, 2012, between ServiceSource International, Inc., a Delaware corporation, as borrower ("Borrower"), and JPMorgan Chase Bank, National Association, as Lender (in such capacity, "Lender"), and as the issuer of Letters of Credit hereunder (in such capacity, the "Issuing Bank").

WHEREAS, Lender has agreed to make available to Borrower a secured revolving credit facility, all upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Accounting Terms; Definitions.

As used herein, the following terms shall have the following meanings:

"Account" is defined in the Pledge and Security Agreement.

"Acquisition" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition of in excess of 50% of the capital stock, partnership interests, membership interests or equity of any Person, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary) provided that a Borrower or a Subsidiary is the surviving entity.

"Adjusted LIBOR Rate" means, with respect to a LIBOR Rate Loan for the relevant Interest Period, the sum of (i) the Applicable Margin plus (ii) the quotient of (a) the LIBOR Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period.

"Adjusted One Month LIBOR Rate" means, with respect to a CBFR Loan for any day, the sum of (i) 2.50% per annum plus (ii) the quotient of (a) the interest rate determined by Lender by reference to the Page to be the rate at approximately 11:00 a.m. London time on such date, or, if such date is not a Business Day, on the immediately preceding Business Day for dollar deposits with a maturity equal to one (1) month, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to dollar deposits in the London interbank market with a maturity equity to one (1) month.

"Affiliate" means, with respect to any Person, another Person which, directly or indirectly, Controls, is Controlled by, or is under common Control with, the specified Person.

"Applicable Margin" means with respect to any CBFR Loan, 0.50% per annum and with respect to any LIBOR Rate Loan, 2.00% per annum.

“Banking Services” means each and any of the following bank services provided to Borrower by Lender or any of its Affiliates: (a) commercial credit cards, (b) stored value cards, (c) treasury management services (including, without limitation, controlled disbursement, automated clearinghouse transactions, return items, overdrafts and interstate depository network services), and (d) Derivative Contracts.

“Banking Services Obligations” means any and all obligations of Borrower or any Subsidiary, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor) in connection with Banking Services.

“Borrower” has the meaning given in the preamble to this Agreement.

“Borrowing Base” means at any time and subject to change from time to time in Lender’s Permitted Discretion, (a) 80% of Eligible Accounts other than Eligible Foreign Accounts plus (b) 50% of Eligible Foreign Accounts, provided that Eligible Foreign Accounts included in the Borrowing Base shall not exceed the lesser of 15% of Eligible Accounts or $3,500,000. From time to time Lender may in its Permitted Discretion establish reserves which reduce the Borrowing Base, including, but not limited to, reserves consistent with Borrower’s own accounting practices, reserves for Banking Services Obligations, reserves for tax and other obligations of Borrower which may impair the Collateral, and reserves for pending credit memos, dilution, and unapplied cash.

“Borrowing Base Certificate” means a calculation of the Borrowing Base in the form of Exhibit 4.09.

“Borrowing Date” means each date (which must be a Business Day) on which a Loan is made to a Borrower or a Letter of Credit is issued for the account of a Borrower.

“Business Day” means (i) with respect to the Adjusted One Month LIBOR Rate and any borrowing, payment or rate selection of LIBOR Rate Loans, a day (other than a Saturday or Sunday) on which banks generally are open in New York and/or California for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day other than a Saturday, Sunday, or any other day on which national banking associations are authorized to be closed.

“Cash Equivalents” means, collectively, (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency thereof maturing within one year from the date of acquisition thereof, (b) commercial paper maturing no more than two hundred seventy (270) days from the date of creation thereof and currently having a rating of no lower than A-1 from Standard & Poor’s Rating Service, a division of The McGraw-Hill Companies, Inc., or any successor thereto, or P-1 from Moody’s Investors Service, Inc., or any successor thereto, (c) certificates of deposit maturing no more than one year from the date of acquisition thereof issued by commercial banks incorporated under the laws of the United States, each having combined capital, surplus and undivided profits of not less than $500,000,000 and having a rating of “A” or better by a nationally recognized rating agency; provided that the aggregate amount invested in such certificates of deposit shall not at any time exceed $5,000,000 for any one such certificate of deposit and $10,000,000 for any one such bank, or (d) time deposits maturing no more than thirty (30) days from the date of creation thereof with commercial banks or savings banks or savings and loan associations each having membership either in the FDIC or the deposits of which are insured by the FDIC and in amounts not exceeding the maximum amounts of insurance thereunder, and (e) money market funds complying with the criteria set forth in Securities and Exchange Commission Rule 2a-7 under the Investment Company Act of 1940 (i) at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (d) above, (ii) that have a rating of not lower than AAA from S&P, or any successor thereto, or Aaa from or Moody's, or any successor thereto, and (iii) that have portfolio assets of not less than $500,000,000.

"CB Floating Rate" means the Prime Rate; provided that the CB Floating Rate shall never be less than the sum of (i) 2.50% per annum plus (ii) the quotient of (A) the LIBOR Rate for a one-month interest period on such day (or if such day is not a Business Day, the immediately preceding Business Day) divided by (B) one minus the Reserve Requirement (expressed as a decimal); provided further that, for the avoidance of doubt, the LIBOR Rate for any day shall be based on the rate appearing on the Page at approximately 11:00 a.m. London time on such day. Any change in the CB Floating Rate due to a change in the Prime Rate or the LIBOR Rate shall be effective from and including the effective date of such change in the Prime Rate or the LIBOR Rate, respectively.

"CBFR Loan" means any borrowing under this Agreement when and to the extent that its interest rate is determined by reference to the CB Floating Rate.

"Capitalized Lease" means any lease which is capitalized on the books of the lessee, or should be so capitalized under GAAP.

"Change of Control" means the occurrence of any of the following: (a) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the assets of Borrower and its Subsidiaries taken as a whole to any "person" (as such term is used in Section 13(d)(3) of the Securities Exchange Act of 1934 and the regulations promulgated thereunder (the "Exchange Act")); (b) the adoption of a plan relating to the liquidation or dissolution of Borrower; (c) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as defined above) becomes the "beneficial owner" (as such term is defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition), directly or indirectly of more than 35% of the voting stock of Borrower (measured by voting power rather than number of shares); (d) Borrower consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, Borrower in any such event pursuant to a transaction in which any of the outstanding voting stock of Borrower is converted into or exchanged for cash, securities or other property, other than any such transaction where the voting stock of Borrower outstanding immediately prior to such transaction is converted into or exchanged for voting stock of the surviving or transferee Person constituting a majority of the outstanding shares of such voting stock of such surviving or transferee Person (immediately after giving effect to such issuance); (e) during any period of 25 consecutive calendar months, commencing on or after the date of this Agreement, the ceasing of those individuals (the "Continuing Directors") who (i) where directors of Borrower on the first day of each such period or (ii) subsequently became directors of Borrower and whose actual election or initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of Borrower, to constitute a majority of the board of directors of Borrower; or (f) Borrower ceases to own 100% of the equity interests in Guarantor.

"Collateral" has the meaning given such term in the Pledge and Security Agreement.

"Consolidated Funded Debt" means at any time the aggregate dollar amount of Indebtedness of Borrower and its Subsidiaries on a consolidated basis which has actually been funded and is outstanding at such time, whether or not such amount is due or payable at such time, excluding accounts arising from the purchase of goods and services in the ordinary course of business and issued letters of credit.

"Consolidated Funded Debt to EBITDA Ratio" means, as of the end of any fiscal quarter, the relationship, expressed as a numerical ratio, between:

(1) Consolidated Funded Debt as of such fiscal quarter-end, excluding the outstanding principal amount of Subordinated Debt as of such fiscal quarter-end; and

(2) EBITDA for the twelve-month period then ended,

all as determined in accordance with GAAP applied on a consolidated basis to Borrower and its Subsidiaries.

"Consolidated Interest Expense" means, for any period, interest expense (including, without limitation, interest expense attributable to Capitalized Leases and all net payment obligations related to Derivative Contracts) for such period, determined on a consolidated basis, without duplication, for Borrower and its Subsidiaries in accordance with GAAP.

"Consolidated Net Income" means for any period, the net income (or loss) from continuing operations of Borrower and its Subsidiaries, cumulative net income earned during such period (determined before the deduction of minority interests), determined on a consolidated basis for Borrower and its Subsidiaries, without duplication, in accordance with GAAP.

"Contingent Obligation" means, as to any Person, any direct or indirect liability of that Person, with or without recourse, (a) with respect to any Indebtedness, lease, dividend, letter of credit or other obligation (the "primary obligations") of another Person (the "primary obligor"), including any obligation of that Person (i) to purchase, repurchase or otherwise acquire such primary obligations or any security therefor, (ii) to advance or provide funds for the payment or discharge of any such primary obligation, or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligator, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the holder of any such primary obligation against loss in respect thereof (each, a "Guaranty Obligation"); (b) with respect to any surety bond, performance bond or letter of credit issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings or payments; (c) to purchase any materials, supplies or other property from, or to obtain the services of, another Person if the relevant contract or other related document or obligation requires that payment for such materials, supplies or the property, or for such services, shall be made regardless of whether delivery of such materials, supplies or other property is ever made or tendered, or such services are ever performed or tendered; or (d) in respect of any Derivative Contract. The amount of any Contingent Obligation, (x) in the case of Guaranty Obligations, shall be deemed equal to the lesser of (i) the stated or determinable amount of the primary obligation in respect of which such Guaranty Obligation is made or, if not stated or if indeterminable, the maximum reasonably anticipated liability in respect thereof, and (ii) the stated amount of the guaranty, (y) in the case of Contingent Obligations in respect of Derivative Contracts, shall be deemed equal to the aggregate Termination Value of such Derivative Contracts, and (z) in the case of Contingent Obligations in respect of surety bonds, performance bonds or letters of credit, shall be deemed equal to the maximum liability of the relevant Loan Party and its Subsidiaries thereunder. Notwithstanding the foregoing, the term Contingent Obligations shall not include endorsements for collection or deposits in the ordinary course of business or any indemnification obligations arising in the ordinary course of business.

"Control" means, with respect to any Person, possession, directly or indirectly, of the power to elect a majority of the board of directors or managers or other governing body of such Person, or the power to direct or cause the direction of the management or policies of such Person, whether through the ability to exercise voting power, by contract or otherwise. The terms "Controlling" and "Controlled" shall have correlative meanings thereto.

"Controlled Group" means a controlled group of corporations as defined in Section 1563 of the Internal Revenue Code of 1986, as amended, of which the relevant Loan Party is a part.

"Default" means any condition or event which with the passage of time or the giving of notice or both would constitute an Event of Default.

"Derivative Contract" means any agreement, whether or not in writing, relating to any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other, similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing, and, unless the context otherwise clearly requires, any master agreement relating to or governing any or all of the foregoing.

"Designated Account" means the account disclosed on Schedule B of the Disclosure Letter, which may be updated from time to time by written notice from Borrower to Lender.

"Disclosure Letter" means the disclosure letter, dated as of the date hereof, as amended or supplemented from time to time by Borrower with the written consent of Lender (or as may be supplemented by Borrower by providing notice to Lender pursuant to the terms of the Agreement), delivered by Borrower to Lender.

"Dollars" and "$" shall mean the lawful currency of the United States of America.

"EBITDA" means, for any period, Consolidated Net Income for such period plus the sum of the following, all to the extent deducted in calculating such Consolidated Net Income for such period, without duplication: (i) Consolidated Interest Expense for such period, (ii) expense for taxes paid or accrued during such period, net of any refunds or rebates received during such period, (iii) depreciation and amortization expense for such period, (iv) other non-cash expenses, charges or losses in an aggregate amount not to exceed $500,000 and any additional non-cash expenses, charges or losses acceptable to the Lender in its Permitted Discretion, except to the extent any such expense, charge or loss represents a cash item in such period or any future period, (v) non-cash stock based compensation, (vi) unrealized foreign exchange losses reported in other income (expense) in the Borrower's consolidated statement of operations; and (vii) loss from discontinued operations and extraordinary items for such period, minus (i) all non-cash items increasing Consolidated Net Income for such period, (ii) unrealized foreign exchange gains reported in other income (expense) in the Borrower's consolidated statement of operations; and (iii) income from discontinued operations and extraordinary items increasing Consolidated Net Income for such period.

"Eligible Accounts" means, at any time, the Accounts of Borrower which Lender determines in its Permitted Discretion are eligible as the basis for the extension of Revolving Loans and the issuance of Letters of Credit hereunder. Without limiting Lender's Permitted Discretion provided herein, Eligible Accounts shall not include any Account:

(a) which is not subject to a first priority perfected security interest in favor of Lender;

(b) which is subject to any Lien other than (i) a Lien in favor of Lender and (ii) a Permitted Lien which does not have priority over the Lien in favor of Lender;

(c) (i) which is unpaid more than one hundred five (105) days after the date of the original invoice, (ii) which is unpaid more than sixty days (60) from the original due date or (iii) which has been written off the books of Borrower or otherwise designated as uncollectible;

(d) which is owing by an account debtor for which more than 25% of the Accounts owing from such account debtor and its Affiliates are ineligible;

(e) which is owing by an account debtor to the extent the aggregate amount of Accounts owing from such account debtor and its Affiliates to Borrower exceeds 20% of the aggregate amount of Accounts of Borrower and its Subsidiaries;

(f) which (i) does not arise from the sale of goods or performance of services in the ordinary course of business, (ii) is not evidenced by an invoice or other documentation satisfactory to Lender which has been sent to the account debtor, (iii) is contingent upon Borrower's completion of any further performance with respect to that portion of the Account, or (iv) relates to payments of interest;

(g) for which the services giving rise to such Account have not been performed by Borrower, provided that Accounts related to valid service contracts for the future provision of subscription services which do not extend beyond one year shall not be considered ineligible solely as a result of this clause (g);

(h) with respect to which any check or other instrument of payment has been returned uncollected for any reason;

(i) which is owed by an account debtor which on the date of determination has (i) applied for, suffered, or consented to the appointment of any receiver, custodian, trustee, or liquidator of its assets, (ii) has had possession of all or a material part of its property taken by any receiver, custodian, trustee or liquidator, (iii) filed, or had filed against it, any request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as bankrupt, winding-up, or voluntary or involuntary case under any state or federal bankruptcy laws, (iv) has admitted in writing its inability, or is generally unable to, pay its debts as they become due, (v) become insolvent, or (vi) ceased operation of its business;

(j) which is owed by any account debtor which has sold all or a substantially all of its assets within the prior ninety (90) days;

(k) which is unbilled or subject to reconciliation and processing by account debtor;

(l) which is owed by an account debtor which (i) does not maintain its chief executive office in the U.S. or (ii) is not organized under applicable law of the U.S. or any state of the U.S., except for Accounts of Permitted Foreign Account Debtors which satisfy each of the requirements for Eligible Accounts other than the requirements set forth in this clause (l) (the "Eligible Foreign Accounts");

(m) which is owed in any currency other than U.S. dollars;

(n) which is owed by (i) the government (or any department, agency, public corporation, or instrumentality thereof) of any country other than the U.S., or (ii) the government of the U.S., or any department, agency, public corporation, or instrumentality thereof, unless the Federal Assignment of Claims Act of 1940, as amended (31 U.S.C. § 3727 et seq. and 41 U.S.C. § 15 et seq.), and any other steps necessary to perfect the Lien of Lender in such Account have been complied with to Lender's reasonable satisfaction;

(o) which is owed by any Affiliate, employee, officer, director, agent or stockholder of any Loan Party;

(p) which is owed by an account debtor or any Affiliate of such account debtor to which any Loan Party is indebted, but only to the extent of such indebtedness, or is subject to any security, deposit, progress payment, retainage or other similar advance made by or for the benefit of an account debtor, in each case to the extent thereof and to be deducted only from the particular Account to which it pertains;

(q) which is subject to any counterclaim, deduction, defense, setoff or dispute but only to the extent of any such counterclaim, deduction, defense, setoff or dispute;

(r) which is evidenced by any promissory note, chattel paper, or instrument;

(s) which is owed by an account debtor located in any jurisdiction which requires filing of a "Notice of Business Activities Report" or other similar report in order to permit Borrower to seek judicial enforcement in such jurisdiction of payment of such Account, unless Borrower has filed such report or qualified to do business in such jurisdiction;

(t) with respect to which Borrower has made any agreement with the account debtor for any reduction thereof, other than discounts and adjustments given in the ordinary course of business;

(u) which does not comply in all material respects with the requirements of all applicable laws and regulations, whether Federal, state or local, including without limitation the Federal Consumer Credit Protection Act, the Federal Truth in Lending Act and Regulation Z of the Board of Governors of the Federal Reserve System of the United States of America;

(v) which are sold or otherwise encumbered pursuant to a Permitted Factoring Agreement; or

(w) which was created on cash on delivery terms.

In the event that an Account which was previously an Eligible Account ceases to be an Eligible Account hereunder, Borrower shall notify Lender thereof on and at the time of submission to Lender of the next Borrowing Base Certificate. In determining the amount of an Eligible Account, the face amount of an Account may, in Lender's Permitted Discretion, be reduced by, without duplication, to the extent not reflected in such face amount, (i) the amount of all accrued and actual discounts, claims, credits or credits pending, promotional program allowances, price adjustments, finance charges or other allowances (including any amount that such Borrower is obligated to rebate to an account debtor pursuant to the terms of any agreement or understanding (written or oral)) and (ii) the aggregate amount of all cash received in respect of such Account but not yet applied by Borrower to reduce the amount of such Account.

"Eligible Foreign Accounts" shall have the meaning set forth in clause (l) of the definition of Eligible Account.

"Environmental Laws" means all federal, state and local laws including rules of common law, statutes, regulations, ordinances, codes, rules and other governmental restrictions and requirements relating to the discharge of air pollutants, water pollutants or process waste water or otherwise relating to the environment or hazardous substances including, but not limited to, the Federal Solid Waste Disposal Act, the Federal Clean Air Act, the Federal Clean Water Act, the Federal Resource Conservation and Recovery Act of 1976, the Federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Toxic Substances Control Act, the Hazardous Materials Transportation Act, regulations of the Environmental Protection Agency, regulations of the Nuclear Regulatory Agency, and regulations of any state department of natural resources or state environmental protection agency now or at any time hereafter in effect.

"ERISA" means the Employee Retirement Income Security Act of 1974, as the same may be in effect from time to time.

"Excluded Taxes" means, with respect to Lender or any other recipient of any payment to be made by or on account of any Obligation of the Loan Parties hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or in which its applicable lending office is located or as a result of a present or former connection between such Lender and the jurisdiction imposing such tax (other than any connection arising solely from Lender having executed, delivered or performed its obligations or received a payment under, or enforced this Agreement), (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the applicable Loan Party is located, and (c) any withholding or other similar taxes applicable to payments received under this Agreement at the time Lender becomes a party to this Agreement.

"GAAP" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

“Guarantor” means ServiceSource Delaware Inc., a Delaware corporation, and any other entities required to become guarantors pursuant to the terms hereof.

“Guaranty” means the Guaranty dated as of the date of this Agreement by Guarantor in favor of Lender, as it may be amended or amended and restated from time to time.

“Indebtedness” of any Person means, without duplication, (a) all indebtedness for borrowed money; (b) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than (i) trade payables entered into in the ordinary course of business on ordinary terms, (ii) intercompany charges or expenses and other accrued obligations incurred in the ordinary course of business (provided that intercompany obligations described in Section 6.01(d) and Section 6.05(c) shall be considered Indebtedness for purposes of this definition), and (iii) obligations which are being contested in good faith by appropriate proceedings and for which adequate reserves have been set aside in accordance with GAAP); (c) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; (d) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as purchase money financing, in either case with respect to property acquired by the Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property); (e) all obligations with respect to Capitalized Leases; and (f) all Indebtedness referred to in clauses (a) through (e) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; and (g) all Contingent Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (h) above. For all purposes of this Agreement, the Indebtedness of any Person shall include all recourse Indebtedness of any partnership or joint venture or limited liability company in which such Person is a general partner or a joint venturer or a member and as to which such Person is or may become directly liable. Notwithstanding anything to the contrary in the foregoing, in connection with any Acquisition by the Borrower or any Subsidiary permitted under this Agreement (or any sale, transfer or other disposition by the Borrower or any Subsidiary permitted under this Agreement), the term “Indebtedness” shall not include contingent post-closing purchase price obligations or earnouts to which the seller in such Acquisition (or the buyer in such sale, transfer or other disposition, as the case may be) may become entitled or contingent indemnity obligations that may be owed to such seller (or buyer, if applicable) in respect thereof.

"Indemnified Taxes" means Taxes, other than Excluded Taxes.

"Intellectual Property Security Agreement" means the Intellectual Property Security Agreement dated as of the date of this Agreement among each Loan Party currently owning registered Intellectual Property and Lender, as it may be amended or amended and restated from time to time.

"Interest Period" means, with respect to a LIBOR Rate Loan, a period of one (1), two (2), three (3) or six (6) month(s) commencing on a Business Day selected by Borrower. Such Interest Period shall end on the day which corresponds numerically to such date one (1), two (2), three (3), or six (6) month(s) thereafter, as applicable, provided, however, that if there is no such numerically corresponding day in such first, second, third or sixth succeeding month(s), as applicable, such Interest Period shall end on the last Business Day of such first, second, third or sixth succeeding month(s), as applicable. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided, however, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Investment" means (i) any purchase or acquisition (or obligation to make any purchase or acquisition) by Borrower or any Subsidiary of any capital stock, equity interest, or any obligations or other securities of, or any interest in, any Person, and (ii) any advance, loan, extension of credit or capital contribution to or other investment in any Person, including any Affiliate of Borrower, or any obligation to do any of the foregoing, provided that any obligation to make any Investment pursuant to clause (i) and (ii) above shall not be deemed an Investment if the making of such Investment is contingent upon the Revolving Commitment having expired or been terminated and the principal of and interest on each Loan and all fees, expenses and other amounts payable (other than contingent amounts not yet due) under any Loan Document having been paid in full and all Letters of Credit having expired or been terminated (or otherwise having become subject to cash collateralization or other arrangements reasonably satisfactory to the Issuing Bank (including in respect of fees that would otherwise be payable in connection with such Letters of Credit pursuant to the terms of this Agreement) and all Reimbursement Obligations having been paid in full.

"Issuing Bank" means JPMorgan Chase Bank, National Association, in its capacity as the issuer of Letters of Credit for the account of Borrower hereunder.

"Letter of Credit Sublimit" means $2,000,000.

"Letter of Credit Obligations" means at any time the sum of the Reimbursement Obligations at such time plus the undrawn face amount of all Letters of Credit outstanding at such time.

"LIBOR Rate" means with respect to any LIBOR Rate Loan for any Interest Period, the interest rate determined by Lender by reference to Reuters Screen LIBOR01, formerly known as Page 3750 of the Moneyline Telerate Service (together with any successor or substitute, the "Service") or any successor or substitute page of the Service providing rate quotations comparable to those currently provided on such page of the Service, as determined by

Lender from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market (the "Page"), to the rate at approximately 11:00 a.m. London time, two Business Days prior to the commencement of the Interest Period for dollar deposits with a maturity equal to such Interest Period. If no LIBOR Rate is available to Lender, the applicable LIBOR Rate for the relevant Interest Period shall instead be the rate determined by Lender to be the rate at which Lender offers to place U.S. dollar deposits having a maturity equal to such Interest Period with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period.

"LIBOR Rate Loan" means any borrowing under this Agreement when and to the extent that its interest rate is determined by reference to the Adjusted LIBOR Rate.

"Lien" means any security interest, mortgage, deed of trust, pledge, hypothecation, collateral assignment, charge or deposit arrangement, encumbrance, lien (statutory or other) or similar interest of any kind or nature whatsoever in respect of any property (including those created by, arising under or evidenced by conditional sale or other title retention agreement, the interest of a lessor under a Capitalized Lease, or any financing lease having substantially the same economic effect as any of the foregoing.

"Liquidity" means, as of any date of determination, unrestricted cash and Cash Equivalents of the Loan Parties which are not subject to Liens (other than liens in favor of the Lender).

"Loan" means any revolving loan or advance made by Lender pursuant to Section 2.01.

"Loan Documents" means this Agreement, the Letters of Credit, the Guaranty, the Pledge and Security Agreement, the Intellectual Property Security Agreement and all other instruments, documents and agreements now or hereafter executed and delivered by Borrower, Guarantor or any Subsidiary in connection with this Agreement.

"Loan Parties" means Borrower and any Guarantor.

"Material Adverse Change" means (a) a material adverse change in, or a material adverse effect upon, the financial condition, operations, assets, business or properties of Borrower and its Subsidiaries taken as a whole, (b) a material impairment of the ability of the Borrower or Guarantor to perform any of its obligations under any Loan Document or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Borrower or Guarantor of any Loan Document.

"Multiemployer Plan" means a multiemployer pension plan within the meaning of the Multiemployer Pension Plan Amendment Act, as amended from time to time.

"Obligations" means any and all present and future debts, obligations and liabilities of the Loan Parties under or in connection with this Agreement, any Letter of Credit or any other Loan Document, whether now or hereafter made, incurred, or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, whether the applicable Loan Party is liable individually or jointly with others, whether for principal, interest or other debts, obligations or liabilities. Obligations shall also include all Banking Services Obligations.

"Organizational Documents" means, with respect to any Loan Party, its certificate or articles of incorporation, its by-laws, its partnership agreement, its certificate of partnership, certificate or articles of organization, operating agreement and other limited liability company organizational documents and all shareholder agreements, voting trusts and similar arrangements applicable to any of its stock or membership interests or other equity interests.

"Other Taxes" means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Outstanding Credit Exposure" means, at any time, the sum of (i) the aggregate principal amount of Revolving Loans outstanding at such time, plus (ii) the aggregate Letter of Credit Obligations at such time.

"Permitted Derivative Obligations" means all obligations (contingent or otherwise) of Borrower or any Subsidiary existing or arising under Derivative Contracts, provided that each of the following criteria is satisfied: (a) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments or assets held or reasonably anticipated by such Person, and not for purposes of speculation or taking a "market view"; and (b) such Derivative Contracts do not contain any provision ("walk-away" provision) exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party.

"Permitted Discretion" means a determination made in the exercise of reasonable (from the perspective of the secured asset-based lender) business judgment.

"Permitted Dispositions" means:

(1) the sale or transfer of inventory in the ordinary course of business;

(2) sales or other dispositions of equipment that is substantially worn, damaged or obsolete;

(3) dispositions permitted under Sections 6.02, 6.03, 6.04, 6.05 and 6.07;

(4) licensing of technology in the ordinary course of business and consistent with past practices;

(5) the sale of Accounts pursuant to Permitted Factoring Agreements;

(6) any sale, transfer, lease or other disposition of assets, not otherwise permitted hereunder, (i) by any Loan Party to a Subsidiary that is not a Loan Party in the ordinary course of business and at fair market value (as

reasonably determined by the Borrower) or in an aggregate amount not to exceed $5,000,000 in any fiscal year of the Borrower; (ii) by any Subsidiary that is not a Loan Party to any Loan Party or another Subsidiary that is not a Loan Party; and (iii) by a Loan Party to any other Loan Party;

(7) any other sales, transfers, leases or dispositions that does not exceed $1,000,000 during any fiscal year of the Borrower.

"Permitted Factoring Agreement" means any non-recourse receivables factoring agreement entered into by the Borrower on terms and conditions satisfactory to the Lender in its sole discretion.

"Permitted Foreign Account Debtors" shall have the meaning set forth on Schedule 1.01 of the Disclosure Letter.

"Permitted Liens" means:

(1) Liens shown on Schedule 5.07 of the Disclosure Letter;

(2) Liens for taxes, assessments or governmental charges, and Liens incident to construction, which are either not delinquent or are being contested in good faith by Borrower or a Subsidiary by appropriate proceedings which will prevent foreclosure of such liens, and against which adequate reserves have been provided; and easements, restrictions, minor title irregularities and similar matters which have no adverse effect as a practical matter upon the ownership and use of the affected property by Borrower or any Subsidiary;

(3) Liens or deposits in connection with worker's compensation or other insurance or to secure customs' duties, public or statutory obligations in lieu of surety, surety, stay or appeal bonds, letters of intent, or to secure performance of contracts or bids (other than contracts for the payment of money borrowed), or deposits required by law or governmental regulations or by any court order, decree, judgment or rule as a condition to the transaction of business or the exercise of any right, privilege or license; or other Liens or deposits of a like nature made in the ordinary course of business;

(4) purchase money Liens on property acquired in the ordinary course of business, to finance or secure a portion of the purchase price thereof, and liens on property acquired existing at the time of acquisition; provided that in each case such lien shall be limited to the property so acquired (and any additions, accessions, parts, improvements and attachments thereto and proceeds thereof) and the liability secured by such lien does not exceed either the purchase price or the fair market value of the asset acquired;

(5) judgment Liens in respect of judgments that do not constitute an Event of Default under this Agreement and for which Borrower has set aside on its books adequate reserves;

(6) leases or subleases and licenses or sublicenses granted in the ordinary course of business and consistent with past practices to other Persons which do not interfere in any material respect with the business of the lessor, sublessor, licensor or sublicensor, as the case may be;

(7) Liens arising from precautionary Uniform Commercial Code filings or similar filings;

(8) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(9) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers or suppliers, incurred in the ordinary course of business and not in connection with the borrowing of money, and which Liens are either not delinquent or are being contested in good faith by Borrower or a Subsidiary by appropriate proceedings which will prevent foreclosure of such liens, and against which adequate reserves have been provided;

(10) Liens arising or created in the ordinary course of business in the nature of (i) normal and customary rights of setoff and bankers' liens upon deposits of cash in favor of banks or other depository institutions and (ii) Liens securing reasonable and customary fees for services in favor of banks, securities intermediaries or other depository institutions;

(11) Liens securing any overdraft and related liabilities arising from treasury, depository or cash management services or automated clearing house transfers of funds, provided that such Liens only extend to cash held at the financial institution providing such services and only secure fees owing to such financial institution in connection with such services;

(12) Liens of a collecting bank arising in the ordinary course of business under Section 4208 of the Uniform Commercial Code in effect in the State of California (or, if applicable, the corresponding section of the Uniform Commercial Code in effect in the relevant jurisdiction), in each case covering only the items being collected upon;

(13) Liens representing the interest or title of a lessor, licensor, sublicensor or sublessor;

(14) Liens on assets of the Borrower and its Subsidiaries not otherwise permitted above, provided that such liens do not cover Accounts of the Borrower and its Subsidiaries, do not secure debt for borrowed money or any obligations not permitted pursuant to the terms of this Agreement, and do not secure obligations in an aggregate principal amount in excess of $2,000,000;

(15) Liens in connection with Permitted Factoring Agreements, provided that such liens cover only the Accounts sold or encumbered pursuant to such Permitted Factoring Agreements and do not extend to the proceeds of such Accounts; and

(16) Liens required by this Agreement as security for the Obligations.

"Person" includes an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, or Governmental Authority.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to Title IV of ERISA maintained by Borrower, any of its Subsidiaries, or any member of the Controlled Group, or any such plan to which Borrower, any of its Subsidiaries, or any member of the Controlled Group is required to contribute on behalf of any of its employees.

"Pledge and Security Agreement" means the Pledge and Security Agreement dated as of the date of this Agreement among each of the Loan Parties and Lender, as it may be amended or amended and restated from time to time.

"Prime Rate" means the rate of interest per annum announced from time to time by Lender as its prime rate. The Prime Rate is a variable rate and each change in the Prime Rate is effective from and including the date the change is announced as being effective. THE PRIME RATE IS A REFERENCE RATE AND MAY NOT BE LENDER'S LOWEST RATE.

"Regulatory Change" means any change enacted or issued after the date of this Agreement of any (or the adoption after the date of this Agreement of any new) federal or state law, regulation, interpretation, direction, policy or guideline, or any court decision, which affects the treatment of any extensions of credit of Lenders. For purposes of this definition, the Dodd-Frank Wall Street Reform and Consumer Protection, the Basel Committee on Banking Supervision (or any successor or similar authority), the Bank for International Settlements and all rules, regulations, orders, requests, guidelines or directives in connection therewith are deemed to have been enacted and become effective after the date of this Agreement.

"Reimbursement Obligations" means, at any time, the aggregate of all obligations of Borrower then outstanding under Section 2.02 to reimburse the Issuing Bank for amounts paid by the Issuing Bank in respect of any one or more drawings under Letters of Credit, which amounts have not been converted to Revolving Loans pursuant to Section 2.02.

"Reportable Event" means a reportable event as that term is defined in Title IV of ERISA.

"Reserve Requirement" means the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D of the Board of Governors of the Federal Reserve System.

"Revolving Commitment" means, the obligation of Lender to make Revolving Loans to, and issue Letters of Credit upon the application of, Borrower in an aggregate amount not exceeding (a) at any time on or before July 5, 2013, $25,000,000 and (b) at any time thereafter, $30,000,000, as such amount may be modified from time to time pursuant to the terms hereof.

"Revolving Loan" means any loan or advance made by Lender pursuant to Section 2.01.

"Subordinated Debt" means any unsecured Indebtedness having terms acceptable to Lender, the payment of which is subordinated in writing to the prior payment in full of the Obligations on terms acceptable to Lender.

"Subsidiary" means a corporation, partnership or other entity of which the relevant Loan Party owns, directly or through another Subsidiary, at the date of determination, more than 50% of the outstanding capital stock or membership interests (or other shares of beneficial interest) having ordinary voting power for the election of directors, irrespective of whether or not at such time stock of any other class or classes might have voting power by reason of the happening of any contingency, or holds at least a majority of partnership or similar interests, or is a general partner of such a partnership.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Termination Date" means the earlier of (i) July 5, 2015 or (ii) the termination of Lender's commitment pursuant to the terms of this Agreement.

"Termination Value" means, in respect of any one or more Derivative Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Derivative Contracts, (a) for any date on or after the date such Derivative Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a) the amount(s) determined as the mark-to-market value(s) for Derivative Contracts, as determined by Borrower based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Derivative Contracts (which may include Lender).

"Threshold Amount" means $2,000,000.

"Unfunded Liabilities" means, with regard to any Plan, the excess of the current value of the Plan's benefits guaranteed under ERISA over the current value of the Plan's assets allocable to such benefits.

Section 1.02 Other Interpretive Provisions.

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) The words “hereof”, “herein”, and similar words refer to this Agreement as a whole and not to any particular provision of this Agreement; and subsection, Section, Schedule, Exhibit and Appendix references are to this Agreement unless otherwise specified.

(c) The term “documents” includes any and all instruments, documents, agreements, certificates, indentures, notices and other writings, however evidenced.

(d) The term “including” is not limiting and means “including without limitation.”

(e) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including”; the words “to” and “until” each mean “to but excluding”, and the word “through” means “to and including.”

(f) The term “property” includes any kind of property or asset, real, personal or mixed, tangible or intangible.

(g) Unless otherwise expressly provided herein, (i) references to agreements, (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments, supplements and other modifications thereto, but only to the extent such amendments, supplements and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting the statute or regulation.

(h) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

(i) This Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms.

(j) This Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to Lender, Borrower and the other parties, and are the products of all parties. Accordingly, they shall not be construed against Lenders merely because of Lenders involvement in their preparation.

Section 1.03 Accounting Principles.

(a) Unless the context otherwise clearly requires, all accounting terms not expressly defined herein shall be construed, and all financial computations required under this Agreement shall be made, in accordance with GAAP, consistently applied throughout all accounting periods and consistent with those applied in the preparation of the financial statements referred to in Section 5.05. All terms of an accounting or financial nature (including, without limitation, the definitions of Capitalized Lease, Consolidated Interest Expense and Indebtedness) shall be construed without giving effect to any changes to the current GAAP accounting model for leases of the type described in the FASB and IASB joint exposure draft published on August 17, 2010 entitled "Leases (Topic 840)" or otherwise arising out of the FASB project on lease accounting described in such exposure draft.

(b) References herein to "fiscal year" and "fiscal quarter" refer to such fiscal periods of the Borrower.

(c) In the event that any changes in GAAP occur after the date of this Agreement and such changes result in a material variation in the method of calculation of financial covenants or other terms of this Agreement, then the Loan Parties and Lender shall negotiate in good faith to amend such provisions of this Agreement so as to equitably reflect such changes so that the criteria for evaluating the Loan Parties' consolidated financial condition will be the same after such changes as if such changes had not occurred.

ARTICLE II

LOANS

Section 2.01 Revolving Loans.

From time to time prior to the Termination Date, and subject to all of the terms and conditions of this Agreement, Borrower may obtain loans ("Revolving Loans") from Lender, provided that after giving effect to each requested Revolving Loan, the Outstanding Credit Exposure does not exceed the lesser of (i) the Revolving Commitment and (ii) the Borrowing Base. Subject to the terms and conditions of this Agreement, Borrower may repay Revolving Loans and re-borrow hereunder. Each Revolving Loan shall be in a multiple of $100,000. Borrower shall repay to Lender on the Termination Date the aggregate principal amount of Revolving Loans outstanding on such date.

Section 2.02 Letters of Credit.

(a) Letters of Credit. Subject to all the terms and conditions of this Agreement, the Issuing Bank shall from time to time, when so requested by Borrower, issue standby letters of credit (each sometimes referred to herein as a "Letter of Credit" and collectively the "Letters of Credit") in form and substance satisfactory to the Issuing Bank for the account of Borrower; provided, however, that the Issuing Bank shall have no obligation to issue any Letter of Credit if (i) the Outstanding Credit Exposure would thereby exceed the lesser of (A) the Revolving Commitment, or (B) the Borrowing Base, (ii) a Default or Event of Default has occurred and is continuing, or (iii) the Letter of Credit Obligations would exceed the Letter of Credit Sublimit. Each Letter of Credit shall have a stated term ending not later than the Termination Date. All Letters of Credit shall be issued pursuant to application agreements and other documentation to be agreed upon by Borrower and the Issuing Bank.

(b) Revolving Loans. In the event of any drawing on a Letter of Credit, the Issuing Bank will promptly notify Borrower and Borrower will reimburse the Issuing Bank prior to 5:00 p.m. San Francisco time on the date that any amount is paid by the Issuing Bank on such Letter of Credit (the "Honor Date"), in an amount equal to the amount so paid by the Issuing Bank (the "Reimbursement Amount"). In the event that Borrower fails to reimburse the Issuing Bank for the full Reimbursement Amount by such date and time, Borrower shall be deemed to have requested that a Revolving Loan in an amount equal to such unreimbursed amount be made by Lender to be disbursed on the Honor Date under such Letter of Credit, subject to the amount of the unutilized portion of the Revolving Commitment; and provided that Borrower shall not thereby be deemed to have represented and warranted that the representations and warranties set forth in Article V hereof remain true on and as of the Honor Date and provided further that Lenders' obligations to make such Revolving Loans shall not be affected by the absence of such additional representations and warranties. Lender shall make available to the Issuing Bank an amount in immediately available funds equal to such unreimbursed amount and such amount shall constitute a Revolving Loan made by Lender.

(c) Letter of Credit Fees. Borrower shall pay the following fees with respect to Letters of Credit: (i) to the Issuing Bank, a letter of credit fee in respect of all outstanding Letters of Credit, payable quarterly in arrears in the amount of 2.00% per annum of the monthly average amount of Letter of Credit Obligations in respect of Letters of Credit outstanding during such quarter, provided that the minimum amount of such letter of credit fee shall be $500 per annum; and (ii) to the Issuing Bank for each Letter of Credit, the fees and other charges required by such Issuing Bank for the issuance, amendment, cancellation, negotiation or transfer of such Letter of Credit and each drawing made thereunder.

(d) Reimbursement. Subject to subsections (e) and (f) below, Borrower hereby unconditionally promises to pay to the Issuing Bank, upon demand, without defense, setoff or counterclaim, the amount of each drawing under the Letters of Credit, and if such amount is not paid by the time set forth in subsection (b) above on the Honor Date, interest on the foregoing from the Honor Date at (i) the CB Floating Rate for a period of two days from the date of drawing, and (ii) if such amount remains unpaid for more than two days, a rate equal to 3% per annum in excess of the CB Floating Rate thereafter.

(e) Reliance on Documents. Delivery to the Issuing Bank of any documents complying on their face with the requirements of any Letter of Credit shall be sufficient evidence of the validity, genuineness and sufficiency thereof and of the good faith and proper performance of drawers and users of such Letter of Credit, their agents and assignees notwithstanding any dispute or disagreement between the Issuing Bank, Lender and Borrower in respect of the same; and the Issuing Bank may rely thereon without liability or responsibility with respect thereto, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; provided that payment by the Issuing Bank under the applicable Letter of Credit shall not have constituted gross negligence or willful misconduct of such Issuing Bank under the circumstances in question (as determined by a final judgment of a court of competent jurisdiction).

(f) Non-Liability for Other Matters. The Issuing Bank shall not be liable to Borrower for (i) honoring any requests for payment under any Letter of Credit which comply on their face with the terms of such Letter of Credit, (ii) any delay in giving or failing to give any notice, (iii) errors, delays, misdeliveries or losses in transmission of telegrams, cables, letters or other communications or documents or items forwarded in connection with any Letter of Credit or any draft, (iv) accepting and relying upon the name, signature or act of any party who is or purports to be acting in compliance with the terms of any Letter of Credit; or (v) any other action taken or omitted by the Issuing Bank in good faith in connection with any Letter of Credit or any draft; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to Borrower to the extent of any direct damages suffered by Borrower that are caused by the Issuing Bank's gross negligence or willful misconduct (as finally determined by a court of competent jurisdiction).

Section 2.03 Use of Proceeds.

Borrower represents, warrants and agrees that:

(a) The proceeds of the Revolving Loans made hereunder will be used solely for working capital and other lawful corporate purposes of the Borrower.

(b) No part of the proceeds of any loan made hereunder will be used to "purchase" or "carry" any "margin stock" or to extend credit to others for the purpose of "purchasing" or "carrying" any "margin stock" (as such terms are defined in the Regulation U of the Board of Governors of the Federal Reserve System), and the assets of Borrower and its Subsidiaries do not include, and neither Borrower nor any Subsidiary has any present intention of acquiring, any such security.

Section 2.04 Unused Fee.

Borrower shall pay to Lender an unused fee computed at the rate of 0.45% per annum on the difference (only to the extent the Revolving Commitment exceeds the Outstanding Credit Exposure) existing from time to time between (a) the amount of the Revolving Commitment (as reduced pursuant to Section 2.05), and (b) the Outstanding Credit Exposure. Such unused fee shall accrue for the period from the date of this Agreement to and including the Termination Date, and shall be payable quarterly in arrears.

Section 2.05 Termination or Reduction of the Commitment.

The Commitment may be terminated in whole at any time upon five Business Days' prior written notice to Lender. Subsequent to July 5, 2013, upon five Business Days' prior written notice, Borrower may reduce the Revolving Commitment to an amount not less than the sum of (i) the aggregate Outstanding Credit Exposure as of the date of such reduction, (ii) the aggregate principal amount of all Revolving Loans requested by Borrower and not yet funded as of the date of such reduction, and (iii) the amount of all Letters of Credit requested by Borrower and not yet issued as of the date of such reduction. Each such reduction shall be in an amount that is not less than $1,000,000. All such reductions shall be completed no later than June 30, 2014 and shall not exceed $10,000,000 in the aggregate. Once reduced, the Revolver Commitments may not be increased without the written consent of Borrower and Lender. Such notice of termination or reduction may be conditioned upon the effectiveness of other transactions, in which case, such notice may be revoked by Borrower with notice to Lender if such condition is not satisfied. Upon termination of the Revolving Commitment, all of the Obligations shall become immediately due and payable.

Section 2.06 Waivers

(a) The obligations of Borrower hereunder shall be absolute and unconditional; Borrower unconditionally and irrevocably waives, to the extent permitted by applicable law, each and every defense which, under principles of guarantee or suretyship law or otherwise, would operate to impair or diminish such liability; and nothing whatsoever except actual full payment and performance to Lender of such obligations shall operate to discharge the liability of Borrower hereunder.

(b) Borrower hereby unconditionally waives, to the extent permitted by applicable law (i) presentment, notice of dishonor, protest, demand for payment and all notices of any kind, including without limitation: notice of acceptance hereof; notice of the creation of any of the Obligations; notice of nonpayment, nonperformance or other default on any of the Obligations; and notice of any action taken to collect upon or enforce any of the Obligations; and (ii) any setoffs or counterclaims against Lender which would otherwise impair Lender's rights against Borrower hereunder.

ARTICLE III

ADMINISTRATION OF CREDIT

Section 3.01 Interest on Loans.

Each Revolving Loan shall bear interest on the outstanding principal amount thereof from the applicable Borrowing Date at a rate per annum equal to the CB Floating Rate minus the Applicable Margin or the Adjusted LIBOR Rate according to the terms of this Article III. The unpaid principal balance of the Revolving Loans may be comprised of CBFR Rate Loans and/or LIBOR Rate Loans as elected by Borrower from time to time in accordance with the procedures set forth below; provided, however, that each LIBOR Rate Loan must be in a minimum amount of $1,000,000 or a multiple of $100,000 in excess of that amount; provided, further, that no election of a LIBOR Rate Loan shall become effective if any Default or Event of Default has occurred and is continuing; and provided, further, that no more than five (5) different Interest Periods for LIBOR Rate Loans may be outstanding at any one time. Each notice of election of a LIBOR Rate Loan shall be irrevocable.

Section 3.02 Borrowing Procedure.

Borrower may request a Revolving Loan by written notice in the form of Exhibit 3.02 annexed hereto, which notices will be irrevocable, to Lender not later than 11:00 a.m., San Francisco time, on the proposed Borrowing Date, or, in the case of a LIBOR Rate Loan, not less than three Business Days before the proposed Borrowing Date. Each such request will be effective upon receipt by Lender and will specify (i) the amount of the requested Loan; (ii) the proposed Borrowing Date; (iii) whether such Loan will bear interest at the CB Floating Rate minus the Applicable Margin or at the Adjusted LIBOR Rate; and (iv) in the case of a LIBOR Rate Loan, the Interest Period therefor.

Section 3.03 Conversion.

Borrower may elect from time to time, subject to the terms and conditions of this Agreement, to convert all or a portion of a CBFR Rate Loan into a LIBOR Rate Loan or to convert all or a portion of a LIBOR Rate Loan into a CBFR Rate Loan; provided, however, that any conversion of a LIBOR Rate Loan will occur on the last day of the Interest Period applicable thereto.

Section 3.04 Automatic Conversion.

A CBFR Rate Loan will continue as a CBFR Rate Loan unless and until converted into a LIBOR Rate Loan. At the end of the applicable Interest Period for a LIBOR

Rate Loan, such LIBOR Rate Loan will automatically be converted into a CBFR Rate Loan unless Borrower shall have given Lender notice in accordance with Section 3.05 requesting that, at the end of such Interest Period, all or a portion of such LIBOR Rate Loan be continued as a LIBOR Rate Loan for an additional Interest Period.

Section 3.05 Conversion and Continuation Procedure.

Borrower will give Lender written notice in the form of Exhibit 3.05 annexed hereto, which notices will be irrevocable, of each conversion of a CBFR Rate Loan or continuation of a LIBOR Rate Loan not later than 11:00 a.m., San Francisco time, on a Business Day which is not less than three Business Days before the date of the requested conversion or continuation, specifying (i) the requested date (which must be a Business Day) of such conversion or continuation; (ii) the amount of the loan to be converted or continued; (iii) whether such loan currently bears interest at the CBFR Rate minus the Applicable Margin or the Adjusted LIBOR Rate; and (iv) the duration of the Interest Period to be applicable thereto.

Section 3.06 Basis for Determining Interest Rate Inadequate or Unfair.

If with respect to an Interest Period for any LIBOR Rate Loan:

(a) Lender determines in good faith (which determination will be binding and conclusive on Borrower) that by reason of circumstances affecting the London interbank market adequate and reasonable means do not exist for ascertaining the applicable LIBOR Rate; or

(b) Lender reasonably determines (which determination will be binding and conclusive on Borrower) that the Adjusted LIBOR Rate will not adequately and fairly reflect the cost of maintaining or funding such LIBOR Rate Loan for such Interest Period, or that the making or funding of LIBOR Rate Loans has become impracticable as a result of an event occurring after the date of this Agreement which in the opinion of such Lender materially affects LIBOR Rate Loans;

then, (a) Lender will promptly notify Borrower thereof, and (b) so long as such circumstances continue, Lender will not be under any obligation to make any new LIBOR Rate Loan so affected.

Section 3.07 Changes in Law Rendering Certain Loans Unlawful.

In the event that any Regulatory Change should make it (or, in the good faith judgment of Lender, should raise substantial questions as to whether it is) unlawful for such Lender to make, maintain or fund a LIBOR Rate Loan, (i) Lender will promptly notify Borrower; (ii) the obligation of Lender to make LIBOR Rate Loans shall, upon the effectiveness of such event, be suspended for the duration of such unlawfulness; and (iii) upon such notice, any outstanding LIBOR Rate Loan will automatically convert into a CBFR Rate Loan.

Section 3.08 Increased Costs.

If any Regulatory Change,

(a) shall subject Lender to any tax (other than Excluded Taxes), duty or other charge with respect to any of its loans hereunder, or shall change the basis of taxation of payments to Lender of the principal or interest on its loans hereunder, or any other amounts due under this Agreement in respect of such loans, or its obligation to make loans hereunder;

(b) shall impose, modify or make applicable any reserve (including, without limitation, any reserve imposed by the Board of Governors of the Federal Reserve System, but excluding any reserve included in the determination of the Adjusted LIBOR Rate), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, Lender; or

(c) shall impose on Lender any other condition affecting its loans hereunder;

and the result of any of the foregoing is to increase the cost to (or in the case of Regulation D or any other analogous law, rule or regulation, to impose a cost on) Lender of making or maintaining any loans hereunder, or to reduce the amount of any sum received or receivable by Lender under this Agreement and any document or instrument related hereto; then within ten (10) Business Days of receipt of notice from Lender (which notice shall be sent to Borrower and shall be accompanied by a statement setting forth in reasonable detail the basis of such increased cost or other effect on the loans), Borrower shall pay directly to Lender such additional amount or amounts as will compensate Lender for such increased cost or such reduction.

Section 3.09 Capital Adequacy.

If any Regulatory Change affects the treatment of any loan hereunder as an asset or other item included for the purpose of calculating the appropriate amount of capital to be maintained by Lender or any corporation controlling Lender and has the effect of reducing the rate of return on Lender's or such corporation's capital as a consequence of the obligations of Lender hereunder to a level below that which Lender or such corporation could have achieved but for such Regulatory Change (taking into account Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed in good faith by Lender to be material, then Borrower shall pay to Lender, within ten (10) Business Days of a written notice from Lender (which notice shall be sent to Borrower and shall be accompanied by a statement setting forth in reasonable detail the basis of such increased cost or other effect on the loans), such additional amount or amounts as will compensate Lender or such corporation, as the case may be, for such reduction.

Section 3.10 Limitation on Prepayment.

A CBFR Rate Loan may be prepaid at the option of Borrower in whole or in part on any interest payment date without premium or penalty. A LIBOR Rate Loan may be prepaid at any time at the option of Borrower; provided, however, that prepayment prior to the last day of the Interest Period applicable thereto will require the payment by Borrower of the amount (if any) required by Section 3.11. All prepayments shall be accompanied by interest accrued on the amount prepaid through the date of prepayment.

Section 3.11 Funding Losses.

Borrower hereby agrees that upon demand by Lender (which demand shall be sent to Borrower and shall be accompanied by a statement setting forth in reasonable detail the basis for the calculations of the amount being claimed) Borrower will indemnify Lender against any loss or expense which Lender may sustain or incur (including, without limitation, any net loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by Lender to fund or maintain LIBOR Rate Loans and any loss of anticipated return), as reasonably determined by Lender, as a result of (i) any payment, prepayment or conversion of any LIBOR Rate Loan on a date other than the last day of an Interest Period for such loan whether or not required by any other provisions of this Agreement, or (ii) any failure of Borrower to obtain a LIBOR Rate Loan on a Borrowing Date or to convert a CBFR Rate Loan to a LIBOR Rate Loan or to continue a LIBOR Rate Loan at the end of any Interest Period, as specified by Borrower in a notice to Lender as set forth above.

Section 3.12 Conclusiveness of Statements.

A certificate of Lender setting forth in reasonable detail the calculation of the amount or amounts necessary to compensate such Lender or any corporation controlling Lender, as the case may be, as specified in Section 3.08, 3.09, 3.10 and 3.11 shall be delivered to the Borrower and shall be conclusive absent manifest error.

Section 3.13 Survival of Provisions.

The provisions of Sections 3.08, 3.09 and 3.11 shall survive the obligation of Lender to extend credit under this Agreement and the repayment of the Loans and the Letter of Credit Obligations; provided that Borrower shall not be under any obligation to compensate Lender under Section 3.08 or 3.09 above with respect to increased costs or reductions arising from any period prior to the date that is 180 days prior to the date of such request if Lender knew or could reasonably have been expected to be aware of the circumstances giving rise to such increased costs or reductions and of the fact that such circumstances would in fact result in a claim for increased compensation by reason of such increased costs or reductions; provided further that the foregoing limitation shall not apply to any increased costs or reductions arising out of the retroactive application of any law, regulation, rule, guideline or directive.

Section 3.14 Computations of Interest.

All computations of interest and other amounts due hereunder and fees and other amounts due under this Agreement will be based on a 360-day year using the actual number of days occurring in the period for which such interest, fees or other amounts are payable.

Section 3.15 Payments; Loan Accounts.

(a) Interest on all loans will be due and payable (i) in the case of a CBFR Rate Loan, monthly beginning on the last Business Day of the month in which Borrower obtains such CBFR Rate Loan and on the last Business Day of each month thereafter; (ii) in the case of a LIBOR Rate Loan, on the last Business Day of the applicable Interest Period (except that if the Interest Period is longer than three months, interest shall also be payable on the last Business Day of every third month in such Interest Period); and (iii) in the case of any loan, at the respective maturity of such loan, whether by acceleration or otherwise. All payments and prepayments of principal, interest and fees under this Agreement shall be made to Lender prior to 3:00 p.m., San Francisco time, in immediately available funds.

(b) The Loans and the Letters of Credit shall be evidenced by one or more accounts or records maintained by Lender or Issuing Bank, as the case may be, in the ordinary course of business. The accounts or records maintained by Lender and the Issuing Bank shall be conclusive absent manifest error of the amount of the Loans made by Lender to Borrower and the Letters of Credit issued for the account of Borrower, and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower hereunder to pay any amount owing with respect to the Loans or any Letter of Credit.

Section 3.16 Interest Following Event of Default.

From and after the occurrence and during the continuance of an Event of Default, the unpaid principal amount of all loans and all other amounts due and unpaid under this Agreement will bear interest until paid computed at a rate equal to 2% per annum in excess of the rate or rates otherwise payable hereunder.

Section 3.17 Deposits; Set Off.

Subject to any limitations set forth in the Pledge and Security Agreement, Borrower grants Lender, as security for the Obligations, a lien and security interest in any and all monies, balances, accounts and deposits (including certificates of deposit) of Borrower at Lender now or at any time hereafter. If any Event of Default occurs hereunder or any attachment of any balance of Borrower occurs, Lender may offset and apply any such security toward the payment of the Obligations, whether or not such Obligations, or any part thereof, shall then be due. Promptly upon its charging any account of Borrower pursuant to this Section, Lender shall give Borrower notice thereof.

Section 3.18 Authorization for Direct Payments (ACH Debits).

To effectuate any payment due under this Agreement or under any other Loan Agreement, Borrower hereby authorizes Lender to initiate debit entries to Borrower's Designated Account and to debit the same to such account. This authorization to initiate debit entries shall remain in full force and effect until Lender has received written notification of its termination in such time and in such manner as to afford Lender a reasonable opportunity to act on it. Borrower acknowledges: (1) that such debit entries may cause an overdraft of such account which may result in Bank's refusal to honor items drawn on such account until adequate deposits are made to such account; (2) that Bank is under no duty or obligation to initiate any debit entry for any purpose; and (3) that if a debit is not made because the above-referenced account does not have a sufficient available balance, or otherwise, the payment may be late or past due.

ARTICLE IV

CONDITIONS OF BORROWING

Without limiting any of the other terms of this Agreement, Lender shall not be required to make any Loan or other extension of credit to or on behalf of Borrower or issue any Letter of Credit hereunder:

Section 4.01 Representations.

Unless the representations and warranties contained in Article V hereof continue to be true and correct in all material respects on the date of such loan or extension of credit, except to the extent that any representation or warranty refers to an earlier date, in which case, such representation or warranty shall be true and correct in all material respects on such earlier date; and no Default or Event of Default hereunder shall have occurred and be continuing.

Section 4.02 Guaranty.

Unless prior to the initial extension of credit hereunder, the Guarantor shall have executed and delivered to Lender the Guaranty in form and substance acceptable to Lender.

Section 4.03 Pledge and Security Agreement.

Unless prior to the initial extension of credit hereunder, the Borrower and the Guarantor shall have executed and delivered to Lender the Pledge and Security Agreement in form and substance acceptable to Lender.

Section 4.04 Intellectual Property Agreement.

Unless prior to the initial extension of credit hereunder, each of the Loan Parties, as applicable, shall have executed and delivered to Lender appropriate Intellectual Property Security Agreements covering all rights of the Loan Parties in and to patents and trademarks as disclosed in the Pledge and Security Agreement, in form and substance acceptable to Lender, for filing in the U.S. Patent and Trademark Office.

Section 4.05 Filings.

Unless any documents (including, without limitation, financing statements) required to be filed, registered or recorded in order to create, in favor of Lender, perfected security interests in the collateral in the jurisdictions listed on Schedule H to the Pledge and Security Agreement shall have been properly filed, registered or recorded in each office in each such jurisdiction which such filings, registrations and recordations are required, in each case, to the extent required by the Pledge and Security Agreement; Lender shall have received acknowledgment copies of all such filings, registrations and recordations stamped by the appropriate filing, registration or recording officer (or, in lieu thereof, other evidence satisfactory to Lender that all such filings, registrations and recordations have been made); and Lender shall have received such evidence as it may deem satisfactory that all necessary filing, recording and other similar fees, and all taxes and other expenses related to such filings, registrations and recordings have been paid in full.

Section 4.06 Priority.

Unless Lender shall have received, in form and substance satisfactory to Lender, (i) payoff statements and lien releases reasonably requested by Lender and (ii) such lien searches and other evidence of lien priority covering the security interest granted to Lender hereunder as Lender may require.

Section 4.07 Counsel Opinion.

Unless prior to the initial extension of credit hereunder Lender shall have received from counsel to the Loan Parties, satisfactory opinions as to such matters relating to the Loan Parties, the validity and enforceability of this Agreement, the Loans to be made hereunder and the other Loan Documents as Lender shall reasonably require. The Loan Parties shall execute and/or deliver to Lender or its counsel such documents concerning their corporate status and the authorization of such transactions as may be requested.

Section 4.08 Borrowing Base Certificate.

Unless Lender shall have received a Borrowing Base Certificate in the form of Exhibit 4.09 hereto, certified by the chief financial officer of the Borrower (a) with respect to the initial credit extension, dated as of a date not earlier than five Business Days prior to such credit extension, and (b) with respect to each credit extension, a current Borrowing Base Certificate as provided in Section 7.06(c).

Section 4.09 Proceedings Satisfactory.

Unless all proceedings taken in connection with the transactions contemplated by this Agreement, and all instruments, authorizations and other documents applicable thereto, shall be satisfactory in form and substance to Lender and its counsel.

Section 4.10 Other Documents.

Unless the Loan Parties shall have executed and delivered to Lender such other documents as Lender may in its sole discretion require.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

In order to induce Lender to make the Loans and other financial accommodations as provided herein, Borrower represents and warrants to Lender as follows as of the date of this Agreement and each request by Borrower for a Loan or other extension of credit hereunder shall constitute a representation and warranty by Borrower that all such representations and warranties remain true in all material respects on and as of the date of such requested Loan or extension of credit, except as disclosed by Borrower in the applicable Loan request or in the Disclosure Letter and except to the extent any representation or warranty refers to an earlier date, in which case, such representation or warranty shall be true and correct in all material respects on such earlier date:

Section 5.01 Organization.

Borrower and each of the other Loan Parties is duly organized and existing, to the extent applicable, in good standing or active status under the laws of the jurisdiction under which it was formed or organized, and has all requisite power and authority, corporate or otherwise, to conduct its business and to own its properties. As of the date hereof, Borrower has no Subsidiaries other than those listed on Schedule 5.01 of the Disclosure Letter, which may be updated from time to time by written notice from Borrower to Lender provided that Borrower is in compliance with Section 7.09 and Section 7.10 hereof. Borrower is duly licensed or qualified to do business in all jurisdictions in which such qualification is required, and failure to so qualify could reasonably be expected to result in a Material Adverse Change.

Section 5.02 Authority.

The execution, delivery and performance of the Loan Documents are within the corporate or limited liability company powers of Borrower, have been duly authorized by all necessary action by the Borrower and do not and will not (i) require any consent or approval of the equity holders of Borrower which has not been obtained, (ii) violate any provision of the Organizational Documents of Borrower or of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Borrower or any Subsidiary; (iii) require the consent or approval of, or filing or registration with, any governmental body, agency or authority (other than the filing of the UCC-1 Financing Statements and other filings to perfect the security interests created by the Pledge and Security Agreement); or (iv) result in a breach of or constitute a default under, or result in the imposition of any lien, charge or encumbrance upon any property of Borrower or any Subsidiary pursuant to, any indenture or other agreement or instrument under which Borrower or any Subsidiary is a party or by which it or its properties may be bound or affected. This Agreement constitutes, and each of the Loan Documents when executed and delivered hereunder will constitute, legal, valid and binding obligations of Borrower or other signatory enforceable in accordance with its terms, except as such enforceability may be limited by bankruptcy or similar laws affecting the enforceability of creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 5.03 **Investment Company Act of 1940**.

Neither Borrower nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.04 **Employee Retirement Income Security Act**.

Neither Borrower nor any Subsidiary maintains any Plan or is required to contribute on behalf of its employees to any Plan. Neither Borrower nor any Subsidiary is a member of any Multiemployer Plan.

Section 5.05 **Financial Statements**.

The consolidated balance sheets of the Borrower and its Subsidiaries as of December 31, 2011, and the consolidated statements of operations and cash flow of the Borrower and its Subsidiaries for the year ended on that date, as audited by PricewaterhouseCoopers LLP and heretofore furnished to Lender, are correct and complete and fairly present in all material respects the financial condition of the Borrower and such Subsidiaries as of December 31, 2011, and the results of their operations for the fiscal year ended on that date. There has been no Material Adverse Change since the date of the last financial statements provided by Borrower to Lender. The unaudited consolidated balance sheets of the Borrower and its Subsidiaries as of March 31, 2012, and the unaudited consolidated statements of operations and cash flow of the Borrower and its Subsidiaries for the three-month period ended on that date, as prepared by management and heretofore furnished to Lender, are correct and complete and fairly present in all material respects the financial condition of Borrower and such Subsidiaries as of March 31, 2012, and the results of their operations for the three-month period ended on that date, subject to the absence of footnotes and audit and other normal year-end adjustments.

Section 5.06 **Dividends and Redemptions**.

As of the date of this Agreement, Borrower has not, since December 31, 2011, paid or declared any dividend, or made any other Distribution on account of any shares of any class of its stock, or redeemed, purchased or otherwise acquired, directly or indirectly, any shares of any class of its stock. As of the date of this Agreement, Borrower is not a party to any agreement which may require it to redeem, purchase or otherwise acquire any shares of any class of its stock.

Section 5.07 **Liens**.

Borrower and each Subsidiary has good and marketable title to all of its assets, real and personal, free and clear of all Liens, except Permitted Liens. All owned and leased buildings and equipment of Borrower and its Subsidiaries are in good condition, repair and working order in all material respects (subject to normal wear and tear and obsolescence) and, to the best of Borrower's knowledge and belief, conform in all material respects to all applicable laws, regulations and ordinances.

Section 5.08 Taxes.

Except as expressly disclosed in the financial statements referred to in Section 5.05 above, as of the date of this Agreement, neither Borrower nor any Subsidiary has any material outstanding unpaid tax liability (except for taxes which are currently accruing from current operations and ownership of property, which are not delinquent or are currently being contested in good faith by appropriate proceeding and for which Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves), and no material tax deficiencies have been proposed or assessed against Borrower or any Subsidiary (except for taxes which are currently being contested in good faith by appropriate proceeding and for which Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves).

Section 5.09 Absence of Litigation.

Except as set forth on Schedule 5.09 of the Disclosure Letter, neither Borrower nor any Subsidiary is a party to any litigation or administrative proceeding, nor so far as is known by Borrower is any litigation or administrative proceeding threatened in writing against it or any Subsidiary, which in either case (i) relates to the execution, delivery or performance of this Agreement or any of the Loan Documents, or (ii) could, if adversely determined, reasonably be expected to cause any Material Adverse Change.

Section 5.10 Absence of Default.

As of the date of this Agreement, no event has occurred which either of itself or with the lapse of time or the giving of notice or both, would give any creditor of Borrower or any Subsidiary the right to accelerate the maturity of any Indebtedness of Borrower or any Subsidiary. Neither Borrower nor any Subsidiary is in default under any other lease, agreement or instrument, or any law, rule, regulation, order, writ, injunction, decree, determination or award, non-compliance with which could reasonably be expected to cause a Material Adverse Change.

Section 5.11 No Burdensome Agreements.

Except as set forth on Schedule 5.11 of the Disclosure Letter, as it may be updated from time to time by written notice from Borrower to Lender, neither Borrower nor any Subsidiary is a party to any agreement, instrument or undertaking, or subject to any other restriction, (i) which could reasonably be expected to cause a Material Adverse Change, or (ii) under or pursuant to which Borrower or any Subsidiary is or will be required to place (or under which any other person may place) a Lien (other than a Permitted Lien) upon any of its properties securing Indebtedness either upon demand or upon the happening of a condition, with or without such demand.

Section 5.12 Trademarks, etc.

Borrower and its Subsidiaries possess or is licensed to use adequate trademarks, trade names, copyrights, patents, permits, service marks and licenses, or rights thereto, for the present and planned future conduct of their respective businesses substantially as now conducted, without any known conflict with the rights of others which could reasonably be expected to cause a Material Adverse Change.

Section 5.13 Leases.

Except as set forth on Schedule 5.13 of the Disclosure Letter, neither Borrower nor any Subsidiary is a party to any lease or similar arrangement (other than Capitalized Leases to the extent permitted hereunder), except those permitted by Section 6.09 hereof.

Section 5.14 Partnerships; Joint Ventures.

Neither Borrower nor any Subsidiary is a member of any partnership or joint venture, except as permitted pursuant to Section 6.10 hereof.

Section 5.15 Full Disclosure.

When taken as a whole together with Borrower's filings with the SEC, no information, exhibit or report furnished by Borrower or any Subsidiary to Lender in connection with the negotiation or execution of this Agreement contained any material misstatement of fact as of the date when made or omitted to state a material fact necessary to make the statements contained therein not misleading as of the date when made, provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time (it being understood and agreed that forecasts and projections are subject to contingencies and no insurance can be given that any forecast or projection will be realized).

Section 5.16 Fiscal Year.

The fiscal year of Borrower and each Subsidiary ends on December 31 of each year.

Section 5.17 Environmental Matters.

Except as set forth on Schedule 5.17 of the Disclosure Letter:

(a) To Borrower's knowledge, there are no conditions which could reasonably be expected to subject Borrower or any Subsidiary to damages, penalties, injunctive relief or cleanup costs under any Environmental Laws or which require or could reasonably be expected to require cleanup, removal, remedial action or other response pursuant to Environmental Laws by Borrower or any Subsidiary, in each case, that could reasonably be expected to cause a Material Adverse Change;

(b) Neither Borrower nor any Subsidiary is subject to any judgment, decree, order or citation related to or arising out of Environmental Laws and neither Borrower nor any Subsidiary has been named or listed as a potentially responsible party by any Governmental Authority in a matter arising under any Environmental Laws that could reasonably be expected to cause a Material Adverse Change; and

(c) Borrower and each Subsidiary has all permits, licenses and approvals required under Environmental Laws where the failure to obtain such permits, licenses and approvals could reasonably be expected to cause a Material Adverse Change.

Section 5.18 Solvency.

As of the date of this Agreement, and immediately prior to and after giving effect to the issuance of each Letter of Credit and the advance of each Loan hereunder and the use of the proceeds thereof, (a) the assets of Borrower and Guarantor will exceed their respective liabilities and (b) each of Borrower and Guarantor will be solvent, will be able to pay its debts as they mature, will own property with fair salable value greater than the amount required to pay its debts and will have capital sufficient to carry on its business as then constituted.

ARTICLE VI

NEGATIVE COVENANTS

While any part of the credit granted to Borrower is available and while any part of the principal of or interest on any Loan or any of the other Obligations (other than contingent obligations not yet payable and Banking Services Obligations subject to cash collateralization or other arrangements reasonably satisfactory to Lender or the Issuing Bank) remains unpaid, Borrower shall not do any of the following, or permit any Subsidiary to do any of the following, without the prior written consent of Lender:

Section 6.01 Restriction of Indebtedness.

Create, incur, assume or have outstanding any Indebtedness, except:

(a) the Obligations under this Agreement and the other Loan Documents;

(b) other Indebtedness listed on Schedule 6.01 to the Disclosure Letter, and any extensions, refinancings, renewals and replacements of such Indebtedness, provided that the principal amount of such Indebtedness shall not be increased;

(c) Indebtedness secured by Liens described in clause (4) of the definition of "Permitted Liens", provided such Indebtedness does not exceed an aggregate of $2,000,000 outstanding at any one time;

(d) Intercompany debt arising from notes, loans or advances permitted pursuant to Section 6.05(c) and Section 6.05(h) of this Agreement;

(e) Guaranties by any Subsidiary of Indebtedness of Borrower, guaranties of any Subsidiary (other than Guarantor) of Indebtedness of any other Subsidiary, and guaranties by any Loan Party of Indebtedness of any other Loan Party;

(f) Indebtedness of any Person that becomes a Subsidiary after the date hereof pursuant to an Acquisition, to the extent permitted pursuant to Section 6.05(n); provided that such Indebtedness exists at the time such Person becomes a Subsidiary, is not created in contemplation of or in connection with such Person becoming a Subsidiary;

(g) Other unsecured Indebtedness with an aggregate outstanding principal amount not to exceed $1,000,000 at any time;

(h) Indebtedness arising from the honoring of a check, draft or similar instrument against insufficient funds or from the endorsement of instruments for collection in the ordinary course of business;

(i) Indebtedness arising in connection with customary cash management services and from the honoring by a bank or financial institution of a check, draft or similar instrument drawn against insufficient funds, in each case in the ordinary course of business; provided that such Indebtedness is extinguished within five (5) Business Days after its incurrence;

(j) customer deposits and advance payments received in the ordinary course of business from customers for goods or services purchased in the ordinary course of business;

(k) Indebtedness consisting of Permitted Derivative Obligations;

(l) Customary indemnification obligations pursuant to factoring or similar arrangements pursuant to a Permitted Factoring Agreement; and

(m) Subordinated Debt.

Section 6.02 Restriction on Liens.

Create or permit to be created or allow to exist any Lien on any property or asset now owned or hereafter acquired by Borrower or any Subsidiary, except Permitted Liens.

Section 6.03 Sale and Leaseback.

Enter into any agreement providing for the leasing by Borrower or a Subsidiary of property which has been or is to be sold or transferred by Borrower or a Subsidiary to the lessor thereof, or which is substantially similar in purpose to property so sold or transferred.

Section 6.04 Dividends and Redemptions.

Pay or declare any dividend, or make any other distribution on account of any shares of any class of its stock or other equity interests, or redeem, purchase or otherwise acquire directly or indirectly, any shares of any class of its stock or other equity interests (collectively, “Distributions”), except for (the following are referenced to herein as “Permitted Distributions”):

(a) Distributions payable in shares of stock or other equity interests of Borrower;

(b) Distributions paid to Borrower by any Subsidiary;

(c) Distributions paid to any Loan Party by any other Loan Party;

(d) Distributions paid by any Subsidiary that is not a Loan Party to Borrower or any Subsidiary;

(e) Borrower may make non-cash Distributions pursuant to and in accordance with stock option plans or other benefit plans for management, employees or other eligible service providers of the Borrower and its Subsidiaries, including net share settlements for the benefit of the participant income tax obligations in connection with vesting stock grants;

(f) Borrower may repurchase fractional shares of its Equity Interests arising out of stock dividends, splits or combinations or business combinations;

(g) Borrower may receive or accept the return to the Borrower of its shares of stock or other equity interests constituting a portion of the purchase price consideration in settlement of indemnification claims;

(h) payments or distributions to dissenting stockholders required by applicable law; and

(i) other Distributions not to exceed $500,000 in any fiscal year provided that no Default or Event of Default shall have occurred, or would occur after giving effect to such distribution.

Section 6.05 Acquisitions and Investments.

Make any Acquisition or Investment, except:

(a) Investments in cash and Cash Equivalents;

(b) loans and advances made to employees and agents in the ordinary course of business, such as travel and entertainment advances and similar items;

(c) Intercompany notes, loans and advances between any Loan Party and any Affiliate of such Loan Party, provided that the aggregate outstanding amount thereof (valued at the amount of the original investment, without adjustment for any gain or loss) shall not at any time exceed $5,000,000;

(d) credit extended to customers in the ordinary course of business on customary trade terms;

(e) Investments listed on Schedule 6.05 of the Disclosure Letter, provided that such Investments shall not be increased;

(f) other Investments in an aggregate amount not to exceed $1,000,000 in any fiscal year;

(g) Investments consisting of Permitted Derivative Obligations;

(h) Investments (i) by a Loan Party into a Subsidiary which is not a Loan Party in an amount not to exceed the Threshold Amount in any fiscal year, (ii) by a Loan Party into another Loan Party, and (iii) by a Subsidiary which is not a Loan Party into another Subsidiary or a Loan Party;

(i) Investments by the Borrower and its Subsidiaries existing on the date hereof in the equity interests of its Subsidiaries as set forth on Schedule 6.05 of the Disclosure Letter;

(j) guarantees constituting Indebtedness permitted by Section 6.01;

(k) any prepayments and other credits to suppliers or vendors made in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss or in connection with a bankruptcy or reorganization;

(l) Investments of any Person that becomes a Subsidiary after the date hereof, provided that (i) such Investments exist at the time that such Person becomes a Subsidiary and (ii) such Investments were not made in anticipation of such Person becoming a Subsidiary;

(m) Investments permitted under Section 6.06; and

(n) Acquisitions meeting the following criteria: (i) the Person or assets being acquired shall be in the same line or lines of business as Borrower or in a line of business reasonably related thereto; (ii) the board of directors or other governing body of the selling party shall have approved the Acquisition; (iii) no additional Indebtedness shall be incurred in connection with such Acquisition, except for Indebtedness that exists at the time such Person becomes a Subsidiary and is not created in contemplation of or in connection with such Person becoming a Subsidiary, to the extent permitted in this Section 6.05(n); (iv) Borrower shall furnish to Lender, at least 5 Business Days prior to the closing of such Acquisition, a closing statement showing sources and uses of funds for such Acquisition and pro forma financial statements of Borrower and its Subsidiaries in reasonable detail giving effect to the Acquisition showing compliance with Section 7.01 hereof upon closing of the Acquisition; (v) the aggregate total consideration paid by Borrower in cash and other property (including earnouts or other contingent purchase price adjustments and any additional Indebtedness permitted to be incurred in connection with such Acquisitions pursuant to Section 6.01(f)) for any such Acquisitions shall not exceed $12,500,000 during the term of this Agreement, (vi) with respect to an Acquisition of a general partnership interest, Borrower shall not be a general partner in a partnership or otherwise have unlimited liability for the obligations of any partnership or joint venture; (vii) no Default or Event of Default shall have occurred, or would occur after giving effect to the Acquisition; and (viii) the representations and warranties set forth in Article V will be true and correct before and after giving effect to such Acquisition.

Section 6.06 Liquidation; Merger; Disposition of Assets.

Liquidate or dissolve, except that a (i) Loan Party may liquidate or dissolve provided that its assets are transferred to another Loan Party and (ii) any other Subsidiary may liquidate or dissolve provided that its assets are transferred to a Loan Party or another Subsidiary; or merge with or into or consolidate with or into any other corporation or entity except (i) pursuant to an Acquisition permitted under this Agreement provided that the Borrower is the surviving entity or (ii) a merger of a wholly-owned Subsidiary into Borrower or another wholly-owned Subsidiary or a merger of one Loan Party with or into another Loan Party; or sell, lease, transfer or otherwise dispose of all or any substantial part of its property, assets or business (other than Permitted Dispositions), or any stock of any Loan Party or any Subsidiary.

Section 6.07 Accounts Receivable.

Discount or sell with recourse, or sell for less than the face amount thereof, any of its notes or accounts receivable, whether now owned or hereafter acquired, except for (a) transactions pursuant to Permitted Factoring Agreements and (b) discounts made in the ordinary course of business and consistent with past practices.

Section 6.08 Leases.

Incur or permit to be outstanding lease or rental obligations as lessee of real or personal property under leases which are not Capitalized Leases, exceeding in the aggregate (for Borrower and all Subsidiaries) for any fiscal year of the Borrower, $12,500,000.

Section 6.09 Affiliates.

Suffer or permit any transaction with any Affiliate, except:

(a) on terms not less favorable to Borrower or Subsidiary than would be usual and customary in similar arms-length transactions with non-affiliated persons.

(b) the payment of reasonable fees, compensation or employee benefit arrangements to, and any indemnity provided for the benefit of, directors of Borrower in the ordinary course of business and consistent with industry practice;

(c) the payment of compensation to officers and other employees of Borrower in the ordinary course of business and consistent with industry practice;

(d) severance arrangements entered into in the ordinary course of business and consistent with industry practice;

(e) transactions permitted under Sections 6.01, 6.04, 6.05 and 6.06; and

(f) service, cost-sharing, subscription and management agreements entered into between or among Borrower or any Subsidiary in the ordinary course of business, consistent with past practices and on an arm's-length basis.

Section 6.10 Partnerships; Joint Ventures.

Become a member of any partnership or joint venture, except as permitted in Section 6.05(f).

Section 6.11 Fiscal Year.

Change its fiscal year.

Section 6.12 Liens on Foreign Subsidiaries.

Permit any foreign Subsidiary to create or permit to exist any Lien on its assets, other than Permitted Liens.

Section 6.13 Derivatives.

Enter into any Derivative Contract except Permitted Derivative Obligations.

Section 6.14 Restrictive Agreements.

Enter into, or permit to exist, any agreement or other arrangement that prohibits, restricts, or imposes any condition upon (a) the ability of Borrower or any Subsidiary to create, incur, or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to Borrower or any other Subsidiary or to guaranty indebtedness of Borrower or any other Subsidiary, provided that (i) the foregoing shall not apply to restrictions imposed by law or by this Agreement or the other Loan Documents, (ii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary or assets pending such sale, provided that such restrictions and conditions apply only to the Subsidiary that is, or the assets that are, to be sold and such sale is a Permitted Disposition, (iii) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to a Permitted Lien if such restrictions or conditions apply only to the property or assets subject to such Permitted Lien, (iv) the foregoing shall not apply to customary provisions in leases, licenses and other contracts restricting the assignment, subletting or encumbrance thereof, provided that the Loan Parties shall use commercially reasonable efforts not to enter into leases, licenses and other contracts containing such provisions and (v) the foregoing shall not apply to restrictions on cash or other deposits permitted pursuant to the terms of this Agreement which are imposed by customers of the Borrower or any Subsidiary under contracts entered into in the ordinary course of business.

ARTICLE VII

AFFIRMATIVE COVENANTS

While any part of the credit granted to Borrower is available and while any part of the principal of or interest on any Loan or any of the other Obligations remains unpaid (other than contingent obligations not yet payable and Banking Services Obligations subject to cash collateralization or other arrangements reasonably satisfactory to Lender or the Issuing Bank), and unless waived in writing by Lender, Borrower shall:

Section 7.01 Financial Status.

Maintain:

(a) Consolidated Funded Debt to EBITDA Ratio as of the end of each fiscal quarter of not more than (a) for each fiscal quarter ending on or before June 30, 2014, 2.0 to 1.0; and (b) for each fiscal quarter ending thereafter, 1.75 to 1.0; and

(b) Liquidity of not less than $50,000,000 at all times.

Section 7.02 Insurance.

Keep and maintain, at its sole cost and expense: (a) the Collateral insured for the full insurable value against all hazards and risks ordinarily insured against by other owners or users of such properties in similar businesses; and (b) business interruption insurance and public liability and property damage insurance relating to Borrower's ownership and use of its assets. All such policies of insurance shall be in a form, with insurers and in such amounts as may be reasonably satisfactory to Lender from time to time. Upon Lender's request, Borrower shall deliver to Lender a copy of each policy of insurance, or a certificate of insurance, and evidence of payment of all premiums for each such policy. Such policies of insurance (except those of public liability) shall contain a standard form lender's loss payable clause, in form and substance acceptable to Lender, showing loss payable to Lender, and shall provide that: (i) the insurance companies shall endeavor to give Lender at least thirty (30) days written notice before any such policy or policies of insurance shall be altered or canceled (with the exception of cancellation due to nonpayment of premium; which will be ten (10) days written notice); and (ii) no act or default of Borrower or any other Person shall affect the right of Lender to recover under such policy or policies of insurance in case of loss or damage. Borrower assigns to Lender and hereby directs all insurers under such policies of insurance (except those of public liability) to pay all proceeds payable thereunder and any premium refunds directly to Lender at any time when a Default or Event of Default has occurred or is continuing. After the occurrence and during the continuance of an Event of Default, Borrower hereby authorizes Lender to (a) make, in the name of Borrower or otherwise, settle, and adjust claims under such policies of insurance and endorse the name of Borrower on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and to apply such proceeds and refunds to restoration of the Collateral or (b) apply such proceeds and refunds to any unpaid balance of the Obligations whether or not due, and/or to restoration of the Collateral, returning any excess to Borrower. Loss of or damage to the Collateral shall not release Borrower from any of the Obligations. If no Default or Event of Default has occurred and is continuing, Borrower may directly collect insurance not in excess of the Threshold Amount, provided that any such proceeds must be applied toward restoration of the Collateral or the purchase of other assets for use in Borrower's business within 180 days after receipt.

Section 7.03 Corporate Existence; Obligations.

Do, and cause each Subsidiary to do, all things necessary to: (i) maintain its corporate existence (except for mergers permitted by Section 6.06) and all rights and franchises necessary or desirable for the conduct of its business, except where the failure to do so would not reasonably be expected to cause a Material Adverse Change; (ii) comply with all applicable laws, rules, regulations and ordinances, and all restrictions imposed by Governmental Authorities, including Environmental Laws, except where non-compliance would not reasonably be expected to cause a Material Adverse Change; and (iii) pay, before the same become delinquent and before penalties accrue thereon, all material taxes, assessments and other governmental charges against it or its property, and all of its material Indebtedness and other liabilities (including without limitation all liabilities for wages or other compensation of employees), except to the extent and so long as the same are being contested in good faith by appropriate proceedings in such manner as not to cause any Material Adverse Change, with adequate reserves provided for such payments.

Section 7.04 Business Activities.

Continue to carry on its business activities in substantially the manner such activities are conducted on the date of this Agreement and not make any material change in the nature of its business.

Section 7.05 Properties.

Keep and cause each Subsidiary to keep its properties (whether owned or leased) in good condition, repair and working order, ordinary wear and tear and obsolescence excepted, and make or cause to be made from time to time all necessary repairs thereto (including external or structural repairs) and renewals and replacements thereof.

Section 7.06 **Accounting Records; Reports.**

Maintain and cause each Subsidiary to maintain a standard and modern system for accounting in accordance with GAAP consistently applied throughout all accounting periods and consistent with those applied in the preparation of the financial statements referred to in Section 5.05; and furnish to Lender such information respecting the business, assets and financial condition of Borrower and its Subsidiaries as Lender may reasonably request and, without request, furnish to Lender:

(a) Within 45 days after the end of each fiscal quarter of Borrower (i) consolidated balance sheets of Borrower and its Subsidiaries as of the close of such quarter and of the comparable quarter in the preceding fiscal year; and (ii) consolidated statements of income and cash flow of Borrower and its Subsidiaries for such quarter and for that part of the fiscal year ending with such quarter and for the corresponding periods of the preceding fiscal year; all in reasonable detail and certified as true and correct (subject to the absence of footnotes, and audit and normal year-end adjustments) by the chief financial officer of the Borrower and accompanied by the compliance certificate required pursuant to clause (l) of this Section 7.06; and

(b) As soon as available, and in any event within 120 days after the close of each fiscal year of Borrower, a copy of the audit report for such year and accompanying consolidated financial statements of Borrower and its Subsidiaries, as prepared by independent public accountants of recognized standing selected by Borrower and satisfactory to Lender, which audit report shall be accompanied by an opinion of such accountants, in form satisfactory to Lender, to the effect that the same fairly present in all material respects the financial condition of Borrower and its Subsidiaries and the results of its and their operations as of the relevant dates thereof and covered thereby; and, when available, copies of any management letters issued by such accountants in connection with any such audit and the compliance certificate required pursuant to clause (l) of this Section 7.06; and

(c) Within 30 days after each month-end during which any Revolving Loan is outstanding (for the avoidance of doubt, the deliveries required by this clause (c) shall not be required at any time when Letters of Credit, but no Revolving Loans, are outstanding) if , (i) a Borrowing Base Certificate as of the last day of such month, certified by the chief financial officer of Borrower, (ii) a true and correct schedule of Borrower's accounts receivable as of the last day of such month, stating the debtor's name and amount owed, whether the debtor is foreign or domestic, and the age of all accounts receivable by invoice date and debtor and a reconciliation of collateral; and, (iii) a true and correct schedule of Borrower's accounts payable as of the last day of such month, stating the creditor's name and amount owed, and age of all accounts payable by invoice date, and (iv) such additional documentation as Lender may reasonably request; provided, that Lender may require Borrower to deliver Borrowing Base Certificates more frequently if an Event of Default has occurred and is continuing; and

(d) Within 60 days after the end of each fiscal year-end, financial projections of Borrower and its Subsidiaries for the current fiscal year, including a quarterly income statement and balance sheet detail; and

(e) Within 45 days after the end of each fiscal quarter of Borrower, true and correct schedule of Borrower's accounts receivable as of the last day of such quarter, stating the debtor's name and amount owed, and the age of all accounts receivable by invoice date and debtor and a reconciliation of collateral; and

(f) Within 45 days after the end of each fiscal quarter of Borrower, brokerage statements with respect to any brokerage accounts which have been included in the calculation of Liquidity and which are not held at Lender; and

(g) Upon the request of Lender, annual contract value estimates; and

(h) Promptly, and in any event with 10 days after Borrower becomes aware thereof, notice of any cancellation or other material change in insurance coverage; and

(i) Promptly, and in any event within 5 days, after Borrower has knowledge thereof a statement of the chief financial officer of Borrower describing: (i) any event which, either of itself or with the lapse of time or the giving of notice or both, would constitute a default hereunder or receipt of a notice of default under any other material agreement to which Borrower or any Subsidiary is a party, together with a statement of the actions which Borrower proposes to take with respect thereto; (ii) any pending or threatened litigation or administrative proceeding of the type described in Section 5.10; and (iii) any fact or circumstance which could reasonably be expected to cause a Material Adverse Change; and

(j) (i) Promptly, and in any event within 5 days, after Borrower knows that any Reportable Event with respect to any Plan has occurred, a statement of the chief financial officer of Borrower setting forth details as to such Reportable Event and the action which Borrower proposes to take with respect thereto, together with a copy of any notice of such Reportable Event given to the Pension Benefit Guaranty Corporation if a copy of such notice is available to Borrower, (ii) promptly after the filing thereof with the Internal Revenue Service, copies of each annual report with respect to each Plan administered by Borrower and (iii) promptly after receipt thereof, a copy of any notice (other than a notice of general application) Borrower, any Subsidiary or any member of the Controlled Group may receive from the Pension Benefit Guaranty Corporation or the Internal Revenue Service with respect to any Plan administered by Borrower; and

(k) As soon as available, copies of all reports or materials submitted or distributed to shareholders of Borrower or filed with the SEC and any material reports or materials distributed to any other governmental agency having regulatory authority over Borrower or any Subsidiary or with any national securities exchange, exclusive of customer or routine filings with tax authorities, provided that such reports or materials shall be deemed to have been delivered on the date on which such documents are filed for public availability on the SEC's Electronic Data Gathering and Retrieval System; provided that the Borrower shall upon request provide to Lender by electronic mail electronic versions (i.e., soft copies or links to access such documents) of such documents; and

(l) Promptly upon receipt, copies of any correspondence, notice, pleading, citation, indictment, complaint, order, decree, or other document from any source asserting or alleging a circumstance or condition which requires or may require a financial contribution by Borrower or any Subsidiary or a cleanup, removal, remedial action, or other response by or on the part of Borrower or any Subsidiary under Environmental Laws or which seeks damages or civil, criminal or punitive penalties from Borrower or any Subsidiary for an alleged violation of Environmental Laws; and

(m) Together with the financial statements referred to in (a) and (b) above, a certificate by the chief financial officer of Borrower showing computations demonstrating compliance or non-compliance with Section 7.01 and stating that, as of the close of the last period covered in such financial statements, no condition or event had occurred which constitutes a default hereunder or which, after notice or lapse of time or both, would constitute a default hereunder (or if there was such a condition or event, specifying the same).

Section 7.07 Inspections; Verification.

Permit representatives of Lender to visit and inspect any of the properties of Borrower, any of the Collateral and any properties of any Subsidiary and examine, audit, review and copy any of the books and records of Borrower and its Subsidiaries at any reasonable time, upon reasonable prior notice during normal business hours (but not more than once per fiscal year unless an Event of Default exists), and to discuss the affairs of Borrower and its Subsidiaries with any of their respective directors, officers, and independent accountants.

Notwithstanding the foregoing, neither Borrower nor its Subsidiaries shall be required to disclose or discuss, or permit the inspection, examination or making of extracts of, any document, book, record or other matter that (i) constitutes non-financial trade secrets or non-financial proprietary information, or (ii) in respect of which disclosure to Lender or its representatives is then prohibited by applicable law.

Section 7.08 Deposit Accounts, Etc.

Within 90 days after the date of this Agreement with respect to domestic accounts, and within 180 days of this Agreement with respect to all other accounts, and at all times thereafter, maintain its primary operating deposit and disbursement accounts with Lender, including for the maintenance of operating, administrative, cash management, collection activity and other deposit accounts for the conduct of its business.

Section 7.09 Additional Domestic Subsidiaries.

Notify the Lender of the creation or acquisition of any domestic Subsidiary having assets with a book value in excess of $250,000 and promptly thereafter (and in any event within thirty (30) days after (a) such creation or acquisition or (b) any domestic Subsidiaries which have not been previously disclosed, individually or in the aggregate, have assets with a book value in excess of $250,000), cause such Person to (i) become a Guarantor by delivering to Lender a duly executed supplement to the Pledge and Security Agreement or such other document as Lender shall deem appropriate for such purpose, (ii) grant a security interest in all Collateral (subject to the exceptions specified in the Pledge and Security Agreement) owned by such Subsidiary by delivering to Lender a duly executed supplement to each document as Lender shall deem appropriate for such purpose and comply with the terms of each Loan Document, (iii) deliver to Lender such documents and certificates as may be reasonably requested by Lender, (iv) deliver to the Lender such original stock certificates or other certificates and stock or other transfer powers evidencing the equity interests of such Person, (v) deliver to Lender such updated Schedules to the Loan Documents as requested by Lender with respect to such Person, and (vi) deliver to Lender such other documents as may be reasonably requested by Lender, all in form, content and scope reasonably satisfactory to the Administrative Agent.

Section 7.10 Foreign Subsidiaries; Further Assurances.

(a) Notify the Lender of the creation or acquisition of any foreign Subsidiary having assets with a book value in excess of $250,000 and promptly thereafter (and in any event within thirty (30) days after (a) such creation or acquisition or (b) any foreign Subsidiaries which have not been previously disclosed, individually or in the aggregate, have assets with a book value in excess of $250,000), enter into such pledge agreements and other security documentation pledging the equity interests of such foreign Subsidiaries as Lender may reasonably request, provided that (i) the Loan Parties shall not be required to pledge greater than 65% of the voting equity interests of such foreign Subsidiaries and (ii) no pledge shall be required with respect to any foreign Subsidiary to the extent that such foreign Subsidiary is not a direct Subsidiary of a Loan Party. Notwithstanding the anything to the contrary contained in this Agreement, Borrower shall not be required to cause any foreign Subsidiary to pledge its assets to Lender or to become a Guarantor or a co-borrower under this Agreement.

(b) At all times maintain the security interest created by the Loan Documents in accordance with the terms thereof, subject to the rights of Lender to dispose of the Collateral pursuant to the Loan Documents.

(c) Make, execute and deliver all such additional and further acts, things, deeds, instruments and documents as Lender may reasonably require for the purposes of implementing or effectuating the provisions of this Agreement and the other Loan Documents, or of renewing the rights of Lender with respect to the Collateral as to which Lender has a perfected Lien pursuant hereto or thereto, including, without limitation, filing any financing or continuation statements under the UCC (or other similar laws) in effect in any jurisdiction with respect to the security interests created hereby or by the other Loan Documents and delivering such additional pledge agreements and other security documentation and such opinions of counsel as Lender may reasonably require.

Section 7.11 Post-Closing Matters.

Deliver, or cause to be delivered, to Lender each of the following deliveries within the time period provided for such delivery, as such time periods may be extended by Lender in its sole discretion:

(a) Within 30 days of the date hereof, insurance certificates satisfying the requirements set forth in Section 7.02 hereof;

(b) Within 30 days of the date hereof, evidence that the security interest filed with the United States Patent and Trademark Office in favor of Wells Fargo Capital Finance, Inc. against the “SERVICESOURCE” trademark (US TM Reg. No. 3746639) has been terminated; and

(c) Within 45 days of the date hereof, any stock certificates or other physical collateral required to be delivered to the Lender pursuant to Section 4.4(a) of the Pledge and Security Agreement.

ARTICLE VIII

DEFAULTS

Section 8.01 Defaults.

The occurrence of any one or more of the following events shall constitute an “Event of Default”:

(a) Borrower shall fail to pay (i) any interest due on any Loan, or any other amount payable hereunder (other than a principal payment on any Loan) by five days after the same becomes due; or (ii) any principal amount due on any Loan when due;

(b) Borrower shall default in the performance or observance of any agreement, covenant, condition, provision or term contained in Article VI or Section 7.01 or 7.06 of this Agreement;

(c) Any Loan Party shall default in the performance or observance of any of the other agreements, covenants, conditions, provisions or terms in this Agreement or any Loan Document and such default continues for a period of thirty (30) days after written notice thereof is given to Borrower by Lender;

(d) Any representation or warranty made by any Loan Party herein or in any other Loan Document or any certificate delivered pursuant hereto, or any financial statement delivered to Lender hereunder, shall prove to have been false in any material respect as of the time when made or given;

(e) Any Loan Party shall fail to pay as and when due and payable (whether at maturity, by acceleration or otherwise) all or any part of the principal of or interest on any Indebtedness of or assumed by it, in an amount which is, individually or in the aggregate with all other amounts described in this clause (e), in excess of the Threshold Amount, and such default shall not be cured within the period or periods of grace, if any, specified in the instruments governing such obligations; or default shall occur under any evidence of, or any indenture, lease, agreement or other instrument governing such obligations and such obligations are, individually or in the aggregate with all other amounts described in this clause (e), in excess of the Threshold Amount, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such Indebtedness; provided, however, that no default shall be deemed to have occurred under this clause (e) in connection with obligations which are being contested in good faith by appropriate proceedings and for which adequate reserves have been set aside in accordance with GAAP, provided that the other party to such dispute has not, and is not entitled to, place any Lien on any property of the Borrower or any Subsidiary in connection with such disputed obligation, other than Permitted Liens;

(f) A final judgment which, together with all other outstanding final judgments against any Loan Party and its Subsidiaries, or any of them, exceeds the Threshold Amount and is not either covered by insurance provided by a financially responsible insurance carrier or satisfied, bonded, stayed or insured within 60 days from the date of entry thereof;

(g) Any Loan Party shall: (i) become insolvent; or (ii) be unable, or admit in writing its inability, to pay its debts as they mature; or (iii) make a general assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its property; or (iv) become the subject of an "order for relief" within the meaning of the United States Bankruptcy Code; or (v) become the subject of a creditor's petition for liquidation, reorganization or to effect a plan or other arrangement with creditors; or (vi) apply to a court for the appointment of a custodian or receiver for any of its assets; or (vii) have a custodian or receiver appointed for any of its assets (with or without its consent); or (viii) have any of its assets garnished, seized or forfeited, or threatened with garnishment, seizure or forfeiture; (ix) otherwise become the subject of any insolvency proceedings, or propose or enter into any formal or informal composition or arrangement with its creditors; and, in the case of any involuntary proceeding, petition, garnishment, seizure or forfeiture of the type listed in subclauses (v), (viii) or (ix) above, the same shall continue undismissed or unstayed for sixty (60) days.

(h) This Agreement, or any Loan Document shall, at any time after their respective execution and delivery, and for any reason, cease to be in full force and effect or be declared null and void, or be revoked or terminated, or the validity or enforceability thereof or hereof shall be contested by any Loan Party or any shareholder of any Loan Party, or any Loan Party shall deny that it has any or further liability or obligation thereunder or hereunder, as the case may be;

(i) Any Reportable Event, which Lender determines in good faith to constitute grounds for the termination of any Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan, shall have occurred, or any Plan shall be terminated within the meaning of Title IV of ERISA, or a trustee shall be appointed by the appropriate United States District Court to administer any Plan, or the Pension Benefit Guaranty Corporation shall institute proceedings to terminate any Plan or to appoint a trustee to administer any Plan, and in case of any event described in the preceding provisions of this subsection (i) Lender determines in good faith that the aggregate amount of the liability of Borrower and its Subsidiaries to the Pension Benefit Guaranty Corporation under ERISA shall exceed the Threshold Amount and such liability is not covered, for the benefit of Borrower, by insurance; or any Loan Party or any Subsidiary shall become a member of a Multiemployer Plan; or

(j) Any Change of Control shall occur.

Section 8.02 Termination of Commitments and Acceleration of Obligations.

Upon the occurrence of any Event of Default:

(a) As to any Event of Default (other than an Event of Default under Section 8.01(g)) and at any time thereafter, and in each case, Lender may, by written notice to Borrower, immediately terminate the obligation of Lender to make Loans or other extensions of credit hereunder, and/or require Borrower to provide cash collateral for all Letter of Credit Obligations pursuant to Section 8.02(c), and/or declare the unpaid principal balance of the Loans, together with all interest accrued thereon, to be immediately due and payable; and the unpaid principal balance of and accrued interest on such Loans shall thereupon be due and payable without further notice of any kind, all of which are hereby waived, and notwithstanding anything to the contrary herein contained;

(b) As to any Event of Default under Section 8.01(g), the obligation of Lender to make Loans or other extensions of credit hereunder shall immediately terminate, Borrower shall be required to provide cash collateral for all Letter of Credit Obligations pursuant to Section 8.02(c), and the unpaid principal balance of all Loans, together with all interest accrued thereon, shall immediately and forthwith be due and payable, all without presentment, demand, protest, or further notice of any kind, all of which are hereby waived, notwithstanding anything to the contrary herein contained;

(c) When required pursuant to Section 8.02(a) or (b), Borrower shall immediately pay to Lender cash in the amount of 105% of all Letter of Credit Obligations to be held by Lender (without liability for interest thereon) as collateral for all such obligations and applied to obligations arising in connection with any drawing under a Letter of Credit. Such cash collateral shall be held in a deposit account with Lender, and Lender shall have exclusive dominion and control over such account and Borrower hereby grants to Lender a security interest in such account. After the expiration or termination of all Letters of Credit and the payment of all Letter of Credit Obligations, such cash collateral shall be applied by Lender to any remaining Obligations, and any excess shall be delivered to Borrower or as otherwise ordered by a court of competent jurisdiction; and

(d) As to each Event of Default, Lender shall have all the remedies for default provided by the Loan Documents, as well as applicable law.

ARTICLE IX

MISCELLANEOUS

Section 9.01 Expenses; Indemnity.

(a) Borrower shall pay or reimburse (i) Lender for all reasonable, documented out-of-pocket costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) paid or incurred by Lender in connection with the negotiation, preparation, execution, delivery, and administration of this Agreement the Loan Documents and any other document required hereunder or thereunder, including without limitation any amendment, supplement, modification or waiver of or to any of the foregoing and including all expenses reasonably deemed advisable by Lender to preserve the Collateral or to establish, determine priority of, perfect, continue perfected, terminate, and/or enforce

Lender's interest in the Collateral or Lender's rights under this Agreement; and (ii) Lender (including, for purposes of this Section, the Issuing Bank) for all reasonable, documented out-of-pocket costs and expenses (including, without limitation, reasonable attorneys' fees and expenses, including the fees and expenses of in-house counsel) paid or incurred by Lender or the Issuing Bank before and after judgment in enforcing, protecting or preserving its rights under this Agreement, the Loan Documents and any other document required hereunder or thereunder, including without limitation all reasonable expenses of taking possession, holding, preparing for disposition and disposing of Collateral and all expenses incurred in defending against any claim made against Lender by Borrower, any Subsidiary or any third party as a result of or in any way relating to any matter referred to in subsection (i) or (ii) of this Section.

(b) Borrower shall indemnify Lender (including for purposes of this Section, each Issuing Bank) against any and all documented losses, claims, damages, liabilities and expenses, (including, without limitation, reasonable attorneys' fees and expenses, including the fees and expenses of in-house counsel), incurred by Lender arising out of, in any way connected with, or as a result of (i) the use of any of the proceeds of any Loans made hereunder by Borrower or any subsidiary for the making or furtherance of any such acquisition or attempted acquisition, (ii) any breach or alleged breach by Borrower or any Subsidiary of or any liability or alleged liability of Borrower or any subsidiary under any Environmental Law, or any liability or alleged liability incurred by Lender under any Environmental Law in connection with this Agreement, any Loan Document or the transactions contemplated hereunder or thereunder, (iii) the negotiation, preparation, execution, delivery, administration, and enforcement of this Agreement, the Loan Documents and any other document required hereunder or thereunder, including without limitation any amendment, supplement, modification or waiver of or to any of the foregoing or the consummation or failure to consummate the transactions contemplated hereby or thereby, or the performance by the parties of their obligations hereunder or thereunder, (iv) any claim, litigation, investigation or proceedings related to any of the foregoing, whether or not Lender is a party thereto; provided, however, that such indemnity shall not apply to any such losses, claims, damages, liabilities or related expenses arising from the gross negligence or willful misconduct of Lender.

(c) The foregoing agreements and indemnities shall remain operative and in full force and effect regardless of termination of this Agreement, the consummation of or failure to consummate either the transactions contemplated by this Agreement or any amendment, supplement, modification or waiver, the repayment of any loans made hereunder, the invalidity or unenforceability of any term or provision of this Agreement or any Loan Document, or any other document required hereunder or thereunder, any investigation made by or on behalf of Lender, any Loan Party or any Subsidiary, or the content or accuracy of any representation or warranty made under this Agreement, any Loan Document or any other document required hereunder or thereunder.

Section 9.02 Tax Indemnification.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of Borrower hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, provided that if a Borrower shall be required by applicable law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) Borrower shall make such deductions and (iii) Borrower shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by Borrower. Without limiting the provisions of paragraph (a) above, Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by Borrower. Borrower shall indemnify Lender, within 10 days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by Lender, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to Borrower by Lender shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by Borrower to a Governmental Authority, Borrower shall deliver to Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to Lender.

(e) Treatment of Certain Refunds. If Lender determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by Borrower or with respect to which

Borrower has paid additional amounts pursuant to this Section, it shall pay to Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of Lender, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that Borrower, upon the request of Lender, agrees to repay the amount paid over to Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) by Lender in the event Lender is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to require Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to any Loan Party or any other Person.

Section 9.03 Successors.

The provisions of this Agreement shall inure to the benefit of Lender, and shall inure to the benefit of and be binding upon any successor to any of the parties hereto. No delay on the part of Lender in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any right, power or privilege hereunder preclude other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein specified are cumulative and are not exclusive of any rights or remedies which Lender would otherwise have.

Section 9.04 Amendments, Etc.

No waiver, amendment, settlement or compromise of any of the rights of Lender or Borrower under this Agreement or any of the Loan Documents shall be effective for any purpose unless it is in a written instrument executed and delivered by Lender and Borrower.

Section 9.05 Survival.

All agreements, representations and warranties made herein shall survive the execution of this Agreement and the making of the Loans hereunder.

Section 9.06 Governing Law.

This Agreement shall be governed by and construed in accordance with the internal laws of the State of California, except to the extent superseded by federal law.

Section 9.07 Counterparts.

This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which taken together shall constitute one and the same instrument. Signatures sent by facsimile and in portable document format (pdf) shall be deemed original signatures.

Section 9.08 Notices.

All communications or notices required under this Agreement shall be in writing and shall be deemed to have been given (i) on the date when sent by facsimile transmission to the facsimile number set forth below, provided that an electronic confirmation of delivery is received, or (ii) on the Business Day next following the day on which the notice is delivered, when sent by nationally recognized overnight delivery service, or upon the earlier of the date of receipt or five (5) days after such communication or notice is deposited in the United States mail, postage prepaid, in each case to the following address (unless and until any of such parties advises the other in writing of a change in such address):

If to Borrower:	ServiceSource International, Inc. 634 Second Street San Francisco, California 94107 Attention: General Counsel Facsimile No.: (415) 962-3230
With a copy to:	Wilson Sonsini Goodrich & Rosati 650 Page Mill Road Palo Alto, California 94304 Attention: Kathleen Rothman Facsimile No.: (650) 493-6811
If to Lender:	JPMorgan Chase Bank, N.A. 560 Mission Street, 4th Floor San Francisco, California 94105 Attention: Jeff De Rosa Facsimile No.: (415) 315-8385
With a copy to:	Heidi M. Furlong Foley & Lardner LLP 777 East Wisconsin Avenue Milwaukee, Wisconsin 53202 Facsimile No. (414) 297-4900

Section 9.09 Assignment; Participations.

(a) Assignment. Borrower may not assign any of its rights or obligations under this Agreement without the prior written consent of Lender. Lender may assign all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Loans and its Revolving Commitment); provided, however, that any such assignment must be to (1) an Affiliate of Lender (provided that such assignment does not increase Borrower's obligations under Section 9.02), or (2) any other Person approved by Borrower (such approval not to be unreasonably withheld or delayed); provided further that Borrower's consent is not required during the existence and continuation of an Event of Default. Upon execution, delivery, and acceptance of such assignment, the assignee thereunder shall be a party hereto and, to the extent of such assignment, have the obligations, rights, and benefits of a Lender hereunder and the assigning Lender shall, to the extent of such assignment, relinquish its rights and be released from its obligations under this Agreement.

(b) Participations. Lender may sell participations to one or more Persons in all or a portion of its rights, obligations or rights and obligations under this Agreement (including all or a portion of its Revolving Commitment and its Loans); provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participant shall be entitled to the benefit of the yield protection provisions contained in Article III, inclusive, and the right of set-off contained in Section 3.17, provided that any such participants, taken as a whole, shall not be entitled to receive such benefits in excess of those that would otherwise be given to Lender, and (iv) Borrower shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of Borrower relating to its Loans and to approve any amendment, modification, or waiver of any provision of this Agreement (other than amendments, modifications, or waivers decreasing the amount of principal of or the rate at which interest is payable on such Loans, extending any scheduled principal payment date or date fixed for the payment of interest on such Loans, or extending the Revolving Commitment).

(c) Nonrestricted Assignments. Notwithstanding any other provision set forth in this Agreement, Lender may at any time assign and pledge all or any portion of its Loans to any Federal Reserve Bank as collateral security pursuant to Regulation A and any operating circular issued by such Federal Reserve Bank. No such assignment shall release the assigning Lender from its obligations hereunder.

(d) Information. Lender may furnish any information concerning the Loan Parties in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants), provided that such assignee or participant (or prospective assignee or participant) agrees to be bound by the confidentiality restrictions of Section 9.10).

Section 9.10 Confidentiality.

Lender shall maintain, in accordance with its customary practices, the confidentiality of all information concerning the Loan Parties or any of their Subsidiaries furnished pursuant to this Agreement and designated by any Loan Party as confidential; provided, however, that Lender may disclose such information on a "need to know" basis to its employees, auditors, counsel or other professional advisors, and to its Affiliates that provide banking and other financial services to Borrower, but in each case such Persons shall be advised of the confidential nature of such information and instructed to keep such information confidential in accordance with this Section 9.10; provided, further, that Lender may disclose any such information (a) that has become generally available to the public other than through a breach of Lender's obligations under this Section 9.10, (b) if required or appropriate in any report, statement or testimony submitted to any regulatory body having or claiming to have jurisdiction over Lender, (c) if required or appropriate in response to any summons or subpoena or in connection with any litigation, (d) in order to comply with any law, order, regulation or ruling applicable to Lender, and (e) to any prospective or actual transferee in connection with any contemplated or actual transfer of any of the Loans or any interest therein by Lender; provided, that such actual or prospective transferee agrees to be bound by the provisions of this Section 9.10.

Section 9.11 Entire Agreement; No Agency.

This Agreement, including the Preamble and recitals set forth above and the Exhibits attached to this Agreement, and the other documents referred to herein, including the Disclosure Letter, all of which are incorporated into this Agreement by reference, contain the entire agreement between Lender and Borrower with respect to the subject matter hereof, superseding all previous communications and negotiations, and no representation, undertaking, promise or condition concerning the subject matter hereof shall be binding upon Lender unless clearly expressed in this Agreement or in the other documents referred to herein. Nothing in this Agreement or in the other documents referred to herein and no action taken pursuant hereto shall cause any Loan Party to be treated as an agent of Lender, or shall be deemed to constitute Lender and the Loan Parties a partnership, association, joint venture or other entity.

Section 9.12 No Third Party Benefit.

This Agreement is solely for the benefit of the parties hereto and their permitted successors and assigns. No other person or entity shall have any rights under, or because of the existence of, this Agreement.

Section 9.13 Governing Law; Jurisdiction; Consent to Service of Process.

(a) The Loan Documents (other than those containing a contrary express choice of law provision) shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the State of California, but giving effect to federal laws applicable to national banks.

(b) Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any U.S. Federal or California State court sitting in San Francisco, California in any action or proceeding arising out of or relating to any Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such California State court or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against Borrower or its properties in the courts of any jurisdiction.

(c) Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.08. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

Section 9.14 **<u>WAIVER OF JURY TRIAL</u>**

EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 9.15 Limitation of Liability.

To the extent permitted by applicable law, Borrower shall not assert, and hereby waives, any claim against Lender, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, any Loan or Letter of Credit or the use of the proceeds thereof.

Section 9.16 USA Patriot Act Notice.

Lender is subject to the USA Patriot Act (Title III of Pub.L. 107-56, signed into law October 26, 2001) (the "Act") and Lender hereby notifies Borrower that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies Borrower, which information includes the name and address of Borrower and other information that will allow Lender, to identify Borrower in accordance with the Act.

[Remainder of Page Intentionally Left Blank – Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

SERVICESOURCE INTERNATIONAL, INC.

By: ______________________________
Name: ______________________________
Title: ______________________________

JPMORGAN CHASE BANK, N.A.
As Lender and Issuing Bank

By: ______________________________
Name: ______________________________
Title: ______________________________

Exhibit 31.1

**CERTIFICATION PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael A. Smerklo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ServiceSource International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2012

By: /s/ Michael A. Smerklo
Name: Michael A. Smerklo
Title: Chairman of the Board and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David S. Oppenheimer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ServiceSource International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2012

By: /s/ David S. Oppenheimer
Name: David S. Oppenheimer
Title: Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael A. Smerklo, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ServiceSource International, Inc. on Form 10-Q for the quarter ended September 30, 2012, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ServiceSource International, Inc.

Date: November 9, 2012	By:	/s/ Michael A. Smerklo
	Name:	Michael A. Smerklo
	Title:	Chairman of the Board and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, David S. Oppenheimer, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ServiceSource International, Inc. on Form 10-Q for the quarter ended September 30, 2012, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ServiceSource International, Inc.

Date: November 9, 2012	By:	/s/ David S. Oppenheimer
	Name:	David S. Oppenheimer
	Title:	Chief Financial Officer