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 June 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 July 23, 2012
Common Stock	74,906,424

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 65,586	$ 65,983
Short-term investments	48,611	42,882
Accounts receivable, net	51,391	54,095
Current portion of deferred income taxes	203	3,526
Prepaid expenses and other	8,404	7,945
Total current assets	174,195	174,431
Property and equipment, net	33,661	26,840
Deferred income taxes, net of current portion	1,341	30,238
Other assets, net	1,167	1,118
Goodwill	6,334	6,334
Total assets	$216,698	$ 238,961
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 7,525	$ 8,617
Accrued taxes	3,368	4,008
Accrued compensation and benefits	14,751	18,665
Other accrued liabilities	8,180	7,639
Obligations under capital leases	725	706
Total current liabilities	34,549	39,635
Obligations under capital leases, net of current portion	787	958
Other long-term liabilities	5,307	1,352
Total liabilities	40,643	41,945
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock; $0.0001 par value; 1,000,000 shares authorized; 74,966 shares issued and 74,845 shares outstanding as of June 30, 2012; 72,688 shares issued and 72,567 shares outstanding as of December 31, 2011	7	7
Treasury stock	(441)	(441)
Additional paid-in capital	194,925	177,796
Retained earnings (accumulated deficit)	(18,627)	19,416
Accumulated other comprehensive income	191	238
Total stockholders' equity	176,055	197,016
Total liabilities and stockholders' equity	$216,698	$ 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net revenue	$ 59,694	$48,512	$117,268	$ 94,634
Cost of revenue	33,882	28,229	66,458	54,365
Gross profit	25,812	20,283	50,810	40,269
Operating expenses:				
Sales and marketing	14,169	11,415	27,646	22,520
Research and development	4,298	3,390	8,879	6,103
General and administrative	10,564	7,870	20,639	15,723
Total operating expenses	29,031	22,675	57,164	44,346
Loss from operations	(3,219)	(2,392)	(6,354)	(4,077)
Interest expense	(70)	(51)	(117)	(384)
Other expense, net	(263)	(384)	(307)	(909)
Loss before income taxes	(3,552)	(2,827)	(6,778)	(5,370)
Income tax (benefit) provision	33,217	(1,694)	31,267	(21,653)
Net income (loss)	$(36,769)	$ (1,133)	$ (38,045)	$ 16,283
Net income (loss) per common share:				
Basic	$ (0.50)	$ (0.02)	$ (0.52)	$ 0.26
Diluted	$ (0.50)	$ (0.02)	$ (0.52)	$ 0.24
Weighted-average shares used in computing net income (loss) per common share:				
Basic	74,172	67,607	73,654	62,714
Diluted	74,172	67,607	73,654	69,205

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$(36,769)	$(1,133)	$(38,045)	$16,283
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(56)	275	(73)	628
Unrealized gain (loss) on investments	(14)	(7)	26	(7)
Other comprehensive income (loss), net of tax	(70)	268	(47)	621
Total comprehensive income (loss), net of tax	$(36,389)	$ (865)	$(38,092)	$16,904

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash flows from operating activities		
Net income (loss)	$(38,045)	$ 16,283
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,577	4,488
Loss on disposal of fixed assets	(1)	46
Amortization of deferred financing costs	123	298
Amortization of premium on short-term investments	445	14
Deferred income taxes	32,220	(22,715)
Stock-based compensation	9,607	5,136
Income tax deficiency from stock-based compensation	362	—
Changes in operating assets and liabilities:		
Accounts receivable	2,586	4,122
Prepaid expenses and other	(811)	(1,940)
Accounts payable	(877)	1,107
Accrued taxes	(618)	1,321
Accrued compensation and benefits	(3,904)	3,404
Accrued payables to customers	—	(30,644)
Other accrued liabilities	4,145	1,128
Net cash provided by (used in) operating activities	9,809	(17,952)
Cash flows from investing activities		
Acquisition of property and equipment	(11,244)	(6,288)
Purchases of short-term investments, net	(24,186)	(42,273)
Sales of marketable securities	6,210	—
Maturities of marketable securities	11,820	—
Net cash used in investing activities	(17,400)	(48,561)
Cash flows from financing activities		
Net proceeds from issuance of common stock in initial public offering	—	88,015
Proceeds from revolving credit facility	—	23,424
Repayment of revolving credit facility	—	(23,424)
Repayment on long-term debt	(155)	(15,582)
Payment of deferred debt issuance costs	—	(200)
Proceeds from common stock issuances	7,818	2,247
Income tax deficiency from stock-based compensation	(362)	—
Net cash provided by financing activities	7,301	74,480
Net increase (decrease) in cash and cash equivalents	(290)	7,967
Effect of exchange rate changes on cash and cash equivalents	(107)	752
Cash and cash equivalents at beginning of period	65,983	22,652
Cash and cash equivalents at end of period	$ 65,586	$ 31,371

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 a proprietary Service Revenue Intelligence Platform. 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.

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 six months ended June 30, 2012 and 2011 were insignificant.

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

June 30, 2012

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash	$ 64,193	$ —	$ —	$ 64,193
Cash equivalents:				
Money market mutual funds	693	—	—	693
Commercial paper	700	—	—	700
Total cash equivalents	1,393	—	—	1,393
Total cash and cash equivalents	65,586	—	—	65,586
Short-term investments:				
Certificate of deposit	750	—	(1)	749
Asset-backed securities	1,000	3	—	1,003
Municipal securities	28,390	32	(9)	28,413
Commercial paper	7,609	3	—	7,612
Corporate bonds	10,827	12	(5)	10,834
Total short-term investments	48,576	50	(15)	48,611
Cash, cash equivalents and short-term investments	$114,162	$ 50	$ (15)	$114,197

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

The following table summarizes the cost and estimated fair value of short-term fixed income securities classified as short-term investments based on stated maturities as of June 30, 2012:

	Amortized Cost	Estimated Fair Value
Less than 1 year	$37,395	$37,428
Due in 1 to 3 years	11,181	11,183
Total	$48,576	$48,611

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

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 June 30, 2012 and indicates the fair value hierarchy of the valuation (in thousands):

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market mutual funds	$ 693	$ 693	$ —	$ —
Commercial paper	700	—	700	—
Total cash equivalents	1,393	693	700	—
Short-term investments:				
Certificate of deposit	749	—	749	—
Asset backed securities	1,003	—	1,003	—
Municipal securities	28,413	—	28,413	—
Commercial paper	7,612	—	7,612	—
Corporate bonds	10,834	—	10,834	—
Total short-term investments	48,611	—	48,611	—
Cash equivalents and short-term investments	$50,004	$ 693	$ 49,311	$ —

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):

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	—

	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 June 30, 2012 or December 31, 2011.

Note 5 — Property and Equipment, Net

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

	June 30, 2012	December 31, 2011
Computers and equipment	$ 13,627	$ 11,562
Software	19,875	19,487
Furniture and fixtures	7,799	5,879
Leasehold improvements	8,734	4,957
	50,035	41,885
Less: accumulated depreciation and amortization	(27,092)	(23,187)
	22,943	18,698
Construction in progress	10,718	8,142
	$ 33,661	$ 26,840

Depreciation and amortization expense during the three and six months ended June 30, 2012 and the three and six months ended June 30, 2011, was $2.3 million, $4.6 million, $2.6 million and $4.5 million, respectively.

Total property and equipment assets under capital lease at June 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 were $2.0 million and $1.7 million, respectively.

The Company capitalized internal-use software development costs of $2.8 million and $0.6 million during the three months ended June 30, 2012 and 2011, respectively and $5.0 million and $2.0 million during the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012 and December, 31 2011, the carrying value of capitalized costs related to internal-use software was $14.1 million and $9.0 million, respectively. Amortization of capitalized costs related to internal-use software for the three months ended June 30, 2012 and 2011 was $0.6 million and $1.2 million, respectively, and for the six months ended June 30, 2012 and 2011 was $1.3 million and $1.9 million, respectively.

Note 6 — Other Accrued Liabilities

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

	June 30, 2012	December 31, 2011
Accrued professional fees	$1,181	$ 944
Amounts refundable to end customers	233	582
Deferred revenue	372	593

	June 30, 2012	December 31, 2011
Deferred rent obligations	583	734
Employee related	121	379
Other (includes ESPP contributions of $1,053 and $1,106 at June 30, 2012 and December 31, 2011, respectively)	5,690	4,407
	$8,180	$ 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.

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%.

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. 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 3.75% and 5.6 % at June 30, 2012 and 2011, respectively.

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

Years Ending December 31,	
2012 (remaining six months)	$ 569
2013	323
2014	264
2015	71
2016	73
Thereafter	212
	$1,512

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 six months ended June 30, 2012 and the three and six months ended June 30, 2011, was $2.0 million, $4.4 million, $1.6 million, and $3.2 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 June 30, 2012 were as follows (in thousands):

Years Ending December 31,	
2012 (remaining six months)	$ 4,324
2013	7,711
2014	6,655
2015	5,041
2016	3,647
Thereafter	16,174
	$43,552

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 maintained 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 and, as delegated 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 six months ended June 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 that 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 six months ended June 30, 2012 and 2011 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Expected term (in years)	5.1	5.4	5.1	5.4
Expected volatility	45.5%	54.0%	45.5%	54.0%
Risk-free interest rate	0.83%	1.95%	0.82%	2.13%
Expected dividend yield	—	—	—	—

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

	Shares and Units Available for Grant	Options Outstanding Number of Shares	Options Outstanding Weighted-Average Exercise Price	Restricted Stock Outstanding 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	(3,386)	1,575	17.21	1,811
Options exercised/ Restricted stock released	—	(1,643)	3.97	(34)
Forfeited	671	(585)	7.55	(86)
Outstanding — June 30, 2012	6,597	14,682	$ 7.05	2,493

The weighted average grant-date fair value of employee stock options granted during the three months ended June 30, 2012 and 2011 was $6.68 and $7.03 per share, respectively and for the six months ended June 30, 2012 and 2011 was $6.98 and $6.32 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Cost of revenue	$ 715	$ 447	$1,287	$ 816
Sales and marketing	1,982	949	3,656	1,870
Research and development	530	269	893	537
General and administrative	2,133	1,023	3,771	1,913
Total stock-based compensation	$5,360	$ 2,688	$9,607	$5,136

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Expected term (in years)	0.50	0.39	0.50	0.39
Expected volatility	45%	36%	45%	36%
Risk-free interest rate	0.13%	0.18%	0.13%	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 June 30, 2012, 190,292 shares had been issued under the ESPP and 1,435,382 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 June 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 has provided a valuation allowance 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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net revenue				
NALA	$ 36,961	$ 28,686	$ 73,073	$ 56,431
EMEA	15,518	14,254	31,266	29,247
APJ	7,215	5,572	12,929	8,956
Total net revenue	$ 59,694	$ 48,512	$ 117,268	$ 94,634
Direct profit contribution				
NALA	$ 19,918	$ 15,699	$ 39,173	$ 30,502
EMEA	8,187	6,053	17,070	13,495
APJ	1,324	1,116	1,754	1,136
Total direct profit contribution	29,429	22,868	57,997	45,133
Adjustments:				
Stock-based compensation	(715)	(447)	(1,287)	(816)
Overhead allocations	(5,590)	(4,507)	(10,935)	(8,573)
Other, net	2,688	2,369	5,035	4,525
Gross Profit	$ 25,812	$ 20,283	$ 50,810	$ 40,269

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, Avalon, on a stand-alone subscription basis; the potential effect of mergers and acquisitions on our customer base; business strategies and new sales initiatives; technology development, including relating to the launch of our next-generation technology platform; 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 a proprietary Service Revenue Intelligence Platform. By integrating software, managed services and data, we address the critical steps of the renewals process including data management, quoting, selling and service revenue business intelligence. Our business is built on our pay-for-performance model, whereby our revenues are based on the service renewals customers achieve with our solution.

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 Avalon, 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, especially capital expenditures, and are expected to continue to impact our profitability in future periods. We have devoted significant resources to developing Avalon, which was recently launched with our first beta customer, we expect our investment in Avalon to continue as we prepare for its fall 2012 general availability and will devote significant resources to expand our sales organization, build out the related partner ecosystem, and further develop the service organization to support the platform. The capital expenditures and expenses related to Avalon 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 Avalon 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 negative due to upfront costs we incur, the lower initial level of associated service sales team productivity and lack of mature data and technology integration with the customer. As a result, an increase in the mix of new customers as a percentage of total customers may initially have a negative impact on our operating results. Similarly, a decline in the ratio of new customers to total customers may positively impact our operating results.

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 has led to some slower decision making by a few end customers, particularly federal government agencies, as well as other end customers considering renewals of large, multi-year contracts. This has adversely affected the conversion rates for this group of 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 the first half 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 third quarter 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.

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 plan to promote and sell subscriptions after the general availability launch of Avalon, scheduled for later this year. 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 48% of our net revenue for the three months ended June 30, 2012 and 2011, respectively, and 49% and 50% for the six months ended June 30, 2012 and 2011, respectively. Our business is geographically diversified. During the second quarter of 2012, 62% of our net revenue was earned in North America and Latin America ("NALA"), 26% 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 Avalon 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 Avalon, 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 and as a result of incremental personnel, informational technology and other costs associated with being a publicly-traded company.

Other Income (Expense)

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

Income Tax (Benefit) Provision

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Net revenue	$ 59,694	$48,512	$117,268	$ 94,634
Cost of revenue	33,882	28,229	66,458	54,365
Gross profit	25,812	20,283	50,810	40,269
Operating expenses:				
Sales and marketing	14,169	11,415	27,646	22,520
Research and development	4,298	3,390	8,879	6,103
General and administrative	10,564	7,870	20,639	15,723
Total operating expenses	29,031	22,675	57,164	44,346
Loss from operations	(3,219)	(2,392)	(6,354)	(4,077)
Other expense, net	(333)	(435)	(424)	(1,293)
Loss before income taxes	(3,552)	(2,827)	(6,778)	(5,370)
Income tax (benefit) provision	33,217	(1,694)	31,267	(21,653)
Net Income (loss)	$(36,769)	$ (1,133)	$ (38,045)	$ 16,283

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Includes stock-based compensation of:				
Cost of revenue	$ 715	$ 447	$1,287	$ 816
Sales and marketing	1,982	949	3,656	1,870
Research and development	530	269	893	537
General and administrative	2,133	1,023	3,771	1,913
Total stock-based compensation	$5,360	$ 2,688	$9,607	$5,136

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(as % of net revenue)			
Net revenue	100%	100%	100%	100%
Cost of revenue	57%	58%	57%	57%
Gross profit	43%	42%	43%	43%
Operating expenses				
Sales and marketing	24%	24%	24%	24%
Research and development	7%	7%	8%	6%
General and administrative	18%	16%	17%	17%
Total operating expenses	49%	47%	49%	47%
Loss from operations	(6)%	(5)%	(6)%	(4)%

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

Net Revenue

	Three Months Ended June 30, 2012		2011			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands)					
Net revenue by geography:						
NALA	$36,961	62%	$28,686	59%	$ 8,275	29%
EMEA	15,518	26%	14,254	29%	1,264	9%
APJ	7,215	12%	5,572	12%	1,643	29%
Total net revenue	$59,694	100%	$48,512	100%	$11,182	23%

Net revenue increased $11.2 million, or 23%, for the second quarter of 2012, compared to the second 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 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 June 30, 2012	2011	Change	% Change
	(in thousands)			
Cost of revenue	$ 33,882	$ 28,229	$5,653	20%
Includes stock-based compensation of:	715	447	268	
Gross profit	25,812	20,283	5,529	27%
Gross profit percentage	43%	42%		1%

The 20% increase in our cost of revenue in the second 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 $3.9 million increase in compensation and a $1.1 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. The slight improvement in our gross profit percentage resulted from higher revenue related to the ramp up of our new engagements.

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Operating Expenses

	Three Months Ended June 30,					
	2012		2011			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands)					
Operating expenses:						
Sales and marketing	$14,169	24%	$11,415	24%	$2,754	24%
Research and development	4,298	7%	3,390	7%	908	27%
General and administrative	10,564	18%	7,870	16%	2,694	34%
Total operating expenses	$29,031	49%	$22,675	47%	$6,356	28%
Includes stock-based compensation of:						
Sales and marketing	$ 1,982		$ 949		$1,033	
Research and development	530		269		261	
General and administrative	2,133		1,023		1,110	
Total	$ 4,645		$ 2,241		$2,404	

Sales and marketing expenses

The 24% increase in sales and marketing expenses in the second 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 also resulted from a $0.7 million increase in expenses due to marketing programs and a $0.2 million increase in allocated costs as compared to the prior year. 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 second quarter of 2012 reflected an increase in the number of research and development personnel primarily in NALA, resulting in a $0.8 million increase in compensation, and a $0.1 million increase in allocated costs. The increase was partially offset by capitalization of $2.4 million of labor and third party costs for development of internal-use software in the second quarter of 2012 as compared to $0.6 million capitalized costs in the second quarter of 2011. The increase in our spending on research in development reflects our continued investment in the development of additional cloud based applications designed to enable greater operational efficiencies and enhanced functionality for our customers.

General and administrative expenses

The 34% increase in general and administrative expense in the second quarter of 2012 as compared to the second quarter of 2011 reflected a $2.9 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 Expense, Net

	Three Months Ended June 30,					
	2012		2011			
	Amount	% of Net Revenue	Amount	% of Net Revenue	Change	% Change
	(in thousands)					
Other expense, net	$ 333	1%	$ 435	1%	$ (102)	(23)%

The decrease in other expense in the second quarter of 2012 primarily resulted from a gain on foreign exchange transactions due in part to an increase in the value of the U.S. dollar relative to international currencies, most notably the Euro.

Income Tax (Benefit) Provision

	Three Months Ended June 30, 2012	2011	Change	% Change
	(in thousands)			
Income tax (benefit) provision	$ 33,217	$ (1,694)	$34,911	*

* Not meaningful

During the second quarter of 2012, a valuation allowance against our U.S. deferred tax assets was recorded. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including past operating results, the existence of cumulative losses and to a lesser extent our forecast of future taxable income. Based on the available evidence, we have determined that on a more likely than not basis, we will be unable to realize most of our deferred tax assets, as explained in Note 10 to our condensed consolidated financial statements. As a result, our tax rate was negatively impacted by a valuation allowance of $31.8 million on US deferred tax assets as of December 2011. 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 quarter tax expense also reflect the reversal of prior quarter deferred tax benefits, plus tax expense in jurisdictions where we have tax profitable operations.

Six months ended June 30, 2012 and June 30, 2011

Net Revenue

	Six Months Ended June 30, 2012 Amount	2012 % of Net Revenue	2011 Amount	2011 % of Net Revenue	Change	% Change
	(in thousands)					
Net revenue by geography:						
NALA	$ 73,073	62%	$56,431	60%	$16,642	29%
EMEA	31,266	27%	29,247	31%	2,019	7%
APJ	12,929	11%	8,956	9%	3,973	44%
Total net revenue	$117,268	100%	$94,634	100%	$22,634	24%

Net revenue increased $22.6 million, or 24%, in the six months ended June 30, 2012, compared to the six months ended June 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 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

	Six Months Ended June 30, 2012	2011	Change	% Change
	(in thousands)			
Cost of revenue	$ 66,458	$ 54,365	$12,093	22%
Includes stock-based compensation of:	1,287	816	471	
Gross profit	50,810	40,269	10,541	26%
Gross profit percentage	43%	43%		0%

The 22% increase in our cost of revenue in the six months ended June 30, 2012 compared to the six months ended June 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 $7.9 million increase in compensation and a $2.4 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.

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Operating Expenses

	Six Months Ended June 30, 2012 Amount	2012 % of Net Revenue	2011 Amount	2011 % of Net Revenue	Change	% Change
	(in thousands)					
Operating expenses:						
Sales and marketing	$27,646	24%	$22,520	24%	$ 5,126	23%
Research and development	8,879	8%	6,103	6%	2,776	45%
General and administrative	20,639	18%	15,723	17%	4,916	31%
Total operating expenses	$57,164	50%	$44,346	47%	$12,818	29%
Includes stock-based compensation of:						
Sales and marketing	$ 3,656		$ 1,870		$ 1,786	
Research and development	893		537		356	
General and administrative	3,771		1,913		1,858	
Total	$ 8,320		$ 4,320		$ 4,000	

Sales and marketing expenses

The 23% increase in sales and marketing expenses in the six months ended June 30, 2012 compared to the six months ended June 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 $1.9 million increase in compensation. The increase also resulted from a $2.1 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 six months ended June 30, 2012 compared to the six months ended June 30, 2011, reflected an increase in the number of research and development personnel primarily in NALA, resulting in a $1.2 million increase in compensation, a $1.1 million increase in outside consulting services related to contract research and development services and a $0.5 million increase in allocated costs. The increase was partially offset by capitalization of $4.2 million of labor and third party costs for development of internal-use software in the six months ended June 30, 2012 compared to $1.7 million capitalized costs in the six months ended June 30, 2011. The increase in our spending on research and development reflects our continued investment in the development of Avalon and additional cloud based applications designed to enable greater operational efficiencies and enhanced functionality for our customers.

General and administrative expenses

The 31% increase in general and administrative expense in the six months ended June 30, 2012 compared to the six months ended June 30, 2011 reflected a $5.9 million increase in compensation due to an increase in headcount in the general and administrative functions primarily in NALA to support our expansion efforts, and partially offset by $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

	Six Months Ended June 30, 2012 Amount	2012 % of Net Revenue	2011 Amount	2011 % of Net Revenue	Change	% Change
	(in thousands)					
Other expense, net	$ 424	0%	$1,293	1%	$ (869)	(67)%

The decrease in other expense in the six months ended June 30, 2012 compared to the six months ended June 30, 2011, resulted from a $0.3 million gain on foreign exchange transactions due in part to an increase in the value of the U.S. dollar relative to international currencies, most notably the Euro. Also contributing to the decrease was a $0.3 million decrease in interest expense in the six months ended June 30, 2012 due to the repayment of outstanding balances on our term loan and borrowings under our revolving credit in March 2011.

Income Tax (Benefit) Provision

	Six Months Ended June 30, 2012	2011	Change	% Change
	(in thousands)			
Income tax (benefit) provision	$ 31,267	$ (21,653)	$52,920	*

* not meaningful

As discussed above, during second quarter of 2012, a valuation allowance against our U.S. deferred tax assets was recorded in the amount of $31.8 million on US deferred tax assets as of December 2011. Accordingly, the computation of the effective tax rate does not include US losses, nor does it include losses incurred by the Company's Singapore subsidiary, which are offset by a full valuation allowance. Current quarter tax expense also reflect the reversal of prior quarter deferred tax benefits, plus tax expense in jurisdictions where the Company has tax profitable operations.

Liquidity and Capital Resources

At June 30, 2012, we had cash and cash equivalents and short-term investments of $114.2 million, which primarily consisted of municipal securities, corporate bonds, money market mutual funds and commercial paper held by well-capitalized financial institutions. 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.

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%.

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):

	Six Months Ended June 30,	
	2012	2011
Net cash (used in) provided by operating activities	$ 9,809	$(17,952)
Net cash used in investing activities	(17,400)	(48,561)
Net cash provided by financing activities	7,301	74,480
Net increase (decrease) in cash and cash equivalents, net of impact of foreign exchange changes on cash	(397)	$ 8,719

Operating Activities

Net cash provided by operating activities was $9.8 million during the six months ended June 30, 2012. Our net loss during the period was $38.0 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 $4.6 million for depreciation and amortization and $9.6 million for stock-based compensation. Cash provided for operations resulted from changes in our working capital, including a $2.6 million decrease in accounts receivable, a $4.1 million increase in other accrued liabilities and a $0.9 million increase in accounts payable. Uses of cash were related to a $3.9 million decrease in accrued compensation and benefits largely due to bonuses that were accrued at December 30, 2011 but were paid out during the first quarter of 2012.

Net cash used in operating activities was $18.0 million during the six months ended June 30, 2011. Our net income during the period was $16.3 million, adjusted by non-cash charges of $4.5 million for depreciation and amortization, $5.1 million for stock-based compensation and 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. Cash used for operations during the six months ended June 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 $4.1 million decrease in accounts receivable a $3.4 million increase in accrued compensation and benefits, a $1.1 million increase in other accrued liabilities and a $1.1 million increase in accounts payable. Uses of cash were related to a $2.0 million increase in prepaid expenses and other assets.

Investing Activities

During the six months ended June 30, 2012 cash used in investing activities was principally for the purchases of property and equipment of $11.2 million, including costs capitalized for development of internal-use software and to a lesser extent for the purchases of short-term investments, net of sales and maturities, of $6.2 million. The $48.6 million of cash used by investing activities during the six months ending June 30, 2011 related to the purchase of available-for-sale short-term investments of $42.3 million and to a lesser extent for purchase of property and equipment, of $6.3 million, including costs capitalized for development of internal-use software.

Financing Activities

Cash provided by financing activities was $7.3 million during the six months ended June 30, 2012 and principally resulted from proceeds of $7.8 million from the exercise of common stock options and the purchase of common stock under our employee stock purchase plan.

During the six months ended June 30, 2011, cash provided by financing activities was $74.5 million comprised primarily of proceeds from our initial public offering, net of issuance costs, of $88.0 million of which $0.2 million of issuance costs remained unpaid at June 30, 2011, and proceeds of $2.2 million from the exercise of stock options to purchase our common stock, partially offset by $15.6 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 June 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	$ 1,512	$ 746	$ 517	$ 150	$ 98
Operating lease obligations	43,552	8,399	17,147	7,366	10,640
	$45,064	$ 9,145	$17,664	$ 7,516	$ 10,738

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

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

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

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

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

We have announced plans to launch Avalon, our next-generation service revenue management platform in the latter part of 2012, and we intend to migrate all of our customers to this new technology platform over time. This new platform which was recently launched with our first beta customer 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. We 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 these 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 Avalon 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 Avalon, 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.

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

We plan to continue to invest significant resources in research and development in order to enhance our existing offerings and introduce Avalon and other new offerings that will appeal to customers and potential customers. We have undertaken the development of Avalon 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 Avalon 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 Avalon 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 Avalon in a manner to generate more revenues from them using a subscription model. We may not find a successful market for our Avalon 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 Avalon 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 Avalon. 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 revenue will suffer and our ability to grow and achieve broader market acceptance of our solution could be harmed.

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

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

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

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

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

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

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

- 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 six months ended June 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 six months ended June 30, 2012, approximately 38% of our revenue was generated from sales centers located outside of the United States. As a result of our continued focus on international markets, we expect that future revenue derived from international sources will continue to represent a significant portion of our total revenue.

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

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

- the need to localize and adapt our solution for specific countries, including translation into foreign languages and associated expenses;
- difficulties in staffing and managing foreign operations;

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

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

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

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

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

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

In particular, we are required to evaluate our internal control over financial reporting in connection with Section 404 of the Sarbanes-Oxley Act, and our independent registered public accounting firm will be required to 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 June 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.

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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: August 3, 2012

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

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	Pledge and Security agreement entered into as of July 5, 2012 by and between ServiceSource International, Inc. , ServiceSource Delaware Inc and JPMorgan Chase Bank, N.A.
10.2+	Employment and Confidential Information Agreement dated as of July 17, 2012, between the Company and Christine Heckart
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 June 30, 2012 and December 31, 2011, (ii) the Condensed Consolidated Statement of Operations for the three months and six months ended June 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011 and (iv) 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.

+ Management contract or compensatory plan or arrangement.

* 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

PLEDGE AND SECURITY AGREEMENT

THIS PLEDGE AND SECURITY AGREEMENT (as it may be amended, restated, supplemented or otherwise modified from time to time, the "Security Agreement") is entered into as of July 5, 2012 by and between ServiceSource International, Inc., a Delaware corporation ("Borrower"), and ServiceSource Delaware, Inc., a Delaware corporation ("Guarantor") (each of Borrower and Guarantor a "Grantor" and, collectively, "Grantors"), as debtors, and JPMorgan Chase Bank, N.A. ("Lender"), as secured party.

PRELIMINARY STATEMENT

Borrower and Lender are entering into a Credit Agreement dated as of the date hereof (as it may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"). As a condition of entering into the Credit Agreement and extending credit thereunder, Lender has required that Guarantor execute and deliver to Lender a Guaranty (the "Guaranty") dated as of the date hereof. Grantors are entering into this Security Agreement in order to induce Lender to enter into and extend credit to Borrower under the Credit Agreement. Guarantor is a wholly-owned subsidiary of Borrower and will receive direct and indirect benefit from the credit accommodations to be provided under the Credit Agreement.

ACCORDINGLY, the Grantors and Lender, hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1. Terms Defined in Credit Agreement. All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement.

1.2. Terms Defined in UCC. Terms defined in the UCC which are not otherwise defined in this Security Agreement are used herein as defined in the UCC.

1.3. Definitions of Certain Terms Used Herein. As used in this Security Agreement, in addition to the terms defined in the Preliminary Statement, the following terms shall have the following meanings:

"Accounts" shall have the meaning set forth in Division 9 of the UCC.

"Article" means a numbered Article of this Security Agreement, unless another document is specifically referenced.

"Chattel Paper" shall have the meaning set forth in Division 9 of the UCC.

"Collateral" shall have the meaning set forth in Article II.

"Collateral Access Agreement" means any landlord waiver or other agreement, in form and substance satisfactory to Lender, between Lender and any third party (including any bailee, consignee, customs broker, or other similar Person) in possession of any Collateral or any landlord of a Grantor for any real property where any Collateral is located, as such landlord waiver or other agreement may be amended, restated, supplemented or otherwise modified from time to time.

“Collateral Deposit Account” shall have the meaning set forth in Section 7.1.

“Collateral Report” means any certificate (including any Borrowing Base Certificate) or report delivered by a Grantor to Lender with respect to the Collateral pursuant to any Loan Document.

“Commercial Tort Claims” means the existing commercial tort claims of the Grantors set forth on Schedule A to the Disclosure Letter.

“Control” shall have the meaning set forth in Division 8 or, if applicable, in Section 9104, 9105, 9106 or 9107 of Division 9 of the UCC.

“Copyrights” means, with respect to any Person, all of such Person’s right, title, and interest in and to the following: (a) all copyrights, rights and interests in copyrights, works protectable by copyright, copyright registrations, and copyright applications; (b) all renewals of any of the foregoing; (c) all income, royalties, damages, and payments now or hereafter due and/or payable under any of the foregoing, including, without limitation, damages or payments for past or future infringements for any of the foregoing; (d) the right to sue for past, present, and future infringements of any of the foregoing; and (e) all rights corresponding to any of the foregoing throughout the world.

“Default” means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Deposit Account Control Agreement” means an agreement, in form and substance reasonably satisfactory to Lender, among a Grantor, a banking institution holding such Grantor’s funds, and Lender with respect to collection and control of all deposits and balances held in a deposit account maintained by a Grantor with such banking institution.

“Deposit Accounts” shall have the meaning set forth in Division 9 of the UCC.

“Documents” shall have the meaning set forth in Division 9 of the UCC.

“Equipment” shall have the meaning set forth in Division 9 of the UCC.

“Event of Default” means an event described in Section 5.1.

“Exhibit” refers to a specific exhibit to this Security Agreement, unless another document is specifically referenced.

“Fixtures” shall have the meaning set forth in Division 9 of the UCC.

“General Intangibles” shall have the meaning set forth in Division 9 of the UCC.

“Goods” shall have the meaning set forth in Division 9 of the UCC.

“Instruments” shall have the meaning set forth in Division 9 of the UCC.

“Inventory” shall have the meaning set forth in Division 9 of the UCC.

“Investment Property” shall have the meaning set forth in Division 9 of the UCC.

“Letter-of-Credit Rights” shall have the meaning set forth in Division 9 of the UCC.

“Licenses” means, with respect to any Person, all of such Person’s right, title, and interest in and to (a) any and all licensing agreements or similar arrangements in and to its Patents, Copyrights, or Trademarks, (b) all income, royalties, damages, claims, and payments now or hereafter due or payable under and with respect thereto, including, without limitation, damages and payments for past and future breaches thereof, and (c) all rights to sue for past, present, and future breaches thereof.

“Patents” means, with respect to any Person, all of such Person’s right, title, and interest in and to: (a) any and all patents and patent applications; (b) all inventions and improvements described and claimed therein; (c) all reissues, divisions, continuations, renewals, extensions, and continuations-in-part thereof; (d) all income, royalties, damages, claims, and payments now or hereafter due or payable under and with respect thereto, including, without limitation, damages and payments for past and future infringements thereof; (e) all rights to sue for past, present, and future infringements thereof; and (f) all rights corresponding to any of the foregoing throughout the world.

“Pledged Collateral” means all Instruments, Securities and other Investment Property of the Grantors, whether or not physically delivered to Lender pursuant to this Security Agreement.

“Receivables” means the Accounts, Chattel Paper, Documents, Investment Property, Instruments and any other rights or claims to receive money which are General Intangibles or which are otherwise included as Collateral.

“Section” means a numbered section of this Security Agreement, unless another document is specifically referenced.

“Secured Obligations” means (a) with respect to the Borrower, the Obligations (as defined in the Credit Agreement and (b) with respect to the Guarantor, the Guarantied Obligations (as defined in the Guaranty)

“Security” has the meaning set forth in Division 8 of the UCC.

“Stock Rights” means all dividends, instruments or other distributions and any other right or property which either Grantor shall receive or shall become entitled to receive for any reason whatsoever with respect to, in substitution for or in exchange for any Equity Interest constituting Collateral, any right to receive an Equity Interest and any right to receive earnings, in which such Grantor now has or hereafter acquires any right, issued by an issuer of such Equity Interest.

“Supporting Obligations” shall have the meaning set forth in Division 9 of the UCC.

"Trademarks" means, with respect to any Person, all of such Person's right, title, and interest in and to the following: (a) all trademarks (including service marks), trade names, trade dress, and trade styles and the registrations and applications for registration thereof and the goodwill of the business symbolized by the foregoing; (b) all licenses of the foregoing, whether as licensee or licensor; (c) all renewals of the foregoing; (d) all income, royalties, damages, and payments now or hereafter due or payable with respect thereto, including, without limitation, damages, claims, and payments for past and future infringements thereof; (e) all rights to sue for past, present, and future infringements of the foregoing, including the right to settle suits involving claims and demands for royalties owing; and (f) all rights corresponding to any of the foregoing throughout the world.

"UCC" means the Uniform Commercial Code, as in effect from time to time, of the State of California or of any other state the laws of which are required as a result thereof to be applied in connection with the attachment, perfection or priority of, or remedies with respect to, Lender's Lien on any Collateral.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

ARTICLE II
GRANT OF SECURITY INTEREST

Each Grantor hereby pledges, collaterally assigns and grants to Lender, a security interest in all of its right, title and interest in, to and under all personal property and other assets, whether now owned by or owing to, or hereafter acquired by or arising in favor of such Grantor (including under any trade name or derivations thereof), and whether owned or consigned by or to, or leased from or to, such Grantor, and regardless of where located (all of which will be collectively referred to as the "Collateral"), including:

(i) all Accounts;

(ii) all Chattel Paper;

(iii) all Copyrights, Patents and Trademarks;

(iv) all Documents;

(v) all Equipment;

(vi) all Fixtures;

(vii) all General Intangibles;

(viii) all Goods;

(ix) all Instruments;

(x) all Inventory;

(xi) all Investment Property;

(xii) all cash or cash equivalents;

(xiii) all letters of credit, Letter-of-Credit Rights and Supporting Obligations;

(xiv) all Deposit Accounts with any bank or other financial institution;

(xv) all Commercial Tort Claims;

(xvi) and all accessions to, substitutions for and replacements, proceeds (including Stock Rights), insurance proceeds and products of the foregoing, together with all books and records, customer lists, credit files, computer files, programs, printouts and other computer materials and records related thereto and any General Intangibles at any time evidencing or relating to any of the foregoing;

to secure the prompt and complete payment and performance of the Secured Obligations. Notwithstanding the foregoing, the following shall not constitute Collateral: (i) any equity interests in a foreign Subsidiary in excess of 65% of the voting equity interest in such Subsidiary, (ii) any contract or agreement immaterial to the business of the Grantor or listed on Schedule I to the Disclosure Letter to which a Grantor is a party or any of its rights or interests thereunder if and for so long as the grant of such security interest shall constitute or result in (A) the unenforceability of any right of the Grantor therein or (B) in a breach or termination pursuant to the terms of, or a default under, any such contract or agreement (other than to the extent that any such term would be rendered ineffective pursuant to Sections 9406, 9407, 9408 or 9409 of the UCC or any other applicable law or principles of equity); provided, however, that such Lien shall attach immediately at such time as the condition causing such unenforceability shall be remedied and, to the extent severable, shall attach immediately to any portion of such contract or agreement that does not result in any of the consequences specified in subclauses (A) or (B) of this clause (ii), including any proceeds of such contract or agreement, (iii) any trust accounts, payroll accounts and escrow accounts maintained by any Grantor, or (iv) any asset or property that is subject to a purchase money Lien or Lien securing Capital Lease obligations, in each case, permitted under the Credit Agreement to the extent that the documents relating to such purchase money Lien or Capital Lease obligations would not permit such asset or property to be subject to the Lien created hereby (other than to the extent that any such restriction in any such document would be rendered ineffective pursuant to Sections 9406, 9407, 9408 or 9409 of the UCC or any other applicable law or principles of equity).

ARTICLE III
REPRESENTATIONS AND WARRANTIES

Each Grantor represents and warrants to Lender that:

3.1. Title, Perfection and Priority. Such Grantor has good and valid rights in or the power to transfer the Collateral and title to the Collateral with respect to which it has purported to grant a security interest hereunder, free and clear of all Liens except for Liens permitted under Section 4.1(e), and has full power and authority to grant to Lender the security interest in such

Collateral pursuant hereto. When financing statements have been filed in the appropriate offices against such Grantor in the locations listed on Schedule H to the Disclosure Letter, Lender will have a fully perfected first priority security interest in that Collateral in which a security interest may be perfected by filing, subject only to Liens permitted under Section 4.1(e).

3.2. Type and Jurisdiction of Organization, Organizational and Identification Numbers. The type of entity of such Grantor, its state of organization, the organizational number issued to it by its state of organization and its federal employer identification number are set forth on Schedule A to the Disclosure Letter.

3.3. Principal Location. Such Grantor's mailing address and the location of its place of business (if it has only one) or its chief executive office (if it has more than one place of business) as of the Closing Date are disclosed in Schedule A to the Disclosure Letter, such Grantor has no other places of business as of the Closing Date except those set forth in Schedule A to the Disclosure Letter.

3.4. Collateral Locations. All of such Grantor's locations where Collateral is located as of the Closing Date are listed on Schedule A to the Disclosure Letter, other than Equipment, Inventory or other Goods in transit, out for repair or temporarily maintained at another location in the ordinary course of such Grantor's business. As of the Closing Date, all of said locations are either (i) leased by such Grantor as lessee and designated in Part VII(b) of Schedule A to the Disclosure Letter, or (ii) locations at which Inventory is held in a public warehouse or is otherwise held by a bailee or on consignment as designated in Part VII(c) of Schedule A to the Disclosure Letter.

3.5. Deposit Accounts. All of such Grantor's Deposit Accounts as of the Closing Date are listed on Schedule B to the Disclosure Letter.

3.6. Exact Names. Such Grantor's name in which it has executed this Security Agreement is the exact name as it appears in such Grantor's organizational documents, as amended, as filed with the Grantor's jurisdiction of organization. Such Grantor has not, during the past five years, been known by or used any other corporate or fictitious name, or been a party to any merger or consolidation, or been a party to any acquisition, except as set forth in Schedule A to the Disclosure Letter.

3.7. Letter-of-Credit Rights and Chattel Paper. Schedule C to the Disclosure Letter lists all Letter-of-Credit Rights and Chattel Paper of such Grantor as of the Closing Date. All action by such Grantor necessary or reasonably desirable to protect and perfect Lender's Lien on each item listed on Schedule C to the Disclosure Letter as of the Closing Date (including the delivery of originals and the placement of a legend on Chattel Paper) has been duly taken to the extent required hereunder.

3.8. Accounts and Chattel Paper.

(a) The names of the obligors, amounts owing, due dates and other information with respect to the Accounts and Chattel Paper are correctly stated in all records of such Grantor relating thereto and in all invoices and Collateral Reports with respect thereto furnished to Lender by such Grantor from time to time. As of the time when each Account arises, such Grantor shall be deemed to have represented and warranted that such Account, and all records relating thereto, are genuine and in all respects what they purport to be.

(b) In addition, with respect to all Accounts, (i) the amounts shown on all invoices, statements and Collateral Reports with respect thereto are actually and absolutely owing to such Grantor as indicated thereon and are not in any way contingent; and (ii) to such Grantor's knowledge, all Account Debtors have the capacity to contract.

3.9. Inventory. With respect to all Inventory of any Grantor, (a) as of the Closing Date, such Inventory (other than Inventory in transit) is located at one of such Grantor's locations set forth on Schedule A to the Disclosure Letter, (b) no Inventory (other than Inventory in transit) is now, or shall at any time or times hereafter be stored at any other location except as permitted by Section 4.1(g), and (c) such Grantor has good, indefeasible and merchantable title to such Inventory and such Inventory is not subject to any Lien or security interest or document whatsoever except for the Lien granted to Lender, and except for Permitted Liens.

3.10. Intellectual Property. As of the Closing Date, neither Grantor has any interest in, or title to, any Patent, Trademark or Copyright except as set forth in Schedule D to the Disclosure Letter. This Security Agreement is effective to create (i) a valid and continuing Lien and, (ii) upon filing of appropriate financing statements in the offices listed on Schedule H to the Disclosure Letter and the Intellectual Property Security Agreements with the United States Copyright Office and the United States Patent and Trademark Office, as applicable, perfected first priority security interests in favor of Lender on such Grantor's domestic Patents, Trademarks and Copyrights. Such perfected security interests are enforceable as such as against any and all creditors of and purchasers from such Grantor; and all action necessary or desirable to protect and perfect Lender's Lien on such Grantor's domestic Patents, Trademarks or Copyrights shall have been duly taken. Without limiting the foregoing, each Grantor will take such actions as Lender may require for the purpose of recording its interest in such Grantor's domestic Patents and Trademarks with the United States Patent and Trademark Office from time to time upon Lender's receipt of any update to such Grantor's schedule of Patents and Trademarks, as required pursuant to the terms of the Credit Agreement.

3.11. Filing Requirements. None of the Equipment is covered by any certificate of title, except for the vehicles described in Part I of Schedule E to the Disclosure Letter. None of the Collateral is of a type for which security interests cannot be perfected by filing under Article 9 of the Uniform Commercial Code as in effect in the relevant state except for (a) the vehicles described in Part II of Schedule E to the Disclosure Letter and (b) Patents, Trademarks and Copyrights held by a Grantor and described in Schedule D to the Disclosure Letter. The legal description, county and street address of each property on which any Fixtures are located is set forth in Schedule F to the Disclosure Letter together with the name and address of the record owner of each such property.

3.12. No Financing Statements, Security Agreements. No financing statement or security agreement describing all or any portion of the Collateral which has not lapsed or been terminated naming such Grantor as debtor has been filed or is of record in any jurisdiction except (a) for financing statements or security agreements naming Lender as the secured party and (b) as permitted by Section 4.1(e).

3.13. Pledged Collateral.

(a) Schedule G to the Disclosure Letter sets forth a complete and accurate list of all of the Pledged Collateral as of the Closing Date. Such Grantor is the direct, sole beneficial owner and sole holder of record of the Pledged Collateral listed on Schedule G to the Disclosure Letter as being owned by it, free and clear of any Liens, except for Permitted Liens. Such Grantor further represents and warrants that (i) all Pledged Collateral constituting an Equity Interest has been (to the extent such concepts are relevant with respect to such Pledged Collateral) duly authorized, validly issued, are fully paid and non-assessable, (ii) with respect to any certificates delivered to Lender representing an Equity Interest, either such certificates are Securities as defined in Division 8 of the UCC as a result of actions by the issuer or otherwise, or, if such certificates are not Securities, such Grantor has so informed Lender so that Lender may take steps to perfect its security interest therein as a General Intangible, (iii) to the extent requested by Lender pursuant to Section 4.14, all Pledged Collateral held by a securities intermediary is covered by a control agreement among such Grantor, the securities intermediary and Lender pursuant to which Lender has Control and (iv) all Pledged Collateral which represents Indebtedness owed to such Grantor has been duly authorized, authenticated or issued and delivered by the issuer of such Indebtedness, is the legal, valid and binding obligation of such issuer.

(b) In addition, (i) none of the Pledged Collateral has been issued or transferred in violation of the securities registration, securities disclosure or similar laws of any jurisdiction to which such issuance or transfer may be subject, (ii) except as disclosed to the Lender from time to time or as may be held in a securities account of a Grantor from time to time, there are existing no options, warrants, calls or commitments of any character whatsoever relating to the Pledged Collateral or which obligate the issuer of any Equity Interest included in the Pledged Collateral to issue additional Equity Interests, and (iii) no consent, approval, authorization, or other action by, and no giving of notice, filing with, any governmental authority or any other Person is required for the pledge by such Grantor of the Pledged Collateral pursuant to this Security Agreement or for the execution, delivery and performance of this Security Agreement by such Grantor, or for the exercise by Lender of the voting or other rights provided for in this Security Agreement or for the remedies in respect of the Pledged Collateral pursuant to this Security Agreement, except as may be required in connection with such disposition by laws affecting the offering and sale of securities generally.

(c) Except as set forth in Schedule G to the Disclosure Letter, such Grantor owns 100% of the issued and outstanding Equity Interests which constitute Pledged Collateral and, except as disclosed to the Lender in writing from time to time or as may be held in a securities account of a Grantor from time to time, none of the Pledged Collateral which represents Indebtedness owed to such Grantor is subordinated in right of payment to other Indebtedness or subject to the terms of an indenture.

ARTICLE IV
COVENANTS

From the date of this Security Agreement, and thereafter until this Security Agreement is terminated, each Grantor agrees that:

4.1. General.

(a) Collateral Records. Such Grantor will maintain books and records with respect to the Collateral that are complete and accurate in all material respects and furnish to Lender such reports describing the Collateral as Lender shall reasonably request from time to time.

(b) Authorization to File Financing Statements; Ratification. Such Grantor hereby authorizes Lender to file, and if requested will deliver to Lender, all financing statements and other documents and take such other actions as may from time to time be requested by Lender in order to maintain a first priority perfected security interest in and, if applicable, Control of, the Collateral (subject to Permitted Liens). Any financing statement filed by Lender may be filed in any filing office in any UCC jurisdiction and may (i) indicate the Collateral (1) as all assets of such Grantor or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Division 9 of the UCC or such jurisdiction, or (2) by any other description which reasonably approximates the description contained in this Security Agreement, and (ii) contain any other information required by Chapter 5 of Division 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment, including (a) whether such Grantor is an organization, the type of organization and any organization identification number issued to such Grantor, and (b) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of real property to which the Collateral relates. Such Grantor also agrees to furnish any such information to Lender promptly upon request. Such Grantor also ratifies its authorization for Lender to have filed in any UCC jurisdiction any initial financing statements or amendments thereto if filed prior to the date hereof.

(c) Further Assurances. Such Grantor will, if so requested by Lender, furnish to Lender, upon Lender’s reasonable request, statements and schedules further identifying and describing the Collateral and such other reports and information in connection with the Collateral as Lender may reasonably request, all in such detail as Lender may specify. Such Grantor also agrees to take any and all actions necessary to defend title to the Collateral against all persons and to defend the security interest of Lender in the Collateral and the priority thereof against any Lien not expressly permitted hereunder.

(d) Disposition of Collateral. Such Grantor will not sell, lease or otherwise dispose of the Collateral, except for Permitted Dispositions.

(e) Liens. Such Grantor will not create, incur, or suffer to exist any Lien on the Collateral except (i) the security interest created by this Security Agreement, and (ii) other Permitted Liens.

(f) Other Financing Statements. Such Grantor will not authorize the filing of any financing statement naming it as debtor covering all or any portion of the Collateral, except to evidence liens permitted by Section 4.1(e). Such Grantor acknowledges that it is not authorized to file any financing statement or amendment or termination statement with respect to any financing statement naming Lender as secured party without the prior written consent of Lender, subject to such Grantor's rights under Section 9509(d)(2) of the UCC.

(g) Locations. Such Grantor will not (i) maintain any Collateral at any location other than those locations listed on Schedule A to the Disclosure Letter other than Equipment, Inventory or other Goods in transit, out for repair or temporarily maintained at another location in the ordinary course of such Grantor's business, or (ii) change its principal place of business or chief executive office from the location identified on Schedule A to the Disclosure Letter, without 10 days prior written notice to Lender. In connection with any such change of location, Grantor will take such actions as Lender may reasonably deem desirable to protect its security interest in the Collateral.

(h) Compliance with Terms. Such Grantor will perform and comply in all material respects with all obligations in respect of the Collateral and all agreements to which it is a party or by which it is bound relating to the Collateral.

4.2. Receivables.

(a) Certain Agreements on Receivables. Such Grantor will not make or agree to make any discount, credit, rebate or other reduction in the original amount owing on a Receivable or accept in satisfaction of a Receivable less than the original amount thereof, except as expressly permitted in the Credit Agreement.

(b) Collection of Receivables. Such Grantor will collect and enforce, at such Grantor's sole expense, all amounts due or hereafter due to such Grantor under the Receivables, except for adjustments in the ordinary course of business.

(c) Delivery of Invoices. Such Grantor will deliver to Lender promptly upon its request after the occurrence and during the continuation of an Event of Default duplicate invoices with respect to each Account bearing such language of assignment as Lender shall specify.

(d) Electronic Chattel Paper. Such Grantor shall take all steps necessary to grant Lender Control of all electronic chattel paper having an original face value in excess of $250,000 in accordance with the UCC and all "transferable records" as defined in each of the Uniform Electronic Transactions Act and the Electronic Signatures in Global and National Commerce Act.

4.3. Inventory and Equipment.

(a) Maintenance of Goods. Such Grantor will do all things necessary to maintain, preserve, protect and keep the Inventory and the Equipment in good repair and working and saleable condition, except for (i) damaged or defective goods arising in the ordinary course of such Grantor's business, (ii) ordinary wear and tear in respect of the Equipment and (iii) Permitted Dispositions.

(b) Equipment. Such Grantor shall not permit any Equipment which individually exceed $500,000 to become a fixture with respect to real property or to become an accession with respect to other personal property with respect to which real or personal property Lender either does not have a Lien or has not otherwise entered into a Collateral Access Agreement without Lender's consent. Such Grantor will not, without Lender's prior written consent, alter or remove any identifying symbol or number on any of such Grantor's Equipment constituting Collateral.

4.4. Delivery of Instruments, Securities, Chattel Paper and Documents. Such Grantor will (a) deliver to Lender within 30 days following execution of this Security Agreement the originals of all Chattel Paper, certificated Securities and Instruments constituting Collateral (if any then exist) having an original face value in excess of $500,000, (b) hold in trust for Lender upon receipt and, if required to be delivered pursuant to clause (a), deliver to Lender any Chattel Paper, certificated Securities and Instruments constituting Collateral within 30 days following such receipt, (c) upon Lender's request, deliver to Lender (and thereafter hold in trust for Lender upon receipt and promptly deliver to Lender) any Document evidencing or constituting Collateral and (d) upon Lender's request, deliver to Lender a duly executed amendment to this Security Agreement, in the form of Exhibit A hereto (the "Amendment"), pursuant to which such Grantor will pledge such additional Collateral. Such Grantor hereby authorizes Lender to attach each Amendment to this Security Agreement and agrees that all additional Collateral set forth in such Amendments shall be considered to be part of the Collateral and that the Schedules to the Disclosure Letter shall be deemed to be amended to reflect the information contained within such Amendments without any further action.

4.5. Uncertificated Pledged Collateral. At Lender's request, such Grantor will cause the appropriate issuers (and, if held with a securities intermediary, such securities intermediary) of uncertificated securities or other types of Pledged Collateral not represented by certificates to mark their books and records with the numbers and face amounts of all such uncertificated securities or other types of Pledged Collateral not represented by certificates and all rollovers and replacements therefor to reflect the Lien of Lender granted pursuant to this Security Agreement. Such Grantor will take any actions reasonably requested by Lender to cause (a) the issuers of uncertificated securities which are Pledged Collateral and (b) any securities intermediary which is the holder of any Pledged Collateral, to cause Lender to have and retain Control over such Pledged Collateral. Without limiting the foregoing, such Grantor will, upon the request of Lender, with respect to Pledged Collateral held with a securities intermediary, cause such securities intermediary to enter into a control agreement with Lender, in form and substance reasonably satisfactory to Lender, giving Lender Control.

4.6. Pledged Collateral.

(a) Changes in Capital Structure of Issuers. Except as expressly permitted or required by the Credit Agreement, such Grantor will not (i) permit or suffer any Subsidiary that is an issuer of an Equity Interest constituting Pledged Collateral to dissolve, merge, liquidate, retire any of its Equity Interests or other Instruments or Securities evidencing ownership, reduce its capital, sell or encumber all or substantially all of its assets (except for Permitted Liens and Permitted Dispositions) or merge or consolidate with any other entity, except as permitted by the Credit Agreement, or (ii) vote any Pledged Collateral in favor of any of the foregoing.

(b) Issuance of Additional Securities. Such Grantor will not permit or suffer a Subsidiary that is the issuer of an Equity Interest constituting Pledged Collateral to issue additional Equity Interests, any right to receive the same or any right to receive earnings, except to such Grantor or as expressly permitted by the Credit Agreement.

(c) Registration of Pledged Collateral. During the continuation of an Event of Default, such Grantor will permit any registerable Pledged Collateral to be registered in the name of Lender or its nominee at any time at the option of Lender.

(d) Exercise of Rights in Pledged Collateral.

(i) Without in any way limiting the foregoing and subject to clause (ii) below, such Grantor shall have the right to exercise all voting rights or other rights relating to the Pledged Collateral for all purposes not inconsistent with this Security Agreement, the Credit Agreement or any other Loan Document; *provided however*, that no vote or other right shall be exercised or action taken which would have the effect of impairing the rights of Lender in respect of the Pledged Collateral (other than in connection with a Permitted Disposition).

(ii) Such Grantor will permit Lender or its nominee at any time after the occurrence and during the continuance of an Event of Default, without notice, to exercise all voting rights or other rights relating to Pledged Collateral, including, without limitation, exchange, subscription or any other rights, privileges, or options pertaining to any Equity Interest or Investment Property constituting Pledged Collateral as if it were the absolute owner thereof.

(iii) Such Grantor shall be entitled to collect and receive for its own use all cash dividends and interest paid in respect of the Pledged Collateral to the extent not in violation of the Credit Agreement; provided, that the following distributions and payments (collectively referred to as the "Excluded Payments") shall also be subject to clause (iv) below: (a) dividends and interest paid or payable other than in cash in respect of any Pledged Collateral, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Pledged Collateral; (b) dividends and other distributions paid or payable in cash in respect of any Pledged Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in capital of an issuer; and (c) cash paid, payable or otherwise distributed, in respect of principal of, or in redemption of, or in exchange for, any Pledged Collateral; *provided however, that* until actually paid, all rights to such distributions shall remain subject to the Lien created by this Security Agreement; and

(iv) All Excluded Payments in respect of any of the Pledged Collateral, whenever paid or made, shall become part of the Collateral without any further action.

Such Grantor shall immediately notify Lender of receipt of any Excluded Payments (other than Excluded Payments received in connection with investments held in any investment accounts) and take all steps, if any, necessary or reasonably requested by Lender pursuant to the terms of this Agreement to ensure that the Lender obtains a valid and perfection security interest in and, if applicable, Control over such Excluded Payments, and pending any such action, any Excluded Payments shall, if received by such Grantor, be received in trust for the benefit of Lender and, to the extent necessary to create or maintain the validity, perfection or priority of Lender's security interest in such property, be kept segregated from the other property or funds of such Grantor.

4.7. Intellectual Property.

(a) Such Grantor shall notify Lender promptly if it knows that any application or registration relating to any Patent, Trademark or Copyright (now or hereafter existing) may become abandoned or dedicated, or of any determination (including the institution of, or any such determination in, any proceeding in the United States Patent and Trademark Office, the United States Copyright Office or any court) regarding such Grantor's ownership of any Patent, Trademark or Copyright, its right to register the same, or to keep and maintain the same, in each case to the extent that any such event could reasonably be expected to cause a Material Adverse Change.

(b) In the event that such Grantor files an application for the registration of any Patent, Trademark or Copyright with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency during any fiscal quarter, such Grantor shall execute and deliver any and all security agreements as Lender may request to evidence Lender's first priority security interest on such Patent, Trademark or Copyright, and the General Intangibles of such Grantor relating thereto or represented thereby within 45 days after the end of such fiscal quarter.

(c) Such Grantor shall take all actions necessary or reasonably requested by Lender to maintain and pursue each application, to obtain the relevant registration and to maintain the registration of each of the Patents, Trademarks and Copyrights (now or hereafter existing), including the filing of applications for renewal, affidavits of use, affidavits of noncontestability and opposition and interference and cancellation proceedings, unless such Grantor shall determine that such Patent, Trademark or Copyright is not material to the conduct of the business of Borrower and its Subsidiaries, taken as a whole.

(d) Such Grantor shall promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, and shall take such other actions as Lender shall deem appropriate under the circumstances to protect such Patent, Trademark or Copyright, unless it shall reasonably determine that a Patent, Trademark or Copyright is not material to the conduct of the business or operations of Borrower and its Subsidiaries, taken as a whole. In the event that such Grantor institutes suit because any of the Patents, Trademarks or Copyrights constituting Collateral is infringed upon, or misappropriated or diluted by a third party, such Grantor shall comply with Section 4.8.

4.8. Commercial Tort Claims. Such Grantor shall promptly, and in any event within ten Business Days after the same is acquired by it, notify Lender of any commercial tort claim (as defined in the UCC) acquired by it in an amount in excess of $500,000 and, unless Lender otherwise consents, such Grantor shall enter into an Amendment to this Security Agreement, in the form of Exhibit A hereto, granting to Lender a first priority security interest in such commercial tort claim and that the Schedules to the Disclosure Letter shall be deemed to be amended to reflect the information contained within any such Amendment without any further action.

4.9. Letter-of-Credit Rights. If such Grantor is or becomes the beneficiary of any letters of credit with an aggregate face amount in excess of $250,000, such Grantor shall promptly, and in any event within ten Business Days after becoming a beneficiary, notify Lender thereof and, upon Lender's request, use its reasonable efforts to cause the issuer and/or confirmation bank to consent to the assignment of any Letter-of-Credit Rights to Lender.

4.10. Federal, State or Municipal Claims. Such Grantor will promptly notify Lender of any Collateral which constitutes a claim against the United States government or any state or local government or any instrumentality or agency thereof, the assignment of which claim is restricted by federal, state or municipal law.

4.11. No Interference. Such Grantor agrees that it will not interfere with any right, power and remedy of Lender provided for in this Security Agreement or now or hereafter existing at law or in equity or by statute or otherwise, or the exercise or beginning of the exercise by Lender of any one or more of such rights, powers or remedies.

4.12. Insurance.

Each Grantor shall maintain keep and maintain insurance as required pursuant to Section 7.02 of the Credit Agreement. All premiums on such insurance shall be paid when due by such Grantor, and copies of the policies delivered to Lender promptly upon Lender's request. If such Grantor fails to obtain any insurance as required by this Section, Lender may obtain such insurance at such Grantor's expense. By purchasing such insurance, Lender shall not be deemed to have waived any Default arising from such Grantor's failure to maintain such insurance or pay any premiums therefor.

4.13. Collateral Access Agreements. Upon Lender's request, such Grantor shall use commercially reasonable efforts to obtain a Collateral Access Agreement from the lessor of each leased property, mortgagee of owned property or bailee or consignee with respect to any warehouse, processor or converter facility or other location where Collateral in excess of $500,000 is stored or located, which agreement or letter shall be reasonably satisfactory in form and substance to Lender. Such Grantor shall timely and fully pay and perform its obligations under all leases and other agreements with respect to each leased location or third party warehouse where any Collateral is or may be located.

4.14. Account Control Agreements. Upon the occurrence of an Event of Default, such Grantor will provide to Lender a Deposit Account Control Agreement or Securities Account Control Agreement duly executed on behalf of each financial institution holding a deposit account or securities account of such Grantor other than (i) deposit accounts that have been or will be transferred to Lender in accordance with the Credit Agreement, (ii) trust accounts, payroll accounts and escrow accounts or (iii) deposit accounts having an average monthly credit balance equal to or less than $250,000 individually and $1,000,000 in the aggregate (determined at the end of a Business Day).

4.15. Change of Name or Location; Change of Fiscal Year. Such Grantor shall not (a) change its name as it appears in official filings in the state of its incorporation or organization, (b) change its chief executive office, principal place of business, mailing address, corporate offices or warehouses or locations at which Collateral is held or stored (except as permitted by Section 4.1(g)), or the location of its records concerning the Collateral as set forth in the Security Agreement, (c) change the type of entity that it is, (d) change its organization identification number, if any, issued by its state of incorporation or other organization, or (e) change its state of incorporation or organization, in each case, unless Lender shall have received at least 10 days prior written notice of such change and Lender shall have acknowledged in writing that either (1) such change will not adversely affect the validity, perfection or priority of Lender's security interest in the Collateral, or (2) any reasonable action requested by Lender in connection therewith has been completed or taken (including any action to continue the perfection of any Liens in favor of Lender in any Collateral). Such Grantor shall not change its fiscal year which currently ends on December 31.

ARTICLE V
EVENTS OF DEFAULT AND REMEDIES

5.1. Events of Default. The occurrence of any "Event of Default" under, and as defined in, the Credit Agreement shall constitute an Event of Default hereunder:

5.2. Remedies.

(a) Upon the occurrence and during the continuance of an Event of Default, Lender may exercise any or all of the following rights and remedies:

(i) those rights and remedies provided in this Security Agreement, the Credit Agreement, or any other Loan Document; *provided that*, this Section 5.2(a) shall not be understood to limit any rights or remedies available to Lender prior to an Event of Default;

(ii) those rights and remedies available to a secured party under the UCC (whether or not the UCC applies to the affected Collateral) or under any other applicable law (including, without limitation, any law governing the exercise of a bank's right of setoff or bankers' lien) when a debtor is in default under a security agreement;

(iii) give notice of sole control or any other instruction under any Deposit Account Control Agreement or and other control agreement with any securities intermediary and take any action therein with respect to such Collateral;

(iv) without notice (except as specifically provided in Section 8.1 or elsewhere herein), demand or advertisement of any kind to Grantors or any other Person, enter without breach of the peace the premises of either Grantor where any Collateral is located (through self-help and without judicial process) to collect, receive, assemble, process, appropriate, sell, lease, assign, grant an option or options to purchase or otherwise dispose of, deliver, or realize upon, the Collateral or any part thereof in one or more parcels at public or private sale or sales (which sales may be adjourned or continued from time to time with or without notice and may take place at a Grantor's premises or elsewhere), for cash, on credit or for future delivery without assumption of any credit risk, and upon such other terms as Lender may deem commercially reasonable; and

(v) concurrently with written notice to Grantors, transfer and register in its name or in the name of its nominee the whole or any part of the Pledged Collateral, to exchange certificates or instruments representing or evidencing Pledged Collateral for certificates or instruments of smaller or larger denominations, to exercise the voting and all other rights as a holder with respect thereto, to collect and receive all cash dividends, interest, principal and other distributions made thereon and to otherwise act with respect to the Pledged Collateral as though Lender was the outright owner thereof.

(b) Lender shall comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

(c) Lender shall have the right upon any such public sale or sales and, to the extent permitted by law, upon any such private sale or sales, to purchase for the benefit of Lender, the whole or any part of the Collateral so sold, free of any right of equity redemption, which equity redemption each Grantor hereby expressly releases.

(d) Until Lender is able to effect a sale, lease, or other disposition of Collateral, Lender shall have the right to hold or use Collateral, or any part thereof, to the extent that it deems appropriate for the purpose of preserving Collateral or its value or for any other purpose deemed appropriate by Lender. Lender may, if it so elects, seek the appointment of a receiver or keeper to take possession of Collateral and to enforce any of Lender's remedies, with respect to such appointment without prior notice or hearing as to such appointment.

(e) Notwithstanding the foregoing, Lender shall not be required to (i) make any demand upon, or pursue or exhaust any of their rights or remedies against, any Grantor, any other obligor, guarantor, pledgor or any other Person with respect to the payment of the Secured Obligations or to pursue or exhaust any of their rights or remedies with respect to any Collateral therefor or any direct or indirect guarantee thereof, (ii) marshal the Collateral or any guarantee of the Secured Obligations or to resort to the Collateral or any such guarantee in any particular order, or (iii) effect a public sale of any Collateral.

(f) Each Grantor recognizes that Lender may be unable to effect a public sale of any or all the Pledged Collateral and may be compelled to resort to one or more private sales thereof in accordance with clause (a) above. Each Grantor also acknowledges that any private sale may result in prices and other terms less favorable to the seller than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall not be deemed to have been made in a commercially unreasonable manner solely by virtue of such sale being private. Lender shall be under no obligation to delay a sale of any of the Pledged Collateral for the period of time necessary to permit a Grantor or the issuer of the Pledged Collateral to register such securities for public sale under the Securities Act of 1933, as amended, or under applicable state securities laws, even if such Grantor and the issuer would agree to do so.

5.3. Grantor's Obligations Upon Default. Upon the request of Lender after the occurrence and during the continuance of an Event of Default, each Grantor will:

(a) assemble and make available to Lender the Collateral and all books and records relating thereto at any place or places specified by Lender, whether at such Grantor's premises or elsewhere;

(b) permit Lender, by Lender's representatives and agents, to enter, occupy and use any premises where all or any part of the Collateral, or the books and records relating thereto, or both, are located, to take possession of all or any part of the Collateral or the books and records relating thereto, or both, to remove all or any part of the Collateral or the books and records relating thereto, or both, and to conduct sales of the Collateral, without any obligation to pay such Grantor for such use and occupancy;

(c) prepare and file, or cause an issuer of Pledged Collateral to prepare and file, with the Securities and Exchange Commission or any other applicable government agency, registration statements, a prospectus and such other documentation in connection with the Pledged Collateral as Lender may request, all in form and substance satisfactory to Lender, and furnish to Lender, or cause an issuer of Pledged Collateral to furnish to Lender, any information regarding the Pledged Collateral in such detail as Lender may specify;

(d) take, or cause an issuer of Pledged Collateral to take, any and all actions necessary to register or qualify the Pledged Collateral to enable Lender to consummate a public sale or other disposition of the Pledged Collateral; and

(e) at its own expense, cause the independent certified public accountants then engaged by such Grantor to prepare and deliver to Lender, at any time, and from time to time, promptly upon Lender's request, the following reports with respect to such Grantor: (i) a reconciliation of all Accounts; (ii) an aging of all Accounts; (iii) trial balances; and (iv) a test verification of such Accounts.

5.4. Grant of Intellectual Property License. For the purpose of enabling Lender to exercise the rights and remedies under this Article V at such time as Lender shall be lawfully entitled to exercise such rights and remedies, each Grantor hereby (a) grants to Lender an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to such Grantor) to use, license or sublicense any Intellectual Property Rights now owned or hereafter acquired by such Grantor, and wherever the same may be located, and including in such license access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof (subject, in the case of trademarks, to sufficient rights to quality control and inspection in favor of such Grantor to avoid the risk of invalidation of such trademarks and, in the case of trade secrets, to an obligation of Lender to take reasonable steps under the circumstances to keep the trade secrets confidential to avoid the risk of invalidation of such trade secrets) and (b) irrevocably agrees that Lender may sell any of such Grantor's Inventory directly to any person, including without limitation persons who have previously purchased such Grantor's Inventory from such Grantor and in connection with any such sale or other enforcement of Lender's rights under this Security Agreement, may sell Inventory which bears any Trademark owned by or licensed to such Grantor and any Inventory that is covered by any Copyright owned by or licensed to such Grantor and Lender may finish any work in process and affix any Trademark owned by or licensed to such Grantor and sell such Inventory as provided herein. This license shall remain in effect until this Security Agreement is terminated pursuant to Section 8.14.

ARTICLE VI
ACCOUNT VERIFICATION; ATTORNEY IN FACT; PROXY

6.1. Account Verification. Lender may, at any time after an Event of Default has occurred and is continuing, in Lender's own name, in the name of a nominee of Lender, or in the name of a Grantor communicate (by mail, telephone, facsimile or otherwise) with the Account Debtors of such Grantor, parties to contracts with such Grantor and obligors in respect of Instruments of such Grantor to verify with such Persons, to Lender's satisfaction, the existence, amount, terms of, and any other matter relating to, Accounts, Instruments, Chattel Paper, payment intangibles and/or other Receivables.

6.2. Authorization for Secured Party to Take Certain Action.

(a) Each Grantor irrevocably authorizes Lender at any time and from time to time in the sole discretion of Lender and appoints Lender as its attorney in fact (i) to execute on behalf of such Grantor as debtor and to file financing statements necessary or reasonably desirable in Lender's sole discretion to perfect and to maintain the perfection and priority of Lender's security interest in the Collateral, (ii) upon the occurrence and during the continuance of an Event of Default, to endorse and collect any cash proceeds of the Collateral, (iii) to file a carbon, photographic or other reproduction of this Security Agreement, the Intellectual Property Security Agreements (or any supplements thereto) or any financing statement with respect to the Collateral as a financing statement and to file any other financing statement or amendment of a financing statement (which does not add new collateral or add a debtor) in such offices as Lender in its sole discretion deems necessary or desirable to perfect and to maintain the perfection and priority of Lender's security interest in the Collateral, (iv) upon the occurrence and during the continuance of an Event of Default, to contact and enter into one or more agreements with the issuers of uncertificated securities which are Pledged Collateral or with securities intermediaries holding Pledged Collateral as may be necessary or advisable to give Lender Control over such Pledged Collateral, (v) upon the occurrence and during the continuance of an Event of Default, to apply the proceeds of any Collateral received by Lender to the Secured Obligations as provided in Section 7.3, (vi) to discharge past due taxes, assessments, charges, fees or Liens on the Collateral (except for such Liens as are specifically permitted hereunder), (vii) during the continuation of an Event of Default to contact Account Debtors in connection with the exercise of Lender's rights under Section 6.1, (viii) to demand payment or enforce payment of the Receivables in the name of Lender or such Grantor and to endorse any and all checks, drafts, and other instruments for the payment of money relating to the Receivables, (ix) to sign such

Grantor's name on any invoice or bill of lading relating to the Receivables, drafts against any Account Debtor of such Grantor, assignments and verifications of Receivables, (x) to exercise all of such Grantor's rights and remedies with respect to the collection of the Receivables and any other Collateral, (xi) to settle, adjust, compromise, extend or renew the Receivables, (xii) to settle, adjust or compromise any legal proceedings brought to collect Receivables, (xiii) to prepare, file and sign such Grantor's name on a proof of claim in bankruptcy or similar document against any Account Debtor of such Grantor, (xiv) to prepare, file and sign such Grantor's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with the Receivables, (xv) to change the address for delivery of mail addressed to such Grantor to such address as Lender may designate and to receive, open and dispose of all mail addressed to such Grantor, and (xvi) upon the occurrence and during the continuance of an Event of Default, to do all other acts and things necessary to carry out this Security Agreement; and such Grantor agrees to reimburse Lender on demand for any payment made or any expense incurred by Lender in connection with any of the foregoing; *provided that*, this authorization shall not relieve such Grantor of any of its obligations under this Security Agreement or under the Credit Agreement.

(b) All acts of said attorney or designee made in accordance herewith are hereby ratified and approved. The powers conferred on Lender, under this Section 6.2 are solely to protect Lender's interests in the Collateral and shall not impose any duty upon Lender to exercise any such powers. Lender agrees that, except for the powers granted in Section 6.2(a)(i), (iii) and (vi), it shall not exercise any power or authority granted to it unless an Event of Default has occurred and is continuing.

6.3. Proxy. EACH GRANTOR HEREBY IRREVOCABLY CONSTITUTES AND APPOINTS LENDER AS THE PROXY AND ATTORNEY-IN-FACT (AS SET FORTH IN SECTION 6.2 ABOVE) OF SUCH GRANTOR WITH RESPECT TO THE PLEDGED COLLATERAL, INCLUDING THE RIGHT TO VOTE SUCH PLEDGED COLLATERAL IN ACCORDANCE HEREWITH, WITH FULL POWER OF SUBSTITUTION TO DO SO. IN ADDITION TO THE RIGHT TO VOTE ANY SUCH PLEDGED COLLATERAL, THE APPOINTMENT OF LENDER AS PROXY AND ATTORNEY-IN-FACT SHALL INCLUDE THE RIGHT TO EXERCISE ALL OTHER RIGHTS, POWERS, PRIVILEGES AND REMEDIES TO WHICH A HOLDER OF SUCH PLEDGED COLLATERAL WOULD BE ENTITLED (INCLUDING GIVING OR WITHHOLDING WRITTEN CONSENTS OF SHAREHOLDERS, CALLING SPECIAL MEETINGS OF SHAREHOLDERS AND VOTING AT SUCH MEETINGS). SUCH PROXY SHALL BE EFFECTIVE, AUTOMATICALLY AND WITHOUT THE NECESSITY OF ANY ACTION (INCLUDING ANY TRANSFER OF ANY SUCH PLEDGED COLLATERAL ON THE RECORD BOOKS OF THE ISSUER THEREOF) BY ANY PERSON (INCLUDING THE ISSUER OF SUCH PLEDGED COLLATERAL OR ANY OFFICER OR AGENT THEREOF), UPON THE OCCURRENCE AND DURING THE CONTINUANCE OF AN EVENT OF DEFAULT.

6.4. Nature of Appointment; Limitation of Duty. THE APPOINTMENT OF LENDER AS PROXY AND ATTORNEY-IN-FACT IN THIS ARTICLE VI IS COUPLED WITH AN INTEREST AND SHALL BE IRREVOCABLE UNTIL THE DATE ON WHICH THIS SECURITY AGREEMENT IS TERMINATED IN ACCORDANCE WITH SECTION 8.14. NOTWITHSTANDING ANYTHING CONTAINED HEREIN, NEITHER LENDER NOR

ANY OF ITS RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES SHALL HAVE ANY DUTY TO EXERCISE ANY RIGHT OR POWER GRANTED HEREUNDER OR OTHERWISE OR TO PRESERVE THE SAME AND SHALL NOT BE LIABLE FOR ANY FAILURE TO DO SO OR FOR ANY DELAY IN DOING SO, EXCEPT IN RESPECT OF DAMAGES ATTRIBUTABLE SOLELY TO THEIR OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT AS FINALLY DETERMINED BY A COURT OF COMPETENT JURISDICTION; PROVIDED THAT, IN NO EVENT SHALL THEY BE LIABLE FOR ANY PUNITIVE, EXEMPLARY, INDIRECT OR CONSEQUENTIAL DAMAGES.

ARTICLE VII
COLLECTION AND APPLICATION OF COLLATERAL PROCEEDS; DEPOSIT ACCOUNTS

7.1. Collection of Receivables. If required by Lender pursuant to Section 4.14 of this Agreement, each Grantor shall execute and deliver to Lender Deposit Account Control Agreements for each Deposit Account maintained by such Grantor into which all cash, checks or other similar payments relating to or constituting payments made in respect of Receivables will be deposited (a "Collateral Deposit Account"), which Collateral Deposit Accounts are identified as such on Schedule B to the Disclosure Letter.

7.2. Covenant Regarding New Deposit Accounts. After the occurrence and during the continuance of an Event of Default, each Grantor shall (a) obtain Lender's consent in writing before opening or replacing any Collateral Deposit Account or other Deposit Account to the opening of such Deposit Account, and (b) cause each bank or financial institution (other than Lender) in which it seeks to open a Deposit Account to enter into a Deposit Account Control Agreement with Lender in order to give Lender Control of such Deposit Account, in each case other than trust accounts, payroll accounts and escrow accounts.

7.3. Application of Proceeds; Deficiency. Lender may require, at any time after the occurrence and during the continuance of an Event of Default, that all cash proceeds of the Collateral be deposited in a special non-interest bearing cash collateral account with Lender and held there as security for the Secured Obligations. Grantors shall have no control whatsoever over said cash collateral account. Any such proceeds of the Collateral shall be applied in the sole discretion of Lender unless a court of competent jurisdiction shall otherwise direct. The balance, if any, after all of the Secured Obligations (other than contingent obligations not yet due and payable) have been satisfied, shall be deposited by Lender into such Grantor's general operating account with Lender. Such Grantor shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all Secured Obligations, including any attorneys' fees and other expenses incurred by Lender or any Lender to collect such deficiency.

ARTICLE VIII
GENERAL PROVISIONS

8.1. Waivers. Each Grantor hereby waives notice of the time and place of any public sale or the time after which any private sale or other disposition of all or any part of the Collateral may be made. To the extent such notice may not be waived under applicable law, any notice made shall be deemed reasonable if sent to such Grantor, addressed as set forth in Article IX, at least ten days prior to (i) the date of any such public sale or (ii) the time after which any such private sale or other disposition may be made. To the maximum extent permitted by applicable law, such Grantor waives all claims, damages, and demands against Lender arising out of the repossession, retention or sale of the Collateral, except such as arise solely out of the gross negligence or willful misconduct of Lender as finally determined by a court of competent jurisdiction. To the extent it may lawfully do so, such Grantor absolutely and irrevocably waives and relinquishes the benefit and advantage of, and covenants not to assert against Lender, any valuation, stay, appraisal, extension, moratorium, redemption or similar laws and any and all rights or defenses it may have as a surety now or hereafter existing which, but for this provision, might be applicable to the sale of any Collateral made under the judgment, order or decree of any court, or privately under the power of sale conferred by this Security Agreement, or otherwise. Except as otherwise specifically provided herein, each Grantor hereby waives presentment, demand, protest or any notice (to the maximum extent permitted by applicable law) of any kind in connection with this Security Agreement or any Collateral.

8.2. Limitation on Lender's Duty with Respect to the Collateral. Lender shall have no obligation to clean-up or otherwise prepare the Collateral for sale. Lender shall use reasonable care with respect to the Collateral in its possession or under its control. Lender shall not have any other duty as to any Collateral in its possession or control or in the possession or control of any agent or nominee of Lender, or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. To the extent that applicable law imposes duties on Lender to exercise remedies in a commercially reasonable manner, each Grantor acknowledges and agrees that it is commercially reasonable for Lender (i) to fail to incur expenses deemed significant by Lender to prepare Collateral for disposition or otherwise to transform raw material or work in process into finished goods or other finished products for disposition, (ii) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (iii) to fail to exercise collection remedies against Account Debtors or other Persons obligated on Collateral or to remove Liens on or any adverse claims against Collateral, (iv) to exercise collection remedies against Account Debtors and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (vi) to contact other Persons, whether or not in the same business as such Grantor, for expressions of interest in acquiring all or any portion of such Collateral, (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (viii) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capacity of doing so, or that match buyers and sellers of assets, (ix) to dispose of assets in wholesale rather than retail markets, (x) to disclaim disposition warranties, such as title, possession or quiet enjoyment, (xi) to purchase insurance or credit enhancements to insure Lender against risks of loss, collection or disposition of Collateral or to provide to Lender a guaranteed return from the collection or disposition of Collateral, or (xii) to the extent deemed appropriate by Lender, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist Lender in the collection or disposition of any of the Collateral. Each Grantor acknowledges that the purpose of this Section 8.2 is to provide non-exhaustive indications of what actions or omissions by Lender would be commercially reasonable in Lender's exercise of remedies against the Collateral and that other actions or omissions by Lender shall not be deemed commercially unreasonable solely on account of not being indicated in this Section 8.2. Without limitation upon the foregoing, nothing contained in this Section 8.2 shall be construed to grant any rights to either Grantor or to impose any duties on Lender that would not have been granted or imposed by this Security Agreement or by applicable law in the absence of this Section 8.2.

8.3. Compromises and Collection of Collateral. Each Grantor and Lender recognize that setoffs, counterclaims, defenses and other claims may be asserted by obligors with respect to certain of the Receivables, that certain of the Receivables may be or become uncollectible in whole or in part and that the expense and probability of success in litigating a disputed Receivable may exceed the amount that reasonably may be expected to be recovered with respect to a Receivable. In view of the foregoing, each Grantor agrees that Lender may at any time and from time to time, if an Event of Default has occurred and is continuing, compromise with the obligor on any Receivable, accept in full payment of any Receivable such amount as Lender in its sole discretion shall determine or abandon any Receivable, and any such action by Lender shall be commercially reasonable so long as Lender acts in good faith based on information known to it at the time it takes any such action.

8.4. Secured Party Performance of Debtor Obligations. Without having any obligation to do so, Lender may perform or pay any obligation which either Grantor has agreed to perform or pay in this Security Agreement and each Grantor shall reimburse Lender for any amounts paid by Lender pursuant to this Section 8.4. Each Grantor's obligation to reimburse Lender pursuant to the preceding sentence shall be a Secured Obligation payable on demand.

8.5. Specific Performance of Certain Covenants. Each Grantor acknowledges and agrees that a breach of any of the covenants contained in Sections 4.1(d), 4.1(e), 4.4, 4.6, 4.7, 4.8, 4.9, 4.10, 4.12, 4.13, 4.14, 4.15, 5.3, or 8.7 or in Article VII will cause irreparable injury to Lender, that Lender has no adequate remedy at law in respect of such breaches and therefore agrees, without limiting the right of Lender to seek and obtain specific performance of other obligations of such Grantor contained in this Security Agreement, that the covenants of such Grantor contained in the Sections referred to in this Section 8.5 shall be specifically enforceable against such Grantor.

8.6. Dispositions Not Authorized. Neither Grantor is authorized to sell or otherwise dispose of the Collateral except as set forth in Section 4.1(d) and notwithstanding any course of dealing between such Grantor and Lender or other conduct of Lender, no authorization to sell or otherwise dispose of the Collateral (except as set forth in Section 4.1(d)) shall be binding upon Lender unless such authorization is in writing signed by Lender.

8.7. No Waiver; Amendments; Cumulative Remedies. No delay or omission of Lender to exercise any right or remedy granted under this Security Agreement shall impair such right or remedy or be construed to be a waiver of any Default or an acquiescence therein, and any single or partial exercise of any such right or remedy shall not preclude any other or further exercise thereof or the exercise of any other right or remedy. No waiver, amendment or other variation of the terms, conditions or provisions of this Security Agreement whatsoever shall be valid unless in writing signed by Lender and then only to the extent in such writing specifically set forth. All rights and remedies contained in this Security Agreement or by law afforded shall be cumulative and all shall be available to Lender until the Secured Obligations (other than contingent obligations not yet due and payable) have been paid in full.

8.8. Limitation by Law; Severability of Provisions. All rights, remedies and powers provided in this Security Agreement may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of this Security Agreement are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited to the extent necessary so that they shall not render this Security Agreement invalid, unenforceable or not entitled to be recorded or registered, in whole or in part. Any provision in any this Security Agreement that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of this Security Agreement are declared to be severable.

8.9. Reinstatement. This Security Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against either Grantor for liquidation or reorganization, should such Grantor become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of such Grantor’s assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Secured Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Secured Obligations, whether as a “voidable preference,” “fraudulent conveyance,” or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Secured Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

8.10. Benefit of Agreement. The terms and provisions of this Security Agreement shall be binding upon and inure to the benefit of each Grantor, Lender and their respective successors and assigns (including all persons who become bound as a debtor to this Security Agreement), except that neither Grantor shall have the right to assign its rights or delegate its obligations under this Security Agreement or any interest herein, without the prior written consent of Lender. No sales of participations, assignments, transfers, or other dispositions of any agreement governing the Secured Obligations or any portion thereof or interest therein shall in any manner impair the Lien granted to Lender hereunder.

8.11. Survival of Representations. All representations and warranties of each Grantor contained in this Security Agreement shall survive the execution and delivery of this Security Agreement.

8.12. Costs and Expenses. Grantors shall reimburse Lender for any and all reasonable and documented costs and out-of-pocket expenses to the extent required under Section 9.01 of the Credit Agreement. Any and all costs and expenses incurred by Grantors in the performance of actions required pursuant to the terms hereof shall be borne solely by Grantors.

8.13. Headings. The title of and section headings in this Security Agreement are for convenience of reference only, and shall not govern the interpretation of any of the terms and provisions of this Security Agreement.

8.14. Termination. This Security Agreement shall continue in effect (notwithstanding the fact that from time to time there may be no Secured Obligations outstanding) until (i) the Credit Agreement has terminated pursuant to its express terms and (ii) all of the Secured Obligations have been indefeasibly paid and performed in full (except with respect to any outstanding Letters of Credit for which a cash deposit or Supporting Letter of Credit has been delivered to Lender as required by the Credit Agreement or with respect to any other contingent obligations that survive termination of the Credit Agreement) and no commitments of Lender which would give rise to any Secured Obligations are outstanding.

8.15. Entire Agreement. This Security Agreement embodies the entire agreement and understanding between Grantors and Lender relating to the Collateral and supersedes all prior agreements and understandings between Grantors and Lender relating to the Collateral.

8.16. **CHOICE OF LAW. THIS SECURITY AGREEMENT 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.**

8.17. **CONSENT TO JURISDICTION. EACH GRANTOR HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE 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 THIS SECURITY AGREEMENT OR ANY OTHER LOAN DOCUMENT AND EACH GRANTOR HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF LENDER TO BRING PROCEEDINGS AGAINST SUCH GRANTOR IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY SUCH GRANTOR AGAINST LENDER OR ANY AFFILIATE OF LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS SECURITY AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN SAN FRANCISCO, CALIFORNIA.**

8.18. **WAIVER OF JURY TRIAL. EACH GRANTOR AND LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS SECURITY AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.**

8.19. Indemnity. Each Grantor hereby agrees to indemnify Lender, and its successors, assigns, agents and employees, to the extent Lender and its successors, assigns, agents and employees are entitled to indemnification pursuant to Section 9.01 of the Credit Agreement.

8.20. Counterparts. This Security Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Security Agreement by signing any such counterpart.

ARTICLE IX
NOTICES

9.1. Sending Notices. Any notice required or permitted to be given under this Security Agreement shall be sent in accordance with Section 9.08 of the Credit Agreement.

9.2. Change in Address for Notices. Each Grantor and Lender may change the address for service of notice upon it by a notice in writing to the other parties.

[Signatures appear on following page]

IN WITNESS WHEREOF, each Grantor and Lender have executed this Security Agreement as of the date first above written.

GRANTORS:

SERVICESOURCE INTERNATIONAL, INC.

By: ________________________
Name: ________________________
Title: ________________________

SERVICESOURCE DELAWARE, INC.

By: ________________________
Name: ________________________
Title: ________________________

LENDER:

JPMORGAN CHASE BANK, N.A., as Lender

By: ________________________
Name: ________________________
Title: ________________________

[Signature Page to Security Agreement]

EXHIBIT A

(See Section 4.4 and 4.8 of Security Agreement)

AMENDMENT

This Amendment, dated , is delivered pursuant to Section 4.4 of the Security Agreement referred to below. All defined terms herein shall have the meanings ascribed thereto or incorporated by reference in the Security Agreement. The undersigned hereby certifies that the representations and warranties in Article III of the Security Agreement are and continue to be true and correct. The undersigned further agrees that this Amendment may be attached to that certain Pledge and Security Agreement, dated , , between the undersigned, as the Grantor, and JPMorgan Chase Bank, N.A., as Lender, (the "Security Agreement") and that the Collateral listed on Schedule I to this Amendment shall be and become a part of the Collateral referred to in said Security Agreement and shall secure all Secured Obligations referred to in said Security Agreement, and that the Schedules to the Disclosure Letter shall be deemed to be amended to reflect the information contained within this Amendment without any further action.

____

By: ________________________

Name: ______________________

Title: _______________________

SCHEDULE I TO AMENDMENT

STOCKS

Issuer	Certificate Number(s)	Number of Shares	Class of Stock	Percentage of Outstanding Shares

BONDS

Issuer	Number	Face Amount	Coupon Rate	Maturity

GOVERNMENT SECURITIES

Issuer	Number	Type	Face Amount	Coupon Rate	Maturity

OTHER SECURITIES OR OTHER INVESTMENT PROPERTY
(CERTIFICATED AND UNCERTIFICATED)

Issuer	Description of Collateral	Percentage Ownership Interest

[Add description of custody accounts or arrangements with securities intermediary, if applicable**]**

COMMERCIAL TORT CLAIMS

Description of Claim	Parties	Case Number; Name of Court where Case was Filed

EMPLOYMENT AND CONFIDENTIAL INFORMATION AGREEMENT

In consideration for employment by ServiceSource International, Inc. (hereinafter "**ServiceSource**") of Christine Heckart ("**Employee**"), ServiceSource and Employee acknowledge and agree as follows:

1. EMPLOYMENT TERMS AND CONDITIONS. ServiceSource hereby employs Employee, and Employee hereby accepts employment with ServiceSource upon all of the terms and conditions described in this Employment Agreement (this "**Agreement**"), with such employment expected to commence on July 30, 2012 (the actual starting date being the "**Commencement Date**").

2. DUTIES.

(a) Responsibilities. Employee's position is Chief Marketing Officer, reporting to Mike Smerklo, Chairman and CEO. Employee shall be responsible for and expected to perform all duties and tasks as directed by ServiceSource.

(b) Loyal and Full Time Performance of Duties. While employed by ServiceSource, Employee shall not directly or indirectly, engage in any Competitive Activity. For the purpose of this Agreement, "**Competitive Activity**" is any activity which is the same as or competitive with any activity engaged in by ServiceSource, during Employee's employment by ServiceSource. Competitive Activities may include, without limitation, the provision of (a) outsourced sales, technology and/or marketing services, or (b) consulting services for a client with respect to the sales and marketing of services agreements to end users where such clients compete with ServiceSource and/or its customers.

(c) ServiceSource Policies. Employee agrees to abide by ServiceSource's rules, regulations, policies and practices, written and unwritten, as they may from time to time be adopted or modified by ServiceSource at its sole discretion. ServiceSource's written rules, policies, practices and procedures shall be binding on Employee unless superseded by or in conflict with this Agreement.

3. EMPLOYMENT AT-WILL. Employee and ServiceSource acknowledge and agree that during Employee's employment with ServiceSource the parties intend to strictly maintain an at-will employment relationship. This means that at any time during the course of Employee's employment with ServiceSource, Employee is entitled to resign with or without cause and with or without advance notice. Similarly, ServiceSource specifically reserves the same right to terminate Employee's employment at any time with or without cause and with or without advance notice. Nothing in this Agreement or the relationship between the parties now or in the future may be construed or interpreted to create an employment relationship for a specific length of time or a right to continued employment. Employee and ServiceSource understand and agree that only ServiceSource's Chief Executive Officer possesses the authority to alter the at-will nature of Employee's employment status, and that any such change may be made only by an express written employment contract signed by ServiceSource's Chief Executive Officer. No implied contract concerning any employment-related decision or term or condition of employment can be established by any other statement, conduct, policy or practice.

4. CASH COMPENSATION.

(a) Base Salary. In consideration for the services and covenants described in this Agreement, ServiceSource agrees to pay Employee an annual base salary of Three Hundred Fifty Thousand Dollars ($350,000), paid on ServiceSource's normal payroll dates. In addition, Employee will be eligible for a potential annual target bonus amount of up to 50% of her annual base salary (currently $350,000). The bonus is discretionary, not guaranteed, and is also subject to Company performance requirements as determined by the Board of Directors in its sole discretion. Except as otherwise provided in this Agreement, Employee must be employed as of the date of the scheduled bonus payment in order to be eligible for any form of bonus payment. Employee's bonus target for the first year of employment will be prorated based upon her starting date.

(b) Hire-On Bonus. Employee will be paid a hire-on bonus in the total amount of $50,000 ("Hire-on Bonus"), contingent upon Employee remaining employed by ServiceSource through December 31, 2012 and payable in the first regular payroll cycle of 2013 (and in no event later than March 15, 2013).

5. EQUITY COMPENSATION. Employee will be eligible to participate in the ServiceSource International, Inc. 2011 Equity Incentive Plan (the "**Equity Incentive Plan**") and, subject to the plan's requirements, the ServiceSource International, Inc. 2011 Employee Stock Purchase Plan (the **"Employee Stock Purchase Plan"**). Subject to (i) approval by ServiceSource's Board of Directors (or the Compensation Committee of the Board of Directors), (ii) the terms of the Equity Incentive Plan, and (iii) the terms of the respective equity compensation award agreements under the Plan, Employee will be granted the equity compensation described under subsections (a) and (b) of this Section 5, in addition to Employee's cash compensation, effective upon the action of the Board of Directors (or Compensation Committee) approving the equity compensation grant. The grant date of the equity compensation as determined above is herein referred to as the "**Grant Date.**"

(a) Stock Option Grant. ServiceSource shall grant to Employee a nonqualified stock option to purchase up to two hundred thousand (200,000) shares of ServiceSource's Common Stock under the Equity Incentive Plan, at an exercise price per share equal to the fair market value of a single Common Share as determined under the

Equity Incentive Plan for the Grant Date. The option will be scheduled to vest over four years, with 25% of the option vesting on the one-year anniversary of the Commencement Date and the remainder vesting monthly on a pro rata basis, on the same calendar-month day as the Commencement Date, over the following 36 months, so as to be 100% vested on the fourth anniversary of the Commencement Date. In all cases, vesting shall be subject to Employee remaining as a Service Provider (as such term is defined in the Equity Incentive Plan) through each vesting date, subject to any acceleration of vesting as provided in this Agreement. Note that the above grant and its terms remain subject to approval by the Board of Directors (or the Compensation Committee), and to the terms and conditions of the Equity Incentive Plan and a related stock option agreement, and that any granted shares will be subject to all applicable state and federal tax and securities laws.

(b) Restricted Stock Units Grant. ServiceSource shall grant Employee one hundred and fifty thousand (150,000) restricted stock units ("**RSUs**") under the Equity Incentive Plan. The proposed RSUs will be scheduled to vest and be payable over a period of four years subject to Employee's continuous service as an employee of ServiceSource. Twenty-five percent (25%) of Employee's RSUs will vest on the one-year anniversary of the Commencement Date. The remaining RSU shares will vest in three equal installments at each anniversary of the Commencement Date thereafter so as to be fully vested after four years of continuous employment. In all cases, vesting shall be subject to Employee remaining as a Service Provider (as such term is defined in the Equity Incentive Plan) through each vesting date, subject to any acceleration of vesting as provided in this Agreement. Note that the above grant and its terms remain subject to approval by the Board of Directors (or the Compensation Committee), and to the terms and conditions of the Equity Incentive Plan and a related RSU agreement, and that any granted shares will be subject to all applicable state and federal tax and securities laws.

(c) Employee Stock Purchase Plan. Subject to the terms and conditions of the Employee Stock Purchase Plan as now or hereafter in effect as determined by the Board of Directors (or Compensation Committee), Employee will be eligible to participate in the Employee Stock Purchase Plan while she meets the eligibility requirements under the Employee Stock Purchase Plan. Note that any purchase rights or purchased shares under the Employee Stock Purchase Plan will be subject to all applicable state and federal tax and securities laws and the employment policies of ServiceSource.

6. BENEFITS. As a full-time employee, Employee shall be entitled to all of the benefits provided to ServiceSource executive employees, in accordance with any benefit plan or policy adopted by ServiceSource from time to time during the existence of this Agreement. Employee's rights and those of Employee's dependents under any such benefit plan or policy shall be governed solely by the terms of such plan or policy. ServiceSource reserves the right to cancel or change the benefit plans and policies it offers to its employees at any time. ServiceSource reserves to itself or its designated administrators exclusive authority and discretion to determine all issues of eligibility, interpretation and administration of each such benefit plan or policy.

7. PROPRIETARY AND CONFIDENTIAL INFORMATION (INCLUDING TRADE SECRETS). Employee acknowledges that her employment with ServiceSource will allow her access to Proprietary and Confidential Information. Employee understands that Proprietary and Confidential Information includes customer and applicant lists, whether written or solely a function of memory, data bases, whether on computer disc or not, business files, contracts and all other information which is used in the day-to-day operation of ServiceSource which is not known by persons not employed by ServiceSource and which ServiceSource undertakes efforts to maintain its secrecy. Employee understands and agrees that this is confidential information which the law treats as privileged, therefore protecting an employer from use without consent.

(a) Definition. "**Proprietary and Confidential Information**" is defined as all information and any idea in whatever form, tangible or intangible, of a confidential or secret nature that pertains in any manner to the business of ServiceSource. As used herein, the term "**Confidential Information**" shall include any and all non-public information relating to ServiceSource or its business, operations, financial affairs, performance, assets, technology, research and development, processes, products, contracts, customers, licensees, sublicensees, suppliers, personnel, plans or prospects, whether or not in written form and whether or not expressly designated as confidential, including (without limitation) any such information consisting of or otherwise relating to trade secrets, know-how, technology (including software and programs), designs, drawings, photographs, samples, processes, license or sublicense arrangements, formulae, proposals, product specifications, customer lists or preferences, pricing lists, referral sources, marketing or sales techniques or plans, operating manuals, service manuals, financial information or projections, lists of suppliers or distributors or sources of supply.

Proprietary and Confidential Information shall include both information developed by Employee for ServiceSource and information Employee obtained while in ServiceSource's employment. All Proprietary and Confidential Information, whether created by Employee or other employees, shall remain the property of ServiceSource.

(b) Non-Disclosure and Return. Employee agrees that she will not, under any circumstances, or at any time, whether as an individual, partnership, or corporation, or employee, principal, agent, partner or shareholder thereof, in any way, either directly or indirectly, divulge, disclose, copy, use, divert or attempt to divulge, disclose, copy, use or divert ServiceSource's Proprietary and Confidential Information, except to the extent authorized and necessary to carry out Employee's responsibilities during employment with ServiceSource, or as required by law. Upon termination of Employee's employment with ServiceSource, Employee shall immediately return to ServiceSource all property in Employee's possession or control that belongs to ServiceSource, including all property in electronic form and all copies of Proprietary and Confidential Information.

(c) Former Employer Information. Employee agrees that Employee will not, during Employee's employment with ServiceSource, improperly use or disclose any proprietary information or trade secrets of any former or concurrent employer or other person or entity and that Employee will not bring onto the premises of ServiceSource any unpublished document or proprietary information belonging to any such employer, person or entity unless consented to in writing by such employer, person or entity. Employee represents and warrants to ServiceSource that Employee is not in breach of any agreement with any former Employer by accepting employment with ServiceSource.

(d) Third Party Information. Employee recognizes that ServiceSource may have received and in the future may continue to receive from third parties their confidential or proprietary information as they may so designate, subject to a duty on ServiceSource's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Employee agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out Employee's work for ServiceSource consistent with ServiceSource's agreement with such third party.

(e) Notification to New Employer. In the event that Employee's employment with ServiceSource ends, Employee consents to notification by ServiceSource to any subsequent employer of Employee's rights and obligations under this Agreement.

(f) No Solicitation of Clients Using Proprietary and Confidential Information. Employee acknowledges and agrees that the names, addresses, and contact information of ServiceSource's clients and all other confidential information relating to those clients, have been compiled by ServiceSource at great expense and represent a real asset of ServiceSource. Employee further understands and agrees that this information is deemed confidential by ServiceSource and constitutes trade secrets of ServiceSource. Employee understands that this information has been provided to Employee in confidence, and Employee agrees that the sale or unauthorized use or disclosure of any of ServiceSource's trade secrets obtained by Employee during employment with ServiceSource constitutes unfair competition. Employee agrees and promises not to engage in any unfair competition with ServiceSource. Employee further agrees not to, directly or indirectly, during or after termination of employment, make known to any person, firm, or company any information concerning any of the clients of ServiceSource which, as Employee acknowledges, is confidential and constitutes trade secrets of ServiceSource. Nor shall Employee use any such confidential and trade secret information to solicit, take away, or attempt to call on, solicit or take away any of the clients of ServiceSource on whom Employee called or whose accounts Employee had serviced during employment with ServiceSource, whether on Employee's own behalf or for any other person, firm, or ServiceSource.

(g) No Solicitation of Employees. Employee understands and acknowledges that as an employee of ServiceSource she has certain fiduciary duties to ServiceSource which would be violated by the solicitation and/or encouragement of ServiceSource employees to leave the employ of ServiceSource. Employee therefore agrees that she will not, either during her employment or for a period of one year after employment has terminated, solicit any of ServiceSource's employees for a competing business or otherwise induce or attempt to induce such employees to terminate employment with ServiceSource. Employee agrees that any such solicitation during that period of time would constitute unfair competition.

(h) Assignment of Rights. All Proprietary and Confidential Information and all patents, patent rights, copyrights, trade secret rights, trademark rights and other rights (including, without limitation, intellectual property rights) owned by or otherwise belonging to ServiceSource anywhere in the world in connection therewith, is and shall be the sole property of the ServiceSource. Employee hereby assigns to ServiceSource any and all rights, title and interest Employee may have or acquire in ServiceSource's Proprietary and Confidential Information and ServiceSource's property.

8. SEVERANCE BENEFITS.

(a) Termination Other than for Cause During the First Year of Employment. If ServiceSource should terminate Employee's employment without "Cause" (as defined in Section 8(c) below) at any time before the one-year anniversary of the Commencement Date, Employee shall receive twelve (12) months of Employee's then current base salary and a prorated target bonus payment based upon the portion of the bonus year completed as of the termination effective date, but not less than fifty percent of her annual bonus target. These payments will be made in a single lump sum, subject to all applicable withholding requirements. For purposes of this calculation, base salary and bonus target amounts shall not include the Hire-on Bonus;

(b) Termination Without Cause or for Good Reason Following Change of Control (Equity Acceleration). If ServiceSource or a successor should terminate Employee's employment without Cause or Employee should terminate her employment for Good Reason, in either case within 12 months following a "Change of Control" (as defined in Section 8(c) below), then all of Employee's outstanding equity compensation awards (including, without limitation, all stock options, restricted stock, restricted stock units and any other equity compensation awards) shall immediately have their vesting accelerated 100%, so as to become fully vested.

(c) Definitions: For purposes of this Section 8:

(i) "**Cause**" shall mean the occurrence of any of the following events: (i) Employee's commission of any felony or any crime involving fraud or dishonesty under the laws of the United States or any state thereof; (ii) Employee's commission of, or participation in, a fraud or act of dishonesty against ServiceSource; (iii) Employee's willful violation of any contract or agreement between Employee and ServiceSource or any statutory duty owed to ServiceSource; (iv) Employee's unauthorized use or disclosure of Proprietary and Confidential Information; or (v) Employee's gross misconduct; and

(ii) "**Good Reason**" shall mean the occurrence of any one of the following events, without Employee's written consent: (1) a material, adverse change in Employee's job title from that in effect immediately prior to the Change of Control, including the assignment of the same job title at the divisional level of a larger organization; (2) a material, adverse change in Employee's duties, authorities or job responsibilities from that in effect immediately prior to the Change of Control, including a change in reporting relationship such that Employee no longer reports to the Chief Executive Officer of the acquiring Company (e.g. reporting to a divisional CEO or General Manager); (3) a relocation of Employee's principal place of employment beyond a radius of 30 miles from its location immediately prior to the Change of Control; or (4) any reduction in Employee's base salary, target bonus, or aggregate level of benefits measured against such compensation or benefits as in effect immediately prior to the Change of Control; *provided that* Employee has notified ServiceSource in writing of the event described in (1), (2), (3) or (4) above and ServiceSource (or its successor) has within 30 days thereafter failed to restore Employee to the appropriate job title, duties, authorities, responsibility, location, salary, target commissions or benefits; and

(iii) "**Change of Control**" shall mean the occurrence of one of the following events: a sale of all or substantially all of the shares of stock of ServiceSource; a merger, consolidation or similar transaction involving ServiceSource following which the persons entitled to elect a majority of the members of the Board of Directors of ServiceSource immediately before the transaction are not entitled to elect a majority of the members of the Board of Directors of ServiceSource or the surviving entity following the transaction; or a sale of all or substantially all of the assets of ServiceSource.

(d) Release. Notwithstanding the foregoing, the severance benefits described in Sections 8(a) and 8(b) above are subject to Employee's execution and delivery of binding general release of claims in the form set forth as Schedule A, and such release shall becoming effective and binding in accordance with its terms within fifty-two (52) days following the termination date. No severance payments or vesting acceleration pursuant to such sections shall be paid or provided unless and until the release becomes effective. Any severance payment to which Employee is entitled shall be paid by ServiceSource in full on the fifty-third (53^{d}) day following Employee's employment termination date or such later date as is required to avoid the imposition of additional taxes under Internal Revenue Code Section 409A and the regulations and guidance thereunder, and any applicable state law equivalent (together, "**Section 409A**").

(e) Section 409A Compliance. Notwithstanding any provision to the contrary herein, no Deferred Compensation Separation Payments (as defined below) that become payable under this Agreement by reason of Employee's termination of employment with ServiceSource (or any successor entity thereto) will be made unless such termination of employment constitutes a "separation from service" within the meaning of Section 409A. Further, if Employee is a "specified employee" of ServiceSource (or any successor entity thereto) within the meaning of Section 409A on the date of Employee's termination of employment (other than a termination of employment due to death), then the Deferred Compensation Separation Payments that are payable within the first six (6) months following Employee's termination of employment, shall be delayed until the first payroll date that occurs on or after the date that is six (6) months and one (1) day after the date of Employee's termination of employment, when they shall be paid in full arrears. All subsequent Deferred Compensation Separation Payments, if any, will be paid in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Employee dies following Employee's employment termination but prior to the six (6) month anniversary of her employment termination, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of death and all other Deferred Compensation Separation Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations. For the purposes of this Agreement, "**Deferred Compensation Separation Payment**" means any severance pay or benefits to be paid or provided to Employee (or Employee's estate or beneficiaries) pursuant to this Agreement and any other severance payments or separation benefits, that in each case, when considered together, are considered deferred compensation under Section 409A.

The foregoing provisions and all payments and benefits under this Agreement are intended to be exempt from or comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to so comply or be exempt. ServiceSource and Employee agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Employee under Section 409A.

(f) Termination of Employment for Other Reasons. The above severance benefits in this Section 8 shall not be paid or provided in the event of the termination of Employee's employment due to Employee's death, disability or resignation (other than a resignation by Employee for Good Reason in a change-of-control under Section 8(b) above), or the termination of her employment by ServiceSource or its successor for Cause (as defined in Section 8(c) above). For purposes of clarity, a termination by reason of Employee's death or disability shall not be deemed a termination without "Cause" under this Agreement.

9. SEVERABILITY. In the event that any provision of this Agreement is determined by a court of competent jurisdiction to be illegal, invalid or unenforceable to any extent, such term or provision shall be enforced to the fullest extent permissible under the law and all remaining terms and provisions hereof shall continue in full force and effect.

10. MODIFICATION OF AGREEMENT. This Agreement may be modified only in writing by mutual agreement of ServiceSource and Employee. Any such writing must specifically state that it is intended to modify the parties' Agreement and state which specific provision or provisions this writing intends to modify. Such written modification will only be effective if signed by ServiceSource's Chief Executive Officer. Any attempt to modify this Agreement orally, or by a writing signed by any person other than ServiceSource's Chief Executive Officer, or by any other means, shall be null and void. This Agreement is intended to be the final and complete statement of the parties' agreement concerning the legal nature of their employment relationship in any and all disputes arising from that relationship.

11. COMPLETE AND VOLUNTARY AGREEMENT. This Agreement, the Plan and the Option Agreement constitute the entire understanding of the parties on the subject covered. The parties expressly warrant that they have read and fully understand this Agreement; that they have had the opportunity to consult with legal counsel of their own choosing to have the terms of this Agreement fully explained to them; that they are not executing this Agreement in reliance on any promises, representations or inducements other than those contained herein; and that they are executing this Agreement voluntarily, free of any duress or coercion.

12. DISPUTE RESOLUTION. This Agreement shall be governed by California law, without regard to its principles of conflicts of laws. Any dispute arising from this Agreement shall be subject to the exclusive jurisdiction of state and federal courts located in the Northern District of California, and each party hereby waives any and all objections to that venue. The prevailing party in any such dispute shall recover its reasonable attorneys' fees and costs from the losing party, including any fees or costs arising from an appeal.

13. SUCCESSORS AND ASSIGNS. This Agreement will be binding upon Employee's heirs, executors, administrators and other legal representatives and will be for the benefit of ServiceSource, its successors, and its assigns.

14. GOLDEN PARACHUTE BEST AFTER TAX RESULTS If any of the payments to Employee (prior to any reduction, below) provided for in this Agreement, together with any other payments which Employee has the right to receive from ServiceSource or any corporation which is a member of an "affiliated group" as defined in Section 1504(a) of the Internal Revenue Code of 1986, as amended ("**Code**"), without regard to Section 1504(b) of the Internal Revenue Code), of which ServiceSource is a member (the "**Payments**") would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), and if the Safe Harbor Amount is greater than the Taxed Amount, then the total amount of such Payments shall be reduced to the Safe Harbor Amount. The "**Safe Harbor Amount**" is the largest portion of the Payments that would result in no portion of the Payments being subject to the excise tax set forth at Section 4999 of the Code ("**Excise Tax**"), after reduction for taxes as described below. The "**Taxed Amount**" is the total amount of the Payments after reduction for taxes as described below (prior to any reduction, above) notwithstanding that all or some portion of the Payments may be subject to the Excise Tax. Solely for the purpose of comparing which of the Safe Harbor Amount and the Taxed Amount is greater, the determination of each such amount, shall be made on an after-tax basis, taking into account all applicable federal, state and local employment taxes, income taxes, and, if applicable, the Excise Tax (all of which shall be computed at the highest applicable marginal rate regardless of Employee's actual marginal rate). If a reduction of the Payments to the Safe Harbor Amount is necessary, then the reduction shall occur in the following order: reduction of cash payments; cancellation of accelerated vesting of equity awards other than options; cancellation of accelerated vesting of options; and reduction of employee benefits. In the event that acceleration of vesting of equity awards or options is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of the Employee's awards. If two or more equity awards other than options are granted on the same date, and reduction of acceleration is required under this paragraph, each award will be reduced on a pro-rata basis. If two or more options are granted on the same date, and reduction of acceleration is required under this paragraph, each option will be reduced on a pro-rata basis. In no event shall Employee have any discretion with respect to the ordering of payment reductions. ServiceSource and its tax advisors shall make all determinations and calculations required to be made to effectuate this paragraph at ServiceSource's expense.

SERVICESOURCE INTERNATIONAL, INC.

By: ______________________________ ______________________________
Raymond Martinelli Date

Its: Chief People Officer

EMPLOYEE

______________________________ ______________________________
Christine Heckart Date

SCHEDULE A

FORM OF RELEASE

In exchange for the consideration provided by ServiceSource International, Inc. or its successor (the "Company") to the undersigned current or former employee of the Company (the "Employee") under this Agreement or the employment agreement between the Company and the Employee, that Employee is not otherwise entitled to receive, and subject to the Company's compliance with its post-termination obligations to Employee, Employee hereby generally and completely releases the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring prior to my signing this Agreement. This general release includes, but is not limited to: (1) all claims arising out of or in any way related to Employee's employment with the Company or the termination of that employment; (2) all claims related to Employee's compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (4) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) ("***ADEA***"), the Family and Medical Leave Act; the Employee Retirement Income Security Act; California Fair Employment and Housing Act (as amended), any state labor code; the Equal Pay Act, of 1963, as amended.

SECTION 1542 WAIVER. Employee hereby acknowledges that he has read and understands Section 1542 of the Civil Code of the State of California, which reads as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

Employee hereby expressly waives and relinquishes all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to the release of any unknown or unsuspected claims Employee may have against the Company, its affiliates, and the entities and persons specified above.

ADEA Waiver and Release. Employee acknowledges that Employee knowingly and voluntarily waives and releases any rights Employee may have under the ADEA, as amended. Employee also acknowledges that the consideration given for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which Employee was already entitled. Employee further acknowledges that Employee has been advised by this writing, as required by the ADEA, that: (a) her waiver and release does not apply to any rights or claims that may arise after the execution date of this Agreement; (b) Employee has been advised that he have the right to consult with an attorney prior to executing this Agreement; (c) Employee has been given twenty-one (21) days to consider this Agreement; (d) Employee has seven (7) days following the execution of this Agreement by the parties to revoke the Agreement; and (e) this Agreement will not be effective until the date upon which the revocation period has expired, which will be the eighth day after this Agreement is executed by Employee, provided that the Company has also executed this Agreement by that date ("***Effective Date***"). *The parties acknowledge and agree that revocation by Employee of the ADEA Waiver and Release is not effective to revoke her waiver or release of any other claims pursuant to this Agreement.*

By: ______________________________ Date: ______________________________

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: August 3, 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: August 3, 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 June 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: August 3, 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 June 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: August 3, 2012

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