Q1 2016 Earnings Call

May 9, 2016

Important Information

- This presentation contains forward-looking statements within the meaning of the U.S. federal securities laws that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, our results may differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact could be deemed forward-looking, including, without limitation, statements regarding: predictions for future growth, our possible or assumed future results of operations; estimates of service revenue opportunity under management and annual contract value; our ability to improve our customers' renewal rates, margins and profitability; our ability to increase our revenue and contribution margin over time from new and existing customers; business strategies; technology and product development; competitive position; the effects of competition; third party and company estimates of market sizes; our long term business model; economic, industry and market trends; potential growth vectors and opportunities; comparative models; and statements about partnerships or acquisitions.
- Typically, these statements contain words such as "if," "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "opportunity" and similar expressions.
- You are cautioned that the forward-looking statements in this presentation are based on estimates and information available to us at the time of this presentation. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially and are not guarantees of future performance. We undertake no obligation, and do not currently intend to update the forward-looking statements to reflect subsequent events or circumstances. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our periodic reports and registration statements filed with the Securities and Exchange Commission, which can be accessed at http://www.sec.gov.
- This presentation refers to certain non-GAAP financial metrics. See the GAAP to non-GAAP reconciliation tables contained herein and our earnings release posted on the Investor Relations portion of the ServiceSource website for a reconciliation of the non-GAAP metrics to the closest GAAP financial measures.

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Q1'16 Non-GAAP Operating Expenses*

In $ millions except e.p.s.	Q1 2016	Q1 2015
Cost of Revenue	**39.1**	**43.7**
% of Revenue	66%	66%
Sales & Marketing	9.5	9.8
% of revenue	*16%*	*15%*
Research & Development	2.0	4.3
% of revenue	*3%*	*6%*
General & Administration	10.6	9.8
% of revenue	*18%*	*15%*
Total Expenses	61.2	67.6
% of revenue	*102%*	*102%*
Adjusted EBITDA	**$ 0.3**	**$ 0.7**
% of revenue	*0%*	*1%*
Non-GAAP Net Income / (Loss)	**(0.5)**	**(0.7)**
Non-GAAP EPS	(0.01)	(0.01)
Shares used in calculating basic net loss	86.1	84.3

*** All metrics are Non-GAAP and exclude, where appropriate, stock-based compensation expense, acquisition related costs, amortization of internally developed software and purchased intangibles and non cash interest expense. Revenues do not reflect the adjustment relating to the write-down of acquired deferred revenue.**

Q2'16 Guidance – Key Metrics*

In $ millions except EPS	Q2 Low	Q2 High
Revenue Range	$ 58.5	$ 61.5
y/y growth	*-5%*	*0%*
Gross Margin	*32.5%*	*35.5%*
Operating Expense (% of revenue)	*41%*	*39%*
Adjusted EBITDA	(3.5)	(0.5)
Non-GAAP Net Income (Loss)	(3.0)	(1.0)
Non-GAAP EPS	(0.03)	(0.01)
Free Cash Flow	$ (9.0)	$ (6.0)

*** All metrics are Non-GAAP and exclude, where appropriate, stock-based compensation expense, acquisition related costs and amortization of internally developed software and purchased intangibles. Revenues do not reflect the adjustment relating to the write-down of acquired deferred revenue.**

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Q2'16 GAAP to non-GAAP Reconciliation Tables

GAAP to Non GAAP – Gross Margin

GROSS MARGIN - GAAP TO NON-GAAP RECONCILIATION
(In thousands)
(Unaudited)

(In thousands) (Unaudited)		Three Months Ended June 30, 2016
GAAP Gross Profit		\$17,400 - \$20,200
Non-GAAP adjustments:		
Adjustments to revenues	(A)	-
Stock-based compensation	(B)	500
Amortization of internally-developed software	(C)	700
Amortization of purchased intangible assets	(D)	400
Non-GAAP Gross Profit		\$19,000 - \$21,800
GAAP Gross Margin		30% - 33%
Non-GAAP adjustments:		
Adjustments to revenues	(A)	0%
Stock-based compensation	(B)	1%
Amortization of internally-developed software	(C)	1%
Amortization of purchased intangible assets	(D)	1%
Non-GAAP Gross Margin		32.5% - 35.5%

Certain totals may not add due to rounding

GAAP to Non GAAP – Net Loss & EPS

GAAP to Non-GAAP Reconciliation
(In thousands, except per share data)
(Unaudited)

(In thousands) (Unaudited)		**Three Months Ended June 30, 2016**
GAAP net loss		($13,000) - ($10,000)
Non-GAAP adjustments:		
Adjustments to revenues	(A)	-
Stock-based compensation	(B)	3,000
Amortization of internally-developed software	(C)	2,000
Amortization of purchased intangible assets	(D)	400
Non-cash interest expense	(E)	2,100
Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate	(F)	$2,500 - $1,500
Non-GAAP net loss		($3,000) - ($1,000)

(Unaudited)		**Three Months Ended June 30, 2016**
GAAP basic net loss per share		($0.15) - ($0.12)
Non-GAAP adjustments:		
Adjustments to revenues	(A)	-
Stock-based compensation	(B)	0.03
Amortization of internally-developed software	(C)	0.02
Amortization of purchased intangible assets	(D)	0.00
Non-cash interest expense	(E)	0.02
Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate	(F)	$0.03 - $0.02
Non-GAAP basic net income per share	(G)	($0.03) - ($0.01)
Certain totals may not add due to rounding		
Shares used in calculating basic net loss per share on a non-GAAP basis		86,500

Net Loss to EBITDA

Reconciliation of Net Loss to Adjusted EBITDA
(In thousands)
(Unaudited)

(In thousands) (Unaudited)	**Three Months Ended June 30,** **2016**
Net loss range	(\$13,000) - (\$10,000)
Income tax (benefit) provision	100
Interest & other expense, net	2,400
Depreciation & Amortization	4,000
EBITDA range	(\$6,500) - (\$3,500)
Stock-based compensation	3,000
Adjustments to revenues	-
Adjusted EBITDA range	(\$3,500) - (\$500)

Cash Flow from Operations to Free Cash Flow

Supplemental Cash Flow Information
Free cash flow analysis, a non-GAAP measure
(in thousands)

(In thousands) (Unaudited)	Three Months Ended June 30, 2016
Non-GAAP net cash provided by operating activities	(\$4,100) - (\$1,100)
Less:	
Capital expenditures	\$4,900
FX adjustment	-
Free cash flow	(\$9,000) - (\$6,000)

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Footnotes

(A) Adjustments to revenue. Due to purchase accounting rules, upon acquisition, we recorded an adjustment of $1.7 million to reduce the balance of deferred revenue related to the assumed client contracts acquired from Scout Analytics. As a result of this adjustment, $0.1 million of revenue was not recognized for the three months ended March 31, 2015. Therefore, revenue is adjusted by an increase of $0.1 million to arrive at non-GAAP revenue for the three months ended March 31, 2015. At March 31, 2016 we have fully realized the impact of this adjustment in our non-GAAP net revenue

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

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

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

Footnotes (cont.)

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

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

(G) For this per share reconciliation, basic share count was used.