SERVICESOURCE INTERNATIONAL, INC.
Form 10-K
March 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2017
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______
Commission file number 001-35108

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

Delaware	81-0578975
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
717 17th Street, 5th Floor Denver, Colorado	80202
(Address of principal executive offices)	(Zip Code)

(720) 889-8500
(Registrant’s telephone number, including area code)

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

Common Stock, $0.0001 Par Value	The NASDAQ Stock Market LLC
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§29.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See definition of “large accelerated filer, “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price at which the common stock was sold on June 30, 2017, the last business day of the registrant’s most recently completed second fiscal quarter, as reported on the NASDAQ Global Market, was $291,566,216. Shares of common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status does not reflect a determination that such persons are affiliates of the registrant for any other purpose.
As of February 23, 2018, there were approximately 90,425,232 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for its 2018 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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FORWARD LOOKING STATEMENTS

This report includes estimates, projections, statements relating to our business plans, objectives and expected operating results that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may appear throughout this report. These forward-looking statements are generally identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “ “opportunity,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and variations of such similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially. We describe risks and uncertainties that could cause actual results and events to differ materially in “Risk Factors” (Part I, Item 1.A. of this Form 10-K), “Quantitative and Qualitative Disclosures about Market Risk” (Part II, Item 7.A. of this Form 10-K) and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (Part II, Item 7 of this Form 10-K). We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

“ServiceSource,” “the Company,” “we,” “us,” or “our”, as used herein, refer to ServiceSource International, Inc. and its subsidiaries, unless the context indicates otherwise.

PART I

ITEM 1. BUSINESS

Overview

ServiceSource International, Inc. is a global leader in outsourced, performance-based customer success and revenue growth solutions. Through our people, processes and technology, we grow and retain revenue on behalf of our clients—some of the world’s leading business-to-business companies — in more than 45 languages. Our solutions help our clients strengthen their customer relationships, drive improved customer adoption, expansion and retention and minimize churn. Our technology platform and best-practice business processes combined with our highly-trained, client-focused revenue delivery professionals and data from nearly 20 years of operating experience enable us to provide our clients greater value for our customer success services than attained by our clients' in-house customer success teams.

Our net revenue was $239.1 million, $252.9 million and $252.2 million for the years ended December 31, 2017, 2016 and 2015, respectively. For summarized financial information by geographic area, see "Notes to the Consolidated Financial Statements, Note 12 - Geographical Information."

Our Solutions

We leverage deep experience, analytical expertise, high-performance revenue delivery teams and unique technology to drive customer success, renewals, and inside sales through our solutions.

Our client-focused revenue delivery professionals receive extensive training and expertise in our clients’ businesses and are deployed as an extension of our clients’ brands. Through direct interaction with our clients' end users, our revenue delivery professionals follow a sales process tailored specifically to improve end-customer retention, generate additional sales where needed, and meet our clients’ business objectives. Our solution is designed to optimize recurring revenue, provide customer success and enablement services, and maximize inside sales capabilities across different business-to-business revenue models, distribution models and segments, including hardware, software, Software-as-a-Service, industrial systems, information and media, as well as technology-enabled healthcare and life sciences. Our global revenue delivery centers, located in Bulgaria, Ireland, Japan, Malaysia, the Philippines, Singapore, the United Kingdom and the United States enable us to provide our solutions to our clients in 45 languages.

Our solutions span the entire lifecycle of our clients’ customers, from landing new customers (we provide lead generation, inside sales, and outsourced sales operations services), adoption (we provide customer onboarding and customer success management services), expansion (we provide cross-sell and upsell, warranty conversion, account-based marketing and channel recruitment and enablement) and renewals (we provide renewals management services, including the sale of maintenance and support service contracts for the products used by our clients' end-users).

- Outsourced Sales Operations. Our sales enablement and quoting solutions, powered by robotic process automation, or (RPA), advance our clients' renewal sales process with specialized resources handling the administrative work

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associated with renewals and subscriptions. We apply a standardized, best-practice approach to sales enablement and quoting across the opportunities we manage through a dedicated, trained team completely focused on quoting, data entry and bookings processing combined with an in-depth understanding of our clients' product SKUs, pricing and systems. In addition, we provide rigorous quality control through a dedicated quote audit team and analytics dashboards to monitor accuracy, throughput and cycle times.

- Customer Onboarding. Our revenue delivery teams proactively welcome our clients' new customers and ensure the customers are established for ongoing success. Using our best-practice processes developed over our nearly 20 year history, we confirm successful implementation of our clients' products or services and promote adoption and use, including thorough reviews of customer usage and initial contact; brief demonstrations and reviews of key product features; identification and, if needed, escalation of support or implementation issues; delivery of basic training and/or product education; and supporting change management initiatives.
- Customer Success Management. Our revenue delivery teams continuously monitor the health of our clients' customers; reinforce the unique value and benefits of our clients' products; and share customer feedback with our clients' product and marketing teams. Our revenue delivery professionals are specifically and continuously trained to articulate the value of our clients' products and services to their customers, which drives improved customer loyalty. In addition, we use our technology platform to provide predictive analytics to identify our clients' at-risk customers as well as to provide segmentation and analysis to assist in minimizing or avoiding churn.
- Inside Sales, Lead Generation, and Cross-sell and Upsell Services. Our inside sales teams perform and are trained in accordance with high performing sales team methodologies to enable efficient and effective lead generation and inside sales activities for our clients. Our revenue delivery teams are specifically trained in the identification of cross-sell and upsell activities, including upgrading service/support level, uncovering additional assets/licenses, extending term length and product sales lead generation. We do this through expert data analysis, specifically designed account plans and partnerships with our clients' sales teams.
- Warranty Conversion. We proactively engage with our clients' warranty customers with skilled revenue delivery teams who are trained to clearly articulate the benefits of an extended support and maintenance contract. In addition, we identify and engage customers who have lapsed warranty agreements.
- Renewals Management. We help our clients develop a finely-tuned renewals management and growth strategy. We begin by analyzing our clients' existing business data, systems and processes to accurately diagnose our clients' renewal revenue challenges. The initial analysis is followed by our proposal of a tailored solution of expert selling services, technology and processes to achieve our clients' revenue growth and customer retention objectives. Our revenue delivery teams operate as an extension of our clients' brand and sales team, support either direct or channel selling models and have worldwide sales experience.

Our pay-for-performance model allows our clients to pay us either flat-rate or variable commissions based on the revenue we generate on their behalf. Fixed-fee arrangements often used in quick deployments to address discrete target areas of our clients' needs or when a fixed fee best addresses our clients' business model. We also generate revenue through our professional services teams, who assist our clients with data optimization.

Our engagement with our clients begins in the pre-sales process and continues through their lifecycle.

- Sales Performance Analysis. We typically begin engagements with our prospective clients by conducting in-depth interviews, analyzing their historical performance and future opportunity and evaluating their recurring revenue business using proprietary analytical models. We also use our breadth of experience to benchmark and identify service renewal opportunities, and to calculate our ability to improve our clients' performance based on our performance with similar types of businesses and revenue streams.
- Business Case, Pricing and Contract Structuring. We use our reservoir of data and benchmarks to estimate the critical components of the business case and appropriate pricing model for prospective clients, whether for renewals, selling services, or lead generation. This intelligence is fundamental to our pay-for-performance business model.
- Data Integration. We deploy our professional services teams to enable data integration at scale, combined with data enhancement, enablement, integration and optimization where needed.

Performance. Once a partnership is in place with one of our clients, we leverage our reporting platform and our data reservoir and performance optimization tools to enable, measure, analyze, benchmark and optimize the performance of our inside sales and revenue delivery teams.

- Client Benchmarking and Continuous Improvement. Our extensive platform and the accumulation of nearly 20 years of experience serve as the foundation for benchmarking our clients' evolving recurring revenue and end customer

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success performance against industry peers and previous period performance. We generally conduct quarterly business review meetings and annual partnership reviews with our clients to review performance, identify potential weaknesses in their processes and determine opportunities for improvement and make recommendations that we believe will allow our clients and us to achieve higher levels of performance and efficiencies.

- Developing and Delivering Applications. Our data reservoir fuels the opportunity data, sales methodologies, metrics and reporting dashboards that we engineer into our applications. Accordingly, we design our applications to leverage the transactional, analytical and industry data housed in PRISM, our technology platform.

Our Technology

Our Predictive Relationship Intelligence and Sales Management platform, or PRISM, is a combination of our proprietary tools, best-in-class industry solutions, application integrations, a proprietary recurring revenue data model and proven release management and operational procedures. We use PRISM within our client engagements to enable higher productivity and efficiency from our revenue delivery and operations teams in order to drive better outcomes for our clients. We specifically focus on process and productivity management, analytics that drive high-performing and effective sales teams, and customer retention and customer success insights.

Customer Success Management Technologies

We deploy customer success management technologies to our customer success services teams on behalf of our clients in order to enable our agreed-upon economic outcomes. The applications are our own proprietary intellectual property, based on our years of history supporting recurring revenue management and customer success management, combined with best-in-class third party technology. PRISM correlates product usage, billing and customer revenue management data with success plans to proactively trigger intelligent workflow automations, helping our precision customer success and revenue delivery professionals engage the right end customer with the right sales motion at the right time.

Renewal and Channel Management Technologies

We deploy applications that are uniquely designed for our revenue delivery professionals who are specifically focused on managing renewals, warranty conversions, install base out-of-warranty (IBOW) and channel engagements. These applications allow us to optimize the selling processes between revenue delivery professionals engaging with our clients’ customers and operations services responsible for creating quotes and booking orders. These selling processes, and our purpose-built applications that facilitate them, are also extended to channel partners to drive channel sales performance in scenarios where our clients sell via one-tier or two-tier distribution. All of these applications are based on our proprietary data model to effectively capture and track key recurring revenue metrics that drive performance for our customer partnerships.

Inside Sales Technologies

Using the native functionality of PRISM paired with ServiceSource’s unique capabilities enables our inside sales teams to support new selling opportunities by capturing and scoring leads, prioritizing engagements, and focusing on cross-sales for current customers.

Productivity Tools

We deploy productivity tools to our revenue delivery professionals that focus on performance management, knowledge management, communication and training. These tools allow managers to monitor and coach our selling teams to improve performance and efficiency and provide real-time communication and client related news to our revenue delivery team members. These tools are available to our selling teams via a proprietary and customized landing page, and include the following features:

- Communication. Team chat functionality for easy and immediate communication to managers and other team members; a softphone tie-in that enables recording for training purposes as well as time and task tracking features; and customer contact look-up application.
- Knowledge Management. Product knowledge to guide selling and accelerate new team member training/onboarding, including client social media and other client-related news feeds.
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Productivity Tools. These features enable managers and team leaders to capture best practices and productivity metrics for training and sharing across teams, as well as suggesting selling motions and task prioritization to enable targeted and efficient selling motions.

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- Performance Management. All information from the productivity tools, including task tracking and time management, rolls up to the individual representative and managers in both an individual and aggregated manner to allow for real-time tracking of performance relative to quarter goals.

Each deployment of the productivity tools is customized to the particular client and region being serviced by the revenue delivery team member. To scale best practices from our highest-performing team members, we also deploy workforce optimization software and desktop analytics. As we learn from our high performers how to navigate complex client systems or manage sophisticated selling activities, we can easily share those practices with new hires, team members or incorporate them into our global learning methodologies. Lastly, much of this information integrates with PRISM, our reporting platform of transactional, productivity and performance information to allow us to offer our clients benchmarking of our clients' results against their industry peers.

Our intellectual property consists primarily of software systems and business methodologies. We rely upon a combination of copyrights, trade secrets and trademarks, in addition to contractual restrictions such as confidentiality agreements, to establish and protect our proprietary rights. We currently hold twelve U.S. patents, and additional applications for U.S. patents are currently pending.

Key benefits of our solutions include:

Financial Benefits

- Increased revenue. Our solutions are designed to increase revenues for our clients. We actively monitor the success rates-including contract renewal rates, cross-sell and upsell rates, lead generation, or other services that we drive on behalf of our clients in each engagement. When we generate higher renewal rates, we not only drive incremental client revenue for the associated period, but also have a compounding effect in increasing the base number of contracts eligible for renewal in subsequent periods, which expands the opportunity to generate greater client revenue in future periods. As we expand our solution to include cross-sell and upsell, lead generation and other strategic customer success services, we believe that our opportunity to generate client revenue in future periods through our renewal management services will also increase.
- Improved retention and customer success. Our solutions drive end customer retention and revenue growth for some of the world's leading companies, leveraging nearly 20 years of expertise to continuously monitor end customer health, engage each end customer with the right play at the right time and reinforce the unique value and benefits of each end customer's product. The result is reduced end customer churn, increased revenue through up-sell and cross-sell, stronger end customer relationships and higher satisfaction.
- Increased margin and profitability. We believe that the variable rate we charge for our solutions is lower than the fully-loaded fixed internal costs incurred by our clients managing renewals internally. As a result, each incremental dollar of recurring revenue generated by our solutions can drive greater profitability for our clients.

Operational Benefits

- Greater business insight and analytics. The analytics engines in our technologies allow us to analyze each client's renewals and churn rates against similar transactions, identifying areas for improvement and enabling greater insight into their business. All transactions, regardless of outcome, are recorded in PRISM. We leverage PRISM to provide benchmarking, end customer metrics, sales efficiency data and insight into successful and unsuccessful renewal efforts. The breadth of our data allows us to provide powerful analysis across regions, industries, channel partners and product segments.
- Greater visibility and forecasting tools. Our technologies deliver real-time analytics and visibility into our client's recurring revenue performance, sales efficiency and forecasts. We measure recurring revenue performance across dozens of key performance indicators and provide real-time data to our clients through a clear and impactful web-based interface. Our clients rely on our applications to assist in forecasting their results and to measure progress against their forecasts on a real-time basis.
- Global consistency. We are able to maintain a globally consistent customer success and revenue growth selling process for our clients. Our revenue delivery centers operate from a unified platform. Our technologies automate the application of best practices to recurring revenue renewals and customer success processes and provide all relevant constituencies with a consistent view of the data. This automation facilitates contract renewals and provides reliable

performance management and analytics.

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Our Strategy

We intend to continue our industry leadership by delivering solutions to support the challenges faced by our clients in managing their revenue lifecycle. Our strategy to execute this vision is:

- Expand our client base. In order to expand our client base, we are offering rapid, smaller deployments to address our clients' discrete needs or to support fast-growth enterprises.
- Increase footprint with existing clients to drive greater revenue per client. Our goal is to manage a greater portion of each client's recurring revenue. We have increasingly taken on the management of more than just one component of a client's recurring revenue, such as a specific product, market segment or geographic region, or adding selling services such as cross-sell and upsell services, to an existing client's renewal services. Because we baseline our clients' performance prior to any engagement, we are able to quantify our results for the client, which frequently leads to increased opportunities to expand our Opportunity Under Management for that client.
- Continue to invest in our technologies. We believe that our ability to leverage our technology to drive increased productivity by our revenue delivery professionals through more efficient and engaging training and productivity management, as well as our revenue analytics capabilities, is critical to our value proposition. We will continue to invest in our automation processes and the innovation of PRISM, our technology platform, to lower our operating costs, increase the efficiency and success of our solutions and enhance our competitive differentiation.
- Expand our investments in our people. Retention and enablement of our revenue delivery professionals is important to the success of our business. We have invested, and will continue to invest, in specific job-related next-generation training tailored to an individuals' specific role. In addition, we will continue to support and roll out our continuous leadership training and learning management program, designed to identify high potential leaders as well as motivate our workforce and provide avenues for success across our worldwide employee base. We believe these investments will not only result in improved performance for our clients, but will also continue to set us apart from potential competitors and how our clients manage customer success internally.

Our Clients

We target our solutions to business-to-business companies, within a range of industries including computer hardware, software, Software-as-a-Service, telecommunications, healthcare, life sciences, media and industrial systems. In 2017, we managed approximately $11.0 billion of Opportunity Under Management for our clients. Opportunity Under Management is an operational metric that represents our estimate of the value of all end customer service contracts that we have the opportunity to sell on behalf of our clients over a designated period of time. Opportunity Under Management is not a measure of our expected revenue. As of December 31, 2017, we managed approximately 168 engagements across 54 clients.

Our top ten clients accounted for approximately 66%, 66% and 57% of our revenue for the years ended December 31, 2017, 2016 and 2015, respectively. Three of our clients, Cisco, VMWare and Dell, represented 15%, 12% and 11% of our revenue, respectively, for the year ended December 31, 2017. For the year ended December 31, 2016, Cisco, Dell and VMWare represented 14%, 11% and 11% of our revenue, respectively. No single client represented 10% or more of our revenues in 2015.

Our People

As of December 31, 2017, we had 3,269 employees throughout the world: 1,114 employees in the U.S., 171 in Bulgaria, 256 in the Republic of Ireland, 70 in Japan, 528 in the Philippines, 732 in Malaysia, 161 in Singapore and 237 in the United Kingdom. We are not subject to collective bargaining agreements with any of our employees.

Sales and Marketing

We sell our solutions through our global sales organization. Our sales representatives are organized by geographic regions: North America and Latin America ("NALA"); Europe, Middle East and Africa ("EMEA"); and Asia Pacific-Japan ("APJ"). In 2017, we generated 63% of our revenue in NALA, 26% in EMEA and 11% in APJ. See "Item.1A. Risk Factors" for a description of the risks associated with our foreign operations.

We generate client leads, accelerate sales opportunities and build brand awareness through our marketing programs. Our marketing programs target sales, services, customer success, account management, technology and finance executives within the computer hardware, software, SaaS, telecommunications, healthcare, life sciences, media and industrial systems industries. Our marketing programs are organized by geography and industry segment to focus on the unique needs of clients within the specific target markets.

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We participate in industry trade shows and host local and regional events around the world to stimulate industry dialog on revenue lifecycle management and to promote our services. In addition, we actively seek to collaborate with other like-minded businesses where such collaboration can increase our market penetration or provide value to our customers.

Research and Development

We focus our research and development efforts on enhancing our technologies as well as creating complementary new capabilities to add to our solutions. Our development strategy is to identify features, business intelligence, applications and other technology elements that are, or are expected to be, needed by sales professionals, customer success and account management professionals, clients, channel partners and end customers to optimize recurring revenue performance and customer success. We are also continuing to invest in the development of our technologies to serve our clients' needs and enable greater operational efficiencies in our organization.

Our research and development expenses were $5.7 million, $8.3 million and $16.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. In addition, we capitalized certain expenditures related to the development and enhancement of internal-use software during 2017, 2016 and 2015.

Competition

The market for outsourced customer success and revenue growth solutions is evolving. Historically, companies have managed their service renewals through internal personnel and relied upon a variety of technologies including spreadsheets, internally developed software and customized versions of traditional business intelligence tools and end-customer relationship management or enterprise resource planning software from vendors such as Oracle Corporation, SAP AG, salesforce.com, inc. and NetSuite, Inc. Some companies have made further investments in this area using firms such as Accenture and McKinsey & Company for technology consulting and education services focused on service renewals. These internally-developed solutions represent the primary alternative to our integrated approach of combining people, processes and technology to provide end-to-end optimized outsourced customer success and revenue growth solutions.

We believe we are the only company of scale operating at the intersection of three key customer-success vectors:

- business process outsourcing/business process as a service (including offerings from vendors such as Accenture, Genpact and Concentrix);
- business-to-business revenue enablement services (including offerings from vendors such as Omnicom, Publicis and Acxiom); and
- data and analytics services (including offerings from vendors such as Lattice Engines, InsideSales.com and 6sense).

We believe our unique market position and our differentiated business model allows us to maintain our market presence, and our global scale and ability to provide our solutions in over 45 languages provides a competitive advantage over smaller companies entering the outsourced customer success space.

We believe our principal competitive differentiators include:

- recurring revenue and customer success industry expertise, best practices and benchmarks;
- ability to increase recurring revenue and renewal rates;
- global capabilities;
- completeness of solution;
- performance-based pricing of solutions;
- ability to effectively represent client brands to end customers and channel partners;
- quality of the business and client insight and its ability to generate revenue and customer success;
- size of upfront investment; and
- size and financial stability of operations.

Although we currently have few direct competitors that offer integrated solutions at our scale, we expect competition and competitive pressure, from both new and existing competitors, to increase in the future.

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Additional Information

Additional information about us is available on our website at http://www.servicesource.com. The information on our website is not incorporated into this annual report by reference and is not a part of this Form 10-K. We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after those reports are electronically filed with, or furnished to, the SEC. From time to time, we may use our website as a channel of distribution of material information about our company. Financial and other important information regarding our business is routinely posted on and accessible at http://ir.servicesource.com.

ITEM 1A. Risk Factors

Investing in our common stock involves risk. Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows and the trading price of our common stock. You should carefully consider the risks described below and the other information in this Report on Form 10-K.

Risks Related to Our Business and Industry

Our business and growth depend substantially on clients renewing their agreements with us and expanding their use of our solution for additional available markets. Any decline in our client renewals, termination of ongoing engagements 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 clients renew their agreements with us when the initial contract term expires and that we expand our client relationships to add new market opportunities and the related revenue management opportunity. Our clients may elect not to renew their contracts with us after their initial terms have expired or may elect to otherwise terminate our services, and we cannot assure you that our clients 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 revenue management opportunities. Although our renewal rates have been historically higher than those achieved by our clients prior to their using our solution, some clients have still elected not to renew their agreements with us. Our clients' renewal rates may decline or fluctuate as a result of a number of factors, many of which are beyond our control, including their satisfaction or dissatisfaction with our solution and results, our pricing, mergers and acquisitions affecting our clients or their end customers, the effects of economic conditions or reductions in our clients' or their end customers' spending levels. If our clients do not renew their agreements with us, renew on less favorable terms, terminate their services with us or fail to contract with us for additional Opportunity Under Management, our revenue may decline and our operating results may be adversely affected.

Our revenue will decline if there is a decrease in the overall demand for our clients' products and services.

A majority of our revenue is based on a pay-for-performance model, which means that we are paid a commission based on the service contracts we sell on behalf of our clients. If a particular client's products or services fail to appeal to its end customers, our revenue will decline for our work with that client. In addition, if end customer demand decreases for other reasons, such as negative news regarding our clients or their products, unfavorable economic conditions, shifts in strategy by our clients 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 terminate or fail to renew the service contracts we sell, we may experience a decrease in our revenue as the demand for our clients' service contracts declines. Similarly, if our clients come under economic pressure, they may be more likely to terminate their contracts with us or seek to restructure those contracts, and for clients whose contracts are up for renewal, they may seek to renew those contracts on less favorable terms. If one of our clients is under economic pressure due to decreasing customer demand, negative news, or other issues that impact the demand for their product or services, our business could suffer and we may experience a significant decrease in our revenue.

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

Given our pay-for-performance pricing model, a majority of our revenue is directly tied to our bookings, or closure, rates. Bookings rates represent the percentage of the Opportunity Under Management delivered to us by our clients that we renew, "close," or "book" on behalf of our clients. If the bookings rate for a particular client is lower than anticipated, then our revenue for that client will also be lower than projected. If bookings rates fall short of expectations across a broad range of clients, or if they fall below expectations for a particularly large client, then the impact on our revenue and our overall business will be significant. In the event bookings rates are lower than expected for a given client, 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 client relationships can be terminated by the client if we fail to meet certain specified sales targets, including bookings rates, over a sustained period of time. If bookings rates fall to a level at which our revenue and client contracts are at risk, then our financial performance will decline and we will be severely compromised in our ability to retain and attract new clients. Increasing our client base and achieving broader market acceptance of our solution depends, to a large extent, on how effectively our solution increases our clients' service sales. As a result, poor performance with respect to our bookings rates, in addition to causing our revenue, margins and earnings to suffer, will likely damage our client relationships and overall 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.

We depend on a limited number of clients for a significant portion of our revenue, and the loss of business from one or more of our key clients could adversely affect our results of operations.

Our top ten clients accounted for 66% of our revenue for the year ended December 31, 2017, and three clients each represented over 10% of our revenue during this period. A relatively small number of clients may continue to account for a significant portion of our revenue for the foreseeable future. The loss of revenue from any of our significant clients for any reason, including the failure to renew our contracts, termination of some or all of our services, a change of relationship with any of our key clients, or the acquisition of one of our significant clients, may cause a significant decrease in our revenue.

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

In general, our client engagements are complex and we must undertake lengthy and significant work to implement our offerings. Changes in our go-to-market and technology strategies also will increase costs and create implementation risks for us. 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 on behalf of our clients. Each client’s situation may be different, and unanticipated difficulties and delays may arise as a result of our failure, or that of our client, to meet implementation responsibilities. If the client 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 clients may be adversely impacted.

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

The market for outsourced customer success and revenue growth solutions is still relatively undeveloped, has not yet achieved widespread acceptance and may not grow quickly or at all. Our success depends to a substantial extent on the willingness of companies to engage a third party (such as us) to manage their service revenues. Many companies have invested substantial personnel, infrastructure and financial resources in their own internal service revenue organizations or in some cases have built or modified software applications to help manage renewals, 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 end customer relations, concerns about end customer reaction, a belief that they can sell their service revenues 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. Particularly because our market is relatively undeveloped, we must address our potential clients' concerns and explain the benefits of our approach in order to convince them to change the way that they manage their service revenues. 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.

If our new and/or enhanced technologies do not work as intended, our business could suffer.

We have invested significant resources in research and development of technologies designed to enhance our managed services offerings. The development of new technologies or enhancements to existing technologies 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 and operational activities; and
- write-offs of the value of such technology investments as a result of unsuccessful implementation or otherwise.

If any of our new or enhanced technologies do not work as intended, are not responsive to user preferences or industry or regulatory changes, are not appropriately timed with market opportunity, or do not enhance our managed service offerings, we may lose existing and potential clients or related revenue opportunities, in which case our results of operations may suffer.

We conduct operations in a number of countries and are subject to risks of international operations.

In 2017, approximately 37% of our revenue was related to operations located outside of the U.S. In addition, 66% of our employees are located in offices outside of the U.S. We expect to continue our international growth, with international revenue accounting for an increased portion of total revenue in the future. Our international operations involve risks that differ from or are in addition to those faced by our U.S. operations. These risks include different employment laws and rules and related social and cultural factors; different regulatory and compliance requirements, including in the areas of privacy and data protection, anti-bribery and anti-corruption, trade sanctions, marketing and sales and other barriers to conducting business; cultural and language differences; diverse or less stable political, operating and economic environments and market fluctuations; and civil disturbances or other catastrophic events that reduce business activity. If we are not able to efficiently adapt to or effectively manage our business in markets outside of the U.S., our business prospects and operating results could be materially and adversely affected. Although we have business continuity plans in place for our operations, an extended period of civil unrest that halts or significantly impedes operations could have a material adverse effect on our business.

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Laws or public perception may eliminate or restrict our ability to use revenue delivery centers not located in the United States, which could have a material adverse impact on our business and results of operations.

The issue of companies outsourcing services to organizations operating in other countries is a politically sensitive topic and has been under heightened scrutiny in many countries, including the United States. We provide our outsourced customer success and revenue growth solutions in several non-U.S. locations, including the Philippines and Malaysia, and our growth strategy includes increasing reliance on these "offshore" revenue delivery centers. Many organizations and public figures in the United States have publicly expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in the United States, and the topic of offshore outsourcing has recently received a great deal of negative attention from the U.S. executive branch. Because of negative public perception about offshore outsourcing, measures aimed at limiting or restricting offshore outsourcing by United States companies are periodically considered in the U.S. Congress. Current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services from onshore to offshore providers to avoid negative perceptions that may be associated with using an offshore provider. Any slowdown or reversal of existing industry trends towards offshore outsourcing, including due to the enactment of any legislation restricting offshore outsourcing by U.S. companies, would harm our ability to provide certain of our services to our clients at a competitive and cost-effective price point and would have a material adverse effect on our business and results of operations.

Our estimates of 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 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.

Opportunity Under Management is an operational metric that represents our estimate, over a designated period of time, of the value of all end customer service contracts that we have the opportunity to sell on behalf of our clients. Opportunity Under Management is not a measure of our expected revenue. We estimate the value of end customer contracts based on a combination of factors, including the value of end customer contracts made available to us by clients in past periods; the minimum value of end customer contracts that our clients 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 clients; the value of contracts we manage under our Customer Success solution; the Bookings we deliver under our Inside Sales solution; the value of end customer contracts included in our pre-contract analysis conducted by our solution design team; and collaborative discussions with our clients assessing their expectations as to the value of service contracts that they make available to us for sale. Although the minimum value of end customer contracts that our clients 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 Opportunity Under Management and other similar metrics, we rely on our 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 and the actual value of end customer contracts delivered to us in a given period may differ from our estimate of Opportunity Under Management. The business and economic uncertainties and contingencies include:

- the extent to which clients deliver a greater or lesser value of end customer contracts than may be required or otherwise expected;
- changes in the pricing or terms of service contracts offered by our clients;
- increases or decreases in the end customer base of our clients;
- the extent to which the renewal rates we achieve on behalf of a client early in an engagement affect the amount of opportunity that the client makes available to us later in the engagement;
- client cancellations of their contracts with us due to acquisitions or otherwise; and
-

changes in our clients' businesses, sales organizations, sales processes or priorities, including changes in executive support for our partnership.

In addition, Opportunity Under Management reflects our estimates over a designated period of time and should not be used to estimate our historical or future opportunity for any particular quarter within that period. We experienced an increase in our Opportunity Under Management in 2017 as compared to 2016, and 2016 as compared to 2015. In addition, the increase in our 2017 Opportunity Under Management did not translate into revenue growth in 2017.

If our security measures are breached or fail, resulting in unauthorized access to client data, our solution may be perceived as insecure, the attractiveness of our solution to current or potential clients 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 clients. 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 client or end customer data may occur. 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 protective 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 client contracts generally provide that we will indemnify our clients for data privacy breaches caused by our act or omission. If a data privacy 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. Insurance may not be able to cover these costs in full, in particular if the damages are large. 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 clients.

We may be liable to our clients or third parties if we make errors in providing our solution or fail to properly safeguard our clients' 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 clients as we interact with their end customers, or errors arising from our technology solution as it interacts with our clients’ systems and the disparate data contained on such systems. For example, our employees enter codes to classify their interactions with our clients’ end customers, and incorrect code entry could result in our clients' end customer not receiving the service or solution they requested, which in turn could lead to customer dissatisfaction or termination causing our client relationships to suffer and our revenue and our clients' revenue to decline. The costs incurred in correcting any material errors may be substantial. Any claims based on errors 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.

Changes in the legal and regulatory environment that affect our operations, including laws and regulations relating to the handling of personal data, data security and cross-border data flows, may impede the adoption of our services, disrupt our business or result in increased costs, legal claims, or fines against us.

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 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.

Our international operations and global client base relies increasingly on the movement of data across national boundaries. Legal requirements relating to the collection, storage, handling and transfer of personal data continue to evolve, 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 clients. 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 clients 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 clients. If this flow of data becomes subject to new or different restrictions, our ability to serve our clients and their respective end customers could be seriously impaired for an extended period of time.

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.

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

The market for outsourced customer success and revenue growth solutions is evolving and new competitors are emerging. Historically, internally developed solutions have represented the primary alternative to our offerings. However, we also face direct competition from smaller companies that offer specialized revenue management solutions as well as larger business process outsourcers that are moving into the revenue growth space. We believe that more competitors will emerge. Competitors may have greater name recognition, longer operating histories, well-established relationships with clients in our markets and substantially greater financial, technical, personnel and other resources than we have, and even a potentially broader array of offerings. 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 end customer requirements. Even if our solution is more effective than competing solutions, potential clients 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.

Consolidation in the technology sector could harm our business in the event that our clients are acquired and their contracts are canceled.

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 clients could lead to cancellation of our contracts with those end customers by the acquiring companies and could reduce the number of our existing and potential clients. For example, in January 2010, Oracle acquired our then-largest client, Sun Microsystems, as well as several of our smaller clients. Oracle elected to terminate our service contracts with each client because Oracle conducted its service revenue management internally. We have seen this trend continue through the years. If mergers and acquisitions take place within our customer base, some of the acquiring companies may terminate, renegotiate and/or elect not to renew our contracts with the companies they acquire, which would reduce our revenue. In addition, acquisitions in our customer base may adversely impact our revenue even if the contract is not terminated. The sales we make on behalf of our customers are processed through our customers' billing and quoting platforms. If our customers are acquired or merge with another company and as a result, their billing platforms or the procedures for processing closed sales are changed or slowed down, we will be unable to close our sales and our closure rate, and therefore our revenue and our ability to keep our customers, could suffer.

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

We enter into long-term contracts with our clients that are priced based on multiple factors determined in large part by the performance analysis we conduct for our clients. These factors include opportunity size, anticipated booking 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 client 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.

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

The contracts that we enter into with our clients provide for sharing of information with respect to forecasts and plans for the renewal of maintenance, support and subscription agreements of our clients. Our clients may use this forecasted data for a variety of purposes related to their business. Our forecasts are based upon the data our clients 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 clients 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 clients could impact our ability to retain existing clients and harm 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, an economic downturn typically results 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 slow the rate of renewals of maintenance, support and subscription services for their existing technology base. Any future downturn could cause business end 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 clients 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 client base and win new clients in these industries. In addition, because of the service revenue opportunities that we believe exist beyond these industries, we intend to target new clients in additional industry vertical markets, such as heavy machinery and manufacturing. 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 experience base is less developed within a particular new vertical. We may encounter clients 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.

A substantial portion of our business consists of supporting our clients' 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 clients, including some of our largest clients, sell service contracts through their channel partners and engage our solution to help those channel partners become more effective at selling service contract renewals. 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 clients. In the event our clients' channel partners become unreceptive to our involvement in the renewals process, those channel partners could discourage our current or future clients 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 clients or prospects, in which case the negative reaction of one or more of those large channel partners could impact multiple client relationships. Accordingly, with respect to those clients and prospective clients 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 clients, which would damage our overall business operations.

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

We face a variable selling cycle to secure new client agreements, typically spanning a number of months and requiring our effort to obtain and analyze our prospect's business through the service performance analysis, for which we are not paid. We recently have also experienced a lengthening of our sales cycles reflecting the hiring of a number of new sales personnel in the past eighteen months who are new to selling our solution as well as slower decision making by a few end customers as well as other end customers considering renewals of large, multi-year contracts. This has adversely affected the conversion rates of new client contracts. Moreover, even if we succeed in developing a relationship with a potential new client, the scope of the potential subscription or 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 client acquisitions. Consequently, we have only a limited ability to predict the timing and size of specific new client relationships.

If we fail to balance our expenses with our revenue forecasts or experience significant fluctuations in our business, our results could be harmed and we may need to raise additional capital.

Due to our evolving business model, the uncertain size of our markets and the unpredictability of future general economic and financial market conditions, we expect to continue to require significant capital and may not be able to accurately forecast our revenue and operating needs. We require a significant amount of cash resources to operate our business. We plan our expense levels and investments based on estimates of future sales performance for our clients with respect to their end customers, future revenue and future end 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, and we may need to raise additional capital in order to meet operating and capital expenditure requirements. Any decline in our client renewals or termination of our ongoing

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engagements may result in higher than anticipated losses in the future and shorten the time before we would need to raise additional capital. If we issue equity securities in order to raise additional funds, substantial dilution to existing stockholders may occur. If we raise cash through additional indebtedness, we may be subject to additional contractual restrictions on our business.

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 with multiple language skills. 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 prospective clients. 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.

Our revenue and earnings are affected by foreign currency exchange rate fluctuations.

In 2017, approximately 37% of our revenue was generated outside of the United States, as compared to 35% of our revenue in 2016. As a result of our continued focus on international markets, we expect that 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 clients 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 clients, 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 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.

The planned exit of the United Kingdom from the European Union could adversely affect our business.

The upcoming departure of the United Kingdom from the European Union, known as Brexit, could have significant implications for our business. We have a revenue delivery center in Liverpool, United Kingdom, and Brexit has, and could continue to, create uncertainty in our employee base relating to immigration and other cross-border matters. Brexit could lead to economic and legal uncertainty, including significant volatility in currency exchange rates, reduced customer demand for our services, and increasingly divergent laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. In addition, Brexit could cause a shift or increase in data privacy regulations for data transfers between the United Kingdom and European Union. Any of these effects of Brexit, among others, could adversely affect our operations in the United Kingdom and our financial results.

We may not succeed in expanding to additional international locations.

Our growth strategy includes further expansion into international markets. Our international expansion, including opening new office locations, 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;

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- 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 economic and political conditions.

We may not succeed in creating additional international demand for our solution and we may not be able to effectively sell service agreements in the international markets we enter.

Although we believe we currently have adequate internal control over financial reporting, we are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Under Section 404 of the Sarbanes-Oxley Act, we are required to furnish a report by our management on our internal control over financial reporting. The report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

We monitor and assess our internal control over financial reporting, and if our management identifies one or more material weaknesses in our internal control over financial reporting and such weakness remains uncorrected at year-end, we will be unable to assert such internal control is effective at such time. Additionally, there can be no guaranty that our internal controls will prevent all errors or fraud, restatements, or other similar problems. If we are unable to assert that our internal control over financial reporting is effective at year-end (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting or concludes that we have a material weakness in our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would likely have an adverse effect on our business and stock price.

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.

Our services or solutions could infringe the intellectual property rights of others, impacting our ability to deploy our services or solutions with our clients. From time to time, we receive letters from other parties alleging, or inquiring about, possible breaches of their intellectual property rights. These claims could require us to cease activities, incur expensive licensing costs, or engage in costly litigation, each of which could adversely affect our business and results of operations.

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. These claims could result in significant expense to us, which could harm our business.

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Interruption of operations at our data centers and revenue delivery centers could have a materially adverse effect on our business.

If we experience a temporary or permanent interruption in our operations at one or more of our data or revenue delivery centers, through natural disaster, casualty, operating malfunction, cyberattack, sabotage or other causes, we may be unable to provide the services we are contractually obligated to deliver. Failure to provide contracted services could result in contractual damages or clients' termination or renegotiation of their contracts. Although we maintain disaster recovery and business continuity plans and precautions designed to protect our company and our clients from events that could interrupt our delivery of services, there is no guarantee that such plans and precautions will be effective or that any interruption will not be prolonged. Any prolonged interruption in our ability to provide services to our clients for whom our plans and precautions fail to adequately protect us could have a material adverse effect on our business, results of operation and financial condition.

We are dependent on the continued participation and level of service of our third-party platform provider. Any failure or disruption in this service could materially and adversely affect our ability to manage our business effectively.

We rely on salesforce.com to provide the platform supporting many of our technologies and Amazon Web Services ("AWS") to support a significant portion of our data storage. If salesforce.com or AWS stops supporting our technologies or if they fail to provide a platform that consistently and adequately supports our solution, including as a result of errors or failures in their systems or events beyond their control, or refuse to provide this platform on terms acceptable to us or at all and we are not able to find suitable alternatives, our business may be materially and adversely affected.

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

Any changes in government regulations that impact our clients 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 clients, any change in U.S. Food and Drug Administration or foreign equivalent regulation of, or denial, withholding or withdrawal of approval of, our clients' 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.

We may be subject to state, local and foreign taxes that could harm our business.

We operate revenue delivery 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. Any such rate increases may harm our results of operations.

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 the jurisdictions where we do business 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 clients and may adversely affect our ability to retain existing clients or to gain new clients in the areas in which such taxes are imposed.

We may be exposed to various risks related to legal proceedings or claims that could adversely affect our operating results.

From time to time, we may be party to lawsuits in the normal course of our business. Such litigation may include claims, suits, government investigations and other proceedings involving intellectual property rights, commercial, corporate and securities, labor and employment, wage and hour and other matters. Litigation in general can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to lawsuits brought against us, or legal actions initiated by us, can often be expensive and time-consuming. Unfavorable outcomes from any claims and/or lawsuits could adversely affect our business, results of operations, or financial condition and we could incur substantial monetary liability and/or be required to change our business practices. Our business and technology acquisition activity could also result in litigation in connection with such acquired companies.

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We may incur material restructuring charges.

We continually evaluate ways to reduce our operating expenses and adapt to changing industry and market conditions through new restructuring opportunities, including more effective utilization of our assets, workforce and operating facilities. We have recorded restructuring charges in the past and we may incur material restructuring charges in the future. The risk that we incur material restructuring charges may be heightened during economic downturns or with expanded global operations.

We have incurred indebtedness in connection with our business and may in the future incur additional indebtedness that could limit cash flow available for our operations, limit our ability to borrow additional funds and, if we were unable to repay our debt when due, would have a material adverse effect on our business, results of operations, cash flows and financial condition.

In August 2013, we issued $150.0 million aggregate principal amount of 1.50% convertible notes due August 1, 2018 (the "Notes"). The Notes will mature on August 1, 2018, unless earlier converted. Upon conversion, the Notes will be settled in cash, shares of our stock, or any combination thereof, at our option. In addition, we may incur additional indebtedness in connection with financing acquisitions, strategic transactions or for other purposes. We are subject to the risks normally associated with debt obligations, including the risk that we will be unable to refinance our indebtedness, or that the terms of such refinancing will not be as favorable as the terms of our indebtedness.

Our indebtedness could have a material adverse effect on our business, results of operations, cash flows and financial condition. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- reduce our ability to use cash to fund acquisitions, working capital and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business;
- restrict us from exploiting business opportunities;
- dilute our existing stockholders if we elect to issue common stock instead of paying cash in the event the holders convert the 2018 Notes, or any other convertible securities issued in the future; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, execution of our business strategy or other general corporate purposes.

If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments or otherwise refinance the Notes or any additional debt that we incur, our business could suffer.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our reported operating results.

We prepare our financial statements to conform to generally accepted accounting principles in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, American Institute of Certified Public Accountants, the U.S. Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting standards and guidelines. A change in those standards and guidelines can have a significant effect on our reported results and may affect our reporting of transactions that were completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, in May 2014, the FASB issued an accounting standards update on a comprehensive new revenue recognition standard that will supersede the majority of existing revenue recognition guidance. We have concluded that the adoption of this new standard will not have a material impact on our Consolidated Financial Statements. However, under the new standard, we will be required to use significant judgment and make estimates for all future revenue contracts, including identifying performance obligations in our contracts, estimating the amount of variable consideration to include in the transaction price, allocating the transaction price to each separate performance obligation, determining when performance obligations have been satisfied, identifying the costs to acquire and fulfill client contracts and determine the contract period and/or client life over which to expense these costs.

The final revenue recognition standard is expected to take effect for us in 2018. See "Notes to Consolidated Financial Statements - Recently Issued Accounting Pronouncements" for more detail.

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Risks Relating to Owning Our Common Stock and Capitalization Matters

Our results may differ significantly from any guidance that we may issue.

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 independent registered public accounting firm 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 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 18.6% of our outstanding common stock as of December 31, 2017. As a result, these stockholders will have substantial 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, bylaws 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.

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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 depends 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 us, 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.

We are leveraged financially, which could adversely affect our ability to adjust our business to respond to competitive pressures and to obtain sufficient funds to satisfy our future growth, business needs and development plans.

We have substantial existing indebtedness. In August 2013, we issued $150.0 million aggregate principal amount of our convertible notes.

The degree to which we are leveraged could have negative consequences, including, but not limited to, the following:

- we may be more vulnerable to economic downturns, less able to withstand competitive pressures and less flexible in responding to changing business and economic conditions;
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may be limited;
- a substantial portion of our cash flows from operations in the future may be required for the payment of the principal amount of our existing indebtedness when it becomes due; and
- we may be required to make cash payments upon any conversion of the convertible notes, which would reduce our cash on hand.

A failure to comply with the covenants and other provisions of our debt instruments could result in events of default under such instruments, which could permit acceleration of all of our outstanding convertible notes and credit facilities.

Any required repurchase of the convertible notes as a result of a fundamental change or acceleration of the convertible notes would reduce our cash on hand such that we would not have those funds available for use in our business. If we are at any time unable to generate sufficient cash flows from operations to service our indebtedness when payment is due, we may be required to attempt to renegotiate the terms of the instruments relating to the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that we will be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

Conversion of our convertible notes will dilute the ownership interest of existing stockholders and may depress the price of our common stock.

The conversion of some or all of our convertible notes will dilute the ownership interests of then-existing stockholders to the extent we deliver shares upon conversion of any of the notes. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could be used to satisfy short positions, or anticipated conversion of the notes into shares of our common stock could depress the price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The table below presents the location, size and principal function of our leased global facilities. We believe our facilities are adequate to meet business operation needs for the foreseeable future.

Location	Square Footage	Region	Type of Facility
Nashville, TN, United States	120,685	NALA	Revenue Delivery Center
Denver, CO, United States	71,319	NALA	Revenue Delivery Center
San Francisco, CA, United States	24,394	NALA	Research and Development Center
Manila, Philippines	68,151	APJ	Revenue Delivery Center
Kuala Lumpur, Malaysia	58,985	APJ	Revenue Delivery Center
Singapore	17,626	APJ	Revenue Delivery Center
Yokohama, Japan	8,987	APJ	Revenue Delivery Center
Dublin, Republic of Ireland	38,060	EMEA	Revenue Delivery Center
Liverpool, United Kingdom	22,575	EMEA	Revenue Delivery Center
Sofia, Bulgaria	31,510	EMEA	Revenue Delivery Center

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various legal proceedings and claims arising in the ordinary course of our business, including the cases discussed below. Although the results of litigation and claims cannot be predicted with certainty, the Company is currently not aware of any litigation or threats of litigation in which the final outcome could have a material adverse effect on our business, operating results, financial position, or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors. The Company records a contingent liability when it is probable that a loss has been incurred and the amount is reasonably estimable in accordance with accounting for contingencies. As of December 31, 2017, we accrued a $1.5 million reserve relating to our potential liability for currently pending disputes, presented in "Accrued Expenses" in our Consolidated Balance Sheets.

On August 23, 2016, the United States District Court for the Middle District of Tennessee granted conditional class certification in a lawsuit originally filed on September 21, 2015 by three former senior sales representatives. The lawsuit, Sarah Patton, et al v. ServiceSource Delaware, Inc., asserts a claim under the Fair Labor Standards Act alleging that certain sales account representatives and senior sales representatives in our Nashville location were not paid for all hours worked and were not properly paid for overtime hours worked. The complaint also asserts claims under Tennessee state law for breach of contract and unjust enrichment, however, the plaintiffs have not yet filed a motion to certify the state law breach of contract and unjust enrichment claims as a class action. The Company will continue to vigorously defend itself against these claims.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Market Information

Our common stock is traded on the NASDAQ Global Market under the symbol "SREV." The following tables present the high and low prices of our common stock as reported on the NASDAQ Global Market during the periods presented:

Quarter Ended in 2017	High	Low
First Quarter	$6.05	$3.55
Second Quarter	$4.00	$2.82
Third Quarter	$4.00	$3.14
Fourth Quarter	$3.66	$2.61

Quarter Ended in 2016	High	Low
First Quarter	$4.62	$3.35
Second Quarter	$4.54	$3.52
Third Quarter	$5.31	$3.89
Fourth Quarter	$6.25	$4.40

Holders

As of February 23, 2018, there were 65 holders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

Dividends

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

Stock Performance Graph

The following graph shows a comparison of cumulative total stockholder return for our common stock, the Morgan Stanley Technology Index and the NASDAQ Composite Index. Such returns are based on historical results and are not intended to suggest future performance. Data for the NASDAQ Composite Index and the Morgan Stanley Technology Index assumes the reinvestment of dividends. We have never declared or paid cash dividends on our common stock nor do we anticipate paying any such cash dividends in the foreseeable future. Stockholders' returns over the indicated period are based on historical data and should not be considered indicative of future stockholder returns.

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	ServiceSource	Morgan Stanley Technology Index	NASDAQ Composite Index
12/31/2012	$100.00	$100.00	$100.00
12/31/2013	$143.25	$131.78	$138.32
12/31/2014	$80.00	$147.98	$156.85
12/31/2015	$78.80	$157.98	$165.84
12/31/2016	$97.09	$177.47	$178.28
12/31/2017	$52.82	$247.40	$228.63

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the related notes included in "Item 8. Financial Statements and Supplementary Data."

	For the Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share amounts)				
Net revenue	$239,127	$252,887	$252,203	$272,180	$272,482
Cost of revenue(1)	163,709	165,069	171,369	194,009	162,449
Gross profit	75,418	87,818	80,834	78,171	110,033
Operating expenses:					
Sales and marketing(1)	33,001	41,972	44,086	59,988	58,826
Research and development(1)	5,729	8,344	16,480	25,802	23,855
General and administrative(1)	53,087	52,995	46,299	47,808	44,913
Restructuring and other (1)	7,308	—	3,662	3,314	—
Goodwill and other intangible asset impairment	—	—	—	25,108	—
Total operating expenses	99,125	103,311	110,527	162,020	127,594
Loss from operations	(23,707)	(15,493)	(29,693)	(83,849)	(17,561)
Interest expense and other, net	(9,886)	(8,704)	(9,316)	(11,008)	(4,420)
Impairment loss on cost basis equity investment	—	(4,500)	—	—	—
Gain on sale of cost basis equity investment	2,100	—	—	—	—
Loss before income taxes	(31,493)	(28,697)	(39,009)	(94,857)	(21,981)
Provision for income tax benefit (expense)	1,647	(3,429)	(1,584)	(482)	(1,051)
Net loss	$(29,846)	$(32,126)	$(40,593)	$(95,339)	$(23,032)
Net loss per common share:					
Basic and diluted	$(0.33)	$(0.37)	$(0.48)	$(1.15)	$(0.29)
Weighted-average common shares outstanding:					
Basic and diluted	89,234	86,318	85,417	82,872	78,408

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

	For the Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Cost of revenue	$1,335	$1,484	$2,666	$3,995	$3,303
Sales and marketing	3,774	3,004	3,393	6,193	9,831
Research and development	149	586	1,299	2,800	2,414
General and administrative	8,425	5,678	6,029	7,911	8,072
Restructuring and other	352	—	2,579	—	—
Total stock-based compensation	$14,035	$10,752	$15,966	$20,899	$23,620

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	As of December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$188,570	$185,573	$208,712	$215,382	$275,133
Working capital[2]	$72,538	$218,585	$236,431	$249,590	$315,185
Total assets	$295,372	$306,090	$317,564	$337,120	$396,561
Other long-term liabilities	$4,603	$6,495	$4,311	$4,660	$5,566
Convertible notes, net	$144,167	$134,775	$126,051	$118,004	$110,530
Total stockholders' equity	$112,109	$126,936	$147,975	$169,347	$238,935

[2] Working capital is defined as current assets less current liabilities.

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ITEM 7. 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 annual Consolidated Financial Statements and notes thereto appearing elsewhere in this annual report on Form 10-K.

Overview

ServiceSource International, Inc. is a global leader in outsourced, performance-based customer success and revenue growth solutions. Through our people, processes and technology, we grow and retain revenue on behalf of our clients—some of the world's leading business-to-business companies — in more than 45 languages. Our solutions help our clients strengthen their customer relationships, drive improved customer adoption, expansion and retention and minimize churn. Our technology platform and best-practice business processes combined with our highly-trained, client-focused revenue delivery professionals and data from nearly 20 years of operating experience enable us to provide our clients greater value for our customer success services than attained by our clients' in-house customer success teams.

Our CEO manages and allocates resources on a company-wide basis as a single segment that is focused on service offerings which integrate data, processes and cloud technologies.

Key Business Metrics

In assessing the performance of our business, we consider a variety of business metrics in addition to the financial metrics discussed below under "Basis of Presentation." These key metrics include Opportunity Under Management and number of engagements, both of which are operational metrics.

Opportunity Under Management. For the year ended December 31, 2017, our Opportunity Under Management in our managed services business was approximately $11.0 billion. Opportunity Under Management is an operational metric that represents our estimate of the value of all end customer service contracts that we have the opportunity to sell on behalf of our clients over a designated period of time, the value of the customer engagements we manage on behalf of our clients and the Bookings we deliver under our Inside Sales solution. Opportunity Under Management is not a measure of our expected revenue or backlog. Opportunity Under Management reflects our estimate over a designated period of time and should not be used to estimate our opportunity for any particular quarter within that period. Also, the value of end customer contracts actually delivered during a given period should not be expected to be realized in full or to occur in even quarterly increments due to seasonality and other factors impacting our clients and their end customers.

We estimate the value of our end customer contracts based on a combination of factors, including the value of end customer contracts made available to us by our clients in past periods, the minimum value of end customer contracts that our clients are required to give us the opportunity to sell pursuant to the terms of our contracts with them, periodic internal business reviews of our expectations as to the value of end customer contracts that will be made available to us by our clients, the value of end customer contracts included in the service performance analysis that we conduct with our clients during the sales process the value of the customer relationships we manage, the bookings we deliver under our Inside Sales solution, and collaborative discussions with our clients assessing their expectations as to the value of service contracts that they make available to us for sale. Although the minimum value of end customer contracts that our clients are required to give us represents a portion of our estimated Opportunity Under Management, a significant portion of the Opportunity Under Management is estimated based on the other factors described above.

As our experience with our business, our clients and their contracts has grown, we have continually refined the process, improved the assumptions and expanded the data related to our calculation of Opportunity Under Management. When estimating Opportunity Under Management, we rely on our 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, and the actual value of end customer contracts delivered to us in a given period to differ from our estimate of Opportunity Under Management. These business and economic uncertainties and contingencies include:

- the extent to which clients deliver a greater or lesser value of end customer contracts than may be required or otherwise expected;
- changes in the pricing or terms of service contracts offered by our clients;
- increases or decreases in the end customer base of our clients;

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- the extent to which the renewal rates we achieve on behalf of a client early in an engagement affect the amount of opportunity that the client makes available to us later in the engagement;
- client cancellations of their contracts with us; and
- changes in our clients’ businesses, sales organizations, management, sales processes or priorities; as well as other factors discussed in "Item 1.A. entitled Risk Factors" of this annual report on Form 10-K.

Our revenue also depends on our booking rates, commissions, and other fees. Our bookings represent the total amount of Opportunity Under Management that we renew on behalf of our clients or sell under our Inside Sales solution. Our commission rate is an agreed-upon percentage of the renewal value of end customer contracts or net new sales that we sell on behalf of our clients.

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

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

Number of Engagements. We track the number of engagements we have with our clients. We often have multiple engagements with a single client, particularly where we manage the sales of renewals relating to different product lines, technologies, types of contracts or geographies for the client and where we deliver multiple of our solutions. When the set of renewals we manage on behalf of a client is associated with a separate client contract or a distinct product set, type of end customer contract or geography and therefore requires us to assign a service sales team to manage the renewals, we designate the set of renewals and associated revenues and costs as a unique engagement. For example, we may have one engagement consisting of a service sales team selling maintenance contract renewals of a particular product for a client in the U.S. and another engagement consisting of a sales team selling warranty contract renewals of a different product for the same client in Europe. These would count as two engagements. When we deliver multiple solutions with separate and distinct teams, such as renewals and inside sales, we may manage these as separate engagements. We had 168, 154 and 191 engagements as of December 31, 2017, 2016 and 2015, respectively.

Factors Affecting our Performance

Sales Cycle. We sell our integrated solution through our sales organization. At the beginning of the sales process, our quota-carrying sales representatives contact prospective clients and educate them about our offerings. Educating prospective clients about the benefits of our solutions 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 our sales process, our solutions design team performs a service performance analysis of our prospect’s service revenue. This includes an analysis of best practices, and benchmarks the prospect’s service revenue against industry peers. Through this 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 client, inclusive of the service performance analysis process and measured from our first formal discussion with the client until execution of a new client contract, is typically longer than six months and has increased in recent periods.

Implementation Cycle. After entering into an engagement with a new client, and to a lesser extent after adding an engagement with an existing client, we incur sales and marketing expenses related to the commissions owed to our sales personnel. These commissions are generally based on realized revenue that the contract delivers over time with a smaller portion based on the estimated total annual contract value. Commission amounts based on realized revenue are expensed in the period the related revenue is recognized by the Company. Commission amounts based on the estimated total annual contract value are expensed and payable upfront upon executing the applicable contract. Upon adoption of ASC 606 effective as of January 1, 2018, the commissions that are paid based on realized revenue will remain as expense in the period the related revenue is recognized by the Company, but the upfront commissions based on estimated total annual contract value will be capitalized as Contract acquisition costs and expensed ratably over the expected life of the applicable contract or five years if the contract is between the Company and one of its long-standing clients. We also make upfront investments in technology and personnel to support the engagement. These upfront commissions and investments are typically incurred one to three months before we begin generating sales and recognizing revenue. Accordingly, in a given quarter, an increase in new clients, and, to a lesser extent, an increase in engagements with existing clients, or a significant increase in the contract value associated with such new clients and engagements, will negatively impact our gross margin and operating margins until we begin to achieve anticipated sales levels associated with the new engagements, which is typically two to three quarters after we begin selling contracts on behalf of our clients. Although we expect new client engagements to contribute to our operating profitability over time, in the initial periods of a client relationship, the near term impact on our profitability can be negatively impacted by slower-than anticipated growth in revenues for these engagements as well as the impact of the upfront costs we incur, the lower initial level of associated service sales team productivity and lack of mature data and technology integration with the client. As a result, an increase in the mix of new clients as a percentage of total clients may initially have a negative impact on our operating results. Similarly, a decline in the ratio of new clients to total clients may positively impact our near-term operating results.

Contract Terms. A significant portion 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 clients. In some cases, we earn additional performance-based commissions for exceeding pre-determined service renewal targets.

Our new client contracts typically have an initial term between two and four years. Our contracts generally require our clients 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 clients do not meet their minimum contractual commitments over a specified period, they may be subject to fees for the shortfall. Our client contracts are cancelable on relatively short notice, subject in most cases to the payment of an early termination fee by the client. The amount of this fee is based on the length of the remaining term and value of the contract.

We invoice our clients 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. Revenue is recognized in the period in which our services are performed or, in the case of performance commissions, when the performance condition is achieved. Because the invoicing for our services generally coincides with or immediately follows the sale of service contracts on behalf of our clients, we do not generate or report a significant deferred revenue balance. However, the combination of factors including minimum contractual commitments, the performance improvement potential, our success in generating improved renewal rates for our clients, and our clients' historical renewal rates may all affect our performance favorably or unfavorably.

Merger and Acquisition Activity. Our clients, 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 clients 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 clients can provide us with the opportunity to pursue additional business to the extent the acquired company is not already one of our clients. Similarly, when a client 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 client 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.

Seasonality. We experience a seasonal variance in our revenue which is typically higher in the fourth quarter when many of our clients' products come up for renewal, and for the third quarter of the year which is typically lower as a result of lower or flat renewal volume corresponding to the timing of our customers' product sales particularly in the international regions. 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.

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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 clients. We generally invoice our clients 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 clients and their end customers.

Historically, we earned revenue from the sale of subscriptions to our cloud based applications. To date, subscription revenue has been a small percentage of total revenue. We have terminated most of our subscription contracts and expect revenues generated from subscription revenue to be insignificant in 2018. Subscription fees are accounted for separately from commissions, and they are billed in advance over a monthly, quarterly or annual basis. Subscription revenue is recognized ratably over the related subscription term.

We have generated a significant portion of our revenue from a limited number of clients. Our top ten clients accounted for 66%, 66% and 57% of our net revenue for the years ended December 31, 2017, 2016 and 2015, respectively. The loss of revenue from any of our top clients for any reason, including the failure to renew our contracts, termination of some or all of our services, a change of relationship with any of our key clients or their acquisition, can cause a significant decrease in our revenue.

Our business is geographically diversified. During 2017, 63% of our net revenue was earned in NALA, 26% in EMEA and 11% in APJ. Net revenue for a particular geography generally reflects commissions earned from sales of service contracts managed from our revenue delivery centers in that geography. Predominantly all of the service contracts sold and managed by our revenue delivery centers relate to end customers located in the same geography. In addition, our Kuala Lumpur location is a revenue delivery center where we have centralized, for our worldwide operations, the key contract renewal processes that do not require regional expertise, such as client data management and quoting.

Cost of Revenue and Gross Profit

Our cost of revenue expenses include employee compensation, technology costs, including those related to the delivery of our cloud-based technologies, and allocated overhead costs. Compensation expense 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 third-party data centers 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. To the extent our client base or business with existing client base expands, we may need to hire additional service sales personnel and invest in infrastructure to support such growth. Our cost of revenue may fluctuate significantly and increase or decrease on an absolute basis and as a percentage of revenue in the near term, including for the reasons discussed under, “Factors Affecting Our Performance—Implementation Cycle.” In 2017, we saw cost of revenue decrease in absolute dollars primarily related to cost reduction measures implemented in the early part of 2017. We expect cost of revenues to increase in 2018 related to higher costs incurred during the ramp of new business. Gross profit as a percent of revenue is expected to be flat for 2018.

Operating Expenses

Sales and Marketing. Sales and marketing expenses are a significant component of our operating costs and consist primarily of compensation expenses 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 the contract signing date and twelve to fourteen months following the execution of the applicable contract. When commissions are paid upon contract signing and are not contingent on future payments and continued employment, we consider that portion of the commission to be earned and therefore expensed at contract signing. We currently expect sales and marketing expenses to increase in 2018 over 2017 due to increased headcount and related employee expenses.

Research and Development. Research and development expenses consist primarily of employee compensation expense, allocated costs and the cost of third-party service providers. We focus our research and development efforts on developing new products and applications related to our technology platform. 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 to increase in 2018 compared to 2017 due to incremental costs of moving our clients to a single technology platform.

General and Administrative. General and administrative expenses consist primarily of employee compensation expense 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, which consists of depreciation, amortization of internally developed software, facilities and technology costs. We expect our general and administrative expenses to increase in 2018 due to increases in facility costs and investment in additional information technology.

Restructuring and Other. Restructuring and other expenses consist primarily of employees' severance payments, related employee benefits, stock compensation related to the accelerated vesting of certain equity awards, related legal fees, asset impairment charges and charges related to leases and other contract termination costs. The Company expects to incur additional restructuring charges in the first half of 2018 related to the relocation and decommissioning of our current San Francisco office space. Future cash outlays related to restructuring activities are expected to total approximately \$1.8 million. These amounts are reported in "Accounts payable, Accrued compensation and benefits and Accrued expenses" in our Consolidated Balance Sheet as of December 31, 2017.

Interest Expense and Other, Net, and Impairment of Cost Basis Equity Investment

Interest expense. Interest expense consists of interest expense associated with our convertible debt, imputed interest from capital lease payments, accretion of debt discount and amortization of debt issuance costs. We recognize accretion of debt discount and amortization of interest costs using the effective interest rate method. We expect our interest expense to generally decrease in 2018 due to the maturity of our \$150.0 million convertible notes in August 2018.

Other, Net. Other, net consists primarily of foreign exchange gains and losses and interest income earned on our cash, cash equivalents and marketable securities. We expect other, net to vary depending on the movement in foreign currency exchange rates and the related impact on our foreign exchange gain (loss) and the return of interest on our investments.

Provision for Income Tax Benefit (Expense)

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 evaluate our ability to realize the tax benefits associated with deferred tax assets on a jurisdictional basis. This evaluation utilizes the framework contained in ASC 740, Income Taxes, wherein management analyzes all positive and negative evidence available at the balance sheet date to determine whether all or some portion of our deferred tax assets will not be realized. Under this guidance, a valuation allowance must be established for deferred tax assets when it is more likely than not (a probability level of more than 50 percent) that they will not be realized. In assessing the realization of our deferred tax assets, we consider all available evidence, both positive and negative, and place significant emphasis on guidance contained in ASC 740, which states that "a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome."

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.

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Results of Operations

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

	For the Year Ended December 31,		
	2017	2016	2015
Net revenue	100 %	100 %	100 %
Cost of revenue	68 %	65 %	68 %
Gross profit	32 %	35 %	32 %
Operating expenses:			
Sales and marketing	14 %	17 %	17 %
Research and development	2 %	3 %	7 %
General and administrative	22 %	21 %	18 %
Restructuring and other	3 %	— %	1 %
Total operating expenses	41 %	41 %	43 %
Loss from operations	(9)%	(6)%	(11)%

Year Ended December 31, 2017 Compared to December 31, 2016

Net Revenue, Cost of Revenue, and Gross Profit

	For the Year Ended December 31,					
	2017		2016			
	Amount	% of Net Revenue	Amount	% of Net Revenue	$ Change	% Change
	(in thousands)		(in thousands)		(in thousands)	
Net revenue	$239,127	100 %	$252,887	100 %	$(13,760)	(5)%
Cost of revenue	163,709	68 %	165,069	65 %	(1,360)	(1)%
Gross profit	$75,418	32 %	$87,818	35 %	$(12,400)	(14)%

Net revenue decreased by $13.8 million, or 5%, for the year ended December 31, 2017 compared to the same period in 2016, due to contractions and lower production with certain existing clients and the bankruptcy of one of our top 10 clients, partially offset by production related to expansion of business with our existing client base and new business in 2017.

Cost of revenue decreased $1.4 million, or 1%, for the year ended December 31, 2017 compared to the same period in 2016, primarily due to the following:

- $2.8 million decrease in employee costs related to operational improvements in our business that resulted in a reduction in headcount and increased productivity from our revenue generating employees, and shifting headcount to lower cost locations, all of which are part of our continuous efforts to better align employee costs with revenue;
- $2.0 million decrease in temporary labor and consulting costs;
- $1.7 million decrease in information technology costs; and
- $0.8 million decrease in recruitment services; partially offset by
- $3.5 million increase in depreciation and amortization expense; and
- $2.6 million increase in net overhead allocations from other departments.

Gross profit decreased $12.4 million, or 14%, for the year ended December 31, 2017 compared to the same period in 2016, which is in line with the decrease in revenue.

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Operating Expenses

	For the Year Ended December 31, 2017		For the Year Ended December 31, 2016			
	Amount (in thousands)	% of Net Revenue	Amount (in thousands)	% of Net Revenue	$ Change (in thousands)	% Change
Operating expenses:						
Sales and marketing	$33,001	14 %	$41,972	17 %	$ (8,971)	(21)%
Research and development	5,729	2 %	8,344	3 %	(2,615)	(31)%
General and administrative	53,087	22 %	52,995	21 %	92	— %
Restructuring and other	7,308	3 %	—	— %	7,308	100 %
Total operating expenses	$99,125	41 %	$103,311	41 %	$ (4,186)	(4)%

Stock-based compensation included in operating expenses:

	Amount (in thousands)	Amount (in thousands)	$ Change (in thousands)
Sales and marketing	$3,774	$3,004	$ 770
Research and development	149	586	(437)
General and administrative	8,425	5,678	2,747
Restructuring and other	352	—	352
Total stock-based compensation	$12,700	$9,268	$ 3,432

Sales and Marketing

Sales and marketing expense decreased $9.0 million, or 21%, for the year ended December 31, 2017 compared to the same period in 2016, primarily due to the following:

- $6.2 million decrease in employee compensation costs due to lower headcount resulting from our efforts to better align our cost structure;
- $1.7 million decrease in travel costs;
- $0.3 million decrease in net overhead allocations from other departments;
- $0.2 million decrease in in temporary labor and consulting costs; and
- $0.3 million decrease in information technology costs, recruitment services and marketing costs.

Research and Development

Research and development expense decreased $2.6 million, or 31%, for the year ended December 31, 2017 compared to the same period in 2016, primarily due to our efforts to reduce research and development spend as follows:

- $2.0 million decrease in employee related costs associated with a decrease in headcount; and
- $0.4 million decrease in in temporary labor and consulting costs.

Internal-use software development capitalization decreased $0.5 million for the year ended December 31, 2017 compared to the same period in 2016, primarily due to the migration from our Renew OnDemand platform to PRISM. We expect to continue to invest in our technology platforms to support our services offering and thus capitalizing internal-use software costs in the future. However, the amount capitalized will depend on the future level of expenditures on our technology platforms.

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General and Administrative

General and administrative expense increased $0.1 million, or 0%, for the year ended December 31, 2017 compared to the same period in 2016, primarily due to the following:

- $3.0 million increase in depreciation and amortization expense;
- $1.3 million increase in information technology spend;
- $1.2 million increase in recruitment services; and
- $1.1 million increase in employee compensation costs related to performance-based restricted stock awards issued during 2016 and 2017, offset by decreases due to shifting headcount to lower cost locations. These net increases were partially offset by
- $2.2 million net reduction in overhead allocations to other departments;
- $1.6 million decrease in temporary labor and consulting costs;
- $1.5 million decrease due to a non-recurring legal reserve recorded during 2016;
- $0.9 million decrease in travel costs; and
- $0.5 million decrease in rent and facilities costs.

Restructuring and Other

Restructuring and other expense increased $7.3 million, or 100%, for the year ended December 31, 2017 compared to the same period in 2016 due to our effort to better align our cost structure with current revenue levels during 2017.

Interest Expense and Other, Net, Impairment Loss on Cost Basis Equity Investment, and Gain on Sale of Cost Basis Equity Investment

	For the Year Ended December 31,					
	2017		2016			
	Amount	% of Net Revenue	Amount	% of Net Revenue	$ Change	% Change
	(in thousands)		(in thousands)		(in thousands)	
Interest expense	$(11,683)	(5)%	$(11,030)	(4)%	$ 653	6 %
Other, net	$1,797	1 %	$2,326	1 %	$ (529)	(23)%
Impairment loss on cost basis equity investment	$—	— %	$(4,500)	(2)%	$ 4,500	(100)%
Gain on sale on cost basis equity investment	$2,100	1 %	$—	— %	$ 2,100	100 %

Interest expense increased $0.7 million, or 6%, for the year ended December 31, 2017 compared to the same period in 2016 due to the accretion of the debt discount related to our convertible notes issued in August 2013.

Other, net decreased $0.5 million, or 23%, for the year ended December 31, 2017 compared to the same period in 2016 primarily due to foreign currency fluctuations.

During the year ended December 31, 2016, we fully impaired our 2013 cost basis equity investment due to an unfavorable declining financial performance, growth trends and future liquidity needs of the investment and recorded a $4.5 million impairment. During the year ended December 31, 2017, we sold our equity investment that we fully impaired in 2016 for proceeds of $2.1 million and recorded the proceeds as a gain.

Income Tax Provision

	For the Year Ended December 31,					
	2017		2016			
	Amount	% of Net Revenue	Amount	% of Net Revenue	$ Change	% Change
	(in thousands)		(in thousands)		(in thousands)	
Provision for income tax benefit (expense)	$1,647	1 %	$(3,429)	(1)%	$ 5,076	*

* Not considered meaningful.

For the year ended December 31, 2017, we recorded a tax benefit of $1.6 million. This primarily represents a $2.0 million income tax benefit related to the remeasurement of our indefinite-lived intangible deferred tax liability and release of our valuation allowance for certain net operating loss provisions as enacted under the Tax Cuts and Jobs Act (H.R.1) during December 2017. Historically, we recorded a deferred income tax expense for indefinite lived deferred tax liabilities, as the Company did not have any indefinite lived deferred tax assets. H.R.1 changed the carryover period for federal net operating losses to indefinite, allowing us to utilize future indefinite lived deferred tax assets in the scheduling of valuation allowance. Our net U.S. deferred tax liability decreased from $2.2 million as of December 31, 2016 to $0.2 million as of December 31, 2017. We also recorded $0.4 million of federal, foreign and state income tax expense. No benefit was otherwise provided for losses incurred in U.S. and Singapore because these losses are offset by a valuation allowance.

For the year ended December 31, 2016, we recorded a charge to income tax expense of $3.4 million. This amount primarily represents foreign income taxes of $1.1 million and $1.8 million of valuation allowance that reflects the portion of certain state deferred tax assets that are not more-likely-than-not to be realized. No benefit was otherwise provided for losses incurred in U.S. and Singapore because these losses are offset by a full valuation allowance.

Years Ended December 31, 2016 Compared to December 31, 2015

Net Revenue, Cost of Revenue and Gross Profit

	For the Year Ended December 31,					
	2016		2015			
	Amount	% of Net Revenue	Amount	% of Net Revenue	$ Change	% Change
	(in thousands)		(in thousands)		(in thousands)	
Net revenue	$252,887	100 %	$252,203	100 %	$ 684	— %
Cost of revenue	165,069	65 %	171,369	68 %	(6,300)	(4)%
Gross profit	$87,818	35 %	$80,834	32 %	$ 6,984	9 %

Net revenue increased $0.7 million, or 0%, for the year ended December 31, 2016 compared to the same period in 2015, primarily due to the expansion of business with our existing client base and new business with our existing clients and new clients.

Cost of revenue decreased $6.3 million, or 4%, for the year ended December 31, 2016 compared to the same period in 2015, primarily due to the following:

- $8.5 million decrease in employee costs related to operational improvements in our business that resulted in a reduction in headcount and increased productivity from our revenue generating employees, and shifting headcount to lower cost locations, all of which are part of our continuous efforts to better align employee costs with revenue; and
- $4.1 million decrease in temporary labor and consulting costs; partially offset by
- $3.8 million increase in net overhead allocations from other departments;
- $1.8 million increase in depreciation and amortization expense; and

- $0.9 million increase in information technology costs.

Gross profit increased $7.0 million, or 9%, for the year ended December 31, 2016 compared to the same period in 2015, which is in line with our moderate increase in revenue and the significant reduction in employee related costs.

Operating Expenses

	For the Year Ended December 31, 2016		2015			
	Amount (in thousands)	% of Net Revenue	Amount (in thousands)	% of Net Revenue	$ Change (in thousands)	% Change
Operating expenses:						
Sales and marketing	$41,972	17 %	$44,086	17 %	$ (2,114)	(5)%
Research and development	8,344	3 %	16,480	7 %	(8,136)	(49)%
General and administrative	52,995	21 %	46,299	18 %	6,696	14 %
Restructuring and other	—	— %	3,662	1 %	(3,662)	(100)%
Total operating expenses	$103,311	41 %	$110,527	43 %	$ (7,216)	(7)%

Stock-based compensation included in operating expenses:

	Amount (in thousands)	Amount (in thousands)	$ Change (in thousands)
Sales and marketing	$3,004	$3,393	$ (389)
Research and development	586	1,299	(713)
General and administrative	5,678	6,029	(351)
Restructuring and other	—	2,579	(2,579)
Total stock-based compensation	$9,268	$13,300	$ (4,032)

Sales and Marketing

Sales and marketing expense decreased $2.1 million, or 5%, for the year ended December 31, 2016 compared to the same period in 2015, primarily due to the following:

- $1.6 million decrease in employee compensation costs due to lower headcount resulting from our efforts to better align our cost structure;
- $0.9 million decrease in marketing programs; and
- $0.2 million decrease in depreciation and amortization expense; partially offset by
- $0.8 million increase in travel costs.

Research and Development

Research and development expense decreased $8.1 million, or 49%, for the year ended December 31, 2016 compared to the same period in 2015, primarily due our efforts to reduce research and development spend:

- $4.6 million decrease in employee compensation costs;
- $2.9 million decrease in temporary labor; and
- $0.3 million decrease in information technology costs.

General and Administrative

General and administrative expense increased $6.7 million, or 14%, for the year ended December 31, 2016 compared to the same period in 2015, primarily due to the following:

- $3.2 million increase in employee compensation costs related to higher headcount;
- $2.1 million increase in facilities costs;
- $1.0 million increase in depreciation and amortization expense;
- $0.9 million increase in temporary labor and professional fees;
- $0.9 million increase in technology spend; and

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- $2.2 million increase in travel costs, marketing programs and other; partially offset by
- $3.6 million net reduction in overhead allocations to other departments.

Restructuring and Other

There were no restructuring and other costs for the year ended December 31, 2016 due to the Company completing restructuring efforts during 2015.

Interest Expense and Other, Net and Impairment Loss on Cost Basis Equity Investment

	For the Year Ended December 31,					
	2016		2015			
	Amount	% of Net Revenue	Amount	% of Net Revenue	$ Change	% Change
	(in thousands)		(in thousands)		(in thousands)	
Interest expense	$(11,030)	(4)%	$(10,393)	(4)%	$ 637	6 %
Other, net	$2,326	1 %	$1,077	0 %	$ 1,249	116 %
Impairment loss on cost basis equity investment	$(4,500)	(2)%	$—	0 %	$ (4,500)	100 %

Interest expense increased $0.6 million, or 6%, for the year ended December 31, 2016 compared to the same period in 2015, due to the accretion of debt discount related to our convertible notes issued in August 2013.

Other, net decreased $1.2 million, or 116%, for the year ended December 31, 2016 compared to the same period in 2015, primarily due to lower foreign currency gains as the U.S. dollar strengthened against the Euro and other foreign currencies where we have operations.

During the year ended December 31, 2016, we fully impaired our 2013 cost basis equity investment due to an unfavorable declining financial performance, growth trends and future liquidity needs of the investment and recorded a $4.5 million impairment.

Income Tax Provision

	For the Year Ended December 31,					
	2016		2015			
	Amount	% of Net Revenue	Amount	% of Net Revenue	$ Change	% Change
	(in thousands)		(in thousands)		(in thousands)	
Provision for income tax benefit (expense)	$(3,429)	(1)%	$(1,584)	(1)%	$ (1,845)	*

* Not considered meaningful.

For the year ended December 31, 2016, we recorded a charge to income tax expense of approximately $3.4 million. This amount primarily represents foreign income taxes of $1.1 million and $1.8 million of valuation allowance that reflects the portion of certain state deferred tax assets that are not more-likely-than-not to be realized. No benefit was otherwise provided for losses incurred in U.S. and Singapore, because these losses are offset by a full valuation allowance.

For the year ended December 31, 2015, a charge to income tax expense of $1.6 million was recorded. This includes the impact of state income tax law changes that were recorded during the second quarter ended June 30, 2015 and affects the manner in which the Company apportions revenue to the state of Tennessee. The remaining portion of our tax expense relates to anticipated taxes in jurisdictions where we have profitable operations, including certain U.S. states, offset by benefits available from state tax credits. No benefit was otherwise provided for losses incurred in the

U.S. and Singapore because these losses are offset by a full valuation allowance. In November 2015, the Philippine Economic Zone Authority granted a four-year tax holiday to the Company's Philippine affiliate, commencing with its fiscal year, beginning January 1, 2016.

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Liquidity and Capital Resources

Our primary operating cash requirements include the payment of compensation and related costs and costs for our facilities and information technology infrastructure. Historically, we have financed our operations from cash provided by our operating activities, proceeds from common stock offerings and cash proceeds from the exercise of stock options and our employee stock purchase plan. We believe our existing cash and cash equivalents and short-term investments will be sufficient to meet our working capital and capital expenditure needs over the next twelve months.

As of December 31, 2017, we had cash, cash equivalents and short-term investments of $188.6 million, which primarily consisted of demand deposits, money market mutual funds, corporate bonds and U.S. government obligations held by well-capitalized financial institutions. Included in cash, cash equivalents and short-term investments was cash and cash equivalents of $7.4 million held by our foreign subsidiaries used to satisfy their operating requirements. The Company considers its undistributed earnings of ServiceSource Europe Ltd. & ServiceSource International Singapore Pte. Ltd. permanently reinvested in foreign operations and has not provided for U.S. income taxes on such earnings. As of December 31, 2017, the Company had no unremitted earnings from its foreign subsidiaries.

In August 2013, we issued $150.0 million aggregate principal amount of 1.50% convertible notes due August 1, 2018 (the "Notes") and concurrently entered into convertible notes hedges and separate warrant transactions. The Notes mature on August 1, 2018, unless converted earlier. Upon conversion, the Notes will be settled in cash, shares of our stock, or any combination thereof, at our option. The Notes were not subject to conversion or repurchase as of December 31, 2017 and are classified as a current liability on our Consolidated Balance Sheet. We believe we have sufficient cash and liquid short-term investments to repay the Notes upon maturity.

Share Repurchase Program

In August 2015, our Board of Directors authorized a stock repurchase program with a maximum authorization to repurchase up to $30.0 million of our common stock. The program expired in August 2017. During the year ended December 31, 2017, no shares were repurchased.

Letter of Credit and Restricted Cash

In connection with one of our leased facilities, the Company is required to maintain a $1.2 million letter of credit. The letter of credit is secured by $1.2 million of cash in a money market account, which is classified as an "Other assets" in our Consolidated Balance Sheets.

Cash Flows

The following table presents a summary of our cash flows:

	For the Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Net cash provided by operating activities	$19,797	$4,452	$3,597
Net cash used in investing activities	$(14,815)	$(28,914)	$(25,194)
Net cash provided by financing activities	$216	$937	$3,347
Net increase/(decrease) in cash and cash equivalents, net of the effect of exchange rates on cash and cash equivalents	$3,697	$(24,642)	$(18,048)

Our total depreciation and amortization expense was comprised of the following:

	For the Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Scout intangible asset amortization	$1,512	$1,512	$1,512
Internally developed software amortization	13,298	7,634	5,025
Property and equipment depreciation	7,778	7,019	7,199
Depreciation and amortization	22,588	16,165	13,736
Adjustments and other	—	(113)	—
Total depreciation and amortization	$22,588	$16,052	$13,736

Operating Activities

For the year ended December 31, 2017, net cash provided by operating activities was $19.8 million. Our net loss was $29.8 million, which was impacted by non-cash charges of $22.6 million for depreciation and amortization, $9.4 million of amortization of debt discount and issuance costs, $13.7 million of stock-based compensation, $2.1 million related to proceeds received from the sale of our cost basis equity investment and $3.1 million for restructuring and other costs. Cash provided by operations from changes in our working capital include a $9.1 million decrease in accounts receivable, net, a $2.5 million increase in accounts payable and a $1.7 million decrease in prepaid expenses and other current assets, offset by cash used in operations from a $5.5 million decrease in accrued expenses and other liabilities and a $2.9 million decrease in deferred revenue.

Net cash provided by operating activities was $4.5 million for the year ended December 31, 2016. Our net loss was $32.1 million, which was impacted by non-cash charges of $16.1 million for depreciation and amortization, $8.7 million of amortization of debt discount and issuance costs, $10.8 million of stock-based compensation and $4.5 million related to an impairment of our cost basis equity investment. Cash provided by operations from changes in our working capital include a $0.9 million increase in accounts payable, a $2.1 million increase in accrued expenses and other liabilities offset by cash used in operations from a $7.2 million increase in accounts receivable, net, a $1.6 million decrease in deferred revenue and a $0.7 million increase in prepaid expenses and other current assets.

Net cash provided by operating activities was $3.6 million for the year ended December 31, 2015. Our net loss was $40.6 million, which was impacted by non-cash charges of $13.7 million for depreciation and amortization, $8.0 million of amortization of debt discount and issuance costs, $13.4 million of stock-based compensation and $2.6 million for restructuring and other. Cash provided by operations from changes in our working capital include a $12.0 million decrease in accounts receivable, net, a $2.7 million increase in accrued compensation and benefits, offset by cash used in operations from a $1.8 million increase in prepaid expenses and other current assets, a $4.5 million decrease in accrued expenses and other liabilities, a $1.2 million decrease in deferred revenue and a $1.6 million decrease in accounts payable.

Investing Activities

Net cash used in investing activities decreased $14.1 million to $14.8 million during the year ended December 31, 2017 compared to $28.9 million during the same period in 2016, primarily due to the following activities:

- $9.2 million decrease in cash outflows related to the acquisition of property and equipment, which includes $0.5 million of decreased internally developed software costs;
- $45.5 million decrease in cash outflows related to the purchase of short-term investments; and
- $2.1 million increase in cash inflows related to the proceeds from sale of our cost basis equity investment; partially offset by
- $42.7 million decrease in cash inflows from the sale and maturity of short-term investments.

Net cash used in investing activities increased $3.7 million to $28.9 million during the year ended December 31, 2016 compared to $25.2 million during the same period in 2015, primarily due to the following activities:

- $14.4 million increase in cash outflows related to the acquisition of property and equipment, which includes $5.9 million of increased internally developed software costs; and

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- $6.7 million increase in cash outflows related to the purchase of short-term investments; partially offset by
- $16.1 million increase in cash inflows from the sale and maturity of short-term investments; and
- $1.2 million increase due to a change in restricted cash in 2015 related to the San Francisco office lease.

Financing Activities

Net cash provided by financing activities decreased $0.7 million to $0.2 million during the year ended December 31, 2017 compared to $0.9 million during the same period in 2016, primarily due to the following activities:

- $9.8 million decrease in cash inflows due to proceeds of approximately $10.9 million from the exercise of stock options and the employer purchase plan during 2016 compared to proceeds of approximately $1.1 million from the exercise of stock options and the employer purchase plan during 2017; partially offset by
- $8.9 million increase due to the repurchase of approximately 2.3 million shares of our common stock at a weighted-average price of $3.94 per share during 2016 and no corresponding activity during 2017.

Net cash provided by financing activities decreased $2.4 million to $0.9 million during the year ended December 31, 2016 compared to $3.3 million during the same period in 2015, primarily due to the following activities:

- $7.7 million increase in cash outflows due to the repurchase of approximately 2.3 million shares of our common stock at a weighted-average price of $3.94 per share during 2016 compared to the repurchase of approximately 0.3 million shares of our common stock at a weighted-average price of $4.11 per share during 2015; partially offset by
- $5.2 million increase in cash inflows due to proceeds of approximately $10.9 million from the exercise of stock options and the employer purchase plan during 2016 compared to proceeds of approximately $5.7 million from the exercise of stock options and the employer purchase plan during 2015.

Off-Balance Sheet Arrangements

As of December 31, 2017 and 2016, we did 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 facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations and Commitments

Our contractual obligations and commitments primarily consist of obligations under operating lease agreements for office space and computer equipment, convertible notes, purchase commitments and unrecognized tax benefits during our normal course of business.

As of December 31, 2017, the future minimum payments under our leases and convertible notes were as follows (in thousands):

	Payments Due				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Obligations under capital leases	$129	$73	$56	$—	$ —
Operating lease obligations	41,751 [1]	11,354	25,781	4,616	—
Convertible Notes	150,000	150,000	—	—	—
	$191,880	$161,427	$25,837	$4,616	$ —

[1] In January 2018, the Company entered into a sublease with a third-party for our San Francisco office space for the remaining term of the lease. The future minimum payments through November 30, 2022 under the original lease total approximately $9.3 million and future sublease rental income totals approximately $8.9 million over the same period.

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.

Also excluded from the table above is the income tax liability we recorded for the difference between the benefit recognized and measured and the tax position taken or expected to be taken on our tax returns (“unrecognized tax benefits”). As of December 31, 2017, our liability for unrecognized tax benefits was immaterial. Reasonably reliable estimates of the amounts and periods of related future payments cannot be made at this time.

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Other Purchase Commitments

The Company had $14.1 million in non-cancelable purchase commitments with our suppliers as of December 31, 2017.

Critical Accounting Policies and Estimates

General

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. ("GAAP") requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different or different assumptions were made, it is possible that different accounting policies would have been applied, resulting in different financial results or a different presentation of our financial statements. Our discussion and analysis of financial condition and results of operations is based on our Cons