SERVICESOURCE INTERNATIONAL, INC.
Form 10-K
March 08, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

or

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

Commission file number 001-35108

SERVICESOURCE INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

San Francisco, California
(Address of Principal Executive Offices)   (Zip Code)
Registrant s telephone number, including area code: (415) 901-6030

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

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

None

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price at which the common stock was sold on June 29, 2012, the last business day of the registrant s most recently completed second fiscal quarter, as reported on The NASDAQ Global Market, was $695,671,110. Shares of common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status does not reflect a determination that such persons are affiliates of the registrant for any other purpose.

As of February 28, 2013, there were approximately 76,027,756 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for its 2013 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.

Table of Contents

TABLE OF CONTENTS

i

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS AND INDUSTRY DATA

This Annual Report on Form 10-K contains certain statements that constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward looking statements are based on our management s beliefs and assumptions and on information currently available to our management. The forward looking statements are contained principally in Business, Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations. Forward looking statements include information concerning our possible or assumed future results of operations; estimates of service revenue opportunity under management; changes in market conditions that impact our ability to generate service revenue on our customers behalf; errors in estimates as to the service revenue we can generate for our customers; risks associated with material defects or errors in our software or the effect of data security breaches; our ability to adapt our solution to changes in the market or new competition; our ability to improve our customers renewal rates, margins and profitability; our ability to increase our revenue and contribution margin over time from new and existing customers, including as a result of sales of our next-generation technology platform, Renew OnDemand, on a stand-alone subscription basis; our ability to implement Renew OnDemand; the potential effect of mergers and acquisitions on our customer base; business strategies and new sales initiatives; technology development; protection of our intellectual property; investment and financing plans; liquidity; competitive position; the effects of competition; industry environment; and potential growth opportunities. Forward looking statements include all statements that are not historical facts and can be identified by terms such as anticipates, believes, could, estimates, expects, intends, likely, may, might, plans, potential, predicts, projects, seeks, should, will, would or similar expressions and the negatives of those terms.

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

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

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

As used herein, ServiceSource the Company, we, our, and similar terms include ServiceSource International, Inc. and its subsidiaries, unless the context indicates otherwise.

<div align="center">

PART I

</div>

ITEM 1.   BUSINESS
Overview

ServiceSource is the global leader in recurring revenue management, partnering with technology and technology-enabled companies to optimize maintenance, support and subscription revenue streams, while also improving customer relationships and loyalty. We deliver these results via a cloud application and associated

<div align="center">

1

</div>

Table of Contents

managed services, leveraging benchmarks and best practices derived from our rich database of service and renewal behavior. By integrating software, managed services and data, we provide end-to-end management and optimization of the service-contract renewals process, including data management, quoting, selling and recurring-revenue business intelligence. Our managed services business is built on our pay-for-performance model, whereby customers pay us a commission based on renewal sales that we generate on their behalf, enabling a success-driven, shared-risk partnership with our customers. . We launched Renew OnDemand, our cloud application built to maximize recurring revenue, in September, 2012. As of December 31, 2012, we managed over 145 engagements across more than 70 customers, representing over $8 billion in service revenue opportunity under management. Service revenue opportunity under management (opportunity under management) is a forward-looking metric and is our estimate, as of a given date, of the value of all end customer service contracts that we will have the opportunity to sell on behalf of our customers over the subsequent twelve-month period.

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

Our total revenue was $243.7 million, $205.5 million and $152.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. For summarized financial information by geographic area, see Note 13 of the Notes to Consolidated Financial Statements. For a discussion of the development of our business over the last year, see Management s Discussion and Analysis of Financial Condition and Results of Operations Overview.

We were incorporated in Delaware as a limited liability company in 2002 and converted to a Delaware corporation on March 24, 2011. Additional information about us is available on our website at http://www.servicesource.com. The information on our website is not incorporated herein by reference and is not a part of this Form 10-K. We make available free of charge on our corporate 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 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 Company information. Financial and other material information regarding our business is routinely posted on and accessible at http://ir.servicesource.com/index.cfm/.

Our Solution

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

The components of our solution consist of our Renew OnDemand SaaS application introduced in September 2012 and a suite of managed services. The foundation of our solution is Renew OnDemand, a SaaS-based renewal management system based on our data warehouse of transactional, analytical and industry data that grows with each service renewal transaction and customer. Our suite of cloud applications increase visibility and control of recurring revenue streams and are utilized by customers, their channel partners, end customers and our service sales teams. Our managed services including data, enablement and selling services, in which dedicated service teams have specific expertise in our customers businesses, are deployed under our customers brands and follow a sales process tailored specifically to increase service contract renewals.

2

Key benefits of our solution include:

Financial Benefits

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

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

Operational Benefits

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

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

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

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

Our Strategy

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

Increased use and adoption of our industry-leading SaaS solution. Our Renew OnDemand service revenue management platform serves as a primary component of our solution. Offered on a subscription basis, Renew OnDemand is the core foundation of our cutomer-facing cloud applications

3

in addition to applications we use for our internal operations. Our Renew OnDemand subscription offering is differentiated by our ability to provide a suite of managed services to create renewal ready data to enable high performance sales. As we move from one complete solution to an unbundled offering, we offer a menu of services which customers can attach to their Renew OnDemand subscriptions. These services include data services, enablement services, selling services and support services.

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

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

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

Develop new functionality for Renew OnDemand. We have developed Renew OnDemand to drive increases in efficiency and help to automate tasks associated with recurring revenue management. By continuing to automate processes and innovate on our technology platform, we can lower operating costs, increase the efficiency of our solutions and ultimately enhance our profitability and cash flow.

The Components of Our Solution

Our solution consists of our Renew OnDemand Platform and our managed services.

Renew OnDemand Platform

Since our inception, we have developed and evolved our data capabilities which provide customers with a unified view of their data from diverse sources and leverage a data warehouse of transactional, analytical and industry information to offer a comparative view of our customers results against their industry peers. This information includes:

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

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

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

to increase performance.

4

Table of Contents

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

Renew OnDemand includes key applications that help customers increase recurring revenue and profitability, improve retention and gain unique business insights. These applications are designed to optimize specific elements of the renewals process. Our applications reflect our experience in optimizing recurring revenue and are tested for usability and impact inside our own operations. Our suite of applications includes:

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

Renew Sales. This application module provides the information, best practices and automation needed by a renewal sales team in a simple, easy-to-use application built specifically for maximizing recurring revenue streams. Renew Sales automates time-consuming manual activities while providing all the essential information needed to identify opportunities and close a sale. It includes quoting, forecasting, and workflow tools as well as an analytics dashboard which allows sales people and managers the ability to view overall pipeline, top opportunities and performance trendsprofessionals.

Renew Ops. Renew Ops allows customers to separate selling and administrative activities so their sales people can focus on selling. Sales administration teams have a complete application to manage all operational activities and ensure tasks are completed in an accurate and timely fashion.

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

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

Managed Services

We leverage our knowledge base across critical business processes, including:

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

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

5

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

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

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

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

We have developed a set of best practices that includes role specialization for selling, enablement, and data service. We believe that role specialization is a key component in driving higher recurring revenue rates. We offer a package of managed services for each of these specialized roles, and our customers can chose to purchase ala-carte or as a full pay for performance solution. They include Selling Services, Enablement Services, and Data Services. Our service sales teams are grouped into three primary areas:

Selling Services. We offer customers the ability to buy a high performance sales team to drive recurring revenue as part of a full pay for performance solution. Our team acts as an extension of the customer s sales team, directly contacting end users and channel partners to drive recurring revenue, close contracts, and upsell/cross-sell additional products and services. Our sales teams are trained in our renewals sales methodology, a set of proven best practices developed over twelve years of experience focused exclusively on recurring revenue sales. They undergo extensive training on our processes, applications, and on products, competitive differentiation and value propositions of the products and services they represent. This team is backed up by our sales enablement and data services teams which are provided as separate and complementary offerings.

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

Data Services. Our specially trained data teams pull together and prepare critical renewals data from disparate sources, creating a holistic view of the recurring revenue opportunity. A single renewal often requires up to 100 data elements   10 times more than that of a new product sale, typically from five to seven disparate systems. Our data teams merge and cleanse data, and continuously analyze data quality to track improvement over time.

Our Renew OnDemand platform, as well as our legacy cloud based solution, are hosted at third-party data centers where we employ rigorous technologies, policies and procedures to protect customer data.

Customers

We sell our solutions to technology and technology-enabled healthcare and life sciences companies. As of December 31, 2012, we managed over 145 engagements across more than 70 customers, representing over $8 billion in service revenue opportunity under management.

Table of Contents

Our top ten customers accounted for approximately 50%, 47% and 54% of our revenue in 2012, 2011 and 2010, respectively. One customer represented over 10% of our revenue in 2012, 2011 and 2010 and another customer represented more than 10% of our revenue in 2010.

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); and by industry verticals. We deploy quota-carrying sales and solution design professionals to target specific regions and industry verticals.

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

We participate in industry trade shows and host local and regional events around the world to stimulate industry dialog on renewals and to promote ServiceSource products and services.

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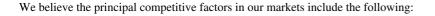
Research and Development

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

Our research and development expenses were $19.2 million in 2012, $13.1 million in 2011 and $7.2 million in 2010. In addition, we capitalize certain expenditures related to the development and enhancement of internal-use software. Capitalized software expenses were $6.2 million in 2012, $6.0 million in 2011, and $4.7 million in 2010.

Competition

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

7

Table of Contents

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

service revenue industry expertise, best practices, and benchmarks;

performance-based pricing of solutions;

ability to increase service revenue and renewal rates;

global capabilities;

completeness of solution;

ability to effectively represent customer brands to end customers and channel partners;

size of upfront investment; and

size and financial stability of operations.

Although we believe we compete or compare favorably with respect to many of these factors and currently have few direct competitors that offer integrated solutions at our scale, we expect competition and competitive pressure, from both new and existing competitors, to increase in the future.

Intellectual Property

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

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

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

Employees

As of December 31, 2012, we had 2,609 employees. None of our employees is represented by a labor union with respect to his or her employment with us.

8

Item 1A.   Risk Factors

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

Risks Related to Our Business and Industry

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

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

- our ability to attract new customers;

- our ability to retain existing customers and/or maintain the size of our engagements with those customers;

- the renewal rates we achieve early in an engagement and the time it takes to achieve the close rates expected for the term of the engagement;

- our ability to effectively sell and implement Renew OnDemand;

- fluctuations in the value of end customer contracts delivered to us;

- fluctuations in close rates;

- changes in our commission rates;

- seasonality;

- loss of customers for any reason including due to acquisition;

- the mix of new customers as compared to existing customers;

- the length of the sales cycle for our solution, and our level of upfront investments prior to the period we begin generating revenue associated with such investments;

- the timing of customer payments and payment defaults by customers;

the amount and timing of operating costs and capital expenditures related to the operations of our business, including the development of new technologies such as Renew OnDemand;

the rate of expansion, productivity and realignment of our direct sales force;

the cost and timing of the introduction of new technologies or new services, including additional investments in Renew OnDemand;

general economic conditions;

technical difficulties or interruptions in delivery of our solution;

changes in foreign currency exchange rates;

changes in tax rates;

regulatory compliance costs, including with respect to data privacy;

costs associated with acquisitions of companies and technologies;

extraordinary expenses such as litigation or other dispute-related settlement payments; and

the impact of new accounting pronouncements.

9

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

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

We recently introduced Renew OnDemand, our next-generation service revenue management platform. This new platform is offered on a subscription basis and will be the core foundation for our customer-facing cloud applications, in addition to applications we use for our internal operations. As of today, Renew OnDemand is largely unproven and we have little experience selling and/or implementing it for customers. We also have limited experience migrating customers from one platform to another. Given the complexity and significance of this transition, including as a result of the amount of customer data within our systems that will need to be accessed and migrated, our customer relationships, our reputation, and our overall business could be severely damaged if our implementations or migrations are poorly executed. In addition, we expect to incur additional expenses as a result of our near term plans to run dual technology platforms for several quarters as we move toward broad adoption of Renew OnDemand while maintaining our existing technology platform. Additionally, if we experience any delay or technical problems as a result of moving to Renew OnDemand, we may incur such expenses for much longer than anticipated. Similarly, even if the transition to Renew OnDemand is properly executed, our business operations and customer relationships will be at high risk if the new platform does not meet our performance expectations, or those of our customers. This could harm our business in numerous ways including, without limitation, a loss of revenue and customer contracts and damage to our reputation.

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

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

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

The market for service revenue management is still relatively undeveloped, has not yet achieved widespread acceptance and may not grow quickly or at all. Our success will depend to a substantial extent on the willingness of companies to engage a third party such as us to manage the sales of their support, maintenance and subscription contracts. Many companies have invested substantial personnel, infrastructure and financial resources in their own internal service revenue organizations 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 customer relations, concerns about end customer reaction, a belief that they can sell their support, maintenance and subscription services more cost-effectively using their internal sales organizations, perceptions about the expenses associated with changing to a new approach and the timing of expenses once they

10

adopt a new approach, general reluctance to adopt any new and different approach to old ways of doing business, or other considerations that may not always be evident. New concerns or considerations may also emerge in the future. Particularly because our market is relatively undeveloped, we must address our potential customers concerns and explain the benefits of our approach in order to convince them to change the way that they manage the sales of support, maintenance and subscription contracts. If companies are not sufficiently convinced that we can address their concerns and that the benefits of our solution are compelling, then the market for our solution may not develop as we anticipate and our business will not grow.

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

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

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

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

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

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

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

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

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

We use various estimates in formulating our business plans and analyzing our potential and historical performance, including our estimate of service revenue opportunity under management. We base our estimates

11

Table of Contents

upon a number of assumptions that are inherently subject to significant business and economic uncertainties and contingencies, many of which are beyond our control. Our estimates therefore may prove inaccurate.

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

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

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

roll-overs of unsold service contract renewals from prior periods to the current period or future periods;

changes in the pricing or terms of service contracts offered by our customers;

increases or decreases in the end customer base of our customers;

the extent to which the renewal rates we achieve on behalf of a customer early in an engagement affect the amount of opportunity that the customer makes available to us later in the engagement;

customer cancellations of their contracts with us due to acquisitions or otherwise; and

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

In addition, opportunity under management reflects our estimate for a