

SERVICESOURCE INTERNATIONAL, INC.

Form 10-Q

August 06, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-35108

SERVICESOURCE INTERNATIONAL, INC.

(Exact name of registrant as specified in our charter)

Delaware

(State or other jurisdiction of incorporation or organization) 81-0578975 (I.R.S. Employer Identification No.)

717 17<sup>th</sup> Street, 5<sup>th</sup> Floor

Denver, Colorado

(Address of principal executive offices)

(720) 889-8500

(Registrant's telephone number, including area code) 80202 (Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) 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.

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

As of July 31, 2018, 91,841,022 shares of common stock of ServiceSource International Inc. were outstanding.

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ServiceSource International, Inc.  
 Consolidated Balance Sheets  
 (in thousands, except per share amounts)  
 (unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 184,320	\$ 51,389
Short-term investments	—	137,181
Accounts receivable, net	50,583	56,516
Prepaid expenses and other	6,081	6,112
Total current assets	240,984	251,198
Property and equipment, net	34,471	34,119
Contract acquisition costs	3,294	—
Deferred income taxes, net of current portion	68	70
Goodwill and intangible assets, net	6,334	6,419
Other assets	4,252	3,566
Total assets	\$ 289,403	\$ 295,372
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,219	\$ 4,574
Accrued taxes	165	651
Accrued compensation and benefits	17,517	19,257
Convertible notes, net	149,091	144,167
Deferred revenue	—	1,282
Accrued expenses	6,433	6,625
Other current liabilities	4,696	2,104
Total current liabilities	180,121	178,660
Other long-term liabilities	5,903	4,603
Total liabilities	186,024	183,263
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 20,000 shares authorized and none issued and outstanding	—	—
Common stock; \$0.0001 par value; 1,000,000 shares authorized; 91,822 shares issued and 91,701 shares outstanding as of June 30, 2018; 90,380 shares issued and 90,259 shares outstanding as of December 31, 2017	8	8
Treasury stock	(441 )	(441 )
Additional paid-in capital	366,125	359,347
Accumulated deficit	(263,037 )	(246,207 )
Accumulated other comprehensive income (loss)	724	(598 )
Total stockholders' equity	103,379	112,109

Total liabilities and stockholders' equity \$289,403 \$ 295,372

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

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ServiceSource International, Inc.  
Consolidated Statements of Operations  
(in thousands, except per share amounts)  
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net revenue	\$61,111	\$58,262	\$119,696	\$114,970
Cost of revenue	42,463	39,517	84,187	80,926
Gross profit	18,648	18,745	35,509	34,044
Operating expenses:				
Sales and marketing	9,252	8,620	18,490	16,960
Research and development	1,780	1,243	3,296	3,485
General and administrative	13,157	13,505	26,046	27,486
Restructuring and other	156	5,715	209	5,715
Total operating expenses	24,345	29,083	48,041	53,646
Loss from operations	(5,697 )	(10,338 )	(12,532 )	(19,602 )
Interest expense and other, net	(2,776 )	(2,646 )	(5,622 )	(4,717 )
Impairment loss on investment securities	—	—	(1,958 )	—
Loss before income taxes	(8,473 )	(12,984 )	(20,112 )	(24,319 )
Provision for income tax expense	(414 )	(117 )	(427 )	(406 )
Net loss	\$(8,887 )	\$(13,101 )	\$(20,539 )	\$(24,725 )
Net loss per common share:				
Basic and diluted	\$(0.10 )	\$(0.15 )	\$(0.23 )	\$(0.28 )
Weighted-average common shares outstanding:				
Basic and diluted	91,323	88,813	90,843	88,600

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

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ServiceSource International, Inc.  
Consolidated Statements of Comprehensive Loss  
(in thousands)  
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	\$(8,887)	\$(13,101)	\$(20,539)	\$(24,725)
Other comprehensive income (loss), net of tax:				
Available for sale securities:				
Unrealized gain (loss) on short-term investments	5	32	(700 )	105
Reclassification adjustment for impairment loss included in net loss	—	—	1,958	—
Net change in available for sale securities	5	32	1,258	105
Foreign currency translation adjustments	(209 )	628	64	499
Other comprehensive income (loss), net of tax	(204 )	660	1,322	604
Comprehensive loss, net of tax	\$(9,091)	\$(12,441)	\$(19,217)	\$(24,121)

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

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ServiceSource International, Inc.  
 Consolidated Statements of Stockholders' Equity  
 (in thousands)

	Common Stock		Treasury Shares/Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2017	90,380	\$ 8	(121 )	\$ (441 )	\$359,347	\$(246,207 )	\$ (598 )	\$112,109
Cumulative effect of ASC 606 - initial adoption (Note 2)	—	—	—	—	—	3,709	—	3,709
Adjusted balance at January 1, 2018	90,380	8	(121 )	(441 )	359,347	(242,498 )	(598 )	115,818
Proceeds from the exercise of stock options and employee stock purchase plan	151	—	—	—	447	—	—	447
Issuance of common stock, restricted stock units	1,291	—	—	—	—	—	—	—
Net cash paid for payroll taxes on restricted stock unit releases	—	—	—	—	(417 )	—	—	(417 )
Stock-based compensation	—	—	—	—	6,748	—	—	6,748
Net loss	—	—	—	—	—	(20,539 )	—	(20,539 )
Other comprehensive income	—	—	—	—	—	—	1,322	1,322
Balance at June 30, 2018	91,822	\$ 8	(121 )	\$ (441 )	\$366,125	\$(263,037 )	\$ 724	\$103,379

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



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ServiceSource International, Inc.  
 Consolidated Statements of Cash Flows  
 (in thousands)  
 (unaudited)

	For the Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net loss	\$(20,539)	\$(24,725)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,744	10,801
Amortization of debt discount and issuance costs		