

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO**

Civil Action No.:

_____, Individually and on Behalf of All Others Similarly Situated,

Plaintiffs,

v.

SERVICESTRONG INTERNATIONAL, INC., CHRISTOPHER M. CARRINGTON, and
ROBERT N. PINKERTON,

Defendants.

CLASS ACTION COMPLAINT AND DEMAND FOR JURY TRIAL

Plaintiff _____ (“Plaintiff”), individually and on behalf of all other persons similarly situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint against Defendants (defined below), alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through Plaintiff’s attorneys, which included, among other things, a review of the defendants’ public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding ServiceSource International, Inc. (“ServiceSource” or the “Company”), analysts’ reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of a class consisting of all persons and entities other than Defendants who purchased or otherwise acquired the publicly traded securities of ServiceSource between February 13, 2018 and October 18, 2018, both dates inclusive (the “Class Period”). Plaintiff seeks to recover compensable damages caused by Defendants’ violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder.

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the Exchange Act (15 U.S.C. §§78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. §240.10b-5).

3. This Court has jurisdiction over the subject matter of this action under 28 U.S.C. §1331 and §27 of the Exchange Act.

4. Venue is proper in this District pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. §1391(b) as the alleged misstatements entered and subsequent damages took place within this District.

5. In connection with the acts, conduct and other wrongs alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mail, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

6. Plaintiff, as set forth in the accompanying certification, incorporated by reference herein, purchased ServiceSource common stock during the Class Period, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

7. Defendant ServiceSource is a Delaware corporation headquartered in Denver, Colorado. It provides recurring revenue management, maintenance, support, and subscription for technology and technology-enabled healthcare and life sciences companies. The company's solutions include outsourced sales operations, customer onboarding, and account-based marketing, among others. The Company's stock trades on the NASDAQ under the ticker symbol "SREV."

8. Defendant Christopher M. Carrington ("Carrington") has served as ServiceSource's Chief Executive Officer ("CEO") since December 1, 2014.

9. Defendant Robert N. Pinkerton ("Pinkerton") was ServiceSource's Chief Financial Officer ("CFO") from April 6, 2015 until his resignation, which is expected to become effective November 9, 2018.

10. Defendants Carrington and Pinkerton are collectively referred to hereinafter as the "Individual Defendants."

11. Each of the Individual Defendants:

- (a) directly participated in the management of the Company;
- (b) was directly involved in the day-to-day operations of the Company at the highest levels;
- (c) was privy to confidential proprietary information concerning the Company and its business and operations;

- (d) was directly or indirectly involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein;
- (e) was directly or indirectly involved in the oversight or implementation of the Company's internal controls;
- (f) was aware of or recklessly disregarded the fact that the false and misleading statements were being issued concerning the Company; and/or
- (g) approved or ratified these statements in violation of the federal securities laws.

12. The Company is liable for the acts of the Individual Defendants and its employees under the doctrine of *respondeat superior* and common law principles of agency because all of the wrongful acts complained of herein were carried out within the scope of their employment.

13. The scienter of the Individual Defendants and other employees and agents of the Company is similarly imputed to the Company under *respondeat superior* and agency principles.

14. The Company and the Individual Defendants are referred to herein, collectively, as the "Defendants."

SUBSTANTIVE ALLEGATIONS

Materially False and Misleading

Statements Issued During the Class Period

15. On February 12, 2018, after market-hours, the Company filed a Form 8-K with the SEC, announcing its fourth quarter and year-end results for fiscal year 2017 (the "2017 8-K").

16. The 2017 8-K provided the Company's revenue guidance for fiscal year 2018, stating in relevant part:

2018 Outlook

For Q1 2018, ServiceSource is providing the following guidance:

- Revenue of \$53.5 million to \$55.5 million
- GAAP loss per share of \$0.13 to \$0.15; non-GAAP loss per share of \$0.01 to \$0.03

- Adjusted EBITDA of negative \$1.50 million to positive \$0.50 million

For fiscal 2018, ServiceSource is providing the following guidance:

- Revenue of \$243.0 million to \$246.0 million
- GAAP gross margin of 34.0% to 35.0%; non-GAAP gross margin of 36.5% to 37.5%
- GAAP operating expenses of \$92.1 million to \$95.1 million; non-GAAP operating expenses of \$78.0 million to \$80.0 million
- GAAP net loss of \$18.8 million to \$21.8 million; non-GAAP net income of \$8.0 million to \$10.0 million
- GAAP loss per share of \$0.20 to \$0.24; non-GAAP loss per share of \$0.09 to \$0.11
- Adjusted EBITDA of \$19.0 million to \$22.0 million

17. On May 3, 2018, the Company filed a Form 8-K with the SEC, announcing its first quarter 2018 financial results (the “1Q 2018 8-K”). The 1Q 2018 8-K stated the Company was raising its revenue guidance for the year, stating in relevant part:

Fiscal 2018 Outlook Update

Giving consideration to the Q1 2018 financial results, Q2 2018 outlook, and expectations for the balance of the year, which includes targeted reinvestment of revenue upside back into growth initiatives, ServiceSource is raising its fiscal 2018 Revenue guidance from \$243.0 million to \$246.0 million to an updated outlook of \$246.0 million to \$249.0 million, while reaffirming the full-year margin and expense guidance metrics provided in its first quarter 2018 earnings release.

18. That same day, the Company announced that its Executive Vice President and Chief Operating Officer, Brian Delaney, was leaving the Company by the end of next month.

19. On July 30, 2018, ServiceSource announced the hiring of Denzil Samuels for the newly-created role of Chief Marketing & Growth Officer. Mr. Samuels was expected to “lead multiple aspects of ServiceSource’s go-to-market and growth acceleration activities, including worldwide alliances, strategic partnerships, global marketing, branding and communications.” ServiceSource reported Mr. Samuels would directly report to ServiceSource’s CEO.

20. On August 6, 2018, the Company filed a Form 8-K with the SEC, announcing its second quarter 2018 financial results (the “2Q 2018 8-K”). The 2Q 2018 8-K provided the

Company's third quarter 2018 revenue guidance and reaffirmed its full-year guidance metrics, stating in relevant part:

Third Quarter 2018 Outlook

For Q3 2018, ServiceSource is providing the following guidance:

- Revenue of \$60.0 million to \$61.0 million.
- GAAP net loss per share of \$0.03 to \$0.04; non-GAAP net income per share of \$0.01 to \$0.02.
- Adjusted EBITDA of \$3.5 million to \$4.5 million.

Fiscal 2018 Outlook

ServiceSource is reaffirming the following full-year guidance metrics that are based on a number of assumptions that management believes are reasonable at the time of this earnings release:

- Revenue of \$246.0 million to \$249.0 million.
- GAAP gross margin of 34.0% to 35.0%; non-GAAP gross margin of 36.5% to 37.5%.
- GAAP operating expenses of 37.9% to 38.7%; non-GAAP operating expenses of 32.0% to 32.5%.
- GAAP net loss of \$18.8 million to \$21.8 million; non-GAAP net income of \$8.0 million to \$10.0 million.
- GAAP net loss per share of \$0.20 to \$0.24; non-GAAP net income per share of \$0.09 to \$0.11.
- Adjusted EBITDA of \$19.0 million to \$22.0 million.

21. The statements contained in ¶¶15-20 were materially false and/or misleading because they misrepresented and failed to disclose the following adverse facts pertaining to the Company's business, operational and financial results, which were known to Defendants or recklessly disregarded by them. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (1) ServiceSource's revenue guidance for fiscal year 2017 and the third quarter 2018 would be unattainable; (2) ServiceSource was experiencing churn and softer end-user demand amidst a string of key Executive departures and new hires; (3) as a result, Defendants' public statements were materially false and misleading at all relevant times.

The Truth Begins to Emerge

22. On October 18, 2018, after the market closed, ServiceSource announced preliminary third quarter 2018 financial results and lowered its fiscal year 2018 revenue guidance, stating in relevant part:

ServiceSource Announces Preliminary Third Quarter 2018 Financial Results and Revised Fiscal 2018 Outlook

Conference Call to Discuss Full Third Quarter 2018 Financial Results and Business Outlook Scheduled on November 7, 2018 at 4:30 p.m. ET

DENVER—Oct. 18, 2018—ServiceSource (NASDAQ: SREV) (the “Company”), a global leader in outsourced inside sales, customer success and recurring revenue growth and retention solutions, today announced preliminary financial results for the quarter ended September 30, 2018 and updates to its fiscal 2018 revenue outlook.

“After a strong start to the year, several factors began to take shape late in the third quarter that have impacted our financial results for Q3 and our outlook for the balance of the year,” said Christopher M. Carrington, CEO of ServiceSource. “While our forecasts for new logo ramps and install base growth were generally in line across our portfolio, as we closed the quarter we experienced unexpected churn and softer end-user demand at several clients. The impact of these factors offsets the positive progression we experienced across the remainder of our business and alters our view for the balance of the year.”

The Company now expects third quarter revenue of approximately \$57 million, compared to its previous guidance of \$60 million to \$61 million. Based on the preliminary third quarter 2018 results and the Company’s current view of the fourth quarter, ServiceSource is also revising its fiscal 2018 revenue outlook and now expects full-year revenue of \$238 million to \$240 million. The Company anticipates a meaningful portion of the revenue delta compared to expectations to flow through the P&L. ServiceSource intends to provide updated full fiscal 2018 guidance when it reports completed financial results for the third quarter 2018 on November 7, 2018, after market close.

Carrington continued, “As some of our clients adapt their go-to-market models and customer engagement strategies, in select cases their businesses are exposed to greater near-term volatility that impacts our forecasting. We are implementing specific actions in response to these challenges and other catalysts give us reason for sustained optimism. In recent months we have attracted three new executive leaders to further advance the Company, we have signed 12 new logos year-to-date, client net promoter scores continue to improve, and we have a strong balance sheet and liquidity profile. We look forward to providing additional details on the actions we

are taking and the progress we are making on our earnings call in November.”

(Emphasis added.)

23. That same day, ServiceSource announced that its CFO, Robert. N. Pinkerton, had notified the Company of his intent to resign on October 15, 2018, which would become effective shortly thereafter on November 9, 2018.

24. On this news, shares of ServiceSource fell \$1.20 per share or nearly 46% to close at \$1.41 per share on October 19, 2018.

PLAINTIFF’S CLASS ACTION ALLEGATIONS

25. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired the publicly traded securities of ServiceSource during the Class Period (the “Class”); and were damaged upon the revelation of the alleged corrective disclosures. Excluded from the Class are Defendants herein, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

26. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, ServiceSource securities were actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by the Company or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

27. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

28. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

29. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- whether the federal securities laws were violated by Defendants' acts as alleged herein;
- whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the financial condition, business, operations, and management of the Company;
- whether Defendants' public statements to the investing public during the Class Period omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;
- whether the Individual Defendants caused the Company to issue false and misleading SEC filings and public statements during the Class Period;
- whether Defendants acted knowingly or recklessly in issuing false and misleading SEC filings and public statements during the Class Period;
- whether the prices of ServiceSource securities during the Class Period were artificially inflated because of the Defendants' conduct complained of herein; and

- whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

30. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

31. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

- Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- the omissions and misrepresentations were material;
- ServiceSource securities are traded in efficient markets;
- the Company's securities were liquid and traded with moderate to heavy volume during the Class Period;
- the Company traded on the NASDAQ, and was covered by multiple analysts;
- the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and
- Plaintiff and members of the Class purchased and/or sold ServiceSource securities between the time the Defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

32. Based upon the foregoing, Plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

33. Alternatively, Plaintiff and the members of the Class are entitled to the presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

COUNT I

Violation of Section 10(b) of The Exchange Act and Rule 10b-5

Against All Defendants

34. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

35. This Count is asserted against the Company and the Individual Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

36. During the Class Period, the Company and the Individual Defendants, individually and in concert, directly or indirectly, disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

37. The Company and the Individual Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

- employed devices, schemes and artifices to defraud;

- made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of ServiceSource securities during the Class Period.

38. The Company and the Individual Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated, or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the securities laws. These defendants by virtue of their receipt of information reflecting the true facts of the Company, their control over, and/or receipt and/or modification of the Company's allegedly materially misleading statements, and/or their associations with the Company which made them privy to confidential proprietary information concerning the Company, participated in the fraudulent scheme alleged herein.

39. Individual Defendants, who are the senior officers and/or directors of the Company, had actual knowledge of the material omissions and/or the falsity of the material statements set forth above, and intended to deceive Plaintiff and the other members of the Class, or, in the alternative, acted with reckless disregard for the truth when they failed to ascertain and disclose the true facts in the statements made by them or other personnel of the Company to members of the investing public, including Plaintiff and the Class.

40. As a result of the foregoing, the market price of ServiceSource securities was artificially inflated during the Class Period. In ignorance of the falsity of the Company's and the Individual Defendants' statements, Plaintiff and the other members of the Class relied on the statements described above and/or the integrity of the market price of ServiceSource securities during the Class Period in purchasing ServiceSource securities at prices that were artificially inflated as a result of the Company's and the Individual Defendants' false and misleading statements.

41. Had Plaintiff and the other members of the Class been aware that the market price of ServiceSource securities had been artificially and falsely inflated by the Company's and the Individual Defendants' misleading statements and by the material adverse information which the Company's and the Individual Defendants did not disclose, they would not have purchased ServiceSource securities at the artificially inflated prices that they did, or at all.

42. As a result of the wrongful conduct alleged herein, Plaintiff and other members of the Class have suffered damages in an amount to be established at trial.

43. By reason of the foregoing, the Company and the Individual Defendants have violated Section 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the Plaintiff and the other members of the Class for substantial damages which they suffered in connection with their purchases of ServiceSource securities during the Class Period.

COUNT II

Violation of Section 20(a) of The Exchange Act

Against The Individual Defendants

44. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

45. During the Class Period, the Individual Defendants participated in the operation and management of the Company, and conducted and participated, directly and indirectly, in the conduct of the Company's business affairs. Because of their senior positions, they knew the adverse non-public information regarding the Company's business practices.

46. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to the Company's financial condition and results of operations, and to correct promptly any public statements issued by the Company which had become materially false or misleading.

47. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings which the Company disseminated in the marketplace during the Class Period. Throughout the Class Period, the Individual Defendants exercised their power and authority to cause the Company to engage in the wrongful acts complained of herein. The Individual Defendants therefore, were "controlling persons" of the Company within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of ServiceSource securities.

48. Each of the Individual Defendants, therefore, acted as a controlling person of the Company. By reason of their senior management positions and/or being directors of the Company, each of the Individual Defendants had the power to direct the actions of, and exercised the same to cause, the Company to engage in the unlawful acts and conduct complained of herein. Each of the Individual Defendants exercised control over the general operations of the Company and possessed the power to control the specific activities which comprise the primary violations about which Plaintiff and the other members of the Class complain.

49. By reason of the above conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act for the violations committed by the Company.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment against Defendants as follows:

A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the Class representative;

B. Requiring Defendants to pay damages sustained by Plaintiff and the Class by reason of the acts and transactions alleged herein;

C. Awarding Plaintiff and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and

D. Awarding such other and further relief as this Court may deem just and proper.

DEMAND FOR TRIAL BY JURY

Plaintiff hereby demands a trial by jury.

Dated: October __, 2018

Respectfully submitted,

THE ROSEN LAW FIRM, P.A.

Phillip Kim
275 Madison Avenue, 34th Floor
New York, NY 10016
Telephone: (212) 686-1060
Fax: (212) 202-3827
Email: pkim@rosenlegal.com

Counsel for Plaintiff