

UNITED STATES DISTRICT COURT  
DISTRICT OF COLORADO

\_\_\_\_\_, Individually and On  
Behalf of All Others Similarly Situated,

Plaintiff,

v.

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

Defendants.

Case No.: DRAFT

**CLASS ACTION COMPLAINT FOR  
VIOLATIONS OF THE FEDERAL  
SECURITIES LAWS**

**JURY TRIAL DEMANDED**

Law Offices of Howard G. Smith

Plaintiff \_\_\_\_\_ (“Plaintiff”), individually and on behalf of all others similarly situated, by and through his attorneys, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff’s information and belief is based upon, among other things, his counsel’s investigation, which includes without limitation: (a) review and analysis of regulatory filings made by ServiceSource International, Inc. (“ServiceSource” or the “Company”) with the United States (“U.S.”) Securities and Exchange Commission (“SEC”); (b) review and analysis of press releases and media reports issued by and disseminated by ServiceSource; and (c) review of other publicly available information concerning ServiceSource.

### **NATURE OF THE ACTION AND OVERVIEW**

1. This is a class action on behalf of persons and entities that purchased or otherwise acquired ServiceSource securities between November 9, 2016 and October 18, 2018, inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

2. ServiceSource purports to be a global leader in outsourced, performance-based customer success and revenue growth solutions. The Company’s solutions aim to help clients strengthen their customer relationships; drive improved customer adoption, expansion and retention; and minimize churn.

3. On February 21, 2017, ServiceSource disclosed, in a press release reporting its fourth quarter and full year 2016 financial results, that churn driven by several clients would materially impact its 2017 growth expectations.

4. On this news, the Company’s share price fell \$1.87 per share, more than 30%, to close at \$4.18 per share on February 22, 2017, on usually heavy trading volume.

5. On October 18, 2018, ServiceSource announced poor preliminary third quarter results and revised its full year guidance. The Company also announced the resignation of its Chief Financial Officer (“CFO”), Robert Pinkerton, and the appointment of its new CFO, Richard Walker.

6. On this news, the Company’s share price fell \$1.20 per share, more than 46%, to

close at \$1.40 per share on October 19, 2018, on unusually heavy trading volume.

7. Throughout the Class Period, Defendants made materially false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that the Company's was experiencing churn driven by its clients; and (2) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

8. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

### **JURISDICTION AND VENUE**

9. The claims asserted herein arise under Sections 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).

10. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

11. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance of the alleged fraud or the effects of the fraud have occurred in this Judicial District. Many of the acts charged herein, including the dissemination of materially false and/or misleading information, occurred in substantial part in this Judicial District. In addition, the Company's principal executive offices are located in this district.

12. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, and the facilities of a national securities exchange.

### **PARTIES**

13. Plaintiff \_\_\_\_\_, as set forth in the accompanying certification,

incorporated by reference herein, purchased ServiceSource securities 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.

14. Defendant ServiceSource is incorporated under the laws of Delaware with its principal executive offices located in Denver, Colorado. ServiceSource's common stock trades on the NASDAQ exchange under the symbol "SREV."

15. Defendant Christopher M. Carrington ("Carrington") was the Chief Executive Officer of the Company at all relevant times.

16. Defendant Robert N. Pinkerton ("Pinkerton") was the Chief Financial Officer of the Company from April 2015 to November 2018.

17. Defendants Carrington and Pinkerton, (collectively the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control the contents of the Company's reports to the SEC, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. The Individual Defendants were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and/or misleading. The Individual Defendants are liable for the false statements pleaded herein.

## **SUBSTANTIVE ALLEGATIONS**

### **Background**

18. ServiceSource purports to be a global leader in outsourced, performance-based customer success and revenue growth solutions. The Company's solutions aim to help clients strengthen their customer relationships; drive improved customer adoption, expansion and retention; and minimize churn.

**Materially False and Misleading  
Statements Issued During the Class Period**

19. The Class Period begins on November 9, 2016. On that day, the Company issued a press release to announce its third quarter 2015 financial results. The Company stated, in relevant part:

"In the third quarter we further accelerated the trajectory of the business, with sustained improvements across all key financial metrics," said Christopher M. Carrington, CEO of ServiceSource. "On a non-GAAP basis, year-over-year revenue growth increased to 5.0%, gross profit margins expanded nearly 600 basis points, and adjusted EBITDA improved materially to \$4.1 million. Thanks to the great work of our teams around the world, our client relationships are stronger than ever. We continue to take on expanded scope across our accounts that makes us an even more mission-critical partner delivering the customer and revenue growth outcomes they need in the emerging outcome economy."

GAAP revenue was \$62.5 million in the third quarter, representing a 5.2% increase from the \$59.4 million delivered in same the period in the prior year. Non-GAAP revenue was \$62.5 million, reflecting a 5.0% increase from the same period in the prior year.

For the third quarter of fiscal year 2016, GAAP net loss in the quarter was \$9.3 million, or \$0.11 per share, compared with GAAP net loss of \$10.9 million, or \$0.13 per share, for the same period last year.

20. The same day, the Company filed a quarterly report on Form 10-Q for the period ended September 30, 2016 that affirmed the financial results reported in the press release identified in ¶19.

21. The above statements identified in ¶¶19-20 were materially false and/or misleading, and failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that the Company's was experiencing churn driven by its clients; and (2) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

22. On February 21, 2017, the Company disclosed, in a press release reporting its fourth quarter and full year 2016 financial results, that churn driven by several clients would materially impact its 2017 growth expectations. The Company stated, in relevant part:

GAAP revenue was \$68.7 million in the fourth quarter, representing a 5.7% increase from the \$65.0 million delivered in the same period in the prior year. Non-GAAP revenue was \$68.7 million, reflecting a 5.6% increase from the same period in the prior year.

For the fourth quarter of fiscal year 2016, GAAP net loss in the quarter was \$8.5 million, or \$0.10 per share, compared with GAAP net loss of \$6.0 million, or \$0.07 per share, for the same period last year. . . .

\* \* \*

With respect to Q1 and full year guidance, while ServiceSource remains confident in its market position and future growth prospects, in the first quarter of 2017 the Company has experienced churn substantially above industry norms driven by several clients. This churn is having an impact on revenue in Q1 and will materially affect 2017 growth expectations.

For the first quarter of fiscal 2017, ServiceSource is providing the following guidance:

- Revenue of \$55 million to \$58 million
- GAAP gross margin of 26% to 29%; non-GAAP gross margin of 31% to 34%
- GAAP operating expenses of approximately \$27 million; non-GAAP operating expenses of approximately \$23 million
- GAAP net loss of \$11.5 million to \$14.5 million; non-GAAP net loss of \$1.5 million to \$3.5 million
- Adjusted EBITDA loss of \$1 million to \$4 million

For the fiscal 2017, ServiceSource is providing the following guidance:

- Revenue of \$248 million to \$258 million
- GAAP gross margin of 32% to 34%; non-GAAP gross margin of 38% to 40%
- GAAP operating expenses of \$109 million to \$117 million; non-GAAP operating expenses of \$92 million to \$98 million
- GAAP net loss of \$35.5 million to \$39.5 million; non-GAAP net income of \$2 million to \$5 million
- Adjusted EBITDA of \$11 million to \$15 million

23. On this news, the Company's share price fell \$1.87 per share, more than 30%, to close at \$4.18 per share on February 22, 2017, on usually heavy trading volume.

24. On March 6, 2017, the Company filed an annual report on Form 10-K for the

period ended December 31, 2016 that affirmed the financial results reported in the press release identified in ¶22.

25. On May 8, 2017, the Company issued a press release to announce its first quarter 2017 financial results. The Company stated, in relevant part:

"In Q1, ServiceSource delivered financial results that were in line with our guidance. As we looked to the balance of the year, we conducted an extensive review of previously called-out Q1 client contractions and our strong new ACV wins in Q4 to understand full year revenue contributions. With these insights, we have made the prudent decision to reduce our full-year revenue expectations and have taken strategic actions to reset our operating model for the long term," said Christopher M. Carrington, CEO of ServiceSource. "Our go-forward model will make us a more nimble organization that is more effective and efficient in how we deliver outcomes for our clients. From a larger and growing pipeline, to bigger new logo wins, to some recent multi-million dollar expansions, we continue to see strong signs that our improved execution is translating into traction in the market and we believe our go-forward model will further accelerate this trend."

GAAP revenue was \$56.7 million in the first quarter, representing a 5.1% decrease from the \$59.8 million delivered in the same period in the prior year.

For the first quarter of fiscal year 2017, GAAP net loss in the quarter was \$11.6 million, or \$0.13 per share, compared with GAAP net loss of \$9.1 million, or \$0.11 per share, for the same period last year.

26. The same day, the Company filed a quarterly report on Form 10-Q for the period ended March 31, 2017 that affirmed the financial results reported in the press release identified in ¶25.

27. On August 7, 2017, the Company issued a press release to announce its second quarter financial results. The Company stated, in relevant part:

"In Q2, ServiceSource delivered a solid quarter with improved execution throughout the business," said Christopher M. Carrington, CEO of ServiceSource. "On the financial front, all key metrics were in or above our guidance. Operationally, our teams around the world performed well, delivering improved and more consistent results across our client base. And on the sales side, we had an impressive quarter, winning four new logos and seeing strong market uptake of our emerging capabilities and solutions around inside sales and customer success."

GAAP revenue was \$58.3 million in the second quarter, representing a 6.0% decrease from the \$62.0 million delivered in the same period in the prior year.

For the second quarter of fiscal year 2017, GAAP net loss in the quarter was \$13.1 million, or \$0.15 per share, compared with GAAP net loss of \$5.2 million, or \$0.06 per share, for the same period last year.

28. The same day, the Company filed a quarterly report on Form 10-Q for the period ended June 30, 2017 that affirmed the financial results reported in the press release identified in ¶27.

29. On November 8, 2017, the Company issued a press release to announce its third quarter 2017 financial results. The Company stated, in relevant part:

"With all key financial metrics beating guidance, ServiceSource delivered a solid quarter in Q3. Our teams executed well on multiple fronts, with another strong quarter of new logo and expansion sales complemented by improved performance and outcomes for our installed base," said Christopher M. Carrington, CEO of ServiceSource. "While Q4 revenue will be muted from our earlier expectations, we continue to see improvements in the underlying long-term fundamentals of the business."

GAAP revenue was \$58.1 million in the third quarter, representing a 7.0% decrease from the \$62.5 million delivered in the same period in the prior year.

For the third quarter of fiscal year 2017, GAAP net loss in the quarter was \$5.2 million, or \$0.06 per share, compared with GAAP net loss of \$9.3 million, or \$0.11 per share, for the same period last year.

30. The same day, the Company filed a quarterly report on Form 10-Q for the period ended September 30, 2017 that affirmed the financial results reported in the press release identified in ¶29.

31. On February 12, 2018, the Company issued a press release to announce its full year 2017 financial results and to provide its outlook for fiscal 2018. The Company, in relevant part, stated:

ServiceSource (NASDAQ: SREV), a global leader in outsourced inside sales, customer success and recurring revenue growth and retention solutions, today announced financial results for the three months and year ended December 31, 2017.

"With a strong finish to 2017, ServiceSource has reached an inflection point and is positioned well to return to growth in 2018," said Christopher M. Carrington, CEO of ServiceSource. "On the financial side, we turned in sequential revenue growth of 13.6% and achieved the highest Adjusted EBITDA in the history of the company. On the sales front, we wrapped up another impressive year by signing seven new logos in the quarter and 15 for the year, while also earning long-term

contract extensions from two of our top-five clients. I continue to be pleased with the positive response we are receiving for our market-leading solution set of inside sales, customer success and revenue retention. Our transformation is moving forward and we continue to gain momentum in the marketplace as the go-to partner to help our clients grow closer to their customers, achieve faster revenue growth and drive higher customer lifetime value."

#### **Key Financial Results - Fourth Quarter 2017**

- GAAP revenue for Q4 2017 was \$66.0 million, compared with \$68.7 million reported for Q4 2016.
- GAAP net income for Q4 2017 was \$0.1 million or \$0.00 per diluted share, compared with GAAP net loss of \$8.5 million or \$0.10 per diluted share reported for Q4 2016.
- Non-GAAP net income for Q4 2017 was \$5.1 million or \$0.06 per diluted share, compared with \$1.7 million or \$0.02 per diluted share reported for Q4 2016.
- Adjusted EBITDA for Q4 2017 was income of \$10.3 million, compared with income of \$5.7 million reported for Q4 2016.

#### **Key Financial Results - Full Year 2017**

- For the year ended December 31, 2017, GAAP revenue was \$239.1 million, compared with \$252.9 million reported for the year ended December 31, 2016.
- GAAP net loss for the year ended December 31, 2017 was \$29.8 million or \$0.33 per diluted share, compared with \$32.1 million or \$0.37 per diluted share reported for the year ended December 31, 2016.
- Non-GAAP net income for the year ended December 31, 2017 was \$7.0 million or \$0.08 per diluted share, compared with \$3.6 million or \$0.04 per diluted share reported for the year ended December 31, 2016.
- Adjusted EBITDA for the year ended December 31, 2017 was income of \$19.9 million, compared with income of \$12.9 million reported for the year ended December 31, 2016.

A reconciliation of GAAP to non-GAAP financial measures is provided following the consolidated financial statement tables contained within this press release.

#### **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 net income per share of \$0.09 to \$0.11
- Adjusted EBITDA of \$19.0 million to \$22.0 million

32. On March 2, 2018, the Company filed an annual report on Form 10-K for the period ended December 31, 2017 that affirmed the financial results reported in the press release identified in ¶31.

33. On May 3, 2018, the Company issued a press release to announce its first quarter 2018 financial results. The Company, in relevant part, stated:

ServiceSource (NASDAQ: SREV), a global leader in outsourced inside sales, customer success and recurring revenue growth and retention solutions, today announced financial results for the three months ended March 31, 2018.

“ServiceSource had a strong start to the year, outperforming our guidance and returning to revenue growth a full quarter ahead of plan,” said Christopher M. Carrington, CEO of ServiceSource. “Beyond our financial performance, we had the strongest Q1 for new sales wins in the history of the Company and made significant progress on our five strategic initiatives. We signed five new logos and had a great quarter locking in multi-year contracts that included material expansions and extensions for several large clients. Given the strong Q1 performance, confidence in the positive momentum of the business, and conviction that ServiceSource has passed its inflection point, we are pleased to raise our revenue outlook for the year.”

#### **Key Financial Results – First Quarter 2018**

- GAAP revenue for Q1 2018 was \$58.6 million, an increase of 3.3% compared with \$56.7 million reported for Q1 2017.
- GAAP net loss for Q1 2018 was \$11.7 million or \$0.13 per diluted share, compared with GAAP net loss of \$11.6 million or \$0.13 per diluted share reported for Q1 2017.
- Non-GAAP net loss for Q1 2018 was \$0.5 million or \$0.01 per diluted share, compared with non-GAAP net loss of \$1.6 million or \$0.02 per diluted share reported for Q1 2017.
- Adjusted EBITDA for Q1 2018 was \$1.6 million, an increase of \$2.5 million compared with negative \$0.9 million reported for Q1 2017.

A reconciliation of GAAP to non-GAAP financial measures is provided following the Condensed Consolidated Financial Statement tables contained within this press release.

### **Key Business Highlights – First Quarter 2018**

- Record Q1 sales results with 23 sales transactions, including 18 expansions in the quarter and five new logo wins.
- More than a third of new sales in high growth solutions of inside sales and customer success.
- Successful renewal and expansion of a top-five software client from an annual contract to a multi-year engagement extending through Q1 2020.
- Added significant growth capacity to existing offshore centers in the Philippines and Bulgaria.
- Opened an office in Okinawa to support growth plans in the Japanese market.

### **Second Quarter 2018 Outlook**

For Q2 2018, ServiceSource is providing the following guidance:

- Revenue of \$58.5 million to \$60.5 million.
- GAAP net loss per share of \$0.11 to \$0.10; non-GAAP net loss per share of \$0.01 to net income per share of \$0.01.
- Adjusted EBITDA of \$1.5 million to \$3.0 million.

### **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.

34. The same day, the Company filed a quarterly report on Form 10-Q for the quarter ended March 31, 2018 that affirmed the financial results reported in the press release identified in ¶33.

35. On August 6, 2018, the Company published a press release announcing the second quarter 2018 financial results. The Company, in relevant part, stated:

“ServiceSource had another solid quarter that exceeded our top and bottom line expectations, as our teams delivered impressive results for our clients and executed well against our strategic priorities,” said Christopher M. Carrington, CEO of ServiceSource. “We turned in revenue growth that showed strong sequential acceleration, secured more great new logos and valuable client expansions and added to our inside sales and customer success portfolio.

Throughout the business, we are seeing continued positive momentum that reaffirms our outlook for the full-year.”

### **Key Financial Results**

- GAAP revenue for Q2 2018 was \$61.1 million, an increase of 4.9%, compared with \$58.3 million reported for Q2 2017.
- GAAP net loss for Q2 2018 was \$8.9 million or \$0.10 per diluted share, favorable compared with GAAP net loss of \$13.1 million or \$0.15 per diluted share reported for Q2 2017.
- Non-GAAP net income for Q2 2018 was \$0.8 million or \$0.01 per diluted share, compared with non-GAAP net income of \$1.5 million or \$0.02 per diluted share reported for Q2 2017.
- Adjusted EBITDA for Q2 2018 was \$3.2 million, compared with \$4.7 million reported for Q2 2017.

A reconciliation of GAAP to non-GAAP financial measures is provided following the Consolidated Financial Statement tables contained within this press release.

### **Key Business Highlights**

- Solid Q2 sales results with 19 transactions, including 16 expansions and three new logo wins.
- Strong uptake for the high growth solutions portfolio, with more than half of new sales transaction value generated from inside sales and customer success.
- Over 60% of revenue from clients with multi-year agreements.
- Nearly 50% year-over-year growth in team size across the Manila, Sofia, Kuala Lumpur and Okinawa locations.
- Key leadership addition with appointment of Denzil Samuels to the role of Chief Marketing and Growth Officer.

### **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.

36. The same day, the Company filed a quarterly report on Form 10-Q for the quarter ended June 30, 2018 that affirmed the financial results reported in the press release identified in ¶35.

37. The above statements identified in ¶¶22-36 were materially false and/or misleading, and failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that the Company's was experiencing churn driven by its clients; and (2) that, as a result of the foregoing, Defendants' positive statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

**Disclosures at the End of the Class Period**

38. On October 18, 2018, the Company published a press release announcing preliminary financial results for third quarter 2018 and revising its fiscal 2018 outlook. The Company, in relevant part, stated:

“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.”

39. The same day, the Company announced Defendant Pinkerton’s resignation and the appointment of Richard Walker to the CFO position.

40. On this news, the Company’s share price fell \$1.20 per share, more than 46%, to close at \$1.40 per share on October 19, 2018, on unusually heavy trading volume.

### **CLASS ACTION ALLEGATIONS**

41. 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 persons and entities that purchased or otherwise acquired ServiceSource securities between November 9, 2016 and October 18, 2018, inclusive, and who were damaged thereby (the “Class”). Excluded from the Class are Defendants, 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.

42. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, ServiceSource’s common shares actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are at least hundreds or thousands of members in the proposed Class. Millions of ServiceSource common stock were traded publicly during the Class Period on the NASDAQ. Record owners and other members of the Class may be identified from records maintained by ServiceSource 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.

43. 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.

44. 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.

45. 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:

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants to the investing public during the Class Period omitted and/or misrepresented material facts about the business, operations, and prospects of ServiceSource; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

46. 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 makes 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.

#### **UNDISCLOSED ADVERSE FACTS**

47. The market for ServiceSource's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and/or misleading statements, and/or failures to disclose, ServiceSource's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired ServiceSource's securities relying upon the integrity of the market price of the Company's securities and market information relating to ServiceSource, and have been damaged thereby.

48. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of ServiceSource's securities, by publicly issuing false and/or misleading statements and/or omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and/or misleading. The statements and omissions were materially false and/or misleading because they failed to disclose material adverse information and/or misrepresented the truth about ServiceSource's business, operations, and prospects as alleged herein.

49. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about ServiceSource's financial well-being and prospects. These material misstatements and/or omissions had the cause and effect of creating in the market an unrealistically positive assessment of the Company and its financial well-being and prospects, thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein when the truth was revealed.

#### **LOSS CAUSATION**

50. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

51. During the Class Period, Plaintiff and the Class purchased ServiceSource's securities at artificially inflated prices and were damaged thereby. The price of the Company's securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

#### **SCIENTER ALLEGATIONS**

52. As alleged herein, Defendants acted with scienter since Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and/or 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 federal securities laws. As set forth elsewhere herein in detail, the Individual Defendants, by virtue of their receipt of information reflecting the true facts regarding ServiceSource, their control over, and/or receipt and/or modification of ServiceSource's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning ServiceSource, participated in the fraudulent scheme alleged herein.

**APPLICABILITY OF PRESUMPTION OF RELIANCE  
(FRAUD-ON-THE-MARKET DOCTRINE)**

53. The market for ServiceSource's securities was open, well-developed and efficient at all relevant times. As a result of the materially false and/or misleading statements and/or failures to disclose, ServiceSource's securities traded at artificially inflated prices during the Class Period. On December 8, 2016, the Company's share price closed at a Class Period high of \$6.15 per share. Plaintiff and other members of the Class purchased or otherwise acquired the Company's securities relying upon the integrity of the market price of ServiceSource's securities and market information relating to ServiceSource, and have been damaged thereby.

54. During the Class Period, the artificial inflation of ServiceSource's shares was caused by the material misrepresentations and/or omissions particularized in this Complaint causing the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false and/or misleading statements about ServiceSource's business, prospects, and operations. These material misstatements and/or omissions created an unrealistically positive assessment of ServiceSource and its business, operations, and prospects, thus causing the price of the Company's securities to be artificially inflated at all relevant times, and when disclosed,

negatively affected the value of the Company shares. Defendants' materially false and/or misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at such artificially inflated prices, and each of them has been damaged as a result.

55. At all relevant times, the market for ServiceSource's securities was an efficient market for the following reasons, among others:

(a) ServiceSource shares met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) As a regulated issuer, ServiceSource filed periodic public reports with the SEC and/or the NASDAQ;

(c) ServiceSource regularly communicated with public investors via established market communication mechanisms, including through regular dissemination of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and/or

(d) ServiceSource was followed by securities analysts employed by brokerage firms who wrote reports about the Company, and these reports were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

56. As a result of the foregoing, the market for ServiceSource's securities promptly digested current information regarding ServiceSource from all publicly available sources and reflected such information in ServiceSource's share price. Under these circumstances, all purchasers of ServiceSource's securities during the Class Period suffered similar injury through their purchase of ServiceSource's securities at artificially inflated prices and a presumption of reliance applies.

57. A Class-wide presumption of reliance is also appropriate in this action under the Supreme Court's holding in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972), because the Class's claims are, in large part, grounded on Defendants' material

misstatements and/or omissions. Because this action involves Defendants' failure to disclose material adverse information regarding the Company's business operations and financial prospects—information that Defendants were obligated to disclose—positive proof of reliance is not a prerequisite to recovery. All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered them important in making investment decisions. Given the importance of the Class Period material misstatements and omissions set forth above, that requirement is satisfied here.

### **NO SAFE HARBOR**

58. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as “forward-looking statements” when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of ServiceSource who knew that the statement was false when made.

### **FIRST CLAIM** **Violation of Section 10(b) of The Exchange Act and** **Rule 10b-5 Promulgated Thereunder** **Against All Defendants**

59. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

60. During the Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing

public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase ServiceSource's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each defendant, took the actions set forth herein.

61. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for ServiceSource's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

62. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about ServiceSource's financial well-being and prospects, as specified herein.

63. Defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of ServiceSource's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made about ServiceSource and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

64. Each of the Individual Defendants' primary liability and controlling person liability arises from the following facts: (i) the Individual Defendants were high-level executives

and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of their responsibilities and activities as a senior officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew and/or recklessly disregarded was materially false and misleading.

65. Defendants had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing ServiceSource's financial well-being and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by Defendants' overstatements and/or misstatements of the Company's business, operations, financial well-being, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and/or omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

66. As a result of the dissemination of the materially false and/or misleading information and/or failure to disclose material facts, as set forth above, the market price of ServiceSource's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of the Company's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by Defendants, but not disclosed in public

statements by Defendants during the Class Period, Plaintiff and the other members of the Class acquired ServiceSource's securities during the Class Period at artificially high prices and were damaged thereby.

67. At the time of said misrepresentations and/or omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that ServiceSource was experiencing, which were not disclosed by Defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their ServiceSource securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

68. By virtue of the foregoing, Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

69. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

**SECOND CLAIM**  
**Violation of Section 20(a) of The Exchange Act**  
**Against the Individual Defendants**

70. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

71. Individual Defendants acted as controlling persons of ServiceSource within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions and their ownership and contractual rights, participation in, and/or awareness of the Company's operations and intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings, and other

statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

72. In particular, Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

73. As set forth above, ServiceSource and Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their position as controlling persons, Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

**PRAYER FOR RELIEF**

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

- (a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;
- (b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- (c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and
- (d) Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

Dated: \_\_\_\_\_, 2018

By: s/ \_\_\_\_\_ Draft

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