Rainmaker Reports Third Quarter 2011 Financial Results

Campbell, Calif., November 14, 2011 – Rainmaker Systems, Inc. (NASDAQ: RMKR), a leading global provider of B2B e-commerce solutions that drive online sales and renewal for products, subscriptions and training for clients and their channel partners, today reported financial results for its third quarter ended September 30, 2011.

Net revenue in the third quarter of 2011 was $9.6 million, a 6% sequential increase from net revenue in the preceding quarter of $9.1 million.

Recent Business Highlights

- Second consecutive quarter of sequential revenue growth
- Announcing two new e-commerce storefront clients
- Renewed multiple existing agreements with key Fortune 50 hardware client
- Appointed Gary Briggs, a current Board member and VP of Marketing at Google, as lead independent director
- Sequentially decreased quarterly net loss by over $600 thousand
- Significantly lowered break-even point through cost reductions of over $3 million annually

Rainmaker CEO and Chairman Michael Silton commented, “We continue to make traction in our e-commerce transformation strategy focused on online sales and renewals and have brought our operating cash flow breakeven down significantly. We are launching storefronts for two new e-commerce clients and we were recently awarded extensions of multiple existing contracts by our key Fortune 50 Hardware client. For the third quarter, we generated continued sequential growth in revenue, improved margins, and reduced operating expenses. We continue to streamline the organization, have taken significant actions to reduce costs and we remain on track to achieve a return to positive cash flow within our current resources. Our sales pipeline continues to grow and we remain focused on taking advantage of the significant market opportunity in B2B e-commerce by signing additional e-commerce clients that will contribute to continued revenue growth and margin improvement in 2012.”

Third quarter 2011 adjusted EBITDA, which excludes non-cash stock compensation expense, was negative $1.3 million, compared to negative $1.8 million in the preceding quarter. See Exhibit A for a reconciliation of GAAP net loss to EBITDA and adjusted EBITDA.

Gross margin in the third quarter of 2011 improved to 34%, compared to 33% in the preceding quarter.

Net loss for the third quarter of 2011 was $2.7 million, or a loss of $0.11 per share, compared to a net loss for the preceding quarter of $3.3 million, or a loss of $0.16 per share, and a net loss in the third quarter of 2010 of $4.0 million, or a loss of $0.20 per share.

Third quarter 2011 non-GAAP net loss, which excludes stock-based compensation expense of $534,000, a $114,000 loss on fair value re-measurement, amortization of intangible assets from acquisitions of $70,000, and a $70,000 favorable change in fair value of warrant liability, was $2.0 million, or a loss of $0.08 per share, compared to a non-GAAP net loss for the preceding quarter of $2.8 million, or a loss of $0.13 per share, which excludes stock-based compensation expense of $433,000, amortization of intangible assets from acquisitions of $93,000, and a $25,000 favorable change in fair value of warrant liability. See Exhibit B for a reconciliation of GAAP net loss to non-GAAP net loss.

Total shares outstanding at September 30, 2011 were approximately 26.8 million common shares, which include approximately 1.8 million unvested restricted shares. In addition, Rainmaker had 890,000 unexercised options outstanding with a weighted average exercise price of approximately $1.77 per share and 1.6 million unexercised warrants outstanding with a weighted average exercise price of approximately $1.38.

Total cash and cash equivalents were $10.5 million at September 30, 2011, compared to $11.8 million at June 30, 2011. Cash usage was $1.3 million in the third quarter of 2011, compared to cash usage of $1.0 million in the second quarter of 2011, excluding the net cash proceeds from the company's equity offering completed in the second quarter.

Financial Guidance

We expect current year net revenue growth of approximately 7% to 9% over 2010 adjusted net revenue with continued growth in 2012.

Conference Call

Rainmaker Systems will host a conference call and webcast today at 1:30 p.m. Pacific Time to discuss its third quarter fiscal 2011 financial results. Those wishing to participate in the live call should dial **(877) 941-9205** using the password "Rainmaker." A replay of the call will be available for one week beginning approximately one hour after the call's conclusion by dialing **(800) 406-7325** and entering **4481596** followed by the "#" key when prompted for a code. To access the live webcast of the call, go to the Investors section of Rainmaker's website at www.rainmakersystems.com. A webcast replay of the conference call will be available for one year on the Conference Calls/Events page of the Investors section at www.rainmakersystems.com.

Discussion of Non-GAAP Financial Measures

Rainmaker Systems' management evaluates and makes operating decisions using various performance measures. In addition to GAAP results, Rainmaker also considers adjusted net revenue, non-GAAP net loss and non-GAAP net loss per share, EBITDA and adjusted EBITDA, which excludes non-cash stock compensation expense from EBITDA. These non-GAAP measures are derived from the revenue generated by Rainmaker's business and the costs directly related to the generation of that revenue, such as costs of services, sales and marketing expenses, technology expenses and general and administrative expenses, that management considers in evaluating the Company's operating performance. These non-GAAP measures exclude certain revenues and expenses that management does not consider to be related to the Company's core operating performance.

EBITDA was negative $1.8 million for the third quarter of 2011. EBITDA consists of net loss excluding interest and other expense, income taxes, depreciation & amortization and certain other non-cash items. Provision for income taxes was $9,000 for the three months ended September 30, 2011. Non-cash charges for depreciation of property and equipment were $705,000 for the three months ended September 30, 2011. Non-cash charges for amortization of acquisition related intangibles were $70,000 for the three months ended September 30, 2011. Interest and other expense was $73,000 for the three months ended September 30, 2011. The loss on fair value re-measurement was $114,000 for the three months ended September 30, 2011 and related to an increase in the accrued liability for the potential earnout from the acquisition of Optima. The change in fair value of warrant liability was $70,000 for the three months ended September 30, 2011 and related to a reduction in the fair value of the common stock warrant liability from the June 2011 equity financing. Adjusted EBITDA was negative $1.3 million for the three months ended September 30, 2011 and adds back to EBITDA non-cash stock based compensation expense of $534,000 incurred in the third quarter of 2011. See Exhibit A for a reconciliation of GAAP net loss to EBITDA and adjusted EBITDA.

Non-GAAP net loss was $2.0 million for the third quarter of 2011 and consists of net loss excluding stock based compensation expense, amortization of purchased intangible assets, loss on fair value re-measurement and change in fair value of warrant liability. Stock based compensation expense was $534,000 for the three months ended September 30, 2011 and represents the current quarter recognition of compensation expense related to stock options and restricted stock awards granted prior to and during the quarter. The loss on fair value re-measurement was $114,000 for the three months ended September 30, 2011 and related to an increase in the accrued liability for the potential earnout from the acquisition of Optima. Amortization of intangible assets was $70,000 for the three months ended September 30, 2011. The change in fair value of warrant liability was $70,000 for the three months ended September 30, 2011 and related to a reduction in the fair value of the common stock warrant liability from the June 2011 equity financing. See Exhibit B for a reconciliation of GAAP net loss to non-GAAP net loss.

Non-GAAP net loss, non-GAAP net loss per share, EBITDA and adjusted EBITDA are supplemental measures of Rainmaker's performance that are not required by, or presented in accordance with GAAP. Moreover, they should not be considered as an alternative to any performance measure derived in accordance with GAAP, or as an alternative to cash flow from operating activities or as a measure of liquidity. Rainmaker presents these non-GAAP measures because management considers them to be important supplemental measures of Rainmaker's operating performance and profitability trends, and because management believes they give investors useful information on period-to-period performance as evaluated by management. Rainmaker believes that the use of these non-GAAP measures provides consistency and comparability with Rainmaker's past financial reports and also facilitates comparisons with other companies in Rainmaker's industry, a number of which use similar non-GAAP financial measures to supplement their GAAP results. Management has used these non-GAAP measures when evaluating operating performance because management believes that the inclusion or exclusion of the items described above provides an additional measure of the Company's core operating results and facilitates comparisons of the Company's core operating performance against prior periods and the Company's business model objectives. Rainmaker has chosen to provide this information to investors to enable them to perform additional analysis of past, present and future operating performance and as a supplemental means to evaluation of the Company's ongoing core operations.

About Rainmaker

Rainmaker Systems, Inc. is a leading global provider of B2B e-commerce solutions that drive online sales and renewal for products, subscriptions and training for our clients and their channel partners. Rainmaker provides these solutions on a consistent, global basis supporting multiple payment methods, currencies and language capabilities. For more information, visit www.rainmakersystems.com or call 800-631-1545.

NOTE: Rainmaker Systems and the Rainmaker logo are registered with the U.S. Patent and Trademark Office. All other service marks or trademarks are the property of their respective owners.

This press release contains forward-looking statements regarding future events. These forward-looking statements are based on information available to Rainmaker as of this date and we assume no obligation to update any such forward-looking statements. These statements are not guarantees of future performance, and actual results could differ materially from current expectations. Among the important factors which could cause actual results to differ materially from those in the forward-looking statements are our client concentration, as we depend on a small number of clients for a significant percentage of our revenue, the possibility of the discontinuation and/or realignment of some client relationships, general market conditions, the current difficult macro-economic environment and its impact on our business, as our clients are reducing their overall marketing spending and our clients' customers are reducing their purchase of services contracts, the high degree of uncertainty and our limited visibility due to economic conditions, our ability to execute our business strategy, our ability to integrate acquisitions without disruption to our business, the effectiveness of our sales team and approach, our ability to target, analyze and forecast the revenue to be derived from a client and the costs associated with providing services to that client, the date during the course of a calendar year that a new client is acquired, the length of the integration cycle for new clients and the timing of revenues and costs associated therewith, our ability to expand our channel hosted contract solution and drive adoption of this solution by resellers, potential competition in the marketplace, the ability to retain and attract employees, market acceptance of our service programs and pricing options, our ability to maintain our existing technology platform and to deploy new technology, our ability to sign new clients and control expenses, and the financial condition of our clients' businesses, our ability to raise additional equity or debt financing, and other factors detailed in the Company's filings with the Securities and Exchange Commission, including our filings on Forms 10-K and 10-Q.

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– Financial tables to follow –

RAINMAKER SYSTEMS, INC.
EXHIBIT B
RECONCILIATION OF GAAP NET LOSS TO NON-GAAP NET LOSS (1)
(In thousands, except per share)
(Unaudited)

	Three months ended	
	September 30, 2011	June 30, 2011
Net loss - GAAP basis	$ (2,686)	$ (3,297)
Stock compensation adjustments (2):		
Cost of services	24	24
Sales and marketing	57	53
Technology and development	51	44
General and administrative	402	312
Amortization of intangible assets (3)	70	93
Loss on fair value re-measurement (4)	114	-
Change in fair value of warrant liability (4)	(70)	(25)
Net loss – Non-GAAP basis	(2,038)	(2,796)
Diluted weighted average shares outstanding	$ 24,900	$ 21,251
Non-GAAP diluted net loss per share	$ (0.08)	$ (0.13)

(1) To supplement our financial results presented on a GAAP basis, we use non-GAAP net loss, which excludes certain business combination accounting entries and expenses related to acquisitions as well as other expenses including stock-based compensation and non-recurring items. As we have completed several acquisitions since 2005, we believe non-GAAP net loss provides useful information to investors regarding the underlying business trends and performance of the Company's ongoing operations and is useful for period over period comparisons of such operations. Non-GAAP net loss is not meant to be considered in isolation or as a substitute for GAAP net loss, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

(2) We estimate the fair value of share based payment awards on the date of grant using an option-pricing model for option grants and our closing share price as reported on NASDAQ for restricted share grants. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods. Stock-based compensation expenses will recur in future periods.

(3) We have excluded the effect of amortization of intangibles from our non-GAAP net loss. We believe this helps investors understand a significant reason why our GAAP operating expenses increase following acquisitions. Investors should note that the use of intangible assets contributed to revenue earned during the period and will contribute to future revenue generation and should also note that these amortization expenses are recurring.

(4) In the quarter ended September 30, 2011, we recorded a loss on fair value re-measurement of $114,000 related to the change in the accrued estimated liability for the potential earnout from the acquisition of Optima. Also in the quarter ended September 30, 2011, we recorded a gain in fair value of the warrant liability of $70,000 related to a reduction in the common stock warrant liability from the June 2011 equity financing.