

RAINMAKER SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 39,507	\$ 21,996
Restricted cash.....	253	315
Accounts receivable, less allowance for doubtful accounts of \$282 at September 30, 2007 and \$233 at December 31, 2006	21,239	13,547
Prepaid expenses and other current assets	2,280	1,172
Total current assets.....	63,279	37,030
Property and equipment, net.....	8,432	4,293
Intangible assets, net	7,962	5,604
Goodwill	14,710	7,006
Other noncurrent assets.....	885	325
Total assets	\$ 95,268	\$ 54,258
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 26,485	\$ 22,522
Accrued compensation and benefits	2,596	1,979
Other accrued liabilities	2,861	2,368
Deferred revenue	3,092	3,457
Current portion of capital lease obligations.....	—	2
Current portion of notes payable	1,458	1,500
Total current liabilities.....	36,492	31,828
Deferred tax liability	98	43
Long term deferred revenue	311	268
Notes payable, less current portion	1,333	417
Total liabilities.....	38,234	32,556
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized, none issued and outstanding.....	—	—
Common stock, \$0.001 par value; 50,000,000 shares authorized, 19,788,323 shares outstanding at September 30, 2007 and 15,088,294 shares outstanding at December 31, 2006	19	15
Additional paid-in capital	115,375	81,265
Accumulated deficit	(58,295)	(59,578)
Accumulated other comprehensive loss	(65)	—
Total stockholders' equity	57,034	21,702
Total liabilities and stockholders' equity.....	\$ 95,268	\$ 54,258

RAINMAKER SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net revenue	\$ 19,081	\$ 12,219	\$ 53,388	\$ 34,556
Cost of services	9,998	6,231	27,666	17,315
Gross margin	9,083	5,988	25,722	17,241
Operating expenses:				
Sales and marketing	1,578	1,034	5,006	2,658
Technology and development	2,856	1,487	8,004	4,116
General and administrative	3,166	1,745	8,026	5,594
Depreciation and amortization	1,614	797	3,951	2,283
Total operating expense	9,214	5,063	24,987	14,651
Operating income	(131)	925	735	2,590
Interest and other income, net	448	56	968	54
Income before income tax expense	317	981	1,703	2,644
Income tax expense	159	112	420	184
Net income	\$ 158	\$ 869	\$ 1,283	\$ 2,460
Basic income per share	\$ 0.01	\$ 0.06	\$ 0.08	\$ 0.19
Diluted income per share	\$ 0.01	\$ 0.06	\$ 0.07	\$ 0.18
Weighted average common share				
Basic	18,849	13,921	16,976	13,049
Diluted	20,592	14,959	18,719	13,851

RAINMAKER SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Operating activities:		
Net income	\$ 1,283	\$ 2,460
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	1,799	1,382
Amortization of intangible assets	2,152	901
Stock-based compensation expense	1,200	52
Provision for allowances for doubtful accounts	259	217
Loss on disposal of fixed assets	-	10
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(6,099)	(734)
Prepaid expenses and other assets	(823)	375
Accounts payable	3,205	1,349
Accrued compensation and benefits	225	272
Other accrued liabilities	(422)	696
Deferred tax liability	354	-
Deferred revenue	(493)	82
Net cash provided by operating activities	<u>2,640</u>	<u>7,062</u>
Investing activities:		
Purchases of property and equipment	(2,770)	(1,073)
Restricted cash, net	62	119
Acquisition of business, net of cash acquired	(9,092)	354
Net cash used in investing activities	<u>(11,800)</u>	<u>(600)</u>
Financing activities:		
Proceeds from issuance of common stock from option exercises	754	768
Proceeds from issuance of common stock from ESPP	46	23
Proceeds from issuance of common stock from warrant exercises	54	189
Net proceeds from issuance of common stock and warrants from private placement	-	5,312
Net proceeds from follow-on offering of common stock	27,243	-
Principal payment of notes payable	(1,125)	(3,125)
Principal payment of financing arrangements	-	(301)
Principal payment of capital lease obligations	(2)	(95)
Net cash provided by financing activities	<u>26,970</u>	<u>2,771</u>
Effect of exchange rate changes on cash:	<u>(299)</u>	<u>-</u>
Net increase in cash and cash equivalents	<u>17,511</u>	<u>9,233</u>
Cash and cash equivalents at beginning of period	<u>21,996</u>	<u>9,746</u>
Cash and cash equivalents at end of period	<u>\$39,507</u>	<u>\$18,979</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 167</u>	<u>\$ 203</u>
Cash paid for taxes	<u>\$ 82</u>	<u>\$ 60</u>

RAINMAKER SYSTEMS, INC.

EXHIBIT A

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME (LOSS) (1)

(In thousands, except per share)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net income – US GAAP basis	\$ 158	\$ 869	\$ 1,283	\$ 2,460
Net revenue adjustment (2)	16	23	149	23
Stock compensation adjustments (3):				
Cost of services	106	3	264	7
Sales and marketing	89	11	239	19
Technology and development	61	2	145	5
General and administrative	231	5	552	21
Amortization of intangible assets (4)	847	366	2,152	901
Tax effect of adjustment (5)	(333)	(47)	(865)	(71)
Net income – Non-GAAP basis	<u>\$ 1,175</u>	<u>\$ 1,232</u>	<u>\$ 3,919</u>	<u>\$ 3,365</u>
Diluted weighted average shares outstanding	20,592	14,959	18,719	13,851
Non-GAAP diluted net income per share	\$ 0.06	\$ 0.08	\$ 0.21	\$ 0.24

- (1) To supplement our financial results presented on a GAAP basis, we use non-GAAP net income, which excludes certain business combination accounting entries and expenses related to acquisitions as well as other expenses including stock-based compensation. As we have completed five acquisitions since January 1, 2005, we believe non-GAAP net income 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 income is not meant to be considered in isolation or as a substitute for GAAP net income, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.
- (2) Business combination accounting rules require us to record the fair value of contracts assumed in connection with acquisitions. The non-GAAP adjustment is intended to reflect the full amount of revenue on assumed contracts that would have otherwise been recorded during the three and nine months ended September 30, 2007 which are related to our acquisitions of ViewCentral on September 15, 2006 and CAS Systems, Inc on January 25, 2007. We believe this adjustment is useful to investors as a measure of the ongoing performance of our business because we have historically experienced high renewal rates on these types of contracts, although we cannot be sure that customers will renew these contracts. These adjustments will continue through our fiscal year ending 2008.
- (3) Stock-based compensation: We adopted FASB Statement No. 123R, Share Based Payments, on January 1, 2006 under the modified prospective method. Statement 123R requires us to record non-cash operating expenses associated with stock option awards at their estimated fair values. Prior to our Statement 123R adoption, we recorded stock-based compensation expenses at intrinsic values. In accordance with the modified prospective method, our financial statements for periods prior to January 1, 2006 have not been restated to reflect, and do not include, the changes in methodology to expense options at fair values in accordance with Statement 123R. Stock-based compensation expenses will recur in future periods.
- (4) We have excluded the effect of amortization of intangibles from our non-GAAP net income. 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.
- (5) The income tax provision was calculated reflecting a normalized effective tax rate of 24.7% and 11.4% for the three months ended September 30, 2007 and 2006, respectively, and 24.7% and 7.3% in the nine months ended September 30, 2007 and 2006, respectively.

RAINMAKER SYSTEMS, INC.

EXHIBIT B

RECONCILIATION OF NET INCOME (LOSS) (U.S. GAAP) TO EBITDA (1)

(In thousands)

(Unaudited)

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net income – US GAAP basis	\$ 158	\$ 869	\$ 1,283	\$ 2,460
Add:				
Provision for income taxes	159	112	420	184
Non-cash charges for depreciation of property and equipment	767	431	1,799	1,382
Non-cash charges for amortization of acquisition related intangibles	847	366	2,152	901
Interest and other income	(448)	(56)	(968)	(54)
	<u>1,325</u>	<u>853</u>	<u>3,403</u>	<u>2,413</u>
EBITDA – Non GAAP basis	<u>\$ 1,483</u>	<u>\$ 1,722</u>	<u>\$ 4,686</u>	<u>\$ 4,873</u>

- (1) To supplement our financial results presented on a GAAP basis, we use EBITDA, which excludes certain cash and non-cash expenses. We believe EBITDA provides useful information to investors regarding the underlying business trends and performance of the Company's ongoing operations and are useful for period over period comparisons of such operations. EBITDA is not meant to be considered in isolation or as a substitute for comparable GAAP measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. We regularly use EBITDA internally to manage our business and make operating decisions.

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