

RAINMAKER SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,996	\$ 9,746
Restricted cash	315	586
Accounts receivable, less allowance for doubtful accounts of \$233 and \$422 at December 31, 2006 and 2005, respectively	13,547	10,374
Prepaid expenses and other current assets	1,172	1,212
Total current assets	37,030	21,918
Property and equipment, net	4,293	4,410
Intangible assets, net	5,604	3,652
Goodwill	7,006	3,921
Other noncurrent assets	325	257
Total assets	\$ 54,258	\$ 34,158
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 22,522	\$ 17,741
Accrued compensation and benefits	1,979	1,427
Other accrued liabilities	2,368	1,732
Deferred revenue	3,457	882
Obligations under financing arrangements	—	301
Current portion of capital lease obligations	2	99
Current portion of notes payable	1,500	3,500
Total current liabilities	31,828	25,682
Deferred tax liability	43	440
Long term deferred revenue	268	—
Notes payable, less current portion	417	1,917
Total liabilities	32,556	28,039
 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, 15,088,294 and 11,306,937 outstanding at December 31, 2006 and 2005, respectively	15	11
Additional paid-in capital	81,265	69,089
Accumulated deficit	(59,578)	(62,981)
Total stockholders' equity	21,702	6,119
Total liabilities and stockholders' equity	\$ 54,258	\$ 34,158

RAINMAKER SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2006	2005	2006	2005
Net revenue	\$ 14,365	\$ 9,063	\$ 48,921	\$ 32,114
Operating expenses:				
Costs of services	7,070	4,860	24,385	18,716
Sales and marketing	1,592	883	4,250	2,838
Technology	1,874	1,204	5,990	4,248
General and administrative	1,889	1,862	7,483	8,134
Depreciation and amortization	1,016	629	3,299	3,114
Total operating expenses	13,441	9,438	45,407	37,050
Operating income (loss)	924	(375)	3,514	(4,936)
Interest and other (expense) income, net	133	65	187	(68)
Income (loss) before income taxes	\$ 1,057	\$ (310)	\$ 3,701	\$ (5,004)
Provision for income taxes	114	-	298	-
Net income (loss)	\$ 943	\$ (310)	\$ 3,403	\$ (5,004)
Basic income (loss) per share	\$ 0.06	\$ (0.03)	\$ 0.25	\$ (0.48)
Diluted income (loss) per share	\$ 0.06	\$ (0.03)	\$ 0.23	\$ (0.48)
Weighted average common share				
Basic	14,671	11,303	13,662	10,464
Diluted	15,990	11,303	14,568	10,464

RAINMAKER SYSTEMS, INC.

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

	Year Ended December 31,	
	2006	2005
Operating activities:		
Net income (loss)	\$ 3,403	\$ (5,004)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	1,831	2,216
Amortization of intangible assets	1,468	898
Stock-based compensation expense	207	-
Provision for allowances for doubtful accounts	267	321
Loss on disposal of fixed assets	10	62
Changes in operating assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(3,184)	(1,322)
Prepaid expenses and other assets	18	(153)
Accounts payable	4,781	2,015
Accrued compensation and benefits	552	299
Other accrued liabilities	637	934
Deferred taxes payable	43	-
Deferred revenue	503	(378)
Net cash provided by operating activities	10,536	(112)
Investing activities:		
Purchases of property and equipment	(1,660)	(3,245)
Restricted cash, net	271	(586)
Acquisition of businesses, net of cash acquired	365	(4,509)
Net cash used in investing activities	(1,024)	(8,340)
Financing activities:		
Proceeds from issuance of common stock from option exercises	1,016	31
Proceeds from issuance of common stock from ESPP	53	46
Proceeds from issuance of common stock upon exercise of warrants	190	-
Net proceeds from issuance of common stock and warrants from private placement	5,312	2,597
Tax benefit of excess stock compensation expense	65	-
Proceeds from notes payable	-	6,500
Principal payment of notes payable	(3,500)	(1,083)
Principal payment of financing arrangements	(301)	(388)
Proceeds under financing arrangements	-	334
Principal payment of capital lease obligations	(97)	(226)
Net cash provided by financing activities	2,738	8,094
Net increase (decrease) in cash and cash equivalents	12,250	(358)
Cash and cash equivalents at beginning of year	9,746	10,104
Cash and cash equivalents at end of year	\$ 21,996	\$ 9,746
Supplement disclosures of cash flow information:		
Cash paid for interest	254	148
Cash paid for taxes	108	-

RAINMAKER SYSTEMS, INC.

EXHIBIT A

RECONCILIATION OF NET INCOME (LOSS) (U.S. GAAP) TO EBITDA (1)
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended			Year Ended December 31,	
	December 31, 2006	September 30, 2006	December 31, 2005	2006	2005
	Net income (loss) – US GAAP basis	\$ 943	\$ 869	\$ (310)	\$ 3,403
Add:					
Provision for income taxes	114	112	-	298	-
Non-cash charges for depreciation of property and equipment	449	431	384	1,831	2,216
Non-cash charges for amortization of acquisition related intangibles	567	366	245	1,468	898
Interest and other expense/ (income)	(133)	(56)	(65)	(187)	68
	997	853	564	3,410	3,182
EBITDA (loss)– Non-GAAP basis	\$ 1,940	\$ 1,722	\$ 254	\$ 6,813	\$ (1,822)

- (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.

RAINMAKER SYSTEMS, INC.

EXHIBIT B

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME (LOSS) (1)
(In thousands, except per share)
(Unaudited)

	Three Months Ended			Year Ended December 31,	
	December 31, 2006	September 30, 2006	December 31, 2005	2006	2005
Net income (loss) – US GAAP basis	\$ 943	\$ 869	\$ (310)	\$ 3,403	\$ (5,004)
Net revenue adjustment (2)	116	2		139	
Stock compensation adjustments: (3)					
Cost of services	3			45	
Sales and marketing	4	1		6	
Technology	1			2	
General and administrative	5			7	
Amortization of intangible assets (4)	567	36	24	1,468	89
Tax effect of adjustments (5)	(91)	(47)		(147)	
Net income (loss) – Non-GAAP basis	\$ 1,691	\$ 1,232	\$ (65)	\$ 5,070	\$ (4,106)
Diluted weighted average shares outstanding	15,990	14,959	11,303	14,568	10,464
Non-GAAP net income (loss) per diluted share	\$ 0.11	\$ 0.08	\$ (0.01)	\$ 0.35	\$ (0.39)

- (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 acquisitions in the past two fiscal years, 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 from September 15, 2006, the date of our acquisition of ViewCentral, to December 31, 2006. 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 prior periods 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. We consider performance without the impact of stock-based compensation charges and believe this information is useful to investors to compare our performance to prior periods before SFAS 123R and to the performance of other companies in our industry who present non-GAAP results adjusted to exclude stock compensation expense.

- (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 an effective tax rate of 10.8% and 11.4% for the three months ended December 31 and September 30, 2006, respectively. For the year ended December 31, 2006, the effective tax rate was 8.1%. There was no income tax expense or benefit for the three months or year ended December 31, 2005. Our effective tax rate includes the benefit of our net operating loss carryforwards.

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