

PROS Holdings, Inc.
Form 10-Q
May 08, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**
SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission File Number: 333-141884

PROS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

76-0168604
(I.R.S. Employer Identification No.)

3100 Main Street, Suite 900, Houston, TX 77002

(713) 335-5151

(Address and telephone number of principal executive offices)

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Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) had been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the Registrant's Common Stock, \$0.01 par value, was 26,199,788 as of April 30, 2008.

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PROS Holdings, Inc.

Form 10-Q for the Quarter Ended March 31, 2008

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Cautionary Statement

Except for the historical financial information contained herein, the matters discussed in this report on Form 10-Q (as well as documents incorporated herein by reference) may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include declarations regarding the intent, belief or current expectations of PROS Holdings, Inc. and its management and may be signified by the words expects, anticipates, target, project, goals, estimates, potential, predicts, may, might, could, intends, believes or similar language. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. Actual results could differ materially from those indicated by such forward-looking statements. Factors that could cause or contribute to such differences include those discussed under Risk Factors and elsewhere in this report. PROS Holdings, Inc. disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I. Financial Information**Item 1. Unaudited Condensed Consolidated Financial Statements****PROS Holdings, Inc.****Condensed Consolidated Balance Sheets****(Dollars in thousands, except share and per share data)****(Unaudited)**

| | March 31, 2008 | December 31, 2007 |
|---|---------------------------|------------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 45,483 | \$ 44,378 |
| Accounts and unbilled receivables, net of allowance of \$1,550 and \$1,550 respectively | 19,803 | 14,896 |
| Prepaid expenses and other current assets | 3,274 | 4,050 |
| Total current assets | 68,560 | 63,324 |
| Property and equipment, net | 3,276 | 3,063 |
| Other long term assets, net | 2,985 | 2,593 |
| Total assets | \$ 74,821 | \$ 68,980 |
| Liabilities and stockholders equity: | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,624 | \$ 1,466 |
| Accrued liabilities | 1,814 | 1,491 |
| Accrued income tax payable | 1,438 | 785 |
| Accrued contract labor | 1,070 | 628 |
| Accrued payroll and other employee benefits | 2,655 | 4,778 |
| Deferred revenue | 20,680 | 20,259 |
| Total current liabilities | 29,281 | 29,407 |
| Long-term deferred revenue | 8,232 | 5,885 |
| Commitments and contingencies (See Note 4) | | |
| Stockholders equity: | | |
| Common stock, \$0.001 par value, 75,000,000 shares authorized, 30,031,838 and 29,926,529 shares issued, respectively, 26,184,798 and 26,079,489 shares outstanding respectively | 30 | 30 |
| Additional paid-in capital | 54,409 | 53,361 |
| Treasury stock, 3,847,040 common shares at cost | (8,938) | (8,938) |
| Accumulated deficit | (8,193) | (10,765) |
| Total stockholders equity | 37,308 | 33,688 |
| Total liabilities and stockholders equity | \$ 74,821 | \$ 68,980 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PROS Holdings, Inc.

Condensed Consolidated Statements of Operations

(Dollars in thousands, except per share data)

(Unaudited)

| | For the Three Months Ended March 31, | |
|---|---|------------|
| | 2008 | 2007 |
| Revenue: | | |
| License and implementation | \$ 12,806 | \$ 9,023 |
| Maintenance and support | 5,114 | 4,429 |
| Total revenue | 17,920 | 13,452 |
| Cost of revenue: | | |
| License and implementation | 3,413 | 3,189 |
| Maintenance and support | 1,180 | 989 |
| Total cost of revenue | 4,593 | 4,178 |
| Gross profit | 13,327 | 9,274 |
| Operating expenses: | | |
| Selling, general and administrative | 5,125 | 3,148 |
| Research and development | 4,672 | 3,741 |
| Income from operations | 3,530 | 2,385 |
| Other income (expense): | | |
| Interest income | 422 | 533 |
| Interest expense | | (17) |
| Income before income tax provision | 3,952 | 2,901 |
| Income tax provision | 1,380 | 606 |
| Net income | 2,572 | 2,295 |
| Accretion of preferred stock | | (82) |
| Net earnings attributable to common stockholders | \$ 2,572 | \$ 2,213 |
| Net earnings attributable to common stockholders per share: | | |
| Basic | \$ 0.10 | \$ 0.11 |
| Diluted | \$ 0.10 | \$ 0.11 |
| Weighted average number of shares: | | |
| Basic | 26,161,436 | 19,764,672 |
| Diluted | 26,676,832 | 20,224,340 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PROS Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(Dollars in thousands)

(Unaudited)

| | For the Three Months Ended March31, | |
|---|--|----------|
| | 2008 | 2007 |
| Operating activities: | | |
| Net income | \$ 2,572 | \$ 2,295 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 319 | 295 |
| Stock based compensation | 907 | 104 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (3,857) | 1,969 |
| Unbilled receivables | (1,050) | (320) |
| Prepaid expenses and other | 383 | (223) |
| Accounts payable, accrued liabilities, accrued contract labor and accrued payroll | (709) | (1,572) |
| Deferred revenue | 2,768 | (139) |
| Net cash provided by operating activities | 1,333 | 2,409 |
| Investing activities: | | |
| Purchases of property and equipment | (369) | (429) |
| Net cash used in investing activities | (369) | (429) |
| Financing activities: | | |
| Proceeds from long-term debt | | 19,685 |
| Dividend on common stock | | (41,328) |
| Redemption of redeemable preferred stock | | (17,365) |
| Exercise of stock options | 141 | 660 |
| Initial public offering costs | | (501) |
| Deferred loan costs | | (102) |
| Net cash provided by (used in) financing activities | 141 | (38,951) |
| Net increase (decrease) in cash and cash equivalents | 1,105 | (36,971) |
| Cash and cash equivalents: | | |
| Beginning of period | 44,378 | 42,540 |
| End of period | \$ 45,483 | \$ 5,569 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PROS Holdings, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(unaudited)

1. Summary of business and basis of presentation

Nature of operations

PROS Holdings, Inc., a Delaware corporation and subsidiaries (the Company), is a provider of pricing and revenue optimization software products, an emerging category of enterprise applications designed to allow companies to improve financial performance by enabling better pricing. Customers use the Company's software products to gain insight into their pricing strategies, identify detrimental pricing activities, optimize their pricing decision-making and improve their business processes and financial performance. The Company's software products incorporate advanced pricing science, which includes operations research, forecasting and statistics. These innovative science-based software products analyze, execute and optimize pricing strategies using data from traditional enterprise applications, often augmenting it with real-time and historical data. The Company also provides a range of services that include analyzing a company's current pricing processes and implementing the Company's software products to improve pricing performance. The Company provides its software products to enterprises across a range of industries, including manufacturing, distribution, services, hotel and cruise, and airline.

Basis of presentation

The Unaudited Condensed Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In management's opinion, the accompanying interim Unaudited Condensed Consolidated Financial Statements include all adjustments consisting of normal recurring accruals necessary for fair presentation. Although we believe the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). The year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements but does not include all disclosures required by GAAP.

Basis of consolidation

The Unaudited Condensed Consolidated Financial Statements include the accounts of PROS Holdings, Inc., and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of estimates

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The Company's management makes estimates and assumptions in the preparation of its Unaudited Condensed Consolidated Financial Statements in conformity with GAAP. These estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Unaudited Condensed Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the percentage-of-completion method of revenue recognition affect the amounts of revenue, expenses, unbilled receivables and deferred revenue. Numerous internal and external factors can affect estimates. Estimates are also used for, but not limited to, receivables, allowance for doubtful accounts, useful lives of assets, depreciation, income taxes and deferred tax asset valuation, valuation of stock options and accrued liabilities.

Dollar amounts

The dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands of dollars, except per unit amounts, or as noted within the context of each footnote disclosure.

Fair Value Measurements

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair value measurements*, for the fair value measurement of financial assets and financial liabilities measured on a recurring basis. There was no impact to the Unaudited Condensed Consolidated Financial Statements as a result of the adoption of SFAS No. 157 as it relates to financial assets and financial liabilities. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date for us to January 1, 2009 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (that is, at least annually). The Company elected to delay the application of SFAS 157 to nonfinancial assets and nonfinancial liabilities, as allowed by FASB Staff Position SFAS 157-2. The Company believes there will be no impact from the adoption of SFAS No. 157 as it relates to nonfinancial assets and nonfinancial liabilities. For additional information on our adoption of SFAS 157, please see Note 5 of the Notes to the Unaudited Condensed Consolidated Financial Statements.

Foreign currency

A small percentage of our contracts are denominated in foreign currencies and therefore a portion of our revenue is subject to foreign currency risks. Gains and losses from foreign currency transactions, such as those resulting from the settlement of receivables, are included in the Unaudited Condensed Consolidated Statements of Operations.

Revenue recognition

The Company's revenue is recognized in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition* and related interpretations. The Company generates revenue from the licensing of the right to use its software products directly to end-users, implementation, training services, sales of post-contract support and maintenance and support.

Revenue from perpetual software licenses and implementation services is recognized as the services are performed using the percentage-of-completion method in accordance with the provisions contained within SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. Our software license arrangements typically include implementation services that are considered essential to the customers' usability of the licensed software products and therefore new software license revenue is generally recognized together with the implementation services based on the percentage-of-completion method. The percentage-of-completion computation is measured by the percentage of man-days incurred during the reporting period as compared to the estimated total man-days necessary for each contract for implementation of the software products. If at the commencement of a contract, the contract fee is not fixed or determinable, revenue is deferred until the contract fee becomes fixed or determinable. If there is significant uncertainty about contract completion or receipt of payment, revenue is deferred until the uncertainty is sufficiently resolved. Under fixed-fee contracts, should a loss be anticipated on a contract, the full amount thereof is recorded when the loss is determined.

The Company also licenses software products for fixed terms. Fixed-term licenses include maintenance during the license period. Because products are not delivered at the inception of the term, revenue and costs for fixed-term licenses are deferred until the delivery of the product and then recognized ratably over the term of the license. Revenue from fixed term licenses, which is included in license and implementation revenue in the Unaudited Condensed Consolidated Statements of Operations, represented approximately 3.6% and 5.5%, of total revenue for the three months ended March 31, 2008 and 2007, respectively.

The Company also licenses software products through subscriptions. Similar to fixed term license arrangements, revenue and costs for subscription licenses are deferred until the delivery of the product and then recognized ratably over the subscription term. Maintenance, which is stated separately in the agreement, is recognized in accordance with the terms of the agreements and is included in maintenance revenue and represented approximately 0.9% and 0.0%, of total revenue for the three months ended March 31, 2008 and 2007, respectively. Revenue from subscriptions, which is included in license and implementation revenue in the Unaudited Condensed Consolidated Statements of Operations, represented approximately 7.9%, and 6.2%, of total revenue for the three months ended March 31, 2008 and 2007, respectively.

Maintenance and support revenue includes post-contract customer support and the right to unspecified software updates and enhancements on a when and if available basis. For arrangements containing both license and implementation and post-contract customer support, maintenance and support revenue is generally attributed to those contracts based on specific

renewal pricing contained therein, which provides vendor-specific fair value of the maintenance and support services, and is recognized ratably over the period in which the services are provided.

Software license and implementation services that have been performed, but for which the Company has not invoiced the customer, are recorded as unbilled receivables, and invoices that have been issued before the software license and implementation services have been performed are recorded as deferred revenue in the accompanying Unaudited Condensed Consolidated Balance Sheets. The Company generally invoices for maintenance and support services on a monthly or quarterly basis through the maintenance and support period.

Included in other assets is approximately \$1.1 million of capitalized implementation costs and included in long-term deferred revenue is approximately \$6.1 million related to a subscription contract from a customer that delivered a notice in April of 2008 of contract termination and filed a breach of contract complaint. Further recognition of revenue from long-term deferred revenue related to this contract is being discontinued at this time due to the uncertainty of its realization. It is expected that the capitalized implementation costs will be covered by amounts ultimately realized from the long term deferred revenue. As of March 31, 2008, there was approximately \$0.2 million in accounts receivable related to this customer.

Income taxes

The Company uses the asset and liability method to account for income taxes, including recognition of deferred tax assets and liabilities for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax basis. The Company reviews its deferred tax assets for recovery. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in the valuation allowance from period to period are included in the Company's tax provision in the period of change.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, (FIN 48). FIN 48 clarifies the accounting for uncertainties in income taxes recognized in an enterprise's financial statements. FIN 48 requires the Company to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority. If a tax position meets the more likely than not recognition criteria, FIN 48 requires the tax position be measured at the largest amount of benefit greater than 50% likely of being realized upon ultimate settlement. We adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not have a material effect on our consolidated financial position, results of operations or cash flows.

Our effective tax rate historically has been lower than the statutory rate of 35% largely due to the application of general business tax credits. In December 2007, Congress recessed without reinstating the Research and Experimentation (R&E) tax credit. Therefore, the Company has not recorded any tax benefits for the three months ended March 31, 2008 from the R&E tax credit. Since its enactment in 1981, Congress has reinstated on a retroactive basis the R&E tax credit several times. However, unless the credit is reinstated, PROS will continue to record Federal income taxes in 2008 at the enacted Federal rate of 35%, net of other tax credits that may benefit the Company, if any.

2. Earnings per share

The following tables set forth the computation of basic and diluted earnings per share:

| | For the Three Months Ended March 31, | |
|--|---|-------------|
| | 2008 | 2007 |
| Numerator: | | |
| Net earnings attributable to common stockholders | \$ 2,572 | \$ 2,213 |
| Denominator: | | |
| Weighted average shares (basic) | 26,161 | 19,765 |
| Dilutive effect of stock options and warrants | 516 | 459 |
| Weighted average shares (diluted) | 26,677 | 20,224 |
| Basic earnings per share | \$ 0.10 | \$ 0.11 |
| Diluted earnings per share | \$ 0.10 | \$ 0.11 |

The Company has excluded 1,360,000 and 860,000 potential common shares from the computation of the three months ended March 31, 2008 and 2007 dilutive earnings per share, respectively, because the effect would have been antidilutive.

3. Stock-based compensation — stock options

The Company maintains incentive stock option plans to provide long-term incentives to its key employees, officers, directors and consultants. In February 2008, the Company increased the number of shares available by 900,000 under an evergreen provision in the Company's 2007 equity incentive plan. As of March 31, 2008, 2,770,000 shares of common stock have been reserved for issuance and 279,000 shares remained available for grant. Options generally have a ten-year term and typically vest over four years. At March 31, 2008, there were an estimated \$12.9 million of total unrecognized compensation costs related to share-based compensation arrangements for options granted. These costs will be recognized over a weighted average period of 3.5 years.

The following is a summary of the Company's option activity for the three months ended March 31, 2008.

| | Number of shares under option | Weighted average exercise price | Aggregate intrinsic value (1) |
|--------------------------------|--|--|--|
| Outstanding, December 31, 2007 | 2,062 | \$ 8.00 | |
| Granted | 735 | 14.93 | |
| Forfeited | (39) | 7.85 | |
| Exercised | (105) | 1.34 | |
| Outstanding, March 31, 2008 | 2,653 | \$ 10.19 | \$ 6,260 |
| <hr/> | | | |
| Exercisable March 31, 2008 | 341 | \$ 5.33 | \$ 2,459 |

(1) The aggregate intrinsic value was calculated based on the positive difference between the estimated fair value of the Company's common stock on March 31, 2008 of \$12.55 and the exercise price of the underlying options.

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The following table summarizes information about stock options outstanding at March 31, 2008.

| Range of exercise prices | Options outstanding | | | Options exercisable | | |
|--------------------------|----------------------------------|--|---------------------------------|----------------------------------|--|---------------------------------|
| | Outstanding as of March 31, 2008 | Weighted average remaining contractual life (in years) | Weighted average exercise price | Exercisable as of March 31, 2008 | Weighted average remaining contractual life (in years) | Weighted average exercise price |
| \$0.00-\$0.25 | 25 | 6.2 | \$ 0.25 | 18 | 6.2 | \$ 0.25 |
| \$0.26-\$1.00 | 147 | 7.6 | \$ 0.60 | 41 | 7.6 | \$ 0.62 |
| \$1.01-\$3.00 | 39 | 2.4 | \$ 2.64 | 39 | 2.4 | \$ 2.64 |
| \$3.01-\$6.00 | 1,063 | 9.0 | \$ 6.00 | 201 | 9.0 | \$ 6.00 |
| \$6.01-\$11.00 | 225 | 9.2 | \$ 11.00 | 38 | 9.2 | \$ 11.00 |
| \$11.01-\$16.73 | 1,154 | 9.8 | \$ 15.59 | 4 | 9.8 | \$ 14.93 |
| | 2,653 | 9.2 | \$ 10.19 | 341 | 9.2 | \$ 5.33 |

4. Commitments and Contingencies

Litigation

In the ordinary course of our business, we regularly become involved in contract and other negotiations and, in more limited circumstances, become involved in legal proceedings, claims and litigation. We periodically assess our liabilities and contingencies in connection with these matters, based upon the latest information available. Should it be probable that we have incurred a loss and the loss, or range of loss, can be reasonably estimated, we will record reserves in the consolidated financial statements. In other instances, because of the uncertainties related to the probable outcome and/or amount or range of loss, we are unable to make a reasonable estimate of a liability, no reserve will be recorded. As additional information becomes available, we adjust our assessment and estimates of such liabilities accordingly. It is possible that the ultimate resolution of our liabilities and contingencies could be at amounts that are different from any recorded reserves and that such differences could be material.

During April 2008, a customer delivered a notice of termination of its contract and filed a breach of contract complaint alleging failure to deliver software the customer purchased. The complaint seeks only monetary damages and does not state a specific amount. The Company believes the customer's termination is wrongful and intends to vigorously defend this matter and to seek payment of remaining amounts owed under the contract. Given the inherent uncertainties in any litigation, the Company is unable to make any predictions as to the ultimate outcome and no provision for loss or other costs has been recorded.

Based on our review of the latest information available, we don't believe any liability, in connection with current contract and other negotiations or pending or threatened legal proceedings, claims and litigation would have a material adverse effect on our financial statements.

5. Fair value measurements

The Company adopted SFAS No. 157 effective January 1, 2008 for financial assets and financial liabilities measured on a recurring basis. SFAS No. 157 applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. There was no impact for adoption of SFAS No. 157 to the Unaudited Condensed Consolidated Financial Statements as it relates to financial assets and financial liabilities. SFAS No. 157 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value

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measurements. The statement requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The Company invests in short-term interest bearing obligations with original maturities less than 90 days, primarily money market funds. We do not enter into investments for trading or speculative purposes. From time to time, the Company can and will invest in marketable securities. Securities for which the Company has the ability and intent to hold to maturity are classified as held to maturity. Securities classified as trading securities or available for sale are recorded at fair value. As of March 31, 2008, there were no investments in marketable securities.

As of March 31, 2008, the Company had \$33.9 million invested in money market fund investments and \$7.9 million invested in commercial paper investments. These investments are required to be measured at fair value on a recurring basis. The Company has determined that the money market fund investments and the commercial paper investments are defined as Level 1 in the fair value hierarchy. As of March 31, 2008, the fair value of the money market investments was an asset of \$33.9 million and the fair value of the commercial paper investments was an asset of \$7.9 million.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date for us to January 1, 2009 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (that is, at least annually). The Company elected to delay the application of SFAS 157 to nonfinancial assets and nonfinancial liabilities, as allowed by FASB Staff Position SFAS 157-2.

Item 2. Management's discussion and analysis of financial condition and results of operations

The terms we, us and our refer to PROS Holdings, Inc. and all of its subsidiaries that are consolidated in conformity with United States generally accepted accounting principles.

Cautionary statement

The following discussion should be read along with the Unaudited Condensed Consolidated Financial Statements and Unaudited Notes to Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q, as well as the Audited Consolidated Financial Statements and Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2007 set forth in our annual report on Form 10-K and filed with the Securities and Exchange Commission (SEC). This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts and projections, and the beliefs and assumptions of our management including, without limitation, our expectations regarding the following: the sales of our software products and services; the impact of our revenue recognition; our belief that our current assets, including cash, cash equivalents and investments, and expected cash flows from operating activities, will be sufficient to fund our operations; our anticipated additions to property, plant and equipment; our belief that our facilities are suitable and adequate to meet our current operating needs; our belief that that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Words such as we expect, anticipate, target, project, believe, goals, estimate, potential, predict, may, might, could, intend, variations of these types of words and similar expressions are intended in these forward-looking statements. Readers are cautioned that these forward-looking statements are predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements.

Overview

We are a leading provider of pricing and revenue optimization software, an emerging category of enterprise applications designed to allow companies to improve financial performance by enabling better pricing. By using our software products, our customers gain insight into their pricing strategies, identify detrimental pricing practices, optimize their pricing decision-making and improve their business processes and financial performance. Our software products incorporate advanced pricing science, which includes operations research, forecasting and statistics. Our innovative science-based software products analyze, execute and optimize pricing strategies using data from traditional enterprise applications, often augmenting it with real-time and historical data. Our software also uses data elements that are determined using advanced pricing science and are stored in our database. We provide professional services to configure our software products to meet the specific pricing needs of each customer.

Many of our customers process large volumes of individually priced business-to-consumer and business-to-business transactions every day. Our high-performance, real-time, dynamic pricing products differ from static retail pricing products by delivering the relevant pricing information at the time the price is quoted, the deal is negotiated and the sale transaction is made. Our software products are also used to provide optimized price lists and goal-driven price guidance. While companies in our target industries differ in the wide range of business-to-business and business-to-customer products and services that they provide, many are similar in their need to optimally and dynamically price each individual transaction.

Critical accounting policies and estimates

We prepare our Unaudited Condensed Consolidated Financial Statements in accordance with accounting principles general accepted in the United States of America (GAAP). We make estimates and assumptions in the preparation of our Unaudited Condensed Consolidated Financial Statements, and our estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Unaudited Condensed Consolidated Financial Statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The complexity and judgment of our estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the percentage-of-completion method of accounting affect the amounts of revenue,

expenses, unbilled receivables and deferred revenue. Estimates are also used for, but not limited to, receivables, allowance for doubtful accounts, useful lives of assets, depreciation, income taxes and deferred tax asset valuation, valuation of stock options and accrued liabilities. Numerous internal and external factors can affect estimates. The critical accounting policies related to the estimates and judgments are discussed in our Annual Report on Form 10-K for the year ended December 31, 2007 under Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no changes to our critical accounting policies during the three months ended March 31, 2008.

Our effective tax rate historically has been lower than the statutory rate of 35% largely due to the application of general business tax credits. In December 2007, Congress recessed without reinstating the Research and Experimentation (R&E) tax credit. Therefore, the Company has not recorded any tax benefits for the three months ended March 31, 2008 from the R&E tax credit. Since its enactment in 1981, Congress has reinstated on a retroactive basis the R&E tax credit several times. However, unless the credit is reinstated, PROS will continue to record Federal income taxes in 2008 at the enacted Federal rate of 35%, net of other tax credits that may benefit the Company, if any. Should the R&E tax credit be reinstated on a retroactive basis for 2008 the estimated effective tax rate is expected to be 28%.

Results of operations

Comparison of three months ended March 31, 2008 with three months ended March 31, 2007

Revenue

| (Dollars in thousands) | For the Three Months Ended March 31, 2008 | | 2007 | | Variance \$ | Variance % |
|----------------------------|---|----------------------------------|-----------|----------------------------------|-------------|------------|
| | Amount | As a percentage of total revenue | Amount | As a percentage of total revenue | | |
| License and implementation | \$ 12,806 | 71% | \$ 9,023 | 67% | \$ 3,783 | 42% |
| Maintenance and support | 5,114 | 29% | 4,429 | 33% | 685 | 15% |
| Total | \$ 17,920 | 100% | \$ 13,452 | 100% | \$ 4,468 | 33% |

License and implementation. License and implementation revenue increased \$3.8 million to \$12.8 million for the three months ended March 31, 2008 from \$9.0 million for the three months ended March 31, 2007, representing a 42% increase. Revenue is recognized over the implementation period on a percentage of completion basis. The increase was principally the result of an increase in both the number of and aggregate contract value associated with ongoing implementations. Subscription license revenue is deferred until the delivery of the product and then recognized ratably over the subscription term. Included in the three months ended March 31, 2008 license and implementation revenue is approximately \$0.6 million of subscription revenue associated with a customer that delivered a notice in April of 2008 of contract termination. We do not expect to recognize any further subscription revenue under this contract (for more details, see Note 4 to our Notes to the Unaudited Condensed Consolidated Financial Statements).

In the three months ended March 31, 2008, approximately 55% of our total revenue was generated outside the United States, compared with 67% for the three months ended March 31, 2007. For the three months ended March 31, 2008 and 2007, approximately 97% and 95%,

respectively, of our airline revenue was generated outside the United States.

Maintenance and support. Maintenance and support revenue increased \$0.7 million to \$5.1 million for the three months ended March 31, 2008 from \$4.4 million for the three months ended March 31, 2007, representing a 15% increase. The increase was the result of the completion of several implementations of our software products, following which we are able to begin recognizing maintenance and support revenue and an increase in the price charged on maintenance renewals.

Cost of revenue and gross profit

| (Dollars in thousands) | For the Three Months Ended March 31, | | | | | |
|--|--------------------------------------|--------|------------------------------------|-----|-------------|------------|
| | 2008 | | 2007 | | Variance \$ | Variance % |
| Amount | As a percentage of related revenue | Amount | As a percentage of related revenue | | | |
| Cost of license and implementation revenue | \$ 3,413 | 27% | \$ 3,189 | 35% | \$ 224 | 7% |
| Cost of maintenance and support revenue | 1,180 | 23% | 989 | 22% | 191 | 19% |
| Total cost of revenue | \$ 4,593 | 26% | \$ 4,178 | 31% | \$ 415 | 10% |
| Gross profit | \$ 13,327 | 74% | \$ 9,274 | 69% | \$ 4,053 | 44% |

Cost of license and implementation. Cost of license and implementation revenue increased \$0.2 million to \$3.4 million for the three months ended March 31, 2008 from \$3.2 million for the three months ended March 31, 2007, representing a 7% increase. The increase in cost of license and implementation revenue is attributable to a net change in the amortization of capitalized costs of \$0.4 million related to subscription contracts, a \$0.2 million increase in stock-based compensation expenses, offset by a \$0.2 million decrease in personnel expenses, a \$0.1 million decrease related to a gain from currency exchange rates and a \$0.1 million decrease in other expenses. License and implementation gross margin increased from 65% to 74% for the three months ended March 31, 2008 primarily due to improvements in our implementation processes, the standardization of our software products and our current mix of business. License and implementation costs may vary from period to period depending on factors, including the amount of implementation services required to deploy our products relative to the total contracted price.

Cost of maintenance and support. Cost of maintenance and support revenue increased \$0.2 million to \$1.2 million for the three months ended March 31, 2008 from \$1.0 million for the three months ended March 31, 2007, representing a 19% increase. The increase in cost of maintenance and support revenue is primarily attributable to an increase in average support personnel. Maintenance and support gross margin decreased from 78% to 77% for the three months ended March 31, 2008 due to an overall increase in resources dedicated to maintenance and support activities to provide increased levels of support to our current and future installed customer base.

Gross profit. Gross profit increased \$4.0 million to \$13.3 million for the three months ended March 31, 2008 from \$9.3 million for the three months ended March 31, 2007, representing a 44% increase. The increase in our overall gross profit was attributable to the improvement in our license and implementation gross margin. License and implementation gross margins may vary from period to period depending on factors, including the amount of implementation services required to deploy our products relative to the total contracted price.

Operating expenses

| (Dollars in thousands) | For the Three Months Ended March 31, | | | | | |
|-------------------------------------|--------------------------------------|--------|----------------------------------|-----|-------------|------------|
| | 2008 | | 2007 | | Variance \$ | Variance % |
| Amount | As a percentage of total revenue | Amount | As a percentage of total revenue | | | |
| Selling, general and administrative | \$ 5,125 | 29% | \$ 3,148 | 23% | \$ 1,977 | 63% |
| Research and development | 4,672 | 26% | 3,741 | 28% | 931 | 25% |
| Total operating expenses | \$ 9,797 | 55% | \$ 6,889 | 51% | \$ 2,908 | 42% |

Selling, general and administrative expenses. Selling, general and administrative expenses increased \$2.0 million to \$5.1 million for the three months ended March 31, 2008 from \$3.1 million for the three months ended March 31, 2007, representing a 63% increase. The increase is

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primarily attributable to a \$0.9 million increase in personnel expenses and travel, \$0.4 million increase in stock based compensation expenses, and \$0.4 million of expenses associated with being a publicly traded company, primarily professional fees.

Research and development expenses. Research and development expenses increased \$0.9 million to \$4.7 million for the three months ended March 31, 2008 from \$3.7 million for the three months ended March 31, 2007, representing a 25% increase. The increase in research and development expenses is attributable to a \$0.6 million increase in personnel expenses resulting from an increase in our product and product management activities, and a \$0.2 million increase in stock based compensation expense.

Other income (expense)

| (Dollars in thousands) | For the Three Months Ended March 31, | | Variance \$ | Variance % |
|-----------------------------|---|--------|-------------|------------|
| | 2008 | 2007 | | |
| Interest income | \$ 422 | \$ 533 | \$ (111) | (21)% |
| Interest expense | | (17) | 17 | |
| Other income (expense), net | \$ 422 | \$ 516 | \$ (94) | (18)% |

Interest income. Interest income decreased \$0.1 million from \$0.5 million for the three months ended March 31, 2007 to \$0.4 million for the three months ended March 31, 2008, representing a 21% decrease. Interest income is generated from the investment of our cash balances in short-term interest bearing obligations with original maturities less than 90 days, primarily money market funds. For the three months ended March 31, 2008, while average cash balances increased over 2007, we experienced a decline in the average interest earned due to declining interest rates.

Income tax provision

| (Dollars in thousands) | For the Three Months Ended March 31, | |
|------------------------|---|--------|
| | 2008 | 2007 |
| Effective tax rate | 35% | 21% |
| Income tax provision | \$ 1,380 | \$ 606 |

Income tax provision. Our income tax provision increased \$0.8 million from \$0.6 million for the three months ended March 31, 2007 to \$1.4 million for the three months ended March 31, 2008. The increase is primarily attributable to an increase of \$1.1 million in pre-tax income and an increase in our effective tax rate as a result of Congress recessing without reinstating the R&E tax credit.

Our effective tax rate historically has been lower than the statutory rate of 35% largely due to the application of general business tax credits. In December 2007, Congress recessed without reinstating the R&E tax credit. Therefore, the Company has not recorded any tax benefits for the three months ended March 31, 2008 from the R&E tax credit. Since its enactment in 1981, Congress has reinstated on a retroactive basis the R&E tax credit several times. However, unless the credit is reinstated, PROS will continue to record Federal income taxes in 2008 at the enacted Federal rate of 35%, net of other tax credits that may benefit the Company, if any. Should the R&E tax credit be reinstated on a retroactive basis for 2008 the estimated effective tax rate is expected to be 28%.

Liquidity and capital resources

At March 31, 2008, we had \$45.5 million of cash and cash equivalents and \$39.3 million in working capital as compared to \$44.4 million of cash and cash equivalents and \$33.9 million in working capital at December 31, 2007. The increase in cash and cash equivalents from the year ended December 31, 2007 to the three months ended March 31, 2008 can be attributed to net cash provided by operating activities of \$1.3 million and net cash provided by financing activities of \$0.1 million, offset by net cash used in investing activities of \$0.4 million. Our principal source of liquidity is our cash flows provided by operating activities. Based on existing cash and cash equivalent balances, and our current

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estimates of revenues and expenses, we believe that the anticipated cash flows provided by operating activities will be adequate to finance our operations and anticipated capital expenditures for the foreseeable future.

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The following table presents key components of our statements of cash flows for the three months ended March 31, 2008 and 2007.

| (Dollars in thousands) | For the Three Months Ended March 31, | |
|---|---|----------|
| | 2008 | 2007 |
| Net cash provided from operating activities | \$ 1,333 | \$ 2,409 |
| Net cash used in investing activities | (369) | (429) |
| Net cash provided by (used in) financing activities | 141 | (38,951) |
| Cash and cash equivalents (end of period) | \$ 45,483 | \$ 5,569 |

Sources of cash from operating activities for the three months ended March 31, 2008 consisted of (a) a \$2.8 million increase in deferred revenue, (b) \$2.6 million of net income, (c) \$1.2 million of non-cash expenses comprised of depreciation and stock based compensation expense related to the issuance of stock options, and (d) a \$0.4 million decrease in prepaid expenses. Uses of cash from operating activities for the three months ended March 31, 2008 consisted of (a) a \$3.9 million increase in net accounts receivable, (b) a \$1.1 million increase in unbilled receivables from software implementations in process, and (b) a \$0.7 million decrease in accounts payable, accrued liabilities, accrued contract labor and accrued payroll.

Net uses of cash from investing activities for the three months ended March 31, 2008 consisted of \$0.4 million of purchases of property and equipment. Net cash provided by financing activities for the three months ended March 31, 2008 consisted of \$0.1 million from the exercise of stock options.

Contractual obligations

There have been no significant changes to our operating leases since those reported in our Annual Report on Form 10-K for the year ended December 31, 2007. As of March 31, 2008, we do not have any capital leases.

Off-balance sheet arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Available information

Our internet website address is <http://www.prospricing.com>. Our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the investor relations page of our internet website free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our internet website and the information contained therein or connected thereto are not intended to be incorporated into this Quarterly Report on

Form 10-Q.

Item 3. Quantitative and qualitative disclosures about market risk

Foreign currency risk

A small percentage of our contracts are denominated in foreign currencies and therefore a portion of our revenue is subject to foreign currency risks. Our cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The effect of an immediate 10% adverse change in exchange rates on foreign denominated receivables as of March 31, 2008 would result in a \$0.1 million loss. To date, we have not entered into any hedging contracts although we may do so in the future. Fluctuations in currency exchange rates could harm our business in the future.

Interest rate sensitivity

We had cash and cash equivalents totaling \$45.5 million at March 31, 2008. These amounts have been invested in short-term interest bearing obligations with original maturities less than 90 days, primarily money market funds. Unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. We believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. If overall interest rates fell by 10% in first quarter of 2008, our interest income would have had a nominal decline assuming consistent investment levels.

Item 4. Controls and procedures

Evaluation of disclosure controls and procedures

Our management evaluated, with the participation of our chief executive officers and our chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our chief executive officer and our chief financial officer have concluded that our disclosure control and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities and Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management.

Changes in internal controls over financial reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the three months ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. Legal proceedings

In the ordinary course of our business, we regularly become involved in contract and other negotiations and, in more limited circumstances, become involved in legal proceedings, claims and litigation. We periodically assess our liabilities and contingencies in connection with these matters, based upon the latest information available. Should it be probable that we have incurred a loss and the loss, or range of loss, can be reasonably estimated, we will record reserves in the consolidated financial statements. In other instances, because of the uncertainties related to the probable outcome and/or amount or range of loss, we are unable to make a reasonable estimate of a liability, no reserve will be recorded. As additional information becomes available, we adjust our assessment and estimates of such liabilities accordingly. It is possible that the ultimate

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resolution of our liabilities and contingencies could be at amounts that are different from any recorded reserves and that such differences could be material.

During April 2008, a customer delivered a notice of termination of its contract and filed a breach of contract complaint alleging failure to deliver software the customer purchased. The complaint seeks only monetary damages and does not state a specific amount. The Company believes the customer's termination is wrongful and intends to vigorously defend this matter and to seek payment of remaining amounts owed under the contract. Given the inherent uncertainties in any litigation, the Company is unable to make any predictions as to the ultimate outcomes and no provision for loss or other costs has been recorded.

Based on our review of the latest information available, we don't believe any liability, in connection with current contract and other negotiations or pending or threatened legal proceedings, claims and litigation would have a material effect on our financial statements.

Item 1A. Risk factors

In general, there have been no significant changes in our risk factors since December 31, 2007. For a detailed discussion of our risk factors, please read Item 1A Risk Factors, in our annual report on Form 10-K for the year ended December 31, 2007.

Item 2. Unregistered sales of equity securities and use of proceeds.

None

Item 3. Defaults upon senior securities.

None

Item 4. Submission of matters to a vote of security holders.

None

Item 5. Other information.

None

Item 6. Exhibits.

Index to Exhibits

- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1.1 of the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).

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- 3.2 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on January 7, 2008).
- 4.1 Specimen certificate for shares of common stock (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.1 1997 Stock Option Plan, as amended to date, and form of stock option agreement (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.2 1999 Equity Incentive Plan, as amended to date, and form of stock option agreement (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.3 2007 Equity Incentive Plan and form of stock option agreement (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.4 Stock Purchase and Stockholders Agreement, dated June 8, 1998, by and among Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and certain stockholders (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.4.1 Amendment to Stock Purchase and Stockholders Agreement dated March 26, 2007 by and among Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and certain stockholders.
- 10.5 Amended and Restated Stockholders' Agreement, dated June 8, 1998, by and among Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and certain stockholders (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).

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- 10.5.1 First Amendment to Amended and Restated Stockholders Agreement, dated April 8, 1999, by and among Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and certain stockholders (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.6 Registration Rights Agreement, dated May 25, 1999, by and between Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and David Samuel Coats (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.7 Registration Rights Agreement, dated April 13, 2000, by and between Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and Robert Salter (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.8 Registration Rights Agreement, dated June 8, 2007, by and among Registrant, Mariette M. Woestemeyer and Ronald F. Woestemeyer (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.9 Redemption Agreement, dated March 26, 2007, by and among Registrant and the holders of the Company's redeemable preferred stock (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.10 Office Lease, dated January 31, 2001, by and between PROS Revenue Management L.P. and Houston Community College System (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.10.1 First Amendment to Office Lease, dated May 31, 2006, by and between PROS Revenue Management L.P. and Houston Community College System (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.11 Employment Agreement, dated September 30, 2005, by and between PROS Revenue Management L.P. and Albert Winemiller (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.11.1 Immediately Exercisable Stock Option Grant, dated April 2, 2007, by and between Registrant and Albert Winemiller (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.11.2 Amendment No.1 to Employment Agreement, dated April 2, 2007, by and between Registrant and Albert Winemiller (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.12 Employment Agreement, dated September 30, 2005, by and between PROS Revenue Management L.P. and Charles Murphy (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.12.1 Immediately Exercisable Incentive Stock Option Grant, dated September 30, 2005, by and between Registrant and Charles Murphy (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.12.2 Immediately Exercisable Stock Option Grant, dated April 2, 2007, by and between Registrant and Charles Murphy (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).

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- 10.12.3 Amendment No.1 to Employment Agreement, dated April 2, 2007, by and between Registrant and Charles Murphy (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.13 Employment Agreement, dated January 15, 1999, by and between PROS Revenue Management L.P. and Ronald Woestemeyer (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.13.1 Amendment No. 1 to Employment Agreement, dated February 2, 2004, by and between PROS Revenue Management L.P. and Ronald Woestemeyer (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.14 Form of Indemnification Agreement entered into among Registrant, its affiliates and its directors and officers (incorporated by reference to the exhibit number 10.16 to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.15 Stockholders Agreement dated August 26, 2005 by and among Ron and Mariette Woestemeyer, Joetta W. Moulden as trustee for the Woestemeyer 1999 Gift Trust, Albert Winemiller, the Albert Winemiller Limited Partnership and Charles H. Murphy (incorporated by reference to the exhibit number 10.16 to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 10.16 Voting Agreement dated March 26, 2007, by and among TA/Advent VIII, L.P., Advent Atlantic and Pacific III, L.P., TA Venture Investors L.P. and TA Executives Fund LLC, JMI Equity Fund, III, L.P. and Ronald and Mariette Woestemeyer (incorporated by reference to the exhibit number 10.18 to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 21.1 List of Subsidiaries (incorporated by reference to the exhibit of the same number to the Registrant's Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
- 31.1# Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 31.2# Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1# Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Filed with this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROS HOLDINGS, INC.

Date May 8, 2008

By: /s/ Albert E. Winemiller
Albert E. Winemiller
President and Chief Executive Officer

Date: May 8, 2008

By: /s/ Charles H. Murphy
Charles H. Murphy
Executive Vice President and Chief Financial Officer