UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(MARK ONE)

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

For the year ended December 31, 2011

OR

¨ **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 001-33554

PROS HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**76-0168604**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
3100 Main Street, Suite 900, Houston, Texas	**77002**
(Address of Principal Executive Offices)	**(Zip code)**

Registrant s telephone number, including area code: (713) 335-5151

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.001 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

Indicate by check mark whether the 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) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T(§323.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large Accelerated Filer	¨	Accelerated Filer	x
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 Act). Yes ¨ No x

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately $379.5 million as of June 30, 2011 based upon the closing price for the registrant s of the common stock on the New York Stock Exchange. This determination of affiliate status was based on publicly filed documents and is not necessarily a conclusive determination for other purposes.

As of February 21, 2012, there were outstanding 27,115,265 shares of common stock, par value $0.001, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement relating to its 2012 Annual Stockholders Meeting, to be filed within 120 days of the end of the fiscal year ended December 31, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

PROS Holdings, Inc.

Annual Report on Form 10-K

Table of Contents

For the Year Ended December 31, 2011

Table of Contents

SIGNIFICANT RELATIONSHIPS REFERENCED IN THIS ANNUAL REPORT

The terms we, us, and our refers to PROS Holdings, Inc., a Delaware corporation, and all of its subsidiaries that are consolidated in conformity with the accounting principles generally accepted in the United States of America, (GAAP).

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain statements that may be deemed to be forward-looking statements that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements in this report not dealing with historical results or current facts are forward-looking and are based on estimates, assumptions and projections. Statements which include the words believes, seeks, expects, may, should, intends, likely, targets, plans, anticipates, estimates, or the negative version of those words and similar stat or forward-looking nature identify forward-looking statements. The forward-looking statements made herein are only made as of the date hereof and we will undertake no obligation to publicly update such forward-looking statements whether as a result of new information, future events or otherwise.

Numerous important factors, risks and uncertainties affect our operating results, including, without limitation, those contained in this Report, and could cause our actual results to differ materially, from the results implied by these or any other forward-looking statements made by us or on our behalf. There can be no assurance that future results will meet expectations. You should pay particular attention to the important risk factors and cautionary statements described in the section of this Report entitled Risk Factors. You should also carefully review the cautionary statements described in the other documents we file from time to time with the Securities and Exchange Commission, (SEC), specifically all Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Information contained on our website is not part of this report.

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Item 1. *Business*

Overview

We are a leading provider of prescriptive pricing and revenue management software, an emerging category of business applications designed to allow companies to substantially improve financial performance, defend and grow market share and improve business agility. By using our software products, our customers can quickly gain insight into their pricing performance for products, customers, and transactions; rapidly identify opportunities for pricing improvements; efficiently automate and streamline complex processes for mass list price updates, deal price recommendations, and deal approvals; and effectively implement and enforce global pricing policies. Our software products incorporate advanced pricing optimization science, which includes operations research, forecasting and statistics. Our innovative software products analyze, execute and optimize pricing strategies using data from traditional enterprise applications, while augmenting it with real-time and historical data. We also provide professional services to integrate and configure our software products to meet the specific needs of each customer. Since inception, we have completed over 500 implementations of our solutions across a range of industries in more than 50 countries.

We were incorporated in Texas in 1985. We reincorporated as a Delaware corporation in 1998. In 2002, we reorganized as a Delaware holding company. Our principal executive offices are located at 3100 Main Street, Suite 900, Houston, Texas 77002. Our telephone number is (713) 335-5151. Our website is www.prospricing.com. Our internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Our industry

Pricing is an important driver of business performance. Companies in the manufacturing, distribution, services, and travel industries often have similar pricing and revenue management needs, including visibility into price performance, anticipating market changes, rapidly updating prices in volatile markets, objective metrics to guide sales decisions, and optimizing perishable inventory. We believe market forces are accelerating the need for better pricing. These forces include increasingly complex markets and business models, uncertain demand for products and services, volatile costs, greater sophistication of purchasers, proliferation of competitive alternatives, and exponentially increasing enterprise and market data. Compounding the need for better pricing is that businesses often have limited or no visibility into transactional profitability at the time of setting prices because of the complexity of discounts, promotions, rebates and allowances associated with the transaction. Similarly, companies commonly lack uniform pricing and goals across their enterprise, have no complete, relevant and timely data, and instead rely on an unscientific, ad-hoc approach to pricing. We believe the market for pricing and revenue management software is a large and emerging opportunity that spans most major industries.

Our solutions

We believe our solutions transform our customer s pricing and revenue management practices into a strategic advantage. By using our solutions our customers gain greater confidence and agility in their pricing strategies through data-driven insights into transaction profitability, demand forecasting, optimal pricing for each product and deal, and pricing process streamlining with enhanced controls and compliance. The pricing and revenue optimization science embedded in our solutions allows our customers to analyze, optimize and execute optimal pricing strategies by providing inventory, pricing and revenue projections to help enhance future performance.

Our high performance software architecture supports real-time, high volume transaction processing and allows us to handle the processing and database requirements of the most sophisticated and largest customers, including customers with sub-second electronic response requirements. We provide standardized configurations of our software based on the industries we serve and offer professional services to configure these solutions to meet the specific needs of each customer. Our software solutions have both a single code base and a single integrated database and currently operate in some of the largest, most complex and demanding information technology environments.

Our software solutions help businesses improve their financial performance through:

Better decisions: With enhanced insights into historic transaction performance as well as predictive price modeling and forecasting, our software solutions help our customers make more informed decisions about how to sell, market and price their products and services, resulting in greater confidence in go-to-market strategies.

Better prices: By applying a science-based approach to pricing, our solutions help our customers more accurately and confidently set prices that support their customer, product and business strategies. Our software solutions include a variety of advanced pricing analytics, forecasting and optimization engines that incorporate our pricing expertise and support both published pricing as well as real-time, high volume, individually priced transactions.

Better processes: Our software solutions enhance business agility by enabling our customers to improve and automate their pricing processes, including analyzing price performance, setting and publishing mass list price updates, communicating price changes across global organizations, automating deal quoting processes and enforcing pricing controls. Better pricing processes can result in stronger controls and an improved customer experience.

We license our solutions under both perpetual and term license models for customers. For perpetual licenses, our customers receive the perpetual right to use our software. Our customers generally purchase the related maintenance and support services on an annual basis. Our license agreements provide customers with the right to use licensed solutions within a specific license scope, including but not limited to revenue, geography, and business unit.

In 2011, we introduced certain software-as-a-service (SaaS) or cloud market solutions. These offerings provide customers with solutions through a hosted service rather than a traditional license and allow our customers to reduce infrastructure and installation requirements, leading to faster deployment and lower total cost of ownership. These offerings are sold via multi-year subscriptions with pricing generally based on the number of users.

Our license and implementation revenue comprised 65%, 59% and 64% of our total revenue in fiscal 2011, 2010 and 2009, respectively. Through fiscal 2011, SaaS revenue has not been significant to our consolidated financial results. For a discussion of our revenue recognition policies and the impact of our licensing models on revenue, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Note 1 of the Notes to the Consolidated Financial Statements.

Table of Contents

PROS Pricing Solution Suite

PROS Pricing Solution Suite is a set of integrated software solutions that enable enterprises in the manufacturing, distribution and services industries to apply pricing and revenue management science to analyze, optimize and execute optimal pricing strategies. Our solution architecture allows our customers to deploy all of these solutions either simultaneously or sequentially.

These solutions provide businesses with tools and processes to:

- Make more informed decisions through system generated specific price targets, price floors and profitability guidelines.
- Establish pricing strategies that optimize product and customer price points based on revenue, margin and/or market share goals.
- Evaluate transaction scenarios and allow comparisons to previous transactions and peer group benchmarks based on relevant metrics, including willingness to pay.
- Identify and understand real-time pricing trends to allow timely corrective action.
- Analyze key margin drivers, including price, cost, volume, product mix and exchange rates.
- Benchmark pricing performance and market conditions against performance goals.
- Create and manage pricing and discounting policies aligned with corporate strategies.
- Automate pricing approval workflow to ensure consistency in the pricing process and maintain transaction histories.

PROS Pricing Solution Suite consists of three solutions, Scientific Analytics , Price Optimizer , and Deal Optimizer :

- **Scientific Analytics** helps companies gain insight into their pricing performance, allowing them to take action to correct poor performance and take advantage of time-sensitive opportunities.
- **Price Optimizer** streamlines pricing processes and creates pricing policy controls to support corporate business goals. It allows organizations to create multiple segment-specific rules-based price lists and quickly modify prices or guidelines in response to market volatility or changes in business strategy.
- **Deal Optimizer** recommends optimized prices and products on a transaction specific basis for sales representatives in negotiated transaction environments, tailored to the unique characteristics of the customer. Deal optimizer provides insight into customer buying behavior, enabling sales reps to better match offers to each customer s unique perception of value.

PROS Revenue Management Solution Suite

PROS Revenue Management Solution Suite is a set of integrated software solutions that enable enterprises in the travel industry, including the airline, hotel and cruise industries, to drive revenue and profit-maximizing business strategies through the application of advanced forecasting and optimization technologies and decision-support capabilities. These solutions provide businesses the tools and processes to:

- Maximize revenue and profitability.
- Quickly adapt to changing market conditions and business objectives.
- Differentiate customers by market and sales channel.
- Effectively conduct real-time negotiations.

Table of Contents

- Monitor pricing and revenue management performance.
- Increase customer loyalty by providing the right products and services to the right customer at the right time.

The PROS Revenue Management Solution Suite includes the following solutions:

- **PROS Analytics for Airlines** identifies hidden revenue leaks and opportunities.
- **PROS Revenue Management** manages passenger demand with either leg- or segment-based revenue management.
- **PROS O&D** manages passenger demand with passenger name record, or PNR, based revenue management.
- **PROS Real-Time Dynamic Pricing** determines optimal prices based on real-time evaluations.
- **PROS Group Revenue Management** manages revenues related to group requests and bookings.
- **PROS Network Revenue Planning** delivers network-oriented fare class segmentation.
- **PROS Cruise Pricing and Revenue Management** allows customers to understand their consumers price sensitivities, track competitor behavior, and quickly set prices and availability.
- **PROS Hotel Revenue Management** helps customers simplify, accelerate, and improve pricing decision making.

Technology

Software architecture. Our software architecture is based on open standards such as Java, Flex, XML and HTTP. We have created a component-based design in a service-oriented architecture to develop a flexible, layered framework. This framework supports parallel and independent evolution and innovation in technologies and product features.

Service-Oriented Architecture. A comprehensive web services interface is at the heart of our architecture. This enables extension onto other platforms and the creation of rich integrated solutions. This is also the foundation of our PROS Everywhere initiative to bring our solutions to the software (Microsoft Excel and Microsoft SharePoint) and hardware (Apple Inc. s iPhone® and iPad®, RIM s BlackBerry®, and Android phones) tools that many businesses are already using.

Embedded Science. Our robust science-based capabilities, such as forecasting, optimization, segmentation and price guidance, allow us to leverage the deep expertise and research of our science and research group in our solutions. These capabilities are industry-independent and are validated using our proprietary verification and testing processes.

Configuration vs. Custom Coding. Our solutions can be configured to meet each customer s business needs through configuration rather than custom code. The configuration capabilities define both a business layer (including definition of user workflows, executive dashboards, analytics views, approval processes and alerts), as well as a data layer that permits configuration of data structures, including hierarchical dimensions, pricing levels and measures. Much of the business layer configuration can be performed by a business user without information technology personnel involvement. The data layer requires professional services to configure and implement our software solutions. We preserve the configurations as part of an upgrade, allowing our customers to more easily upgrade to new versions of our solutions, when available.

Scalability. The scalability of our technology has been tested at leading third-party vendor benchmark performance centers. These tests have validated the ability of our software solutions to scale to large data volumes and high user request rates.

Data integration. The data needed to execute pricing and revenue management functionality typically resides in a company s enterprise resource planning (ERP), supply chain management (SCM), customer relationship management (CRM), reservations and inventory systems, and/or industry-specific

Table of Contents

transaction systems. In addition, productivity tools such as spreadsheets and external market data sources are common. Our data integration capabilities utilize web services and file-based data interfacing to import data from disparate sources into a single cohesive database.

User interface. Our technology provides a rich, browser-based interface that supports both local and remote users. This interface supports a wide variety of interactive charts and other data views, and provides a comprehensive data security model based on user role and scope of responsibility. We also offer natively-developed capabilities for multiple mobile devices, CRM systems and Microsoft-based client applications.

Platform support. Our software solutions run on most standard information technology platforms including Microsoft SQL Server and Oracle databases, 32-bit and 64-bit processors from HP, SUN, Intel, AMD and IBM, and the HP-UX, Solaris, Linux, Windows and AIX operating systems.

Services

Professional services

Our software solution implementations are different from most information technology projects. We have a standardized and tested implementation process developed through years of experience implementing our software solutions in global enterprises across multiple industries.

Our professional services team works closely with our customers to develop an integrated project plan to help them accelerate time to value. Pursuant to these plans, we provide technical deployment, integration, deployment support, and configuration services related to our solutions. In addition, we also assist customers in loading and validating pricing data and supporting organizational activities to assist our customers transition from awareness of their pricing challenges to adoption of pricing excellence best practices.

Our strategic consulting services include discovery and insight consulting to analyze a customer s current pricing processes and data, identifying and prioritizing specific high-value pricing opportunities, recommending pricing best practices and strategic pricing services.

Maintenance and customer support

We offer ongoing support and maintenance services for our software solutions. Maintenance and support enrollment entitles a customer to solution support through a web-based interface which allows the customer to submit and track issues, access our online knowledge base and receive unspecified upgrades, maintenance releases and bug fixes during the term of the support period on a when-and-if-available basis. In addition, our customer support personnel responds to customer issues promptly using an escalation process that prioritizes reported issues based on a defined set of severity levels, as well as assist customers in deploying our standard releases for each software solution by providing release web seminars and documentation. Maintenance and customer support service fees are an important source of recurring revenue and we invest significant resources in providing maintenance and support services. Revenue from maintenance and support services comprised 35%, 41% and 36% of our total revenue in 2011, 2010 and 2009, respectively.

Customers

We sell our software solutions to customers in the manufacturing, distribution, services, and travel industries. Our customers are generally large global enterprises, although we have customers that are smaller in scope of operations. In 2011, 2010 and 2009, we had no single customer that accounted for 10% or more of revenue.

Backlog

Our backlog is derived from agreements that we believe to be firm commitments to provide software solutions and related services in the future. Our backlog can vary significantly from period to period depending on a number of factors including the timing of our sales and the nature of the agreements we enter into with our customers. We generally do not recognize license and implementation revenue upon signing a new contract with a customer; and we do not seek to accelerate our sales processes around any reporting period.

Table of Contents

Our backlog is also significantly based on estimates and judgments that we make regarding total contract values. For example, we may have agreements that include non-standard provisions which require us to exercise judgment over the extent to which to include these agreements in our backlog. However, based on our history of successfully implementing our software solutions we generally include the full estimated value of these agreements in backlog.

We make significant estimates and judgments regarding maintenance renewals and changes to existing maintenance agreements. Backlog includes committed maintenance amounts and amounts payable to us under maintenance agreements that we reasonably expect to renew. Backlog also includes annualized monthly maintenance reduced by our historical average maintenance non-renewal rate and committed maintenance amounts on contracts for which maintenance has yet to commence.

We compute our backlog as of a specific date, and we update our backlog to reflect changes in our estimates and judgments or subsequent additions, delays, terminations or reductions in our agreements. We also have agreements denominated in foreign currencies, and variation in currency exchange rates can influence our calculation of backlog. We compute backlog using then-existing currency exchange rates and we update backlog to reflect changes in these rates.

For these and other reasons, we do not believe that our backlog is a meaningful indicator of future revenue to be recognized in any particular period, and there can be no assurance that our backlog at any point in time will translate into revenue in any subsequent period.

We had backlog of $124.1 million as of December 31, 2011 as compared to backlog of $107.0 million as of December 31, 2010. The portion of our backlog as of December 31, 2011 not reasonably expected to be recognized as revenue within the next twelve months is estimated to be $38.3 million.

Sales and marketing

We sell and market our software solutions primarily through our direct global sales force and indirectly through our partner ecosystem of resellers, alliance partners and system integrators. Our sales force is organized by our target markets of manufacturing, distribution, services and travel and are responsible for the worldwide sale of our solutions to new and existing customers. Our sales force works in concert with our pricing solutions personnel for selling and solution demonstrations to new customers.

Our marketing activities consist of a variety of programs designed to generate sales leads and build awareness of our pricing and revenue management software solutions. We host conferences for pricing and revenue management professionals, host informational web seminars and we participate in and sponsor other industry and trade conferences and organizations.

International Operations

We are a global company that conducts sales, sales support, professional services, product development and support and marketing around the world. Our headquarters is located in Houston, TX and we have an office in London, UK, we also conduct development activities in the United States, India and Bolivia. We plan to expand our operations in international locations to meet the strategic objectives of our business.

Approximately 64%, 60%, and 59% of our total revenue came from customers outside the United States for the years ended December 31, 2011, 2010 and 2009, respectively. Our business, financial condition and results of operations could be adversely impacted by currency fluctuations or regulatory, political, social and economic developments or instability in the foreign jurisdiction in which we operate. For additional financial information about geographic areas, see Note 10 of the Notes to the Consolidated Financial Statements.

Competition

The market for pricing and revenue management solutions is competitive, fragmented and rapidly evolving. We believe our customers consider the following factors when evaluating us against our competition:

- Large and referenceable global customer base.

Industry domain expertise.

- Pricing best practices expertise and delivery.
- Ability for users to configure the solution to their needs.
- Depth of expertise in pricing science.
- Proven benefits of return on investment, total cost of ownership, and time-to-value.
- Organizational change management expertise.
- Product architecture, functionality, performance, reliability and scalability.
- Ability to offer integrated high-value solutions.
- Breadth and depth of product and service offerings.
- Services and customer support quality.
- Size and quality of partner ecosystem.
- Existing customer relationships.
- Vendor viability.

We compete with a number of larger and smaller companies. In the future, we believe our competition will increase as more companies come into our market segment. We believe we are able to compete successfully due to our long history of providing prescriptive pricing and revenue management software solutions, the scope of our offerings, the size and strength of our install base, the flexibility and scalability of our architecture, and our commitment to solution innovation and customer success.

Several large enterprise application providers, such as JDA Software, Oracle and SAP, have also developed offerings that include limited pricing and revenue management functionality. JDA Software and Oracle entered the market primarily through their acquisitions of Manugistics and Siebel Systems, respectively, and SAP resells products of one of our competitors. We believe these vendors do not provide all of the pricing and revenue management functionality needed to support a pricing excellence-focused organization. These vendors may seek to compete on price and by bundling their pricing and revenue management applications with other enterprise applications. We distinguish ourselves from these vendors through the breadth and depth of the functionality we offer, the robust integration and configuration capabilities of our solutions, and our proven ability to provide high-value pricing and revenue science-based optimization software to our global customer base across multiple industries.

In addition, a number of other vendors provide pricing and revenue management software for specific industries. In the hotel industry, we compete with IDeaS a SAS Company and Easy RMS among others. In the airline industry, we compete with Sabre Airline Solutions and Lufthansa Systems among others. We do not compete in the retail industry, where vendors include IBM, JDA Software, Oracle and SAP. Oracle, SAP and IBM entered the retail market through their acquisitions of ProfitLogic, Khimetrics and DemandTec, respectively.

Our solutions also compete with solutions developed internally by businesses. These businesses rely on a combination of manual processes, external consultants, spreadsheets and internally-developed software tools to conduct pricing activities.

Intellectual property and other proprietary rights

Our success and ability to compete is dependent in part on our ability to develop and maintain the proprietary aspects of our technology and operate without infringing upon the proprietary rights of others. We rely primarily on a combination of patents, trademarks, copyright, trade secret, confidentiality procedures, contractual provisions and other similar measures to protect our proprietary information. As of the date of this filing, we have five issued U.S. patents and three pending U.S. patent applications. In addition, we have two

Table of Contents

registered trademarks. We have not pursued patent protection in any foreign countries. Due to the rapidly changing nature of applicable technologies, we believe that the improvement of existing solutions, reliance upon trade secrets and unpatented proprietary know-how and development of new solutions are generally more advantageous than patent and trademark protection.

Research and development

We believe our innovation with respect to our software solutions is a foundation of our business and have made substantial investments in research and development as a part of this commitment. We also believe that our long-term investment in the scientific analysis of pricing differentiates us from our competitors. We are committed to developing high-value, science-based pricing and revenue management software solutions as is evident by our continued investment in research and development. In fiscal 2011, 2010 and 2009, we invested $25.7 million, $20.7 million and $20.1 million, respectively, in research and development to enhance our existing portfolio of solutions and services and to develop new solutions and services. Our research and development expenses include costs associated with our product management, product development and science and research groups. We conduct research and development activities in Houston, TX, India and Bolivia.

We employ scientists, many of whom are PhDs, and all of whom are engaged to the advancement of pricing and revenue management technology and its implementation in our software solutions. These scientists have specialties including, but not limited to, operations research, management science, statistics, econometrics and computational methods. Our scientists regularly interact with our customers, product development, sales, marketing and professional services staff to keep our science efforts relevant to real-world demands.

Employees

As of December 31, 2011, we had 541 full time personnel which include 403 employees and 138 outsourced personnel, an increase of 26% from December 31, 2010. None of our employees are represented by a labor union or covered by a collective bargaining agreement. We have not experienced any work stoppages and consider our employee relations to be good.

Website

We maintain a website at *www.prospricing.com.* No information on our website is incorporated by reference herein. We make available, free of charge through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, including exhibits thereto, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the reports are electronically filed with or furnished to the SEC. Our reports that are filed with, or furnished to, the SEC are also available at the SEC s website at *www.sec.gov.* You may also obtain copies of any of our reports filed with, or furnished to, the SEC, free of charge, at the SEC s public reference room at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330.

Annual CEO Certification

Pursuant to Section 303A.12(a) of the New York Stock Exchange (NYSE) Listed Company Manual, we submitted to the NYSE an annual certification signed by our Chief Executive Officer certifying that he was not aware of any violation by us of NYSE corporate governance listing standards on June 10, 2011.

Item 1A. ***Risk Factors***

We operate in a dynamic environment that involves numerous risks and uncertainties. The following section describes some of the risks that may adversely affect our business, financial condition or results of operations, and the trading price of our common stock; these are not necessarily listed in terms of their importance or level of risk.

Risks relating to our business and industry:

The deterioration of general U.S. and global economic conditions could adversely affect our sales and operating results.

We are a global company with customers around the world. As widely reported, global financial markets have experienced extreme disruption, including, among other things, extreme volatility in security prices, limited ability to raise capital in public and private financial markets, severely diminished liquidity, credit unavailability and company rating downgrades. These conditions have a negative impact on our prospects and customers ability to raise capital and operate their businesses.

The implementation of our software solutions, which is often accompanied by third party hardware purchases and other capital commitments, involves significant capital expenditure by our customers. Customers may reduce or defer their spending on technology. In addition, the weak and uncertain U.S. and global economic conditions could impair our customers ability to pay for our products or services. Any of these factors could delay our revenue recognition or otherwise adversely impact our business, quarterly or annual operating results and financial condition.

Periodic fluctuations in the U.S. Dollar and other currencies, corporate profits, lower spending, the availability of credit, the impact of conflicts throughout the world, terrorist acts, natural disasters, volatile energy costs, the outbreak of diseases and other geopolitical factors have had, and may continue to have, a negative impact on the U.S. and global economies. Our customers and prospects may experience consolidation or bankruptcies in their industries which may result in project delays or cancellations. We are unable to predict the strength or duration of current market conditions or effects of consolidation. Uncertainties in anticipated spending levels or further consolidation may adversely affect our business, financial condition and results of operations.

A significant or prolonged economic downturn in industries in which we focus may result in our customers or prospects reducing or postponing spending on the solutions we offer.

There are a number of factors, other than our performance, that could affect the size, frequency and renewal rates of our customer contracts. For instance, if economic conditions weaken in any industry in which we focus, our customers or prospects may reduce or postpone their spending significantly which may, in turn, lower the demand for our solutions and negatively affect our revenue and profitability. As a way of dealing with a challenging economic environment, customers may be changing their purchasing strategies, including, in some instances, requesting term licenses or SaaS agreements as opposed to perpetual license agreements, increased negotiation of price, deciding to license one solution rather than multiple solutions or licensing solutions for portions of their business. Customers could also terminate or delay their implementations or maintenance contracts. Change in license terms or the loss of, or any significant decline in business from, one or more of our customers may lead to a significant decline in our revenue and operating margins, particularly if we are unable to make corresponding reductions in our expenses in the event of any such loss or decline. Moreover, a significant change in the liquidity or financial position of any of these customers could have a material adverse effect on the collectability of our accounts receivable, liquidity and future operating results.

A weakening economy and changing business conditions could result in substantial defaults or slowing of payments by our customers on our accounts receivable which could have a significant negative impact on our business, results of operations, financial condition or liquidity.

A significant portion of our working capital consists of accounts receivable from customers. If customers responsible for a significant amount of accounts receivable were to become insolvent or otherwise unable to pay for solutions and services, or were to become unwilling or unable to make payments in a timely manner, our business, results of operations, financial condition or liquidity could be adversely affected.

Our global growth is subject to economic and political risks.

We are a global company with customers around the world. In 2011, approximately 64% of our revenues were attributable to activities outside the United States. Our operations are subject to the effects of global competition. They are also affected by local economic environments, including inflation, recession and currency volatility. Political changes, some of which may be disruptive, may interfere with our customers and our activities in a particular location.

We are subject to a lengthy sales cycle and delays or failures to complete sales may harm our business and cause our revenue and operating income to decline in the future.

Our sales cycle may take several months to over a year. To sell our solutions successfully and obtain an executed contract, we generally have to educate our potential customers about the use and benefits of our solutions, which can require significant time and expense without the ability to realize any revenue. During this sales cycle, we expend substantial resources with no assurance that a sale will ultimately result. The length of a

10

Table of Contents

customer s sales cycle depends on a number of factors, many of which we may not be able to control. These factors include the customer s product and technical requirements and the level of competition we face for that customer s business. Any unexpected lengthening of the sales cycle or failure to secure anticipated orders would negatively affect our revenue. Furthermore, a delay in our ability to obtain a signed agreement or to complete certain contract requirements in a particular quarter could reduce our revenue in that quarter. Any significant failure to generate revenue or delays in recognizing revenue after incurring costs related to our sales or services process could have a material adverse effect on our business, financial condition and results of operations.

We focus exclusively on the pricing and revenue management software market, and if this market develops more slowly than we expect, our business will be harmed.

We derive, and expect to continue to derive, all of our revenue from providing pricing and revenue management software solutions, implementation services and ongoing customer support. The pricing and revenue management software market is relatively new and still evolving, and it is uncertain whether this software will achieve and sustain high levels of demand and market acceptance. Our success will depend on the willingness of businesses in the manufacturing, distribution, services, and travel industries to use pricing and revenue management software.

Some businesses may be reluctant or unwilling to implement pricing and revenue management software for a number of reasons, including failure to understand the potential returns of improving their pricing processes and lack of knowledge about the potential benefits that such software may provide. Even if businesses recognize the need for improved pricing processes, they may not select our pricing and revenue management software solutions because they previously have made investments in internally developed pricing and revenue management solutions. Some businesses may elect to improve their pricing processes through solutions obtained from their existing enterprise software providers, whose solutions are designed principally to address one or more functional areas other than pricing. These enterprise solutions may appeal to customers that wish to limit the number of software vendors on which they rely and the number of different types of solutions used to run their businesses.

If businesses do not embrace the benefits of pricing and revenue management software, the pricing and revenue management software market may not continue to develop or may develop more slowly than we expect, either of which would significantly and adversely affect our revenue and operating results. Because the pricing and revenue management software market is developing and the manner of its development is difficult to predict, we may make errors in predicting and reacting to relevant business trends, which could harm our operating results.

Any downturn in sales to our target markets of manufacturing, distribution, services, and travel would adversely affect our operating results.

Our success is highly dependent upon our ability to sell our software solutions to customers in the manufacturing, distribution, services, and travel industries. If we are unable to market and sell our software solutions effectively to customers in these industries, we may not be able to grow our business. It is uncertain whether our software solutions will achieve and sustain the levels of demand and market acceptance that we anticipate. Such uncertainty is attributable to, among other factors, the following:

- it may be more difficult than we currently anticipate to implement our software solutions in our target industries;
- it may be more difficult than we currently anticipate to increase our customer base in our target industries; and
- it may take more time than we currently anticipate to train our personnel in the implementation of our software solutions in our target industries.
- our limited experience implementing our software solutions in certain of our target industries.

Our revenue growth has been derived principally from customers in the manufacturing, distribution, services, and travel industries. Our revenue growth is highly dependent upon continued growth of market acceptance in these industries, and there can be no assurance our solutions will achieve or sustain widespread acceptance among customers in these industries. Failure to expand market acceptance of our solutions in the manufacturing, distribution, services industries or to maintain sales in the manufacturing, distribution, services, and travel industries would adversely affect our operating results and financial condition.

Table of Contents

Our software solutions require implementation projects that are subject to significant risks and delays, which if any occurred could negatively impact the effectiveness of our software, resulting in harm to our reputation, business and financial performance.

The implementation of our software solutions can involve complex, large-scale projects that require substantial support operations, significant resources and reliance on factors that are beyond our control. For example, the success of our implementation projects is heavily dependent upon the quality of data used by our software solutions, the commitment of customers resources and personnel to the projects and the stability, functionality and scalability of the customer s information technology infrastructure. We may not be able to correct or compensate for weaknesses or problems in infrastructure or data, or our customers commitment and investment in personnel and resources. In addition, implementation of our software solutions can be highly complex and require substantial efforts and cooperation on the part of our customers. If we are unable to successfully manage the implementation of our software solutions such that those products do not meet customer needs or expectations, we may become involved in disputes with our customers and our business, reputation and financial performance may be significantly harmed. For projects accounted for under percentage-of-completion, we recognize our license and implementation revenues as implementation services are performed. Any delays in an implementation project or changes in the scope or timing of an implementation project would delay or alter the corresponding revenue recognition and could adversely affect our operating results. In addition, any delays or changes in scope could result in estimated project costs exceeding contracted revenue of which a loss reserve would need to be established which would have an adverse effect on our operating results. If an implementation project for a large customer or a number of customers is substantially delayed or cancelled, our ability to recognize the associated revenue and our operating results would be adversely affected.

Competition from vendors of pricing solutions and enterprise applications as well as from companies internally developing their own solutions could adversely affect our ability to sell our software solutions and could result in pressure to price our software solutions in a manner that reduces our margins and harms our operating results.

The pricing and revenue management software market is competitive, fragmented and rapidly evolving. Our software solutions compete with both solutions developed internally by businesses as well as those solutions offered by competitors. Our principal competition consists of:

- pricing and revenue management software vendors, including a number of vendors that provide pricing and revenue management software for specific industries; and

- large enterprise application providers that have developed offerings that include pricing and revenue management functionality.

We expect additional competition from other established and emerging companies to the extent the pricing and revenue management software market continues to develop and expand. We also expect competition to increase as a result of the entrance of new competitors in the market and industry consolidation, including through a merger or partnership of two or more of our competitors or the acquisition of a competitor by a larger company. A number of our current and potential competitors have larger installed bases of users, longer operating histories and greater name recognition than we have. In addition, many of these companies have significantly greater financial, technical, marketing, service and other resources than we have. As a result, these companies may be able to respond more quickly to new or emerging technologies and changes in customer demands and devote greater resources to the development, promotion and sale of their products.

Competition could seriously impede our ability to sell additional software solutions and related services on terms favorable to us. We do not know how our competition will set prices for their products. Businesses may internally develop solutions, rather than investing in commercially-available solutions. Our current and potential competitors may develop and market new technologies that render our existing or future solutions obsolete, unmarketable or less competitive. In addition, if these competitors develop solutions with similar or superior functionality to our solutions, or if they offer solutions with similar functionality at a substantially lower price than our solutions, we may need to decrease the prices for our solutions in order to remain competitive. If we are unable to maintain our current solution, services and maintenance pricing due to competitive pressures, our margins will be reduced and our operating results will be adversely affected. We cannot provide assurance that we will be able to compete successfully against current or future competitors or that competitive pressures will not materially and adversely affect our business, financial condition and operating results.

Table of Contents

Our revenue recognition is primarily based upon our ability to estimate the efforts required to complete our implementation projects, which may be difficult to estimate.

We generally recognize revenue from our software licenses and implementation services over the period during which such services are performed using the percentage-of-completion method. The length of this period depends on the number of licensed software solutions and the scope and complexity of the customer s deployment requirements. Under the percentage-of-completion method, the revenue we recognize during a reporting period is based on the resources expended during the reporting period as compared to the estimated total resources required to implement our software solutions. If we are unable to accurately estimate the overall total man-days required to implement our software solutions, such inaccuracies could have a material effect on the timing of our revenue. Any change in the timing of revenue recognition as a result of inaccurate estimates could adversely impact our quarterly or annual operating results.

Failure to sustain our historical maintenance and support renewal rates and pricing would adversely affect our operating results.

Maintenance and support agreements are typically for a term of one to two years. Historically, maintenance and support revenue has represented a significant portion of our total revenue, including approximately 35%, 41% and 36% of our total revenue for the years ended December 31, 2011, 2010 and 2009, respectively. If our customers choose not to renew their maintenance and support agreements with us on favorable terms or at all, our business, operating results and financial condition could be harmed.

We might not generate increased business from our current customers, which could limit our revenue in the future.

We sell our software solutions to both new customers and existing customers. Many of our existing customers initially purchase our software solutions for a specific business segment or a specific geographic location within their organization and later purchase additional software solutions for the same or other business segments and geographic locations within their organization. These customers might not choose to make additional purchases of our software solutions or to expand their existing software solutions to other business segments. In addition, as we deploy new applications and features for our software solutions or introduce new software solutions, our current customers could choose not to purchase these new offerings. If we fail to generate additional business from our existing customers, our revenue could grow at a slower rate or even decrease.

If our cost estimates for fixed-fee arrangements do not accurately anticipate the cost and complexity of implementing our software solutions, our profitability could be reduced and we could experience losses on these arrangements.

A material portion of our license and implementation arrangements are priced on a fixed-fee basis. If we underestimate the amount of effort required to implement our software solutions, our profitability could be reduced. Moreover, if the actual costs of completing the implementation exceed the agreed upon fixed price, we would incur a loss on the arrangement.

Our revenue recognition policy may cause any decreases in sales not to be reflected in our revenue immediately.

The period over which we recognize license and implementation revenue for an implementation depends on the number of licensed software solutions and the scope and complexity of the customer s deployment requirements which may range from six months to several years. As a result, a significant majority of our revenue is recognized on arrangements that were executed in previous periods. Any shortfall in new sales of our software solutions may not be reflected in our revenue for several quarters, and as such the adverse impact on our business may not be readily apparent.

We may enter into acquisitions that may be difficult to integrate, fail to achieve our strategic objectives, disrupt our business, dilute stockholder value or divert management attention.

In the future we may pursue acquisitions of businesses, technologies and products that we intend to complement our existing business, solutions, services and technologies. We cannot provide assurance that any acquisition we make in the future will provide us with the benefits we anticipated in entering into the transaction. Acquisitions are typically accompanied by a number of risks, including:

Table of Contents

- difficulties in integrating the operations and personnel of the acquired companies;
- difficulties in maintaining acceptable standards, controls, procedures and policies;
- potential disruption of ongoing business and distraction of management;
- inability to maintain relationships with customers of the acquired business;
- impairment of relationships with employees and customers as a result of any integration of new management and other personnel;
- difficulties in incorporating acquired technology and rights into our solutions and services;
- unexpected expenses resulting from the acquisition; and
- potential unknown liabilities associated with acquired businesses.

In addition, acquisitions may result in the incurrence of debt, acquisition related costs and expenses, restructuring charges and write-offs. Acquisitions may also result in goodwill and other intangible assets that are subject to impairment tests, which could result in future impairment charges.

We may enter into negotiations for acquisitions that are not ultimately consummated. Those negotiations could result in diversion of management time and significant out-of-pocket costs. If we fail to evaluate and execute acquisitions successfully, we may not be able to achieve our anticipated level of growth and our business and operating results could be adversely affected.

If we fail to develop or acquire new pricing and revenue management functionality to enhance our existing software solutions, we will not be able to grow our business and it could be harmed.

The pricing and revenue management software market is characterized by:

- rapid technological developments;
- newly emerging and changing customer requirements; and
- frequent solution introductions, updates and functional enhancements.

We must introduce new pricing and revenue management functionality that enhances our existing software solutions in order to meet our business plan, maintain or improve our competitive position, keep pace with technological developments, satisfy increasing customer requirements and increase awareness of pricing and revenue management software generally and of our software solutions in particular. Any new functionality we develop may not be introduced in a timely manner and may not achieve market acceptance sufficient to generate material revenue. Furthermore, we believe our competitors are heavily investing in research and development, and may develop and market new solutions that will compete with, and may reduce the demand for, our software solutions. We cannot provide assurance that we will be successful in developing or otherwise acquiring, marketing and licensing new functionality, or delivering updates and upgrades that meet changing industry standards and customer demands. In addition, we may experience difficulties that could delay or prevent the successful development, marketing and licensing of such functionality. If we are unable to develop or acquire new functionality, enhance our existing software solutions or adapt to changing industry requirements to meet market demand, we may not be able to grow our business and our revenue and operating results would be adversely affected.

In addition, because our software solutions are intended to operate on a variety of technology platforms, we must continue to modify and enhance our software solutions to keep pace with changes in these platforms. Any inability of our software solutions to operate effectively with existing or future platforms could reduce the demand for our software solutions, result in customer dissatisfaction and limit our revenue.

Table of Contents

Our software solutions require hardware to operate which may be difficult for our customers to obtain.

The implementation of our software solutions often requires specific hardware to operate. The inability of our customers to access and secure such hardware could impact the effectiveness of our software and result in harm to our reputation if the software does not operate properly due to the unavailability of the necessary hardware. Moreover, if our customers are unable to obtain such hardware, they may not purchase our software or purchase software from a competitor or enterprise software, which may not require specific hardware. If businesses do not implement our software due to their inability to obtain the hardware needed for our software, our business, results of operations and financial condition could be adversely affected.

Defects or errors in our software solutions could harm our reputation, impair our ability to sell our solutions and result in significant costs to us.

Our pricing and revenue management software solutions are complex and may contain undetected defects or errors. Several of our solutions have recently been developed and may therefore be more likely to contain undetected defects or errors. In addition, we frequently develop enhancements to our software solutions that may contain defects. We have not suffered significant harm from any defects or errors to date, but we have found defects in our software solutions from time to time. We may discover additional defects in the future, and such defects could be material. We may not be able to detect and correct defects or errors before the final implementation of our software solutions. Consequently, we or our customers may discover defects or errors after our software solutions have been implemented. We have in the past issued, and may in the future need to issue, corrective releases of our solutions to correct defects or errors. The occurrence of any defects or errors could result in:

- lost or delayed market acceptance and sales of our software solutions;
- delays in payment to us by customers;
- injury to our reputation;
- diversion of our resources;
- legal claims, including product liability claims, against us;
- increased maintenance and support expenses; and
- increased insurance costs.

Our license agreements with our customers typically contain provisions designed to limit our liability for defects and errors in our software solutions and damages relating to such defects and errors, but these provisions may not be enforced by a court or otherwise effectively protect us from legal claims. Our liability insurance may not be adequate to cover all of the costs resulting from these legal claims. Moreover, we cannot provide assurance that our current liability insurance coverage will continue to be available on acceptable terms. In addition, the insurer may deny coverage on any future claim. The successful assertion against us of one or more large claims that exceeds available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business and operating results. Furthermore, even if we prevail in any litigation, we are likely to incur substantial costs and our management s attention will be diverted from our operations.

If our executives and other key personnel are unable to effectively manage our business, or if we fail to attract additional qualified personnel, our operating results could be adversely affected.

Our future success depends upon the performance and service of our executive officers and other key sales, development, science and professional services staff. The failure of our executives and key personnel to effectively manage our business or the loss of the services of our executive officers and other key personnel would harm our operations. In addition, our future success will depend in large part on our ability to attract and retain a sufficient number of highly qualified personnel, and there can be no assurance that we will be able to do so. We ve recently added a significant number of new personnel, and their ability to learn our business and manage it effectively will be important to our continued growth and expansion. In addition, given the highly sophisticated pricing science included in our solutions, the pool of scientists and software developers qualified to work on our solutions is limited, and the implementation of our software solutions requires highly-qualified personnel, and hiring and retaining such personnel to support our growth may be challenging. Competition for such qualified personnel is intense, and we compete for these individuals with other companies that have greater financial, technical, marketing, service and other resources than we do. If our key personnel are unable to effectively manage our business, or if we fail to attract additional qualified personnel, our operating results could be adversely affected.

Intellectual property litigation and infringement claims may cause us to incur significant expense or prevent us from selling our software solutions.

Our industry is characterized by the existence of a large number of patents, trademarks and copyrights, and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. A third party may assert that our technology violates its intellectual property rights, or we may become the subject of a material intellectual property dispute. Pricing and revenue management solutions may become increasingly subject to infringement claims as the number of commercially available pricing and revenue management solutions increases and the functionality of these solutions overlaps. In addition, changes in patent laws in the U.S. such as the recently adopted America Invents Act of 2011 may affect the scope, strength and enforceability of our patent rights or the nature of proceedings which may be brought by us related to our patent rights. Future litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own potential patents may therefore provide little or no deterrence. Regardless of the merit of any particular claim that our technology violates the intellectual property rights of others, responding to such claims may require us to:

- incur substantial expenses and expend significant management efforts to defend such claims;
- pay damages, potentially including treble damages, if we are found to have willfully infringed such parties patents or copyrights;
- cease making, licensing or using products that are alleged to incorporate the intellectual property of others;
- distract management and other key personnel from performing their duties for us;
- enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies; and
- expend additional development resources to redesign our solutions.

Any license required as a result of litigation under any patent may not be made available on commercially acceptable terms, if at all. In addition, some licenses may be nonexclusive, and therefore our competitors may have access to the same technology licensed to us. If we fail to obtain a required license or are unable to design around a patent, we may be unable to effectively develop or market our solutions, which could limit our ability to generate revenue or maintain profitability.

Contract terms generally obligate us to indemnify our customers for their use of the intellectual property associated with our software or for other third-party products that are incorporated into our solutions and that infringe the intellectual property rights of others. If we are unable to resolve our legal obligations by settling or paying an infringement claim or a related indemnification claim as described above, we may be required to compensate our customers under the contractual arrangement with such customers. Some of our intellectual property indemnification obligations are contractually capped at a very high amount or not capped at all.

If we fail to protect our proprietary rights and intellectual property adequately, our business and prospects may be harmed.

Our success will depend in part on our ability to protect our proprietary methodologies and intellectual property. We rely upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements, and patent, copyright and trademark laws to protect our intellectual property rights. We cannot, however, be certain that steps we take to protect our proprietary rights will prevent misappropriation of our intellectual property, or the development and marketing of similar and competing products and services by third parties.

16

We rely, in some circumstances, on trade secrets to protect our technology. Trade secrets, however, are difficult to protect. In addition, our trade secrets may otherwise become known or be independently discovered by competitors, and in such cases, we could not assert such trade secret rights against such parties. We seek to protect our proprietary technology and processes, in part, by confidentiality agreements with our employees, consultants, customers, scientific advisors and other contractors. These agreements may be breached, and we may not have adequate remedies for any breach. To the extent that our employees, consultants or contractors use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

As of the date of this filing, we have five issued U.S. patents and three pending U.S. patent applications. We have not pursued patent protection in any foreign countries. Our pending patent applications may not result in issued patents. The patent position of technology-oriented companies, including ours, is generally uncertain and involves complex legal and factual considerations. The standards that the United States Patent and Trademark Office use to grant patents are not always applied predictably or uniformly and can change. Accordingly, we do not know the degree of future protection for our proprietary rights or the breadth of claims allowed in any patents that may be issued to us or to others. Our patents may not contain claims sufficiently broad to protect us against third parties with similar technologies or products, or provide us with any competitive advantage. Moreover, our patents and any patent for which we have licensed or may license rights may be challenged, narrowed, invalidated or circumvented. If our patents are invalidated or otherwise limited, other companies will be better able to develop products that compete with ours, which could adversely affect our competitive business position, business prospects and financial condition.

Patent applications in the U.S. are typically not published until, at least, 18 months after filing or in some cases not at all, and publications of discoveries in industry-related literature lag behind actual discoveries. We cannot be certain that we were the first to invent the inventions claimed in our pending patent applications or that we were the first to file for patent protection. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. As a result, we may not be able to obtain adequate patent protection.

In addition, despite our efforts to protect our proprietary rights, unauthorized parties may be able to obtain and use information that we regard as proprietary. The issuance of a patent does not guarantee that it is valid or enforceable. As such, even if we obtain patents, they may not be valid or enforceable against third parties. In addition, the issuance of a patent does not guarantee that we have a right to practice the patented invention. Third parties may have blocking patents that could be used to prevent us from marketing or practicing our potentially patented products. As a result, we may be required to obtain licenses under these third-party patents. If licenses are not available to us on acceptable terms, or at all, we will not be able to make and sell our software solutions and competitors would be more easily able to compete with us.

We use open source software in our solutions that may subject our software solutions to general release or require us to re-engineer our solutions, which may cause harm to our business.

We use open source software in our solutions and may use more open source software in the future. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. If we combine our proprietary software solutions with open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our proprietary software solutions. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. In addition, open source license terms may be ambiguous and many of the risks associated with usage of open source cannot be eliminated, and could, if not properly addressed, negatively affect our business. If we were found to have inappropriately used open source software, we may be required to seek licenses from third parties in order to continue offering our software, to re-engineer our solutions, to discontinue the sale of our solutions in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business, operating results and financial condition.

Table of Contents

We utilize third-party software that we incorporate into our software solutions, and impaired relations with these third parties, defects in third-party software or a third party s inability or failure to enhance their software over time could adversely affect our operating performance and financial condition.

We incorporate and include third-party software into our software solutions. If our relations with any of these third parties are impaired, or if we are unable to obtain or develop a replacement for the software, our business could be harmed. The operation of our solutions could be impaired if errors occur in the third-party software that we utilize. It may be more difficult for us to correct any defects in third-party software because the software is not within our control. Accordingly, our business could be adversely affected in the event of any errors in this software. There can be no assurance that these third parties will continue to invest the appropriate levels of resources in their products and services to maintain and enhance the capabilities of their software.

New accounting standards or interpretations of existing accounting standards, including those related to revenue recognition, could adversely affect our operating results.

GAAP in the United States are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. We adopted new accounting standards for multiple-element arrangements effective from January 1, 2010 and standard setters have proposed further changes to revenue recognition accounting standards, among others. A change in principles or interpretations, in particular those related to revenue recognition, could have an adverse effect on our reported financial results.

The expiration of the research and experimentation tax credit or other general business credit could have a negative impact on our business, results of operations, financial condition or liquidity.

Our federal effective tax rate historically has been lower than the statutory rate of 35% largely due to tax credit incentives under the U.S. research and experimentation tax credit extended to taxpayers engaged in qualified research and experimental activities. This tax credit is designed to stimulate qualifying company research and development over time by reducing after-tax costs. By qualifying for the tax credit, we have been able to use general business tax credits to reduce our federal income tax liability. In December 2010, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 was enacted which extended the research and experimentation tax credit until December 31, 2011. Since its enactment in 1981, Congress has reinstated on a retroactive basis the research and experimentation tax credit several times. Unless the research and experimentation tax credit is reinstated for 2012, we will record federal income taxes in 2012 at the enacted federal rate of 35%, net of other tax credits.

Our international sales subject us to risks that may adversely affect our operating results.

Over the last several years, we derived a significant portion of our revenue from customers outside the United States. For the year ended December 31, 2011, 2010, and 2009, approximately 64%, 60% and 59% of our total revenue, respectively, was derived from outside the United States. We may not be able to maintain or increase international market demand for our solutions. Managing overseas growth could require significant resources and management attention and may subject us to new or larger levels of regulatory, economic, foreign currency exchange, tax and political risks. Among the risks we believe are most likely to affect us with respect to our international sales and operations are:

- economic conditions in various parts of the world;
- unexpected changes in regulatory requirements;
- less protection for intellectual property rights in some countries;
- new and different sources of competition;

multiple, conflicting and changing tax laws and regulations that may affect both our international and domestic tax liabilities and result in increased complexity and costs;

if we were to establish international offices, the difficulty of managing and staffing such international offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;

difficulties in enforcing contracts and collecting accounts receivable, especially in developing countries;

Table of Contents

- if more contracts become denominated in local currency, fluctuations in exchange rates; and

- tariffs and trade barriers, import/export controls and other regulatory or contractual limitations on our ability to sell or develop our solutions in certain foreign markets.

If we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Our failure to manage any of these risks successfully could harm our international operations and reduce our international sales, adversely affecting our business, operating results and financial condition.

Security breaches, cyber attacks or fraudulent activity could result in damage to our operations or lead to reputational damage.

A security breach or cyber attack of our computer systems could interrupt or damage our operations or harm our reputation. Despite the implementation of security measures, our systems may still be vulnerable to data theft, computer viruses, malicious software programs, programming errors, attacks by third parties or similar disruptive problems. If we were to experience a security breach or cyber attack, we could be required to incur substantial costs and liabilities, including:

- expenses to rectify the consequences of the security breach or cyber attack,

- liability for stolen assets or information,

- costs of repairing damage to our systems,

- increased costs of cyber security protection, and
- damage to our reputation causing customers and investors to lose confidence in us.

Our operations might be affected by the occurrence of a natural disaster or other catastrophic event in Houston, Texas.

Our headquarters are located in Houston, Texas, from which we base our operations. Although we have contingency plans in effect for natural disasters or other catastrophic events, these events, including terrorist attacks and natural disasters such as hurricanes, could disrupt our operations. Even though we carry business interruption insurance and typically have provisions in our contracts that protect us in certain events, we might suffer losses as a result of business interruptions that exceed the coverage available under our insurance policies or for which we do not have coverage. For example, even a temporary disruption to our business operations may create a negative perception in the marketplace. Any natural disaster or catastrophic event affecting us could have a significant negative impact on our operations.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our strategy.

We believe that our existing cash and cash equivalents and our cash flow from future operating activities will be sufficient to meet our anticipated cash needs for the next twelve months and the foreseeable future. The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on numerous factors, including the other risk factors described in this Annual Report on Form 10-K. In addition, we may require additional capital to fund acquisitions. Additional capital may not be available on terms favorable to us, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to invest in our business growth could be limited. Any additional capital raised through the sale of equity or convertible debt securities may dilute your percentage ownership of our common stock. Furthermore, any new debt or equity securities we issue could have rights, preferences and privileges superior to our common stock. If we raise capital by issuing convertible debt or equity securities, our existing stockholders may be diluted and earnings per share may decrease. Capital raised through debt financings could require us to make periodic interest payments and could impose restrictive covenants on the conduct of our business that make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to compliance initiatives.

As a public company, we incur significant legal, accounting and other expenses. The Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), and rules currently proposed or subsequently implemented by the SEC and NYSE impose heightened

Table of Contents

requirements on public companies. Our management and other personnel devote a substantial amount of time to these compliance initiatives. We may also need to hire additional personnel to support our compliance requirements. Moreover, these rules and regulations increase our legal and financial costs and make some activities more time-consuming.

Risks relating to ownership of our common stock:

Market volatility may affect our stock price and the value of your investment.

The market price for our common stock has been and is likely to continue to be volatile. Volatility could make it difficult to trade shares of our common stock at predictable prices or times.

Many factors could cause the market price of our common stock to be volatile, including the following:

- variations in our quarterly or annual operating results;
- decreases in market valuations of comparable companies;
- fluctuations in stock market prices and volumes;
- decreases in financial estimates by equity research analysts;
- announcements by our competitors of significant contracts, new solutions or enhancements, acquisitions, distribution partnerships, joint ventures or capital commitments;
- departure of key personnel;
- changes in governmental regulations and standards affecting the software industry and our solutions;
- sales of common stock or other securities by us in the future;
- damages, settlements, legal fees and other costs related to litigation, claims and other contingencies;
- deterioration of the general U. S. and global economic condition; and
- other risks described elsewhere in this section.

In the past, securities class action litigation often has been initiated against a company following a period of volatility in the market price of the company s securities. If class action litigation is initiated against us, we will incur substantial costs and our management s attention will be diverted from our operations. All of these factors could cause the market price of our stock to decline, and you may lose some or all of your investment.

Shares of our common stock are relatively illiquid and trading of our shares could adversely affect the market price of our common stock.

Our common stock is thinly traded and we have a relatively small public float. For the quarterly period ended December 31, 2011, the average daily trading volume of our common stock on the New York Stock Exchange was 88,952 shares. Our common stock may be less liquid than the stock of companies with a broader public ownership. In addition, sales of a large volume of our common stock by us or our current stockholders, or the perception that sales could occur, may also have a significant impact on its trading price.

If equity research analysts cease to publish research or reports about us or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock relies in part on the research and reports that equity research analysts publish about us and our business. The price of our stock could decline if one or more equity research analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about our business.

Table of Contents

Anti-takeover provisions in our Certificate of Incorporation and Bylaws and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Our Certificate of Incorporation and by-laws and Section 203 of the Delaware General Corporation Law contain provisions that might enable our management to resist a takeover of our company. These provisions include the following:

- the division of our board of directors into three classes to be elected on a staggered basis, one class each year;
- a prohibition on actions by written consent of our stockholders;
- the elimination of the right of stockholders to call a special meeting of stockholders;
- a requirement that stockholders provide advance notice of any stockholder nominations of directors or any proposal of new business to be considered at any meeting of stockholders;
- a requirement that a supermajority vote be obtained to amend or repeal certain provisions of our certificate of incorporation; and
- the ability of our board of directors to issue preferred stock without stockholder approval.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us. Although we believe these provisions collectively provide for an opportunity to obtain higher bids by requiring potential acquirors to negotiate with our board of directors, they would apply even if an offer were considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

We do not intend to pay dividends on our common stock in the foreseeable future.

We do not currently anticipate paying any cash dividends on our common stock in the foreseeable future. We currently anticipate that we will retain all of our available cash, if any, for use as working capital and for other general corporate purposes. Any payment of future dividends will be at the discretion of our board of directors and will depend upon, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations that the board of directors deems relevant. Investors seeking cash dividends should not purchase our common stock.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

We lease approximately 73,200 square feet of office space for our headquarters in Houston, Texas. We believe our existing facilities are sufficient for our current needs. We may add new facilities and expand our existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

Item 3. ***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. The outcomes of these matters are inherently unpredictable. We are not currently involved in any outstanding litigation that we believe, individually or in the aggregate, will have a material adverse effect on our business, results of operations or financial condition.

Table of Contents

Item 4. ***Mine Safety Disclosures***

Not applicable.

Part II

Item 5. ***Market for Registrant s Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities***

Market information and dividends

Our common stock is listed on the NYSE under the symbol PRO . The following table sets forth the high and low prices for shares of our common stock, as reported by the NYSE for the periods indicated.

	Price Range of Common Stock	
	Low	**High**
Year ended December 31, 2010		
First Quarter	$ 7.10	$ 10.67
Second Quarter	$ 6.02	$ 10.15
Third Quarter	$ 6.42	$ 9.97
Fourth Quarter	$ 9.06	$ 13.08
Year ended December 31, 2011		
First Quarter	$ 9.79	$ 14.89
Second Quarter	$ 13.23	$ 19.73
Third Quarter	$ 11.03	$ 18.27
Fourth Quarter	$ 11.53	$ 17.42

On February 21, 2012 there were 80 stockholders of record of our common stock. Since 2007, we have not declared or paid any dividends on our common stock. We currently expect to retain all remaining available funds and any future earnings for use in the operation and development of our business. Accordingly, we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future.

Securities authorized for issuance under equity compensation plans

The following table sets forth information as of December 31, 2011 with respect to compensation plans under which our equity securities are authorized for issuance. For additional information on our equity compensation plans, see Note 7 of the Notes to the Consolidated Financial Statements.

Plan Category	I Number of securities to be issued upon exercise of outstanding options and rights	II Weighted-average exercise price of outstanding options and rights	III Number of securities remaining available for future issuance under plans (excluding securities listed in Column (I))
Equity compensation plans approved by security holders	3,569,242	$ 11.01	618,893
Equity compensation plans not approved by security holders			
Total	3,569,242	$ 11.01	618,893

Our 2007 equity incentive plan, adopted in March 2007, provides a formula for automatic increases in the number of securities available for issuance under such plan. The maximum aggregate number of securities that may be issued under the 2007 equity incentive plan cumulatively increases by a number of shares equal to the lesser of (i) 3.5% of the number of securities issued and outstanding on the immediately preceding December 31, (ii) Nine Hundred Thousand (900,000) shares and (iii) an amount determined by our Board.

Table of Contents

Performance graph

The following performance graph and related information shall not be deemed soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The graph below presents the relative investment performance of our common stock, the Standard & Poor s 500 Stock Index (S&P 500), and the NASDAQ Computer Index for the period commencing on June 28, 2007, the date of our initial public offering, and ending December 31, 2011. The graph is presented pursuant to the SEC rules and is not meant to be an indication of our future performance.

(1) The graph assumes that $100 was invested on June 28, 2007, in our common stock (at the closing price on the date of our initial public offering), the S&P 500 and the NASDAQ Computer Index and further assumes all dividends were reinvested. No cash dividends have been paid on our common stock for the periods presented above.

	6/28/2007	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
PRO	$ 100.00	$ 149.77	$ 43.89	$ 79.01	$ 86.95	$ 113.59
S&P 500	$ 100.00	$ 97.67	$ 60.08	$ 74.17	$ 83.66	$ 83.65
NASDAQ Computer Index	$ 100.00	$ 111.31	$ 59.34	$ 101.37	$ 119.05	$ 119.62

Issuer purchase of equity securities

On August 25, 2008, we announced that the Board of Directors authorized a stock repurchase program for the purchase of up to $15.0 million of our common stock. Under the board-approved repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice.

During 2011, we did not make any purchases of our common stock under this program. As of December 31, 2011, $10.0 million remains available under the stock repurchase program.

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities for the year ended December 31, 2011.

Table of Contents

Item 6. ***Selected financial data***

The following selected consolidated financial data presented under the captions Selected Statement of Operations Data and Selected Consolidated Balance Sheet Data for, and as of the end of, each of the five years in the five year period ended December 31, 2011 are derived from the Consolidated Financial Statements of PROS Holdings, Inc. The selected consolidated financial data set forth below should be read in conjunction with, and is qualified by reference to, Management s Discussion and Analysis of Financial Condition and Result of Operations and our Consolidated Financial Statements and the related notes included elsewhere in this report. As presented in the table, amounts are in thousands (except per share data).

	Year Ended December 31,				
	2011	2010	2009	2008	2007
Selected consolidated statement of operations data:					
Total revenue	$ 96,639	$ 71,045	$ 68,783	$ 75,588	$ 62,079
Gross profit	70,202	50,478	50,138	56,336	44,135
Income (loss) from operations	8,601	(4,287)	7,367	13,933	11,006
Net income (loss)	6,350	(1,931)	5,516	10,757	10,517
Accretion of preferred stock					(82)
Net earnings (loss) attributable to common stockholders	$ 6,350	$ (1,931)	$ 5,516	$ 10,757	$ 10,435
Net earnings (loss) attributable to common stockholders per share:					
Basic	$ 0.24	$ (0.07)	$ 0.21	$ 0.41	$ 0.45
Diluted	$ 0.23	$ (0.07)	$ 0.21		