

PROS Holdings, Inc.  
Form S-1/A  
June 22, 2007

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As filed with the Securities and Exchange Commission on June 22, 2007

Registration No. 333-141884

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No. 4  
to**

**Form S-1**

**REGISTRATION STATEMENT  
Under  
THE SECURITIES ACT OF 1933**

**PROS Holdings, Inc.**

(Exact name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**7371**  
(Primary Standard Industrial  
Classification Code Number)

**76-0168604**  
(I.R.S. Employer  
Identification Number)

**3100 Main Street, Suite 900  
Houston, TX 77002  
Telephone: (713) 335-5151**

(Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Registrant's Principal Executive Offices)

**Albert E. Winemiller  
Chief Executive Officer and President  
3100 Main Street, Suite 900  
Houston, TX 77002  
Telephone: (713) 335-5151**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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*Copies to:*

**John J. Gilluly III, P.C.  
DLA Piper US LLP  
1221 South MoPac Expressway, Suite 400  
Austin, TX 78746**

**Martin A. Wellington, Esq.  
Davis Polk & Wardwell  
1600 El Camino Real  
Menlo Park, CA 94025**

(512) 457-7000

(650) 752-2000

**Approximate date of commencement of proposed sale to the public:**  
**As soon as practicable after the effective date of this Registration Statement.**

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common Stock, \$0.001 par value per share	7,848,750	\$94,185,000	\$2,892

(1) Includes 1,023,750 shares that the underwriters have the option to purchase to cover over-allotments.

(2) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(a).

(3) \$2,763 of which was previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

Subject to completion, dated June 22, 2007

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Prospectus

**6,825,000 shares**

**Common stock**

This is an initial public offering of 5,118,750 shares of common stock by PROS Holdings, Inc. The selling stockholders included in this prospectus are selling an additional 1,706,250 shares of common stock. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders. The estimated initial offering price is between \$10.00 and \$12.00 per share.

Prior to this offering, there has been no public market for our common stock. We have applied to have our common stock listed on the New York Stock Exchange under the symbol PRO.

	Per share	Total
Initial public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to us before expenses	\$	\$
Proceeds to selling stockholders before expenses	\$	\$

The selling stockholders identified in this prospectus have granted the underwriters an option for 30 days from the date of this prospectus to purchase up to 1,023,750 additional shares of common stock on the same terms and conditions set forth above to cover over-allotments, if any.

Investing in our common stock involves a high degree of risk. See "Risk factors" beginning on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

**JPMorgan**

**Deutsche Bank Securities**

**Jefferies & Company**

**Thomas Weisel Partners LLC**

The underwriters expect to deliver the shares of common stock to purchasers on

, 2007.

, 2007

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You should rely only on the information contained in this prospectus. We and the selling stockholders have not authorized anyone to provide you with information that is different from that contained in this prospectus. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

For investors outside the United States: neither we, the selling stockholders nor any of the underwriters has done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

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## Prospectus summary

*This summary highlights selected information more fully described elsewhere in this prospectus. You should read the following summary together with the entire prospectus, including the more detailed information regarding us and the common stock being sold in this offering and our consolidated financial statements and the related notes appearing elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in the section entitled "Risk factors" beginning on page 6 before deciding to invest in our common stock.*

### Overview

We are a leading provider of pricing and revenue optimization software, an emerging category of enterprise applications designed to allow companies to improve financial performance by enabling better pricing. By using our software products, customers gain insight into their pricing strategies, identify detrimental pricing practices, optimize their pricing decision-making and improve their business processes and financial performance. Our software products incorporate advanced pricing science, which includes operations research, forecasting and statistics. Our innovative science-based software products analyze, execute and optimize pricing strategies using data from traditional enterprise applications, often augmenting it with real-time and historical data. We also provide a range of services that include analyzing a company's current pricing processes and implementing our software products to improve pricing performance. We provide our software products to enterprises across a range of industries, including manufacturing, distribution, services, hotel and cruise, and airline. As of March 31, 2007, we had 90 customers across five industries in 42 countries with over 200 implementations of our software products. We recorded revenue of \$35.1 million and \$46.0 million in 2005 and 2006, respectively, and have achieved eight consecutive years of profitability. Approximately 60%, 63% and 67% of our total revenue came from customers outside the United States in 2005, 2006 and the three months ended March 31, 2007, respectively. This international growth began with our efforts initially to market our products to the global airline industry.

### Industry background

Pricing is an important component of an enterprise's business processes and financial performance. Companies can face a variety of pricing problems such as unnecessary discounting and quoting prices below breakeven. We believe that improving pricing is one of the most strategic and powerful ways for companies to improve their business and financial performance. According to a 2006 Gartner Research report, on average, a 1% improvement in price translated to an 11% increase in profitability. In contrast, according to the same report, a 1% improvement in fixed costs or variable costs only increases profitability by 3% and 7%, respectively.

A variety of trends are accelerating the need for better pricing. They include increasingly complex markets and business models, greater sophistication of purchasers, proliferation of pricing entities and competitive alternatives, growing quantities of enterprise data and diminishing returns from traditional enterprise applications.

One element contributing to pricing problems is the limited visibility into effective prices and margins after accounting for discounts, promotions, rebates and allowances. In addition, a lack of uniform pricing and goals, an unscientific, ad-hoc approach to pricing and a lack of complete, relevant and timely data further add to the pricing problems that we believe most companies face.



We believe most companies have yet to develop or systematically implement pricing technology solutions that can best meet business goals and generate optimal prices.

We believe the market for pricing and revenue optimization software is a large and rapidly growing opportunity that spans most major industries. An August 2006 AMR Research report estimated that the price management applications market will be \$348 million in 2007 and will grow to approximately \$1.1 billion in 2010, a compound annual growth rate of 46%. We believe that the overall pricing and revenue optimization software market includes additional elements not considered in the AMR Research report.

## **Our solution**

The PROS Pricing Solution Suite is our set of integrated software products that enables enterprises to apply pricing science to determine, analyze and execute optimal pricing strategies. Our software products support pricing decisions through the aggregation and analysis of extensive enterprise application data, transactional data and market information. Our PROS Pricing Solution Suite addresses three areas necessary to implement and execute an effective pricing solution: pricing analytics, pricing execution and pricing optimization. Our science-based approach to pricing increases business insight, enhances planning and decision making as well as improves business and financial performance for our customers.

Key strengths that differentiate us from our competitors include our extensive experience in pricing and revenue optimization, our thought leadership in pricing and revenue optimization science, our high-performance software architecture with proven scalability, our broad pricing and revenue optimization capabilities and our global diversified customer base. In addition, we are able to configure our PROS Pricing Solution Suite to meet the needs of our customers across industries.

## **Our strategy**

Our objective is to be the leading global provider of pricing and revenue optimization software products. We plan to:

- continue to expand across vertical markets;

- continue to focus on customer satisfaction and retention;

- extend our pricing thought leadership;

- extend our technology leadership; and

- leverage third-party consultants and systems integrators.

## **Company information**

We were incorporated in Texas in 1985, reincorporated as a Delaware corporation in 1998 and reorganized as a Delaware holding company in 2002. Our principal executive offices are located at 3100 Main Street, Suite 900, Houston, Texas 77002. Our telephone number is (713) 335-5151. Our website address is [www.prospricing.com](http://www.prospricing.com). The information on, or that can be accessed through, our website is not part of this prospectus.

PROS Revenue Management®, PROS and PROS Pricing Solution Suite are our trademarks in the United States. All other trademarks, trade names or service marks appearing in this prospectus are the property of their respective owners.

## The offering

<b>Common stock offered by PROS Holdings, Inc.:</b>	5,118,750 shares
<b>Common stock offered by the selling stockholders:</b>	1,706,250 shares
<b>Common stock to be outstanding after this offering:</b>	25,787,884 shares
<b>Over-allotment option:</b>	The selling stockholders have granted the underwriters an option for a period of 30 days to purchase up to an additional 1,023,750 shares of common stock.
<b>Use of proceeds:</b>	Approximately \$20.0 million will be used to repay outstanding indebtedness. We intend to use the remainder of the proceeds of the offering for working capital and other general corporate purposes, including capital expenditures and research and development. See "Use of proceeds."
<b>Proposed New York Stock Exchange symbol:</b>	PRO

The number of shares of common stock to be outstanding after this offering is based on the number of shares outstanding as of June 15, 2007. This information excludes:

200,000 shares of common stock issuable upon the exercise of warrants to acquire our common stock with an exercise price of \$2.05 per share;

1,502,260 shares of common stock issuable upon the exercise of outstanding options with a weighted average exercise price of \$4.85 per share; and

710,000 shares reserved for future issuance under our 2007 equity incentive plan.

Unless otherwise indicated, the information in this prospectus assumes:

that the underwriters will not exercise the over-allotment option; and

an initial public offering price of \$11.00 per share.

## Summary consolidated financial data

The summary consolidated financial data set forth below should be read in conjunction with "Selected consolidated financial data," "Management's discussion and analysis of financial condition and results of operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus. Our historical results are not necessarily indicative of results for any future period.

(In thousands, except per share amounts)	Year ended December 31			Three months ended March 31	
	2004	2005	2006	2006	2007
<b>Statement of income data:</b>					
<b>Revenue</b>					
License and implementation	\$ 20,015	\$ 20,190	\$ 29,604	\$ 5,707	\$ 9,023
Maintenance and support	12,431	14,940	16,423	3,911	4,429
<b>Total revenue</b>	<b>32,446</b>	<b>35,130</b>	<b>46,027</b>	<b>9,618</b>	<b>13,452</b>
<b>Cost of revenue</b>					
License and implementation	10,639	10,071	12,079	2,406	3,189
Maintenance and support	2,750	3,310	3,526	866	989
<b>Total cost of revenue</b>	<b>13,389</b>	<b>13,381</b>	<b>15,605</b>	<b>3,272</b>	<b>4,178</b>
Gross profit	19,057	21,749	30,422	6,346	9,274
Gross margin	58.7%	61.9%	66.1%	66.0%	68.9%
<b>Operating expenses</b>					
Selling, general and administrative	8,969	12,010	13,261	3,362	3,148
Research and development	6,262	6,399	10,332	2,147	3,741
<b>Total operating expenses</b>	<b>15,231</b>	<b>18,409</b>	<b>23,593</b>	<b>5,509</b>	<b>6,889</b>
Income from operations	3,826	3,340	6,829	837	2,385
Interest income, net	366	1,074	1,921	430	516
Income before income taxes	4,192	4,414	8,750	1,267	2,901
Income tax provision	(536)	(975)	(1,725)	(250)	(606)
<b>Net income</b>	<b>3,656</b>	<b>3,439</b>	<b>7,025</b>	<b>1,017</b>	<b>2,295</b>
Accretion of preferred stock	(1,256)	(852)	(460)	(131)	(82)
<b>Net earnings attributable to common stockholders</b>	<b>\$ 2,400</b>	<b>\$ 2,587</b>	<b>\$ 6,565</b>	<b>\$ 886</b>	<b>2,213</b>
<b>Net earnings attributable to common stockholders per share:</b>					
Basic	\$ 0.24	\$ 0.19	\$ 0.33	\$ 0.05	\$ 0.11
Diluted	\$ 0.19	\$ 0.16	\$ 0.32	\$ 0.04	\$ 0.11
<b>Weighted average number of shares</b>					
Basic	9,822	13,891	19,649	19,584	19,765
Diluted	19,618	20,012	20,604	20,462	20,224



## Edgar Filing: PROS Holdings, Inc. - Form S-1/A

The "As adjusted" column in the table below reflects the application of the net proceeds from the sale by us of the shares of common stock in this offering after the deduction of the underwriting discount and estimated offering expenses.

	<b>March 31, 2007</b>	
<b>(Dollars in thousands)</b>	<b>Actual</b>	<b>As adjusted</b>
<b>Balance sheet data:</b>		
Cash and cash equivalents	\$ 5,569	\$ 35,934
Working capital	(9,341)	21,224
Total assets	25,702	56,067
Long-term indebtedness, including current portion	20,000	
Total stockholders' equity (deficit)	\$ (27,674)	\$ 22,691

A \$1.00 increase (decrease) in the assumed initial public offering price of \$11.00 per share would increase (decrease) cash and cash equivalents, working capital, total assets and total stockholders' equity after this offering by approximately \$4.8 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriter discounts and estimated offering expenses payable by us.

The above information excludes:

200,000 shares of common stock issuable upon the exercise of warrants to acquire our common stock with an exercise price of \$2.05 per share;

1,502,260 shares of common stock issuable upon the exercise of outstanding options with a weighted average exercise price of \$4.85 per share; and

710,000 shares of common stock reserved for future issuance under our 2007 equity incentive plan.

## **Risk factors**

*This offering and an investment in our common stock involve a high degree of risk. You should consider carefully the risks described below, together with the financial and other information contained in this prospectus, before you decide to buy our common stock. If any of the following risks materializes, our business, financial condition and results of operations could suffer. In this case, the trading price of our common stock would likely decline and you might lose all or part of your investment in our common stock. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.*

### **Risks relating to our business and industry**

*We focus exclusively on the pricing and revenue optimization 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 optimization software products, implementation services and ongoing customer support. The pricing and revenue optimization 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 to implement pricing and revenue optimization software.

Some businesses may be reluctant or unwilling to implement pricing and revenue optimization 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 optimization software products because they previously have made investments in internally developed pricing and revenue optimization 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 perceive the benefits of pricing and revenue optimization software, the pricing and revenue optimization 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 optimization 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 our sales to airlines or any failure to increase sales to other industries would adversely affect our operating results.*

Historically, we have derived a significant portion of our revenue from the sale of our solutions to customers in the airline industry. Revenue from customers in the airline industry accounted for 52%, 44% and 43% of our total revenue in 2005, 2006, and the three months ended March 31, 2007, respectively. In 2005, 2006 and the three months ended March 31, 2007, airlines contributed 44%, 34% and 34%, respectively, of our license and implementation revenue. We classify revenue from all cargo customers, including air cargo customers, as part of our services industry revenue. We do not

expect the revenue from the sale of our software products and services to customers in the airline industry to grow as rapidly as our revenue from sales to customers in other industries. As such, our success is highly dependent upon our ability to sell our software products to customers in industries other than the airline industry. If we are unable to market and sell our software products effectively to customers in other industries, we may not be able to grow our business. In industries other than the airline industry, it is uncertain whether our software products will achieve and sustain the levels of demand and market acceptance that we anticipate. Such uncertainty is attributable to, among other factors, the following:

the possibility that it may be more difficult than we currently anticipate to implement our software products in certain industries;

the possibility that it may be more difficult than we currently anticipate to establish a customer base in certain industries;

the possibility that it may take more time to train our personnel in the implementation of our software products in new industries; and

our limited experience implementing our software products in many industries.

Although we expect the percentage of our revenue attributable to customers in the airline industry to continue to decline, a large portion of our revenue will continue to be derived from airline customers. Thus, our revenue is subject in part to the success of our customers in the airline industry. The airline industry is highly dependent on general economic conditions. Weak and uncertain economic conditions in the airline industry, airline industry consolidation and the reported weak performance of certain airline companies, including those commercial airline companies who have recently filed for bankruptcy could adversely affect our sales to the airline industry.

***Deterioration of general economic conditions could adversely affect our sales and operating results.***

We believe the implementation of our software products, which is often accompanied by hardware purchases and other capital commitments, involves significant capital expenditure by our customers. As a result, customers are likely to reduce or defer their spending on technology in the event of economic instability or downturn. In addition, weak and uncertain economic conditions could impair our customers' ability to pay for our products or services. Any of these factors could adversely impact our business, quarterly or annual operating results and financial condition.

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

The implementation of our software products can involve complex, large-scale projects that require substantial support operations, significant resources and reliance on certain factors that may not be under our control. For example, the success of our implementation projects is heavily dependent upon the quality of data used by our software products and the stability, functionality and scalability of the customer's information technology infrastructure. If weaknesses or problems in infrastructure or data exist, we may not be able to correct or compensate for such weaknesses. In addition, implementation of our software products can be highly complex and require substantial efforts and cooperation on the part of our customers and us. If we are unable to successfully manage the implementation of our software products such that those products do not meet customer needs or expectations, our business, reputation and financial performance may be significantly harmed.

In 2006, approximately 51% of our license and implementation revenue was earned from 10 customers. If an implementation project for a large customer is substantially delayed or cancelled, our ability to recognize the associated revenue and our operating results would be adversely affected.

***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 products 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 percentage of man-days incurred during the reporting period as compared to the estimated total man-days required to implement our software products. If we are unable to accurately estimate the overall total man-days required to implement our software products, 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.

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

Substantially all 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 products, 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.

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

We sell our software products to both new customers and existing customers. Many of our existing customers initially purchase our software products for a specific business segment within their organization and later purchase additional software products for the same or other business segments of their organization. These customers might not choose to make additional purchases of our software products or to expand their existing software products to other business segments. In addition, as we deploy new applications and features for our software products or introduce new software products, 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 we fail to develop or acquire new pricing and revenue optimization functionality to enhance our existing software products, we will not be able to achieve our anticipated level of growth.***

The pricing and revenue optimization software market is characterized by:

rapid technological developments;

newly emerging and changing customer requirements; and

frequent new product introductions and enhancements.

We must introduce new pricing and revenue optimization functionality that enhances our existing software products 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 optimization software generally and of our software products 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 they may develop and market new solutions that will compete with, and may reduce the demand for, our software products. We cannot assure you 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 products or adapt to changing industry requirements to meet market demand, we may not be able to achieve our anticipated level of growth and our revenue and operating results would be adversely affected.

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

***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 products and could result in pressure to price our software products in a manner that reduces our margins and harms our operating results.***

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

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

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

We expect additional competition from other established and emerging companies to the extent the pricing and revenue optimization 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. Many 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 to devote greater resources to the development, promotion and sale of their products than we can.

Competition could seriously impede our ability to sell additional software products and related services on terms favorable to us. Businesses may continue to enhance their internally developed solutions, rather than investing in commercially-available solutions such as ours. Our current and potential competitors may develop and market new technologies that render our existing or future products obsolete, unmarketable or less competitive. In addition, if these competitors develop products with similar or superior functionality to our products, or if they offer products with similar

functionality at a substantially lower price than our products, we may need to decrease the prices for our products in order to remain competitive. If we are unable to maintain our current product, services and maintenance pricing due to competitive pressures, our margins will be reduced and our operating results will be adversely affected. We cannot assure you 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.

***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. During this sales cycle, we may expend substantial resources with no assurance that a sale will ultimately result. The length of a 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 lengthening of the sales cycle could delay our recognition of revenue and could cause us to expend more resources than anticipated. If we are unsuccessful in closing sales or if we experience delays, it could have an adverse effect on our operating results.

***If we fail to retain our key personnel or if we fail to attract additional qualified personnel, we will not be able to achieve our anticipated level of growth and our operating results could be adversely affected.***

Our future success depends upon the continued service of our executive officers and other key sales, development, science and professional services staff. 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 a sufficient number of highly qualified personnel, and there can be no assurance that we will be able to do so. In particular, given the highly sophisticated pricing science included in our products, the pool of scientists and software developers qualified to work on our products is limited. In addition, the implementation of our software products 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 we fail to retain our key personnel and attract new personnel, we will not be able to achieve our anticipated level of growth and our operating results could be adversely affected.

***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 products and the scope and complexity of the customer's deployment requirements and ranges from six months to several years. As a result, a substantial majority of our revenue is recognized on arrangements that were executed in previous periods. Any shortfall in new sales of our software products may not be reflected in our revenue for several quarters, and as such the adverse impact on our business may not be readily apparent.

***Our license and implementation revenue produces lower gross margins than our maintenance and support revenue, and an increase in license and implementation revenue relative to maintenance and support revenue may harm our overall gross margins.***

Our license and implementation revenue was approximately 57%, 64% and 67% of our total revenue in 2005, 2006 and the three months ended March 31, 2007, respectively. Continued increases in the percentage of total revenue represented by license and implementation revenue could adversely affect our overall gross margins even though gross profit may be increasing.

***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. In 2005, 2006, and the three months ended March 31, 2007, approximately 60%, 63% and 67% 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 products. Managing overseas growth could require significant resources and management attention and may subject us to new or larger levels of regulatory, economic, 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;

if 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 products 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.

***Our inability to sustain our historical maintenance and support renewal rates and pricing would adversely affect our operating result.***

Maintenance and support agreements are typically for a term of one to two years. Over the past three years, customers have renewed an average of 96% of the maintenance and support revenue that was up for renewal. Historically, maintenance and support revenue has represented a significant portion of our total revenue, including approximately 36% and 34% of our total revenue

in 2006 and the three months ended March 31, 2007, respectively. In addition, our maintenance and support revenue has a higher gross margins than our license and implementation revenue. 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 be able to manage our future growth efficiently or profitably.***

We experienced significant growth in 2006 and the three months ended March 31, 2007 and are planning for this growth trend to continue. In response to such growth, we will likely need to expand the size of our sales and marketing, research and development and general and administrative staffs, grow our related operations and strengthen our financial and accounting controls. There is no assurance that our infrastructure will be sufficiently scalable to manage our growth. For example, our anticipated growth may result in a significant increase in demand for our implementation personnel to implement our solutions. If we are unable to address these additional demands on our resources, our operating results and growth might suffer. Even if we are able to hire additional personnel, there is no guarantee such personnel will be as highly qualified as our existing personnel. As a result, certain implementations of our solution may not meet our customers' expectations and our reputation could be harmed and our business and operating results adversely affected. Also, if we continue to expand our operations, management might not be effective in expanding our physical facilities and our systems, procedures or controls might not be adequate to support such expansion. Further, to the extent we invest in additional resources to support further growth and growth in our revenue does not ensue, our operating results would be adversely affected. Our inability to manage our growth could harm our business.

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

Our pricing and revenue optimization software products are complex and may contain undetected defects or errors. Several of our products 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 products 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 products 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 products. Consequently, we or our customers may discover defects or errors after our software products have been implemented. We have in the past issued, and may in the future need to issue, corrective releases of our products 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 products;

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.

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Our license agreements with our customers typically contain provisions designed to limit our liability for defects and errors in our software products 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 assure you 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.

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

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the Securities and Exchange Commission, or SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in principles or interpretations, in particular those related to revenue recognition, could have an adverse effect on our reported financial results.

***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 sure 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.

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 four 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 uses 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. If any of our patent applications issue, they 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, once they have been issued, 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 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 make 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 products and competitors would be more easily able to compete with us.

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

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 optimization solutions may become increasingly subject to infringement claims as the number of commercially available pricing and revenue optimization solutions increases and the functionality of these solutions overlaps. 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 products.

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 products, which could limit our ability to generate revenue or maintain profitability.

We may also be required to indemnify our customers for their use of the intellectual property associated with our current product suite 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 the customers. Some of our intellectual property indemnification obligations are contractually capped at a very high amount or not capped at all.

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

We use open source software in our products 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 products 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 products. 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 re-engineer our products, to discontinue the sale of our products 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.

***We utilize third-party software that we incorporate into our software products, 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 products. 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 products 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.

***The elimination or significant reduction in the general business tax credit could adversely affect our results of operations.***

Our results of operations benefit from the tax credit incentives under the U.S. research and experimentation tax credit extended to taxpayers engaged in qualified research and experimental activities while carrying on a trade or business. 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 and may use related general business tax credit carryforwards in future periods to reduce our federal income tax liability. Our operating activities may disqualify us in the future from the benefits of the tax credit. In addition, the tax credit may not be renewed prior to its expiration on December 31, 2007, or if renewed, it may be renewed on terms significantly less favorable than current tax incentives or on terms resulting in our disqualification from the benefits of the tax credit. The elimination or significant reduction in the tax credit would increase our effective tax rate and would adversely affect our results of operations.

***If we do not develop relationships with third-party consultants and systems integrators to implement our solutions, our growth may suffer.***

Our strategy is to develop relationships with third-party consultants and systems integrators to assist with implementation of our solutions. If third-party consultants and systems integrators are reluctant to assist on terms acceptable to us, if at all, or if we otherwise fail to establish and maintain these relationships, our growth may suffer and our operating results could be harmed. In addition, if we establish such relationships with third-party consultants and systems integrators, we may only have limited control over the level and quality of service provided by such parties.

***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.***

We currently do not have any agreements with respect to any acquisitions, but in the future we may pursue acquisitions of businesses, technologies and products that we intend to complement our existing business, products and technologies. We cannot assure you 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:

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 products and services;

unexpected expenses resulting from the acquisition; and

potential unknown liabilities associated with acquired businesses.



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In addition, acquisitions may result in the incurrence of debt, restructuring charges and write-offs, such as write-offs of acquired in-process research and development. Acquisitions may also result in goodwill and other intangible assets that are subject to impairment tests, which could result in future impairment charges. Furthermore, if we finance acquisitions by issuing convertible debt or equity securities, our existing stockholders may be diluted and earnings per share may decrease. To the extent we finance future acquisitions with debt, such debt could include financial or operational covenants that restrict our business operations.

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.

***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.

***We will incur significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives.***

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. SEC and the New York Stock Exchange rules and regulations impose heightened requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. We may also need to hire additional finance and administrative personnel to support our compliance requirements. Moreover, these rules and regulations will increase our legal and financial costs and will make some activities more time-consuming.

In addition, we are required to maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we will be required to perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on, and our independent registered public accounting firm to report on, the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies or material weaknesses in our internal controls over financial reporting. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies or material weaknesses in our internal controls over financial reporting, the market price of our stock could decline and we could be subject to sanctions or investigations by

the New York Stock Exchange, SEC or other regulatory authorities, which would require additional financial and management resources.

***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 growth strategy.***

We believe that our existing cash and cash equivalents and our cash flow from future operating activities, together with the net proceeds of this offering, will be sufficient to meet our anticipated cash needs for 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 prospectus. In addition, we may require additional financing to fund the purchase price of future acquisitions. Additional financing may not be available on terms favorable to us, or at all. 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. Capital raised through debt financings could require us to make periodic interest payments and could impose potentially restrictive covenants on the conduct of our business.

### **Risks relating to this offering and ownership of our common stock**

***Because there has not been a public market for our common stock and our stock price may be volatile, you may not be able to resell your shares at or above the initial offering price.***

Prior to this offering, you could not buy or sell our common stock publicly. We cannot predict the extent to which an active trading market for our common stock will develop or whether the market price of our common stock will be volatile following this offering. The market for technology stocks has been volatile. The following factors, most of which are outside of our control, could cause the market price of our common stock to decrease significantly from the price you pay in this offering:

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 products or product 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 products;

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; and

other risks described elsewhere in this section.

In