



# 2014

Annual Report

**PROS**®

PROS.com • NYSE PRO





Unlock Your Data • Unleash Your Sales

Dear Shareholders, Customers, Partners and Employees:



2014 was an outstanding year for PROS. For the fourth consecutive year, we grew revenues more than 20% by executing against our diversified growth strategy, which centers on accelerating awareness and adoption, extending our product leadership position, and extending our global reach and scale.

In 2014, we added a record number of new customers, doubling the number of B2B customers added in 2013. It is exciting to see more and more companies turn to PROS to help them use their data as a competitive advantage. We are honored that our solutions are counted on by so many executives to drive better business performance.

Our mission from the very beginning has been to provide solutions that combine data science expertise with a deep understanding of business problems. We believe the real power of data-driven applications lies in the ability to fuel the success of the end user, and our industry-leading solutions are changing what customers expect from an enterprise application.

As we move into 2015, we are confident about what the future holds. Our solutions are more relevant than ever before, and we continue to introduce new innovations that deliver greater revenue growth and better performance for our customers.

I would like to extend my sincerest thanks to each of you for your part in helping PROS be successful. I am grateful to our customers for the trust you place in us, to our employees for their spirit of innovation and customer-centricity, and to you, our shareholders, for your continued support.

A handwritten signature in blue ink, appearing to read "Andres". The signature is stylized and includes a horizontal line extending to the right.

Andres

**PROS Holdings, Inc.**  
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## PROXY SUMMARY

This summary highlights selected information for PROS Holdings, Inc. (together with its consolidated subsidiaries, "PROS", "the Company", "we", "us", or "our") in this Proxy Statement to assist you in reviewing the proposals to be acted upon at the Annual Meeting of Stockholders. Please review our Annual Report on Form 10-K and the entire Proxy Statement before voting:

### 2014 Business Highlights

\* Record 2014 non-GAAP revenue of \$193.6 million, a 34% increase over 2013.<sup>(1)</sup>

\* Added a record number of new customers and expanded relationships with a record number of existing customers.

\* Completed the acquisition of Cameleon Software, SA.

\* Increased total headcount almost 20%, to more than 1,000 people as of December 31, 2014.

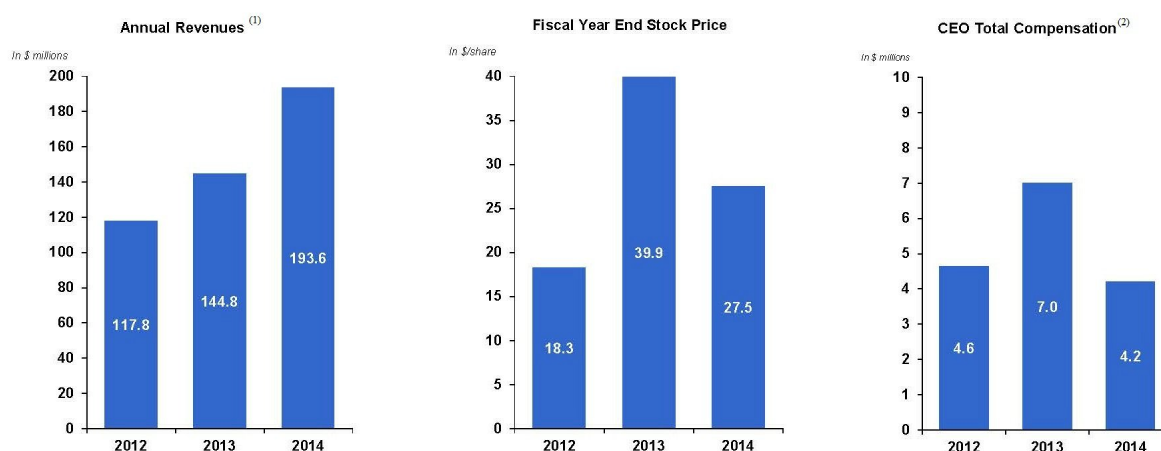
\* Introduced our Group Sales Optimizer (GSO) solution, and released new versions of our big data applications for pricing, revenue management and sales effectiveness.



(1) A reconciliation of non-GAAP revenue to the most directly comparable generally accepted accounting principles in the United States (GAAP) financial measure is provided on page 24.

### 2014 Compensation Highlights

- Our stockholders *overwhelmingly* supported our executive compensation program in 2014, with *over 99%* of the total votes cast at our 2014 annual stockholder's meeting voted in favor of our executive compensation program.
- We continued to emphasize performance-based pay for our named executive officers (NEOs) through the use of market stock unit (MSU) awards and performance based bonus incentives.
- Approximately 90% of our NEOs compensation packages was "at risk" compensation, that was directly tied to the success of our business, our stock price, and the individual performance of our NEOs.
- The relationship between our performance (based on our non-GAAP revenue and stock price), and our CEO's compensation was as follows:



(1) Represents non-GAAP revenue. See page 24 of this Proxy Statement above for a reconciliation of non-GAAP revenue and GAAP revenue.

(2) Represents Mr. Reiner's total compensation as reported in the Summary Compensation table on page 36.

## Voting Matters

| Proposal  | Page # | Board Vote Recommendation | Vote Required | Abstentions   | Uninstructed Shares |
|---|--------|---------------------------|---------------|---------------|---------------------|
| Elect three directors   | 10     | For each director nominee | Plurality     | Not Voted     | Not Voted           |
| Ratification of appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2015 | 11     | For                       | Majority      | Voted Against | Not Voted           |
| Advisory vote on NEO compensation   | 11     | For                       | Majority      | Voted Against | Not Voted           |

## Board Nominees

All nominees meet the New York Stock Exchange (NYSE) governance standards for director independence.

| Name            | Age | Director Since | Independent | Class | AC | CC | NC | Other Public Company Boards |
|-----------------|-----|----------------|-------------|-------|----|----|----|-----------------------------|
| Ellen Keszler   | 52  | 2008           | Yes         | II    | ●  | ●  |    | -                           |
| William Russell | 62  | 2008           | Yes         | II    |    | ●  | ●  | SABA Software, Inc.         |
| Leslie Rechan   | 53  | Nominee        | Yes         | II    |    |    |    | -                           |

AC Audit Committee      CC Compensation Committee      NC Nominating and Corporate Governance Committee

## Continuing Directors

| Name                    | Age | Director Since | Independent | AC | CC | NC | Other Public Company Boards                     |
|-------------------------|-----|----------------|-------------|----|----|----|---|
| Andres D. Reiner        | 44  | 2010           | No          |    |    |    | Paylocity Holding Corporation                   |
| Ronald F. Woestemeyer   | 69  | 1985           | No          |    |    |    | -   |
| Greg B. Petersen        | 51  | 2007           | Yes         | ●  | ●  | ●  | Diligent Board Member Services, Inc.            |
| Timothy V. Williams     | 66  | 2007           | Yes         | ●  | ●  | ●  | ChannelAdvisor Corporation;<br>Halogen Software |
| Mariette M. Woestemeyer | 63  | 1985           | No          |    |    |    | -   |

AC Audit Committee      CC Compensation Committee      NC Nominating and Corporate Governance Committee

## Governance Highlights

The Company is committed to good corporate governance, which promotes the long-term interests of stockholders and strengthens Board and management accountability. Highlights include:

|   |   |
|---|---|
| <b>Independence</b>   | Each of our 2015 director nominees and all Board of Directors committee members are independent under the listing standards of the New York Stock Exchange.   |
| <b>Independent Lead Director</b>                                | Our Board of Directors is led by a non-executive chairman, who is an independent director under the listing standards of the New York Stock Exchange.   |
| <b>Executive Sessions</b>                                       | The independent directors regularly meet in private without management. Our Independent Lead Director presides at these executive sessions.   |
| <b>Board Oversight of Risk Management</b>                       | Our Board of Directors reviews our approach to identifying and assessing risks faced by the Company. Our Audit Committee reviews our overall enterprise risk management policies and practices, financial risk exposures and the delegation of risk oversight responsibilities to other committees of our Board of Directors.   |
| <b>Stock Ownership Requirements</b>                             | Our Board increased the minimum ownership requirements for our directors and NEOs in February 2014. Our Chief Executive Officer must hold shares equal to four times his base salary, and all other NEOs must hold shares equal to two times their base salary.   |
| <b>Board Practices</b>  | Our Board of Directors, and each of its committees annually review their effectiveness as a group.  |
| <b>Accountability</b>   | In February 2015, our Board of Directors adopted a director resignation policy requiring that any director nominee who does not receive at least 50% of the stockholder votes "for" his or her re-election tender his or her resignation. In March 2015, our Compensation Committee adopted a policy related to 2007 Equity Incentive Plan to prohibit repricing of underwater stock options without stockholder approval. We also maintain a "clawback" policy which permits our Board of Directors to recover, under applicable law, incentive bonuses awarded to NEOs as a result of any NEOs fraud or intentional misconduct. |
| <b>Board Tenure</b>   | Average tenure of 12 years, inclusive of Mr. Rechan (2015 nominee):<br>0-2 years: One Nominee      3-5 years: Four Directors<br>6-10 years: Four Directors      >15 years: Two Directors  |
| <b>Diversity</b>  | 25% women and 50% under age 60  |
| <b>Anti-Hedging, Anti-Short Sale and Anti-Pledging Policies</b> | Our executives and directors are prohibited from participating in hedging transactions, pledging our securities, and participating in short sales of our securities.  |



## **NOTICE OF 2015 ANNUAL MEETING OF STOCKHOLDERS**

**TIME**            **8:00 a.m., Central Daylight Time**

**DATE**            **Thursday, May 21, 2015**

**PLACE**           **3100 Main Street, 9th Floor, Houston, Texas 77002, +1 (713) 335-5151**

### **AGENDA**

- 1        Elect three (3) Class II directors to the Board of Directors named in the Proxy Statement, each for a three-year term until our Annual Meeting to be held in the year 2018;
- 2        Ratification of appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2015;
- 3        Advisory vote on named executive officer compensation; and
- 4        Transaction of other business that may properly come before the Annual Meeting.

### **RECORD DATE**

Only stockholders of record at the close of business on April 2, 2015 will be entitled to vote at the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection by any stockholder at our offices, 3100 Main Street, 9th floor, Houston, TX 77002, during ordinary business hours, for 10 days prior to the Annual Meeting.

### **MATERIALS TO REVIEW**

We are mailing to our stockholders a Notice of Internet Availability of Proxy Materials (Notice), instead of a paper copy of this Proxy Statement and our Annual Report to Stockholders for the Year Ended December 31, 2014 (2014 Annual Report). The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how to request a paper copy of our proxy materials, including this Proxy Statement, our 2014 Annual Report and a form of proxy card or voting instruction card.

### **PROXY VOTING**

**To ensure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the Annual Meeting.** You can vote your shares in one of the following three ways whether or not you plan to attend the Annual Meeting: (1) via the Internet, (2) by completing your proxy using the toll-free number listed on the proxy card or (3) by completing, signing and dating the accompanying proxy card and returning it in the postage-prepaid envelope enclosed for that purpose. For further details, see the section entitled "Voting Instructions" in this Proxy Statement and your proxy card or the email you received for electronic delivery of this Proxy Statement.

**By Order of the Board of Directors,**

/s/ Damian Olthoff

**Damian Olthoff**

General Counsel and Secretary

Houston, Texas  
April 10, 2015



# PROS HOLDINGS, INC.

## PROXY STATEMENT

### 2015 ANNUAL MEETING OF STOCKHOLDERS MAY 21, 2015

#### General

The enclosed proxy is solicited on behalf of the Board of Directors of PROS Holdings, Inc. (Board of Directors) for use at the Annual Meeting of Stockholders (Annual Meeting) to be held May 21, 2015 at 8:00 a.m., local time, at 3100 Main Street, 9th Floor, Houston, Texas 77002, or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. Only stockholders of record at the close of business on April 2, 2015 (Record Date) are entitled to notice of and to vote at the Annual Meeting.

The Notice of Internet Availability of Proxy Materials (Notice) containing instructions on how to access our proxy solicitation materials and our Annual Report to Stockholders for the year ended December 31, 2014 (2014 Annual Report), including financial statements, was first mailed and those documents were first made available on or about April 13, 2015 to stockholders entitled to vote at the Annual Meeting. References in this Proxy Statement to the “Company,” “we,” “our,” and “us” refer to PROS Holdings, Inc. and its consolidated subsidiaries.

The purposes of the Annual Meeting are:

- 1 To elect three (3) Class II directors to the Board of Directors, each to serve for a three-year term until the Annual Meeting to be held in the year 2018;
- 2 To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015;
- 3 To conduct an advisory vote on executive compensation; and
- 4 To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

#### Record date and shares outstanding

Stockholders of record at the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting. As of the Record Date, 29,494,401 shares of Common Stock were outstanding. Each stockholder of record as of the Record Date is entitled to one vote for each share of Common Stock held by such stockholder.

#### Vote required

If a quorum is present, a plurality vote of the holders of our Common Stock entitled to vote and present or represented by proxy at the Annual Meeting is required for the election of a director. This “plurality” standard means the nominees who receive the largest number of “for” votes cast are elected as directors. Thus, the number of shares not voted for the election of a nominee (and the number of “withhold” votes cast with respect to that nominee) will not affect the determination of whether that nominee has received the necessary votes for election under Delaware law. However, the number of “withhold” votes with respect to a nominee will affect whether our Director Resignation Policy will apply to that individual. Our Director Resignation Policy adopted by our Board of Directors in February 2015 provides that any nominee for director who receives a greater number of votes “withheld” from his or her election than votes “for” such election is required to offer his or her resignation following certification of the stockholder vote. Our Nominating and Corporate Governance Committee of our Board of Directors would then consider the offer of resignation and make a recommendation to our independent directors as to the action to be taken with respect to the offer. This policy does not apply in contested elections. For more information about this policy, see “Corporate Governance - Director Resignation Policy.”

The affirmative vote of the holders of a majority of the shares of Common Stock present or represented by proxy and voting at the Annual Meeting is required to approve the ratification of the selection of our independent auditors and the advisory vote on executive compensation. We will not count abstentions as either for or against a director, so abstentions have no effect on the election of a director. A properly executed proxy marked “abstain” with respect to any matter is considered entitled to vote, and thus, will have the effect of a vote against a matter, except for the election of directors.

Our bylaws provide that a majority of the outstanding shares of our stock entitled to vote, whether present in person or represented by proxy, shall constitute a quorum for the transaction of business at the Annual Meeting. Votes for and against,

abstentions and “broker non-votes” (shares held by a broker or nominee that does not have the authority, either express or discretionary, to vote on a particular matter) will each be counted as present for purposes of determining the presence of a quorum.

### **Effect of not casting your vote**

The New York Stock Exchange (NYSE) prohibits banks, brokers and other intermediaries from voting shares held in their clients’ accounts on elections of directors unless the client has provided voting instructions. Therefore, if you hold your shares in street name through a broker, it is important that you cast your vote if you want it to count in the election of directors (Proposal One of this Proxy Statement).

### **Attending the Annual Meeting**

The Annual Meeting will be held at 8:00 a.m., local time, on Thursday, May 21, 2015, at 3100 Main Street, 9th Floor, Houston, Texas 77002. When you arrive, signs will direct you to the meeting room. Please note that the doors to the meeting room will not be open until 8:00 a.m. You do not need to attend the Annual Meeting to vote. Even if you plan to attend the Annual Meeting, please submit your vote in advance as instructed below.

### **Revocability of proxies**

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted at the Annual Meeting. Proxies may be revoked by:

- Filing with our Corporate Secretary, at or before the taking of the vote at the Annual Meeting, a written notice of revocation bearing a later date than the proxy;
- Duly executing a later-dated proxy relating to the same shares and delivering it to our Corporate Secretary at or before the taking of the vote at the Annual Meeting; or
- Attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not in and of itself constitute a revocation of a proxy).

Any written notice of revocation or subsequent proxy should be delivered to PROS Holdings, Inc. at our headquarters located at 3100 Main Street, Suite 900, Houston, Texas 77002, Attention: Corporate Secretary, or hand-delivered to our Corporate Secretary before the taking of the vote at the Annual Meeting.

### **Electronic delivery of stockholder communications**

We are pleased to take advantage of the U.S. Securities and Exchange Commission (SEC) rules that allow companies to furnish their proxy materials over the Internet. As a result, we are mailing to our stockholders the Notice, instead of a paper copy of this Proxy Statement and our 2014 Annual Report. The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how to request a paper copy of our proxy materials, including this Proxy Statement, our 2014 Annual Report and a form of proxy card or voting instruction card. As a result of the Notice, not all stockholders will receive a paper copy of our proxy materials.

### **Voting instructions**

To ensure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the Annual Meeting in person. Most stockholders have three options for submitting their votes: (1) via the Internet, (2) by telephone or (3) by mail using the paper proxy card. If you have Internet access, **we encourage you to record your vote via the Internet**. It is convenient and saves us significant postage and processing costs. In addition, when you vote via the Internet or by telephone prior to the meeting date, your vote is recorded immediately, and there is no risk that postal delays will cause your vote to arrive late and therefore not be counted. If you attend the Annual Meeting, you may also submit your vote in person, and any previous votes that you submitted, whether by Internet, telephone or mail, will be superseded by the vote that you cast at the Annual Meeting.

- *Vote by Internet.* You can vote via the Internet. The website address for Internet voting is [www.PROXYVOTE.com](http://www.PROXYVOTE.com). Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. You can use the Internet to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 20, 2015. Internet voting is available 24 hours a day. If you vote via the Internet you do NOT need to vote by telephone or return a proxy card.
- *Vote by Telephone.* You can vote by telephone by calling the toll-free telephone number provided on your proxy card. Have your proxy card in hand when you call and then follow the instructions. You may transmit your voting instructions from any touch-tone telephone up until 11:59 P.M. Eastern Time on May 20, 2015. Telephone voting is available 24 hours a day. If you vote by telephone you do NOT need to vote over the Internet or return a proxy card.

- *Vote by Mail.* If you received a printed copy of the proxy card, you can vote by marking, dating and signing it, and returning it in the postage-paid envelope provided to PROS Holdings, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. Please promptly mail your proxy card to ensure that it is received prior to the closing of the polls at the Annual Meeting. If you vote by mail you do NOT need to vote over the Internet or vote by telephone.

If you are a beneficial owner, or you hold your shares in “street name,” please check your voting instruction card or contact your bank, broker or nominee to determine whether you will be able to vote by Internet or telephone.

### **Householding Matters**

Some banks, brokers and other nominee record holders may be participating in the practice of “householding” proxy statements and annual reports. This means that only one copy of the Notice and Proxy Statement may have been sent to multiple stockholders in your household. If you would prefer to receive separate copies of a proxy statement either now or in the future, please contact our Corporate Secretary by writing to our principal office at 3100 Main Street, Suite 900, Houston, Texas 77002. Upon written request, we will provide separate copies of the Notice or this Proxy Statement to each stockholder at that address. In addition, stockholders sharing an address and receiving multiple copies can request delivery of a single copy of proxy statements upon written request to our Corporate Secretary at the address stated above.

## PROPOSAL ONE

### ELECTION OF DIRECTORS

Our Board of Directors currently consists of seven members, which is divided into three classes, each of whose members serve for a staggered three-year term. For 2015, the Board of Directors has determined to expand the Board of Directors to include eight members. The term of office of one class of directors expires each year in rotation so that one class is elected at each annual meeting for a full three-year term. Ellen Keszler, Leslie Rechan and William Russell have been nominated by the Board of Directors as Class II Directors, each to hold office until the Annual Meeting to be held in the year 2018 and until a successor has been duly elected and qualified or until the earlier of their death, resignation or removal.

The Board of Directors is also composed of two (2) Class III directors, whose terms expire upon the election and qualification of directors at the Annual Meeting to be held in 2016, and three (3) Class I directors, whose terms expire upon the election and qualification of directors at the Annual Meeting to be held in 2017.

The Board of Directors knows of no reason why any of the nominees would be unable or unwilling to serve, but if any nominee should for any reason be unable or unwilling to serve, the proxies will be voted for the election of such other person for the office of director as the Board of Directors may recommend in the place of such nominee. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named below.

#### Vote required

Election of a director requires the plurality vote of the holders of our Common Stock entitled to vote and present or represented at the Annual Meeting. Accordingly, the three nominees who receive the highest number of properly executed “FOR” votes from the holders of Common Stock, will be elected as directors. We will not count abstentions as either for or against a director, so abstentions have no effect on the election of a director.

In accordance with Delaware law, abstentions will be counted for purposes of determining both whether a quorum is present at the Annual Meeting and the total number of shares represented and voting on this proposal. While broker non-votes will be counted for purposes of determining the presence or absence of a quorum, broker non-votes will not be counted for purposes of determining the number of shares represented and voting with respect to the particular proposal on which the broker has expressly not voted and, accordingly, will not affect the approval of this proposal.

The number of “withhold” votes with respect to a nominee will affect whether our Director Resignation Policy will apply to that individual. Our Director Resignation Policy provides that any nominee for director who receives a greater number of votes “withheld” from his or her election than votes “for” such election is required to offer his or her resignation following certification of the stockholder vote. Our Nominating and Corporate Governance Committee of our Board of Directors would then consider the offer of resignation and make a recommendation to our independent directors as to the action to be taken with respect to the offer. This policy does not apply in contested elections. For more information about this policy, see “Corporate Governance - Director Resignation Policy.”

The NYSE broker discretionary rules prohibit banks, brokers and other intermediaries from voting shares held in their clients’ accounts on elections of directors unless the client has provided voting instructions. Therefore, if you hold your shares in street name, it is important that you cast your vote if you want it to count in the election of directors.

### **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING “FOR” THE ELECTION OF EACH OF THE CLASS II NOMINEES LISTED BELOW.**

The name of and certain information regarding each Class II director nominee is set forth below, together with information regarding our Class III and Class I directors remaining in office. The business address for each nominee for matters regarding PROS Holdings, Inc. is 3100 Main Street, Suite 900, Houston, TX 77002.

| Nominee's or Director's Name and Year First Became a Director | Position(s) with the Company                                       | Current Term Will Expire | Current Class of Director |
|---|--|--------------------------|---------------------------|
| <b>Nominees for Class II Directors:</b>                       |  |                          |                           |
| Ellen Keszler — 2008  | Director (Nominee)   | 2015                     | II                        |
| Leslie Rechan   | Nominee  |                          |                           |
| William Russell — 2008  | Non-Executive Chairman of the Board (Nominee)                      | 2015                     | II                        |
| <b>Continuing Directors:</b>                                  |  |                          |                           |
| Andres D. Reiner — 2010                                       | President and Chief Executive Officer                              | 2016                     | III                       |
| Ronald F. Woestemeyer — 1985                                  | Executive Vice-President, Strategic Business Planning and Director | 2016                     | III                       |
| Greg B. Petersen — 2007                                       | Director   | 2017                     | I                         |
| Timothy V. Williams—2007                                      | Director   | 2017                     | I                         |
| Mariette M. Woestemeyer—1985                                  | Director   | 2017                     | I                         |

## PROPOSAL TWO

### RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of our Board of Directors (Audit Committee) has selected the independent registered public accounting firm of PricewaterhouseCoopers LLP to audit our consolidated financial statements for the fiscal year ending December 31, 2015 and recommends that stockholders vote for ratification of such appointment. Notwithstanding the selection and ratification, the Audit Committee, in its discretion, may appoint a different independent registered public accounting firm at any time, if it believes doing so would be in the best interests of us and our stockholders. In the event of a negative vote on ratification, the Audit Committee will reconsider, but might not change, its selection.

PricewaterhouseCoopers LLP has audited our financial statements annually since 2002. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting with the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

#### Vote required

Approval of the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm requires the affirmative vote of the holders of at least a majority of the outstanding shares of our Common Stock entitled to vote and present or represented at the Annual Meeting. A properly executed proxy marked “ABSTAIN” with respect to this matter is considered entitled to vote and thus, will have the effect of a vote against this matter.

In accordance with Delaware law, abstentions will be counted for purposes of determining both whether a quorum is present at the Annual Meeting and the total number of shares represented and voting on this proposal. While broker non-votes will be counted for purposes of determining the presence or absence of a quorum, broker non-votes will not be counted for purposes of determining the number of shares represented and voting with respect to the particular proposal on which the broker has expressly not voted and, accordingly, will not affect the approval of this proposal.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING “FOR” THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2015.**

## PROPOSAL THREE

### ADVISORY VOTE ON EXECUTIVE COMPENSATION

As required pursuant to Section 14A of the Securities Exchange Act of 1934, we are providing our stockholders with the opportunity to vote to approve, on an advisory or non-binding basis, the compensation of our named executive officers (NEOs) as disclosed in this Proxy Statement in accordance with SEC rules. We currently conduct this advisory vote on an annual basis and expect to conduct the next advisory vote at our Annual Meeting to be held in 2016.

As described in the “Compensation Discussion and Analysis” section of this Proxy Statement, our executive compensation program is designed to attract, retain, and motivate talented individuals with the executive experience and leadership skills necessary for us to manage our business and meet our long-term objectives. We seek to provide executive compensation that is competitive with companies that are similar to us. We also seek to provide near-term and long-term financial incentives that reward well-performing executives when strategic corporate objectives designed to increase long-term stockholder value are achieved. We believe that executive compensation should include base salary, cash incentives and equity awards. We also believe that our executive officers’ base salaries should be set at levels relative to comparable companies, and cash and equity incentives should generally be set at levels that give executives the opportunity to achieve above-average total compensation reflecting above-average Company performance. In particular, our executive compensation philosophy is to promote long-term value creation for our stockholders by rewarding improvement in selected financial metrics and by using equity incentives. Please see our “Compensation Discussion and Analysis” (beginning on page 24) and related compensation tables for detailed information about our executive compensation programs, including information about the fiscal year 2014 compensation of our NEOs.

This vote is advisory and therefore not binding. However, the Compensation Committee of our Board of Directors (Compensation Committee) values the opinions of our stockholders and to the extent there is any significant vote against the NEO compensation as disclosed in this Proxy Statement, we will consider those stockholders’ concerns, and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

Note that because the advisory vote on executive compensation occurs well after the beginning of the compensation year, in most cases it may not be feasible to change any executive compensation program in consideration of any one year’s advisory vote on executive compensation.

#### **Vote required**

The affirmative vote of a majority of the outstanding shares of our Common Stock entitled to vote and present in person or represented by proxy at the Annual Meeting is required for advisory approval of this proposal. A properly executed proxy marked “ABSTAIN” with respect to this matter is considered entitled to vote, and thus will have the effect of a vote against this matter.

In accordance with Delaware law, abstentions will be counted for purposes of determining both whether a quorum is present at the Annual Meeting and the total number of share represented and voting on this proposal. While broker non-votes will be counted for purposes of determining the presence or absence of a quorum, broker non-votes will not be counted for purposes of determining the number of shares represented and voting with respect to the particular proposal on which the broker has expressly not voted and, accordingly, will not affect the approval of this proposal.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING “FOR” THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT.**

## MANAGEMENT

### Directors and Executive Officers

The following table sets forth the director nominees to be elected at the Annual Meeting, the directors, executive officers and key employees of the Company, their ages, and the positions currently held by each such person with the Company immediately prior to the Annual Meeting:

| Name  | Age | Position   |
|---|-----|--|
| <b><i>Directors and Executive Officers:</i></b> |     |  |
| Andres D. Reiner                                | 44  | Chief Executive Officer, President and Director                    |
| Stefan Schulz                                   | 48  | Executive Vice President and Chief Financial Officer               |
| D. Blair Crump                                  | 53  | Chief Operating Officer  |
| Ronald F. Woestemeyer                           | 69  | Executive Vice-President, Strategic Business Planning and Director |
| Ellen Keszler (1)(3)                            | 52  | Director (Nominee)   |
| Greg B. Petersen (1)(2)(3)                      | 52  | Director   |
| Leslie Rechan                                   | 53  | Director (Nominee)   |
| William Russell (2)(3)                          | 63  | Director (Nominee)   |
| Timothy V. Williams (1)(2)(3)                   | 66  | Director   |
| Mariette M. Woestemeyer                         | 63  | Director   |
| <b><i>Other Key Employees:</i></b>              |     |  |
| Tim Girgenti                                    | 44  | Chief Strategy Officer   |
| Jake Cleveland                                  | 50  | Senior Vice President, Worldwide Sales                             |
| Chris Jones                                     | 51  | Senior Vice President, Partners and Alliances                      |
| Ajay Damani                                     | 42  | Senior Vice President, Product Development                         |
| Oscar Moreno                                    | 42  | General Manager, CPQ, Global Support and Cloud                     |
| Charles H. Murphy                               | 70  | Executive Vice President   |
| Damian Olthoff                                  | 40  | General Counsel and Secretary                                      |
| Jeff Robinson                                   | 48  | Senior Vice President, Product Management                          |
| Patrick Schneidau                               | 37  | Chief Marketing Officer  |
| Wagner Williams                                 | 36  | Senior Vice President, Professional Services                       |
| Benson Yuen                                     | 54  | Senior Vice President, Travel                                      |
| Craig Zawada                                    | 44  | Chief Innovation Officer   |

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Corporate Governance Committee.

*Andres D. Reiner* has served as a director and as our President and Chief Executive Officer since 2010. Mr. Reiner joined the Company in 1999, and prior to his appointment as President and Chief Executive Officer, held a series of positions with successively increasing responsibility, including Senior Vice President of Product Development and Executive Vice President of Product and Marketing. Prior to becoming our President and Chief Executive Officer, he was responsible for global marketing and alliances, product management, science research, and development of our next generation software products. Mr. Reiner was also instrumental in our European growth and the expansion of the Company's sales and marketing efforts worldwide. Prior to joining us, Mr. Reiner held various technical and management positions in technology companies including Platinum Technology, ADAC Healthcare Information Systems, and Kinesix. Mr. Reiner has served on the Board of Directors of Paylocity Holding Corporation since 2014, and is currently the compensation committee and nominating and governance committee chairman for the Paylocity board of directors. Mr. Reiner holds a Bachelor of Science in Computer Science with a minor in Mathematics from the University of Houston. Mr. Reiner has familiarity with all of the Company's key day to day operations and has leadership, management and operating experience. In addition, Mr. Reiner has in-depth experience and knowledge in the development of our products, services and the markets in which we compete.

*Stefan Schulz* joined the Company in March 2015 and serves as our Executive Vice President and Chief Financial Officer. Prior to joining the Company, Mr. Schulz served as Chief Financial Officer for Digital River, Inc., a global provider of cloud-based commerce, payments and marketing services, from July 2011 to February 2015. Prior to joining Digital River, Mr. Schulz spent six years with Lawson Software, an enterprise resource planning software company, where he served as Senior Vice President, Chief Financial Officer and Chief Accounting Officer. Mr. Schulz holds a B.B.A. in Accounting from Lamar University.

*Charles H. Murphy* joined the Company in 1998 and currently serves as our Executive Vice President. Mr. Murphy previously served as our Chief Financial Officer from March 2001 to March 2015. Prior to joining the Company, Mr. Murphy held chief financial officer positions with Expert Software, a publicly traded software company, Merchant International, a software company, and Packaging Machinery Company, a publicly traded manufacturer of packaging machinery. Mr. Murphy holds a Bachelor of Science from Bentley College.

*D. Blair Crump* joined the Company in February 2014 and serves as our Chief Operating Officer. Prior to joining the Company, Mr. Crump previously served as President, Global Enterprise of Salesforce.com from February 2012 to January 2014, where he was responsible for overseeing their global enterprise business unit. Prior to Salesforce.com, Mr. Crump was with Verizon Business, a provider of advanced IP communications and IT products and services. Mr. Crump served as Verizon Business' Group President of Worldwide Sales and Consulting services from 2008 to 2012, overseeing its enterprise, mid-tier, government, and education sales efforts globally. Prior to that role, Mr. Crump served as Senior Vice President of Premier and International Sales for Verizon Business, and was responsible for delivering strategic sales and support for Verizon's enterprise customers throughout the world. Mr. Crump previously served in various sales and marketing positions at MCI, which was acquired by Verizon in 2006. Mr. Crump holds a Bachelor of Science from the Wharton School at the University of Pennsylvania.

*Ronald F. Woestemeyer* co-founded the Company in 1985 with his wife, Mariette Woestemeyer, and has been a director since our founding and has served as Executive Vice President, Strategic Business Planning since 1997. From 1985 to 1997, Mr. Woestemeyer served as our Chief Executive Officer. Prior to founding the Company, Mr. Woestemeyer spent 14 years at Texas International Airlines in various management and executive positions with responsibility over sales and marketing. Mr. Woestemeyer holds a Bachelor of Business Administration degree from the University of Houston. Mr. Woestemeyer brings continuity and direct relevant industry experience to the Board of Directors as well as his unique familiarity with the business, structure, culture, history and deep knowledge of our markets. In addition, Mr. Woestemeyer is knowledgeable about the state of the business, the risks we face and management's strategy and plans for accomplishing the company's goals.

*Ellen Keszler* has served as a director since 2008. Ms. Keszler currently serves as president and chief executive officer of Clear Sky Associates, a management and strategy consulting firm focused on the technology and travel industries. She also serves on four private technology company boards and a number of technology startup advisory boards. Previously, Ms. Keszler served as president of Travelocity Business from 2003 to 2007, a technology-focused corporate travel management company. From 2000 to 2003, Ms. Keszler served as Senior Vice President—North American Division of Sabre Travel Network, a travel technology and services business. From 1987 to 2000, Ms. Keszler held various finance roles at Sabre Holdings, American Airlines and JCPenney. Ms. Keszler holds a Bachelor of Science in Civil Engineering from Texas A&M University and a Master of Business Administration from the University of Texas at Austin. Ms. Keszler has extensive business and leadership experience, including experience in managing financial reporting, sales, operations, strategy, marketing and advertising. Ms. Keszler also has significant expertise in travel and travel technology industries, which we serve.

*Greg B. Petersen* has served as a director since 2007. Mr. Petersen is currently Executive Vice Chairman of Diligent Board Member Services, Inc. Previously Mr. Petersen has been the Chief Financial Officer of several software and technology companies, including Activant Solutions, a \$400 million provider of business management solutions to retail and wholesale distribution businesses from 2001 to 2007; and Lombardi Software, a business process management software provider, which was sold to IBM in 2010. After earning an MBA from Duke University in 1989, Mr. Petersen began his career with American Airlines, Inc. where he held increasing responsible executive positions over eight years, the most recent being as managing director of corporate development where he led a project to create Sabre Holdings, Inc. and complete its IPO. Mr. Petersen has also served as an executive in finance and treasury roles with Trilogy Software, a provider of enterprise software and business services, and in planning and development roles with RailTex, a publicly traded short-line and regional rail service provider. Mr. Petersen also serves on the board of directors of Piksel, Inc., which designs, builds, and manages online video services, where he is chairman of the audit committee and on the board of directors of Diligent Board Member Services, Inc., a publicly-listed provider of board of director portals. Mr. Petersen holds a Bachelor of Arts in Economics from Boston College and a Master of Business Administration from the Fuqua School of Business at Duke University. Mr. Petersen has business and leadership experience in software companies, merger and acquisition experience, and extensive financial planning, accounting and risk management knowledge.



*Leslie J. Rechan* is a director nominee. Mr. Rechan served as General Manager, IBM Business Analytics Division from 2011 to 2014, and as Vice President, Sales, Solutions and Services, IBM Business Analytics Division from 2008 through 2011. Mr. Rechan previously served as Chief Operating Officer of Cognos Inc., a provider of business analytics software, from 2006 until its acquisition by IBM in 2008. Prior to joining Cognos, Mr. Rechan served as Senior Vice President and Global General Manager, CRM Strategy at Oracle Corporation from March 2006 to May 2006, when Oracle Corporation acquired Siebel Systems Inc. Mr. Rechan served as Senior Vice President and General Manager of Americas Sales of Siebel Systems, Inc. (formerly Siebel Systems Inc.) and served in the same capacity for Global Manufacturing and Distribution Industries business unit of Siebel Systems, Inc. from 2004 to 2006. Mr. Rechan served as Senior Vice President and General Manager of North American Worldwide Field Operations of Cadence Design Systems Inc. from 2003 to 2004. He served as President and Chief Operating Officer of Onyx Software Corp. from 2001 to 2002. Prior to 2001, Mr. Rechan held several leadership positions at IBM Corp. across field sales, systems engineering, services, solutions, development, and general management in North America, Europe and Asia Pacific. Mr. Rechan received his B.S. in Electrical Engineering and his B.A. in organizational behavior from Brown University and his M.A. in management from Northwestern University. Mr. Rechan has business, operational and leadership experience in software companies.

*William Russell* has served as a director since 2008 and also serves as the non-executive chairman of the Board of Directors. Mr. Russell serves on the board of directors of SABA Software, Inc., a publicly traded provider of talent management services, and several privately held companies. Mr. Russell has served in a variety of roles on both public and private technology company boards and previously served on the boards of webMethods and Cognos. Mr. Russell has held a number of senior-level roles in his more than 20 years at Hewlett-Packard, including Vice President and General Manager of the multi-billion-dollar Enterprise Systems Group. Mr. Russell holds a Bachelor of Science in Computer Science from Edinburgh University and has completed several executive development programs from institutions including Harvard Business School and INSEAD. As a result of leading Hewlett-Packard's substantial software business, Mr. Russell has broad knowledge of large-scale software operations, including sales, marketing, development, finance, strategic planning and leadership.

*Timothy V. Williams* has served as a director since 2007. Mr. Williams most recently served as Senior Vice President and Chief Financial Officer of Blackbaud, Inc., a publicly-traded provider of software and services to non-profit organizations, from January 2001 until his retirement in November 2011. Mr. Williams previously served as Executive Vice President and Chief Financial Officer of both Mynd (now a subsidiary of Computer Sciences Corporation), a provider of software and services to the insurance industry and Holiday Inn Worldwide, a subsidiary of Bass PLC. Mr. Williams holds a Bachelor of Arts in business from the University of Northern Iowa. Mr. Williams has extensive financial, business, management and public software company expertise. Mr. Williams also serves on the board of directors and as chairman of each of the respective audit committees of two other publicly held software firms, Halogen Software, Inc. and ChannelAdvisor Corporation. He was appointed to these boards at various dates in 2011 and 2012. In 2014, Mr. Williams joined the board of directors and serves as chairman of the audit committee of PointClickCare, Inc., a privately held software firm. Through his experience as a chief financial officer, including with three other software and services firms, Mr. Williams' brings to the Board of Directors extensive knowledge of accounting, risk management, general management of software companies, and public company reporting requirements and processes.

*Mariette M. Woestemeyer* co-founded the Company in 1985 with her husband, Ronald F. Woestemeyer, and has served as a director since our founding. Mrs. Woestemeyer was the Chief Financial Officer of Metro Networks, a broadcasting company, from 1983 to 1985 and held various financial roles with Continental Airlines and its predecessor, Texas International Airlines, prior to 1983. Mrs. Woestemeyer holds a Bachelor of Business Administration and a Master of Business Administration from the University of Houston. As co-founder of the Company, Mrs. Woestemeyer brings continuity and history of current and past management and direct relevant industry experience. Mrs. Woestemeyer also has familiarity with all of the Company's key operations as a result of serving as our director since 1985. Mrs. Woestemeyer also has experience as our Chief Financial Officer for many years and related operational expertise.

The following table provides a summary view of the experience, expertise and other attributes of our Directors and Director nominees:

| Board Experience, Expertise or Attribute | Andres D. Reiner | Ellen Keszler (Nominee) | Greg B. Petersen | Leslie Rechan (Nominee) | William Russell (Nominee) | Timothy V. Williams | Mariette M. Woestemeyer | Ronald F. Woestemeyer |
|--|------------------|-------------------------|------------------|-------------------------|---------------------------|---------------------|-------------------------|-----------------------|
| Accounting                               |                  | ●                       | ●                |                         |                           | ●                   | ●                       |                       |
| Business Operations                      | ●                | ●                       | ●                | ●                       | ●                         | ●                   | ●                       | ●                     |
| Finance                                  |                  | ●                       | ●                |                         |                           | ●                   | ●                       |                       |
| International                            | ●                |                         |                  | ●                       | ●                         |                     | ●                       | ●                     |
| Leadership                               | ●                | ●                       | ●                | ●                       | ●                         | ●                   | ●                       | ●                     |
| M&A                                      | ●                |                         | ●                | ●                       | ●                         | ●                   |                         |                       |
| Public Company/<br>Governance            |                  | ●                       | ●                |                         | ●                         | ●                   |                         |                       |
| Risk Management                          |                  | ●                       | ●                |                         |                           | ●                   |                         |                       |
| Sales & Marketing                        |                  |                         |                  | ●                       | ●                         |                     |                         | ●                     |
| Software Industry                        | ●                | ●                       | ●                | ●                       | ●                         | ●                   | ●                       | ●                     |
| Travel Industry                          | ●                | ●                       | ●                | ●                       |                           |                     | ●                       | ●                     |

## THE BOARD OF DIRECTORS AND ITS COMMITTEES

### Audit Committee

The current members of our Audit Committee are Messrs. Petersen, and Williams and Ms. Keszler. Our Board of Directors has determined that each member meets the independence requirements of the NYSE listing standards and Rule 10A-3 (b) of the Securities Exchange Act of 1934, as amended (Exchange Act), and that each qualifies as an Audit Committee financial expert within the meaning of the SEC regulations and the rules of the NYSE. In arriving at this determination, the Board of Directors has examined each member's scope of experience and the nature of their employment in the corporate finance sector.

The Audit Committee oversees our accounting and financial reporting processes and the audits of our financial statements. Primary responsibilities of our Audit Committee include:

- reviewing and providing oversight over the qualification, independence and performance of our independent auditor and determining whether to retain or terminate its services;
- approving the terms of engagement of our independent auditor and pre-approving the engagement of our independent auditor to perform permissible non-audit services;
- reviewing and discussing with management and our independent auditor the results of the annual audit and the independent auditor's review of our annual and quarterly financial statements and reports;
- reviewing and discussing with management all press releases regarding our financial results and any other financial information and earnings guidance provided to securities analysts and rating agencies, including any non-generally accepted accounting principles (non-GAAP) financial measures;
- reviewing with management and our independent auditor matters that have a significant impact on our financial statements;
- conferring with management and our independent auditors regarding the scope, adequacy and effectiveness of our internal control over financial reporting;
- establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal control or auditing matters and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters; and
- reviewing and approving all related party transactions.

Our Audit Committee operates under a written charter, a copy of which is available under the *Corporate Governance – Investor Relations* section of our website at [www.PROS.com](http://www.PROS.com). A printed copy of our Audit Committee charter may be obtained without charge by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. In 2014, the Audit Committee held four in-person meetings and six telephonic meetings. The report of the Audit Committee begins on page 42.

## Compensation Committee

The current members of our Compensation Committee are Messrs. Petersen, Russell and Williams. Each member of our Compensation Committee is a non-employee director, as defined in Rule 16b-3 promulgated under the Exchange Act, and an outside director, as defined pursuant to Section 162(m) of the Code. Our Board of Directors has determined that each member of our Compensation Committee meets the independence requirements of the NYSE listing standards and federal securities laws.

The Compensation Committee discharges the responsibilities of our Board of Directors relating to the compensation and benefits for our executive officers and directors. Primary responsibilities of our Compensation Committee include:

- determining and reviewing all forms of compensation for our executive officers and directors, including, among other things, annual salaries, bonuses, equity awards, severance arrangements, change in control protections and other compensatory arrangements;
- reviewing and approving corporate performance goals and objectives relevant to such compensation;
- administering our equity incentive plans and granting awards of options and other share-based awards to our executive officers, directors and employees;
- reviewing our compensation discussion and analysis and Compensation Committee report required by the rules of the SEC; and
- evaluating and recommending to our Board of Directors the compensation plans and programs advisable for us, and evaluating and recommending the modification or termination of existing plans and programs.

Our Compensation Committee operates under a written charter, a copy of which is available under the *Corporate Governance – Investor Relations* section of our website at [www.PROS.com](http://www.PROS.com). A printed copy of our Compensation Committee charter may be obtained without charge by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. In 2014, the Compensation Committee held four in-person meetings and four telephonic meetings. The report of the Compensation Committee begins on page 35.

## Nominating and Corporate Governance Committee

The current members of the Nominating and Corporate Governance Committee are Messrs. Petersen, Russell, and Williams and Ms. Keszler. The Board of Directors has determined that each member meets the independence requirements of the NYSE listing standards and federal securities laws. Primary responsibilities of our Nominating and Corporate Governance Committee include:

- identifying, evaluating and recommending to our Board of Directors candidates to serve as members of our Board of Directors and considering the nomination of our incumbent directors for reelection;
- evaluating stockholder nominations of candidates for election to our Board of Directors;
- reviewing our general policy relating to selection of director candidates and members of committees of our Board of Directors, including an assessment of the performance of our Board of Directors; and
- reviewing and making recommendations to our Board of Directors regarding corporate governance principles.

Our Nominating and Corporate Governance Committee operates under a written charter, a copy of which is available under the *Corporate Governance – Investor Relations* section of our website at [www.PROS.com](http://www.PROS.com). A printed copy of our Nominating and Corporate Governance Committee charter may be obtained without charge by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. In 2014, the Nominating and Corporate Governance Committee held four in-person meetings.

## CORPORATE GOVERNANCE MATTERS

### Independence

The Board of Directors has adopted categorical standards or guidelines to assist our Board of Directors in making its independence determinations with respect to each director. These standards are published in our Corporate Governance Guidelines and are available under the *Corporate Governance – Investor Relations* section of our website at [www.PROS.com](http://www.PROS.com). The Board of Directors has determined that the following directors and director nominee are independent within the meaning of the NYSE listing standards and federal securities laws: Messrs. Petersen, Rechan, Russell, and Williams and Ms. Keszler. As part of such determination of independence, our Board of Directors has affirmatively determined that none of these four directors and one director nominee has a relationship with us that would interfere with the exercise of independent judgment in carrying out his or her responsibilities as a director. The majority of our Board of Directors is independent, and our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee is comprised of all independent directors.

## **Meeting Attendance**

During 2014, our Board of Directors held six meetings, the Audit Committee held ten meetings, the Compensation Committee held eight meetings, and the Nominating and Corporate Governance Committee held four meetings. The incumbent directors attended each meeting of our Board of Directors and the committees on which he or she served during 2014. The Board of Directors encourages all directors to attend annual meetings of the stockholders. All incumbent directors attended the 2014 meeting of the stockholders.

## **Director Nomination**

The Nominating and Corporate Governance Committee of our Board of Directors has the responsibility for establishing the criteria for recommending which directors should stand for reelection to our Board of Directors and the selection of new directors to serve on our Board of Directors. In addition, the Nominating and Corporate Governance Committee is responsible for establishing the procedures for our stockholders to nominate candidates to our Board of Directors. Although the Nominating and Corporate Governance Committee has not formulated any specific minimum qualifications for director candidates, it has determined that desirable characteristics include, but are not limited to, business experience, mature judgment, personal and professional ethics, and integrity. The Company does not have a formal policy with respect to consideration of diversity in identifying director nominees; however, in the process of selecting a director nominee, the Nominating and Corporate Governance Committee assesses backgrounds and expected contributions of the individuals to the Board of Directors. These and other standards are published in our Corporate Governance Guidelines. A printed copy of our Corporate Governance Guidelines may be obtained without charge by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. Our Corporate Governance Guidelines are also available under the *Corporate Governance - Investor Relations* section of our website at [www.PROS.com](http://www.PROS.com).

Our bylaws permit any stockholder of record to nominate directors. Stockholders who wish to submit nominees for election at an annual or special meeting of stockholders should follow the procedure described on page 44. The Nominating and Corporate Governance Committee applies the same standards in considering candidates submitted by stockholders as it does in evaluating candidates submitted by members of the Board of Directors.

The Board of Directors is currently led by a non-executive chairman, who is an independent director. The Board of Directors' current preferred governance structure is to have an independent director serve as chairman. We believe the current structure provides strong leadership for our Board of Directors, while also positioning our Chief Executive Officer as the leader of the Company. We believe that our current structure helps ensure independent oversight over the Company, while allowing our Chief Executive Officer to focus his energies on management of the Company.

The Board of Directors recognizes that there is no single, generally accepted approach to providing board leadership, and the board leadership structure may vary in the future as circumstances warrant. If the Board of Directors determines it is in the best interests of our stockholders to combine the positions of chairman and Chief Executive Officer, the independent directors will designate a lead independent director.

Our non-executive chairman oversees the planning of the annual Board of Directors' calendar, and, with the Chief Executive Officer, in consultation with the other directors, schedules and sets the agenda for meetings of the Board of Directors and leads the discussion at such meetings. Our non-executive chairman also presides at executive sessions, serves as a liaison between the Chief Executive Officer and the independent directors, sees that directors receive appropriate and timely information, assists the chairmen of the committees of the Board of Directors in preparing agendas for the respective committee meetings, chairs our annual meetings of stockholders, is available in appropriate circumstances to speak on behalf of the Board of Directors, and performs such other functions and responsibilities as set forth in our Corporate Governance Guidelines or as requested by the Board of Directors from time to time. Our non-executive chairman also encourages direct dialogue between all directors and management and provides leadership to the Board of Directors in its oversight function.

## **Executive Sessions**

Executive sessions, which are meetings of the non-employee members of the Board of Directors, are regularly scheduled throughout the year. Non-employee directors meet by themselves, without management or employee-directors present, at every regularly scheduled in-person Board of Directors meeting. Non-employee directors and independent directors may hold other such sessions at the request of any non-employee director or independent director. Non-employee and independent directors may notify the non-executive chairman of the Board of Directors if they would like to hold such a session, and the non-executive chairman

of the Board of Directors will facilitate the scheduling of such a session. Executive sessions (whether of the non-employee directors or independent directors) are led by our non-executive chairman of the board of directors.

### **The Board's Role in Risk Oversight**

The Board of Directors oversees our risk management process. Management reviews the process, including identification of key risks and steps taken to address them, with the full Board of Directors on a periodic basis. Although the full Board of Directors is responsible for this oversight function, the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee assist the Board of Directors in discharging its oversight duties.

The Compensation Committee reviews risks related to the subject matters enumerated in its charter, including risks associated with our compensation programs. The Nominating and Corporate Governance Committee considers risks related to the subject matters for which it is responsible as identified in its charter, including risks associated with corporate governance. Similarly, the Audit Committee considers risks related to the subject matters enumerated in its charter, including risks relating to internal controls, disclosure, and financial reporting.

Accordingly, while each of the three committees contributes to the risk management oversight function by assisting the Board of Directors in the manner outlined above, the Board of Directors itself remains responsible for the oversight of our risk management program.

### **Director Resignation Policy**

In February 2015, our Board of Directors adopted a director resignation policy. Under this policy in an uncontested election of directors (an election at which the number of nominees is equal to the number of seats open) any nominee for director who receives a greater number of votes "withheld" from his or her election than votes "for" such election must promptly tender his or her resignation to the Nominating and Corporate Governance Committee (following certification of the stockholders' vote) for consideration in accordance with the following procedures.

The Nominating and Corporate Governance Committee will promptly consider such resignation and recommend to the Qualified Independent Directors (as defined below) the action to be taken with respect to such offered resignation, which may include (1) accepting the resignation; (2) maintaining the director but addressing what the Qualified Independent Directors believe to be the underlying cause of the withheld votes; (3) determining that the director will not be renominated in the future for election; or (4) rejecting the resignation. The Nominating and Corporate Governance Committee will consider all relevant factors including, without limitation, (a) the stated reasons why votes were withheld from such director; (b) any alternatives for curing the underlying cause of the withheld votes; (c) the tenure and qualifications of the director; (d) the director's past and expected future contributions to the Company; (e) our director criteria; (f) our Corporate Governance Guidelines; and (g) the overall composition of the Board, including whether accepting the resignation would cause the Company to fail to meet any applicable SEC or NYSE requirement.

The Qualified Independent Directors will act on the Nominating and Corporate Governance Committee's recommendation no later than 90 days following the date of the stockholders' meeting at which the election occurred. In considering the Nominating and Corporate Governance Committee's recommendation, the Qualified Independent Directors will consider the factors considered by the Nominating and Corporate Governance Committee and such additional information and factors the Board of Directors believes to be relevant. Following the Qualified Independent Directors' decision, the Company will promptly disclose in a current report on Form 8-K the decision whether to accept the resignation as tendered (providing a full explanation of the process by which the decision was reached or, if applicable, the reasons for rejecting the tendered resignation).

To the extent that a resignation is accepted, the Nominating and Corporate Governance Committee will recommend to the Board of Directors whether to fill such vacancy or vacancies or to reduce the size of the Board of Directors.

Any Director who tenders his or her resignation pursuant to this provision will not participate in the Nominating and Corporate Governance Committee's recommendation or Qualified Independent Directors' consideration regarding whether to accept the tendered resignation. Prior to voting, the Qualified Independent Directors will afford the director an opportunity to provide any information or statement that he or she deems relevant. If a majority of the members of the Nominating and Corporate Governance Committee received a greater number of votes "withheld" from their election than votes "for" their election at the same election, then the remaining Qualified Independent Directors who are on the Board of Directors who did not receive a greater number of votes "withheld" from their election than votes "for" their election (or who were not standing for election) will consider the matter directly or may appoint a committee of the Board of Directors amongst themselves solely for the purpose of considering the tendered resignations that will make the recommendation to the Board of Directors whether to accept or reject them.

For purposes of this policy, the term “Qualified Independent Directors” means:

- All Directors who (1) are independent Directors (as defined in accordance with the NYSE Corporate Governance Rules) and (2) are not required to offer their resignation in accordance with this policy.
- If there are fewer than three independent Directors then serving on the Board who are not required to offer their resignations in accordance with this policy, then the Qualified Independent Directors shall mean all of the independent Directors and each independent Director who is required to offer his or her resignation in accordance with this Policy shall recuse himself or herself from the deliberations and voting only with respect to his or her individual offer to resign.

### **Stock Ownership Guidelines**

As part of our overall corporate governance and compensation practices, our Board of Directors adopted stock ownership guidelines for our NEOs and directors. These guidelines are designed to align our NEOs’ interests with our stockholders’ long-term interests by promoting long-term share ownership, which reduces the incentive for excessive short-term risk taking and further increase our NEOs and directors alignment with stockholder interests.

In February 2014, our Board of Directors revisited these guidelines and increased these stock ownership guidelines to require our Chief Executive Officer to hold shares of our stock worth four times his annual salary and each other NEO is required to hold shares of our stock worth two times their annual salary. The revised guidelines also state that each non-employee director is required to hold shares of our stock worth four times the director's annual retainer. Share units or unexercised options held by an NEO under any of our equity incentive plans are included, at 50% of their intrinsic value, in calculating the value of ownership to determine whether this minimum ownership requirement has been met. Shares held by an NEO or director under either of our equity incentive plans will continue to be included in calculating the value of ownership to determine whether this minimum ownership requirement has been met. Our NEOs and Directors have to attain this ownership threshold by the earlier of (i) December 31, 2018 and (ii) five years after joining our Board of Directors and/or being appointed as an NEO. As of December 31, 2014, each of our NEOs and directors were in compliance with the applicable guidelines.

### **Prohibition Against Hedging, Short-Sale, Pledging, and Repricing Underwater Stock Options; "Clawback Policy"**

We have implemented both anti-hedging and anti-pledging policies, as well as prohibit our executives from participating in short sales of our stock, to ensure that our executives’ stock remains at-risk. In March 2015, our Compensation Committee adopted a policy related to our 2007 Equity Incentive Plan to prohibit repricing, repurchase or exchange of underwater stock options without stockholder approval. We also maintain a "clawback" policy designed to further link our executive compensation and our long-term performance. Our “clawback” policy permits our Board of Directors to consider and make a decision in its sole discretion to recover, under applicable law, any incentive bonuses awarded to NEOs whose fraud or intentional misconduct significantly contributed to a restatement of financial results that led to the awarding of incentive bonuses.

### **Corporate Governance Guidelines**

We believe in sound corporate governance practices and have adopted formal Corporate Governance Guidelines to enhance our effectiveness. Our Board of Directors adopted these Corporate Governance Guidelines in order to ensure that it has the necessary authority and practices in place to review and evaluate our business operations as needed and to make decisions that are independent of our management. The Corporate Governance Guidelines are also intended to align the interests of directors and management with those of our stockholders. The Corporate Governance Guidelines set forth the practices our Board of Directors follows, including, but not limited to, the Board of Directors and committee composition and selection, director responsibilities, director access to officers and employees and Chief Executive Officer performance evaluation and succession planning. A printed copy of our Corporate Governance Guidelines may be obtained without charge by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. A copy of our Corporate Governance Guidelines is also available under the *Corporate Governance – Investor Relations* section of our website at [www.PROS.com](http://www.PROS.com).

### **Compensation Committee Interlocks and Insider Participation**

No member of our Compensation Committee and none of our executive officers has any relationships that would constitute an interlocking relationship with executive officers and directors of any other entity.

## Code of Business Conduct and Ethics

Our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to all of our directors and employees. A printed copy of our Code of Business Conduct and Ethics may be obtained without charge by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. Our Code of Business Conduct and Ethics is also available under the *Corporate Governance – Investor Relations* section of our website at [www.PROS.com](http://www.PROS.com).

## Communications with our Board of Directors

Stockholders or interested parties who wish to communicate with members of our Board of Directors, including the independent directors individually or as a group, may send correspondence to them in care of our Corporate Secretary at 3100 Main Street, Suite 900, Houston, TX 77002. Such communication will be forwarded to the intended recipient(s). We currently do not intend to have our Corporate Secretary screen this correspondence, but we may change this policy if directed by our Board of Directors due to the nature or volume of the correspondence. Communications that are intended specifically for the non-executive chairman of the Board of Directors should be sent to the street address noted above, to the attention of the non-executive chairman of the Board of Directors.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since January 1, 2014, there has not been (nor is there currently proposed), any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded or exceeds \$120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest, other than compensation arrangements with directors and executive officers, and the transactions described below.

### Relationship with Management, Founders and Investors

*Ownership.* Ronald F. Woestemeyer, our executive vice president, member of the Board of Directors and one of our founders, and Mariette Woestemeyer, who is married to Mr. Woestemeyer and also serves on our Board of Directors, each hold more than 5% of our Common Stock.

*Indemnification agreements.* We have entered into indemnification agreements with each of our current directors and officers. These agreements require us, among other things, to indemnify these individuals to the fullest extent permitted under Delaware law against liabilities that may arise by reason of their service to us, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified. We also intend to enter into indemnification agreements with our future directors and officers.

*Employment arrangements.* We have entered into employment agreements with each of our executive officers, which address, among other things, the terms of their employment, such as base salary, severance payments and payment on a change in control.

### Procedures for Related Party Transactions

Under our Code of Business Conduct and Ethics, our employees and officers are discouraged from entering into any transaction that may cause a conflict of interest. In addition, they must report any potential conflict of interest, including related party transactions, to their managers or our compliance officer who then reviews and summarizes the proposed transaction for our Audit Committee. Pursuant to its charter, our Audit Committee must then approve any related party transactions, including those transactions involving our directors. In approving or rejecting such proposed transactions, the Audit Committee considers the relevant facts and circumstances available and deemed relevant to the Audit Committee, including the material terms of the transactions, risks, benefits, costs, availability of other comparable services or products and, if applicable, the impact on a director's independence. Our Audit Committee will approve only those transactions that, in light of known circumstances, are in, or are not inconsistent with, our best interests, as our Audit Committee determines in the good faith exercise of its discretion.

## SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth information regarding the beneficial ownership of our Common Stock as of the Record Date, unless otherwise noted below, for the following:

- each person or entity known to own beneficially more than 5% of the outstanding Common Stock as of the date indicated in the corresponding footnote;
- each director and director nominee; and
- each of our named executive officers (NEOs) named in the Summary Compensation table, both individually and as a group.

Applicable percentage of ownership is based on 29,494,401 shares of our Common Stock outstanding as of the Record Date, unless otherwise noted below, together with applicable options for each stockholder. Beneficial ownership is determined under the rules and regulations of the SEC and does not necessarily indicate beneficial ownership for any other purpose. Under these rules, beneficial ownership includes those shares of Common Stock over which the stockholder has sole or shared voting or investment power. It also includes shares of Common Stock that the stockholder has a right to acquire within 60 days of the Record Date through the exercise of any option or other right.

Unless otherwise indicated, the principal address of each of the stockholders below is c/o PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002.

| Name of Beneficial Owner                            | Shares Beneficially Owned <sup>(1)</sup> | Percentage |
|---|--|------------|
| Andres D. Reiner (2)                                | 752,529                                  | 2.5        |
| Charles H. Murphy (3)                               | 365,347                                  | 1.2        |
| D. Blair Crump                                      | 18,420                                   | *          |
| Stefan Schulz                                       | -  | -          |
| Ronald F. Woestemeyer (4)                           | 4,161,719                                | 13.8       |
| Ellen Keszler (5)                                   | 74,479                                   | *          |
| Greg B. Petersen (5)                                | 81,671                                   | *          |
| Leslie Rechan                                       | -  | -          |
| William Russell                                     | 77,979                                   | *          |
| Timothy V. Williams (5)                             | 84,479                                   | *          |
| Mariette M. Woestemeyer (4)                         | 4,161,719                                | 13.8       |
| Brown Capital Management, LLC (6)                   | 4,463,621                                | 14.8       |
| Champlain Investment Partners, LLC (7)              | 2,022,245                                | 6.7        |
| All NEOs, directors and director nominee as a group | 5,616,623                                | 18.7       |

\* Represents less than 1% of the outstanding shares of Common Stock.

- (1) Includes shares held and stock options, restricted stock units (RSUs) and stock appreciation rights (SARs) exercisable within 60 days of the Record Date.
- (2) Includes 400,000 shares issuable pursuant to stock options and SARs that are immediately exercisable or exercisable within 60 days of the Record Date. Also includes 8,750 shares issuable pursuant to RSUs that will vest within 60 days of the Record Date.
- (3) Includes 83,663 shares issuable pursuant to stock options and SARs that are immediately exercisable or exercisable with 60 days of the Record Date. Also includes 6,250 shares issuable pursuant to RSUs that will vest within 60 days of the Record Date and 17,000 shares held by Mr. Murphy's wife, Emily L. Murphy.
- (4) Includes 4,131,719 shares held by various trusts for the benefit of certain family members. Also includes 30,000 shares issuable pursuant to stock options held by Mrs. Woestemeyer that are immediately exercisable.
- (5) Includes 30,000 shares issuable pursuant to stock options which are immediately exercisable.
- (6) Information regarding Brown Capital Management, LLC is based solely upon a Schedule 13G/A filed by Brown Capital Management, LLC with the SEC on February 5, 2015, which indicates that Brown Capital Management, LLC or certain of its affiliates beneficially owned 4,463,621 shares of our Common Stock as of December 31, 2014, and they had (a) sole voting power to direct the vote of 2,542,282 shares of our Common Stock and (b) sole dispositive power with respect to 4,463,621 shares of our Common Stock. The address of Brown Capital Management, LLC is 1201 N. Calvert Street, Baltimore, MD 21202.
- (7) Information regarding Champlain Investment Partners, LLC is based solely upon a Schedule 13G/A filed by Champlain Investment Partners, LLC with the SEC on February 11, 2015, which indicates that Champlain Investment Partners, LLC or certain of its affiliates beneficially owned 2,022,245 shares of our Common Stock as of December 31, 2014, and they had (a) sole voting power to direct the vote of 1,422,920 shares of our Common Stock and (b) sole dispositive power with respect to 2,022,245 shares of our Common Stock. The address of Champlain Investment Partners, LLC is 180 Battery St., Burlington, VT 05401.



## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act, requires each of our directors and NEOs, among others, to file with the SEC an initial report of ownership and reports of changes in ownership of Common Stock of the Company. Such persons are required by SEC regulations to furnish us with copies of all such filings. Based on a review of the copies of such forms in our possession, and on written representations from reporting persons, we believe that during 2014, all of our NEOs and directors filed the required reports on a timely basis under Section 16(a).

## COMPENSATION DISCUSSION AND ANALYSIS

*The following discussion and analysis of compensation arrangements of our named executive officers (NEOs) should be read together with the compensation tables and related disclosures set forth below.*

### Executive Summary

#### Background

In 2014, our NEOs again delivered strong results and continued to demonstrate excellent execution of our key strategic initiatives, including accelerating awareness and adoption, extending our product leadership position, and expanding our global reach and scale. The following highlights some of our accomplishments in 2014:

- Record 2014 non-GAAP revenue of \$193.6 million, a 34% increase over 2013<sup>(1)</sup>;
- Added a record number of new customers and expanded relationships with a record number of existing customers;
- Completed the acquisition of Cameleon Software, SA;
- Increased total headcount almost 20%, to more than 1,000 people as of December 31, 2014, which reflects our continued investment and build out of our sales, marketing, and professional services teams in support of our long-term growth; and
- Introduced our Group Sales Optimizer (GSO) solution, and released new versions of our big data applications for pricing, revenue management and sales effectiveness.

(1) A reconciliation of non-GAAP revenue to the most directly comparable generally accepted accounting principles in the United States (GAAP) financial measure, is provided below. Non-GAAP revenue is defined as GAAP revenue plus acquisition-related deferred revenue write-down.

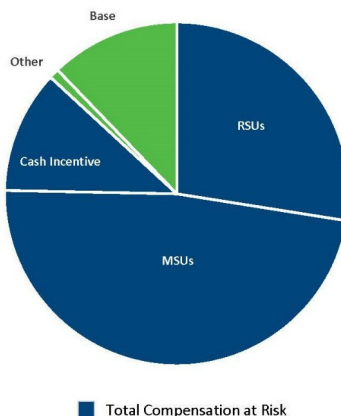
| (in millions)                                   | For the Years Ended December 31 |          |
|---|---------------------------------|----------|
|   | 2014                            | 2013     |
| Revenue   | \$ 185.8                        | \$ 144.8 |
| Non-GAAP adjustment:                            |                                 |          |
| Acquisition-related deferred revenue write-down | 7.8                             | —        |
| Non-GAAP revenue                                | \$ 193.6                        | \$ 144.8 |

#### 2014 Compensation Highlights

- *Overwhelming stockholder support of our executive compensation program in 2014.* At our 2014 annual stockholders' meeting, our stockholders had the opportunity to provide an advisory vote on the compensation paid to our NEOs, or a "say-on-pay" vote. Over 99% of the total votes cast at our 2014 annual stockholder's meeting voted in favor of our say-on-pay proposal. As a result, the Compensation Committee believes that the results of our say-on-pay vote clearly affirmed stockholder support of our approach to executive compensation.
- *Emphasis on performance-based pay.* In 2014, our Compensation Committee again sought to motivate our NEOs with "performance-based" compensation through performance-based equity awards and performance-based cash bonus awards. Our equity awards include performance-based compensation, with the payouts of our market stock unit (MSU) awards to our NEOs varying based on the relative performance of our stock compared to the Russell 2000 Index over the applicable performance period. Similarly, our cash bonus plan incentivizes our NEOs to continuously improve our financial performance and to achieve our key strategic priorities with increased bonus opportunities possible based on improved Company performance. For example, target equity awards to our NEOs in 2014 were positioned near the 75th percentile of our peer group in light of our strong relative performance. In 2014, the majority of our NEOs total compensation was "performance-based"—that is "at risk" and contingent upon the performance of our business, our stock price or individual performance. We believe this direct and significant link between pay and performance is an effective way to motivate our NEOs to achieve our financial and key strategic objectives and ultimately increase stockholder value.

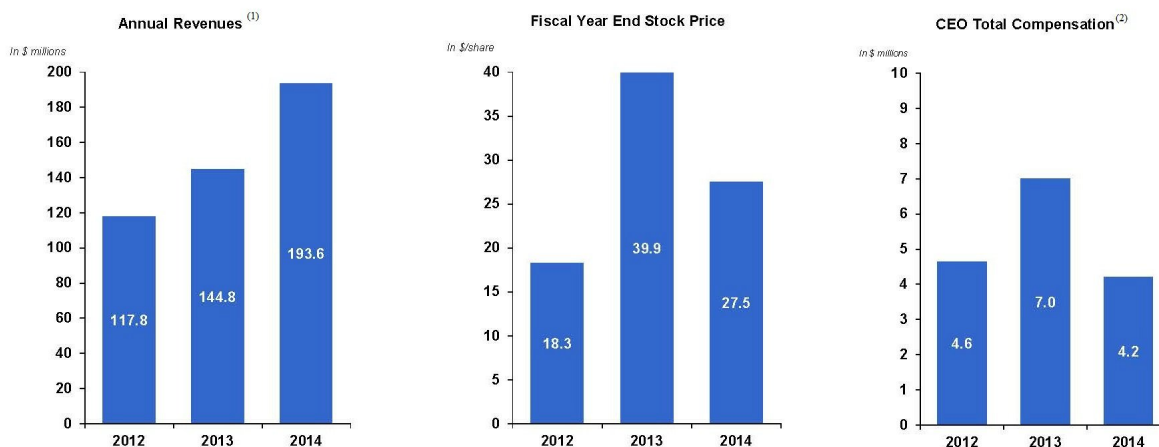
- At-Risk Compensation.* As illustrated by the graph below, the majority of our NEOs' compensation is "at risk" compensation directly tied to the success of our business, our stock price, and the individual performance of our executives. Consistent with this pay-for-performance orientation, we believe that annual bonus and equity compensation should together represent a significant portion of total compensation. As a result, a large portion of our NEOs' total compensation is "at risk" relative to our other employees. We believe this allocation is appropriate because our NEOs bear the greatest responsibility for our results and can exert the greatest influence on our performance.

2014 NEO Compensation Mix



***Relationship Between Company Performance, Stock Price and CEO Compensation.***

The following illustrates the directional relationship between our performance, based on our non-GAAP revenue<sup>(1)</sup>, our stock price, and the compensation of our CEO from 2012 to 2014. These metrics reflect our continued focus on long-term growth.



(1) Represents non-GAAP revenue. See page 24 of this Proxy Statement above for a reconciliation of non-GAAP revenue and GAAP revenue.  
 (2) Represents Mr. Reiner's total compensation as reported in the Summary Compensation table on page 36.

**Compensation Philosophy and Objectives**

Our Compensation Committee believes that an effective compensation program should reward achievement of specific corporate goals and align our executives' interests with those of our stockholders by rewarding performance that meets or exceeds established goals. Our compensation programs are designed to motivate our NEOs to achieve or exceed corporate goals that enhance stockholder value and enable us to attract and retain key employees. Our executive compensation program is designed to reward superior performance and to achieve the following overall objectives:

| Objective  | Rationale  |
|--|--|
| Offer competitive compensation                                       | Enable the Company to attract and retain high-caliber talent   |
| Emphasize performance-based compensation                             | Provide a compensation package that is weighted heavily towards performance-based pay                              |
| Incentivize and reward the achievement of our financial objectives   | Directly link rewards to the achievement of measurable financial objectives that build long-term stockholder value |
| Recognize individual performance                                     | Encourage personal achievement by rewarding individual performance   |
| Align the interests of our executives with those of our stockholders | Incentivize and reward the creation and preservation of stockholder value  |

### Role of Our Compensation Committee

The responsibility for establishing, administering and interpreting our policies governing the compensation and benefits for our NEOs, lies with our Compensation Committee, which consists entirely of non-employee directors. Our Compensation Committee has taken the following steps to ensure that our executive compensation and benefit policies are consistent with both our compensation philosophy and our Corporate Governance Guidelines:

- solicited recommendations from an independent executive compensation consultant to evaluate our executive compensation practices and assisted in developing and implementing the executive compensation programs;
- established a practice, in accordance with the rules of the NYSE, of reviewing the performance and determining the compensation earned, paid or awarded to our Chief Executive Officer; and
- established a policy, in accordance with the rules of the NYSE, to review on an annual basis the performance of our other executive officers with assistance from our Chief Executive Officer and determined what we believe to be appropriate total compensation for these executive officers.

Our Compensation Committee considers a broad range of facts and circumstances in setting executive compensation. Among the factors considered for our executives generally, and for the NEOs in particular, are recommendations from our compensation consulting firm, Compensia, Inc. (Compensia), advice from our Chief Executive Officer, general economic and market conditions, our financial condition and operating results, our operating plan, our geographic location and the objectives of our executive compensation policies described above. The weight given each factor differs from year to year and may differ among individual NEOs in any given year.

Our Compensation Committee establishes executive compensation programs that the Compensation Committee believes, based on the members' experience, is the most appropriate to achieve the goals described above. Our Compensation Committee continues to evaluate our executive compensation programs on a quantitative and qualitative basis on at least a yearly basis or more frequently if circumstances dictate. Our Compensation Committee expects to make new awards and adjustments to our executive compensation programs as appropriate.

In making its decisions regarding executive compensation, the Committee meets outside the presence of executive officers when making final decisions about each executive officer. The Chief Executive Officer is periodically present during portions of these deliberations that relate to the compensation for other executive officers.

All SARs, RSUs, MSUs, and other share-based awards are approved by our Compensation Committee. For share-based grants to employees who are not NEOs, the Compensation Committee may delegate to the Chief Executive Officer the authority to make share-based awards within certain limitations on aggregate grants and specific award terms.

### Role of Our Executive Compensation Consultant

The Compensation Committee engaged Compensia to advise the Compensation Committee on 2014 executive compensation matters due to the breadth and depth of Compensia's experience with executive compensation matters and its particular expertise in the software industry. Compensia provided the following services on behalf of the Compensation Committee during fiscal year 2014:

- reviewed and provided recommendations on the composition of our peer group of companies, and provided compensation data relating to executives at the companies in the peer group;
- conducted a comprehensive review of the total compensation arrangements for all of our NEOs;

- provided recommendations to our Compensation Committee regarding our NEOs' compensation packages;
- assisted with executive equity program design, including an analysis of equity mix, aggregate share usage and target grant levels; and
- updated the Compensation Committee on emerging trends and best practices in the area of executive compensation.

The Compensation Committee is satisfied with the qualifications, performance and independence of Compensia. Other than serving as an adviser to the Compensation Committee, Compensia does not provide any other services to us. We pay the cost for Compensia's services as negotiated by the Compensation Committee.

## Peer Group

To assist the Compensation Committee in its deliberations on executive compensation, Compensia provided recommendations on the composition of our peer group. The criteria used to develop our peer group included:

- software industry;
- publicly-traded;
- headquarters in the United States;
- revenue of \$99 million to \$446 million; and
- market capitalization to revenue ratio in excess of 2.5x.

Based on the recommendations provided, the Compensation Committee established the following companies as our full peer group for 2014:

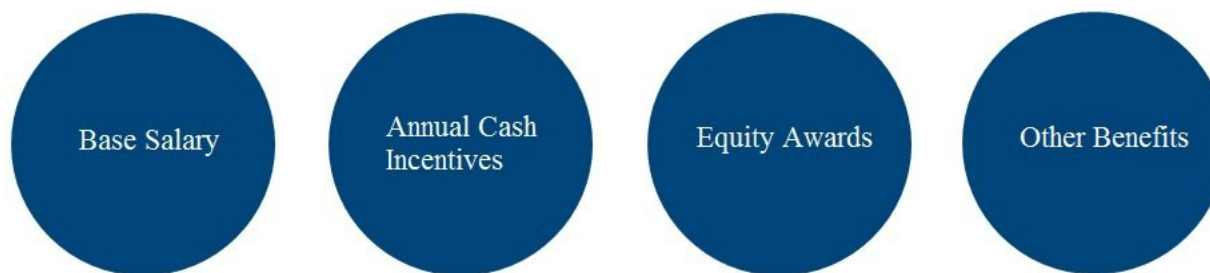
|                   |                         |
|-------------------|-------------------------|
| Accelrys          | Aspen Technology        |
| Bazaarvoice       | comScore                |
| Constant Contact  | Cornerstone OnDemand    |
| Demandware        | LivePerson              |
| LogMeIn           | Perficient              |
| Qlik Technologies | RealPage                |
| Responsys         | SolarWinds              |
| SPS Commerce      | Ultimate Software Group |

Compensia then prepared a compensation analysis compiled from data gathered from publicly available information regarding the companies that the Compensation Committee had selected as members of our peer group. The Compensation Committee used this data to compare the compensation of our NEOs to similarly positioned persons within the peer group and to determine the relative compensation for each NEO position, based on direct, quantitative comparisons of pay levels. The Compensation Committee continues to review and update our peer group, as necessary, to ensure that the comparisons are meaningful.

## Stockholder Say-On-Pay Votes

The Company provides its stockholders with the opportunity to cast an annual advisory vote on executive compensation. At the Company's annual meeting of stockholders held in May 2014, more than 99% of the votes cast on the say-on-pay proposal at that meeting were voted in favor of the proposal. We believe this affirms our stockholders' overwhelming support of our approach to executive compensation. The Compensation Committee will continue to consider the outcome of our say-on-pay votes when making future compensation decisions for our NEOs.

## Components of Executive Compensation



### **Base Salaries**

We use base salaries primarily to compensate and retain our NEOs for their services. Base salaries for our NEOs are reviewed on an annual basis. In January 2014, the Compensation Committee reviewed the responsibilities and performance of Messrs. Reiner, Murphy and Woestemeyer, their tenure with us, their existing compensation packages and their expected contributions and responsibilities for 2014. Based on this review, the Compensation Committee set Mr. Reiner's base salary for 2014 at \$475,000, unchanged from his 2013 base salary. The Compensation Committee set Mr. Woestemeyer's base salary for 2014 at \$233,750, unchanged from his 2013 base salary after considering Mr. Woestemeyer's substantial equity position in the Company. In February 2014, the Compensation Committee reviewed Mr. Murphy's base salary for 2014 and in light of Mr. Murphy's tenure with us, his contributions to our performance in 2013 and to assist in the retention of Mr. Murphy through his planned retirement, the Compensation Committee increased Mr. Murphy's base salary to \$360,000. Also, the Compensation Committee set Mr. Crump's base salary at \$400,000 in connection with his joining us in February 2014, given Mr. Crump's experience as a public company executive and expected contributions and responsibilities for 2014. After the above adjustments, base salaries were positioned relative to our peer group for 2014 at the 50<sup>th</sup> percentile for each of Messrs. Reiner and Murphy, near the 75<sup>th</sup> percentile for Mr. Crump, and between the 25<sup>th</sup> and 50<sup>th</sup> percentile for Mr. Woestemeyer.

*Executive compensation activities in 2015.* In January 2015, the Compensation Committee reviewed the responsibilities and performance of Messrs. Reiner, Murphy, Crump and Woestemeyer, their tenure with us, and their existing compensation packages. Based on this review, the Compensation Committee set Mr. Reiner's base salary for 2015 at \$525,000 and Mr. Crump's base salary for 2015 at \$420,000, in light of their expected contributions and responsibilities for 2015. The Compensation Committee did not make any changes to Mr. Murphy's base salary for 2015 given his previously announced intent to retire from the Company. The Compensation Committee set Mr. Woestemeyer's base salary for 2015 at \$233,750, unchanged from his 2014 base salary after considering Mr. Woestemeyer's substantial equity position in the Company. In March 2015, Mr. Schulz joined us with a base salary set at \$350,000 given Mr. Schulz's experience as a public company Chief Financial Officer and expected contributions and responsibilities for 2015. After the above adjustments, base salaries were positioned relative to our peer group for 2015 at the 75<sup>th</sup> percentile for Mr. Reiner, above the 75<sup>th</sup> percentile for Mr. Crump, near the 50<sup>th</sup> percentile for Mr. Schulz, and between the 25<sup>th</sup> and 50<sup>th</sup> percentile for Mr. Woestemeyer.

### **Cash Incentives**

We have a cash incentive plan for our NEOs under which cash incentive payments may be made after the end of each year based on our performance against our corporate objectives for the year. The cash incentive program is intended to reward our NEOs upon the achievement of fiscal year financial performance goals, with some limited discretion available for individual performance. Each component of this cash incentive plan is independent of the other components and has minimum target and maximum levels.

Cash incentive payments are generally paid in the first quarter following completion of a given year. Our Compensation Committee does not have the discretion to increase the performance component targets or decrease the incentive payment amounts to any of our NEOs. The Compensation Committee does have the discretion to lower the performance component targets and/or increase the incentive payment amounts under this cash incentive plan. The Compensation Committee traditionally has not exercised this discretion and did not do so in 2014.

The target incentive payment amounts are payable under this cash incentive plan if we hit our target levels for each component. Actual results between the minimum, target and the maximum goal levels are pro-rated. The discretionary component is determined by the Compensation Committee on an annual basis at the end of our fiscal year. We use our cash incentive plan to align our NEOs' performance with our financial results and to motivate our NEOs to achieve annual goals.

*Executive compensation activities in 2014.* In February 2014, our Compensation Committee approved our 2014 Named Executive Officer Plan (2014 NEO Plan). The 2014 NEO Plan set targets incentive payment amounts based upon several of the components from the 2013 NEO Plan (non-GAAP revenue, non-GAAP operating income, and discretionary). Our Compensation Committee elected to use non-GAAP revenue as a component of the 2014 NEO Plan in lieu of revenue to add back the write-down of deferred revenue required under GAAP as a result of our acquisitions of SignalDemand, Inc. and Cameleon Software, SA. The discretionary component of the 2014 NEO Plan includes non-numeric goals and objectives intended to position the Company for longer term growth. The weighting of the 2014 NEO Plan components is set forth in the following table:

| Component                                | Weighting of component as a % of bonus payment |
|--|--|
| Non-GAAP revenue <sup>(1)</sup>          | 60%  |
| Non-GAAP operating income <sup>(2)</sup> | 20%  |
| Discretionary                            | 20%  |

- (1) Non-GAAP revenue represents revenue calculated under GAAP, plus the appropriate portion of the deferred revenue of acquirees written off pursuant to GAAP purchase accounting as a result of our acquisitions of SignalDemand, Inc. and Cameleon Software, SA.
- (2) Non-GAAP operating income represents operating income calculated under GAAP, less share-based compensation expense calculated under GAAP, and such other items that are reported by the Company as non-GAAP items.

The revenue and non-GAAP operating income components of the 2014 NEO Plan were set by the Compensation Committee and those components were measured at the end of 2014 against actual financial results. The discretionary component was determined by the Compensation Committee after the end of the Company's fiscal year, and the Compensation Committee authorized the payments under the 2014 NEO Plan in 2015. The payouts under the 2014 NEO Plan were based on our performance as a company within a range of each component's target. No incentive payment could be earned for performance below the target minimum and the maximum bonus earned could not exceed the bonus amount at the target maximum. The range and target for each component are set forth in the following table:

| Component                                | Target Minimum (in millions) | At Target (in millions) | At Target Maximum (in millions) |
|--|------------------------------|-------------------------|---------------------------------|
| Non-GAAP revenue <sup>(1)</sup>          | \$188.0                      | \$196.9                 | \$200.0                         |
| Non-GAAP operating income <sup>(2)</sup> | \$18.8                       | \$19.7                  | \$20.0                          |

- (1) Non-GAAP revenue represents revenue calculated under GAAP, plus the appropriate portion of the deferred revenue of acquirees written off pursuant to GAAP purchase accounting as a result of our acquisitions of SignalDemand, Inc. and Cameleon Software, SA.
- (2) Non-GAAP operating income represents operating income calculated under GAAP, less share-based compensation expense calculated under GAAP, and such other items that are reported by the Company as non-GAAP items.

The incentive payment as a percentage of the base salary of each 2014 NEO set by the Compensation Committee, as well as the actual payout for 2014 performance, are set forth in the following table:

| Named Executive Officer | At Target Threshold | At Target | At Target Maximum | Actual Payout |
|-------------------------|---------------------|-----------|-------------------|---------------|
| Andres D. Reiner        | 55%                 | 110%      | 220%              | 105%          |
| D. Blair Crump          | 50%                 | 100%      | 200%              | 100%          |
| Charles H. Murphy       | 50%                 | 100%      | 200%              | 100%          |
| Ronald F. Woestemeyer   | 22.5%               | 45%       | 67.5%             | 45%           |

For 2014, the target total cash compensation (base salary plus target cash incentives) was positioned relative to our peer group for 2014 between the 50<sup>th</sup> and 75<sup>th</sup> percentiles for Messrs. Reiner and Murphy, above the 75<sup>th</sup> percentile for Mr. Crump, and between the 25<sup>th</sup> and 50<sup>th</sup> percentile for Mr. Woestemeyer.

*Executive compensation activities in 2015.* In February 2015, our Compensation Committee approved our 2015 Named Executive Officer Plan (2015 NEO Plan) for each of Messrs. Reiner, Crump, Woestemeyer and Schulz. The Compensation Committee determined that Mr. Murphy would not participate in the 2015 NEO Plan due to his retirement from his executive positions with the Company in March 2015. The 2015 NEO Plan set targets incentive payment amounts based upon the components from the 2014 NEO Plan (non-GAAP revenue, non-GAAP operating income, and discretionary). The discretionary component of the 2015 NEO Plan includes non-numeric goals and objectives intended to position the Company for longer term growth. The weighting of the 2015 NEO Plan components is set forth in the following table:

| Component                                | Weighting of component as a % of bonus payment |
|--|--|
| Non-GAAP revenue <sup>(1)</sup>          | 60%  |
| Non-GAAP operating income <sup>(2)</sup> | 20%  |
| Discretionary                            | 20%  |

- (1) Non-GAAP revenue represents revenue calculated under GAAP, plus revenue deferred pursuant to GAAP purchase accounting as a result of our acquisitions of SignalDemand, Inc. and Cameleon Software, SA.
- (2) Non-GAAP operating income represents operating income calculated under GAAP, less share-based compensation expense calculated under GAAP, and such other items that are reported by the Company as non-GAAP items.

For the 2015 NEO Plan, the Compensation Committee set the amount of each incentive payment as a percentage of the base salary of each of our NEOs, other than Mr. Murphy, as set forth in the following table:

| Named Executive Officer      | At Target Threshold | At Target | At Target Maximum |
|------------------------------|---------------------|-----------|-------------------|
| Andres D. Reiner             | 55%                 | 110%      | 220%              |
| D. Blair Crump               | 50%                 | 100%      | 200%              |
| Stefan Schulz <sup>(1)</sup> | 40%                 | 80%       | 160%              |
| Ronald F. Woestemeyer        | 22.5%               | 45%       | 67.5%             |

(1) Mr. Schulz' target incentive opportunity for 2015 is prorated based on Mr. Schulz starting his employment with us in March 2015.

In setting these targets, the Compensation Committee believed that there was a reasonable likelihood that we could achieve the targets specified if we execute on our business plan. For 2015, the target total cash compensation (base salary plus target cash incentives) was positioned relative to our peer group for 2015 near the 75<sup>th</sup> percentile for Mr. Reiner, above the 75<sup>th</sup> percentile for Mr. Crump, near the 75<sup>th</sup> percentile for Mr. Schulz and between the 25<sup>th</sup> and 50<sup>th</sup> percentile for Mr. Woestemeyer.

### *Equity Awards*

The Compensation Committee believes that equity compensation plans are an essential tool to link the long-term interests of stockholders and employees, especially the NEOs, and serve to motivate NEOs to make decisions that will, in the long run, deliver the best returns to stockholders.

In 2014, the Compensation Committee considered the equity mix for our NEOs and believed it was in our best interests to grant equity awards in an equal mix of MSUs and RSUs under our 2007 Equity Incentive Plan (2007 Plan) and, in the case of Mr. Crump, as inducement awards outside of our 2007 Plan. The awards to Mr. Crump were made in reliance on the exemption from shareholder approval for employment inducement awards under the NYSE rules in order to attract and retain an executive of his unique caliber and experience.

MSUs are performance-vested units under which the number of shares of Common Stock received following vesting is based on the Company's total stockholder return (TSR) in relation to the Russell 2000 Index (Index) over a specified period of time. The Compensation Committee believes that MSUs help more closely align our NEO compensation with our performance, motivate behavior consistent with long-term value creation, and better assist in retaining our NEOs.

RSUs are intended to assist in retaining our NEOs and to reward them for sustaining and increasing the share price of our common stock. RSUs granted in 2014 to each of Messrs. Reiner and Crump vest in four equal annual installments on January 1st of each year. RSUs granted in 2014 to Mr. Murphy vest in two equal annual installments on January 1st of each subsequent year.

The Compensation Committee determines the size of awards following review of competitive market data from our peer group, as well as subjective factors such as relative job scope, individual performance, tenure and experience, expected future contributions to the growth and development of the Company, Company performance, historical equity compensation awarded to an NEO, and the unvested equity position held by each NEO. For 2014, the value of Mr. Reiner's target equity award was positioned somewhat above the peer group 75<sup>th</sup> percentile, reflecting the Company's continued strong performance under his leadership, and the relatively small equity position he held in the Company as a recently-promoted CEO. For 2014, Mr. Murphy's target equity award was positioned between the peer group 50<sup>th</sup> and 75<sup>th</sup> percentiles reflecting his experience as a public company CFO, the Compensation Committee's assessment that Mr. Murphy's responsibilities are broader in scope than that of many Chief Financial Officers, and to assist in the retention of Mr. Murphy through his retirement from serving as the Chief Financial Officer of the Company in March 2015 and for continued service as an adviser through March 2016. For 2014, Mr. Crump's target equity award



was positioned above the 75<sup>th</sup> percentile, reflecting his experience as a public company executive, that he held no equity in the Company as a recently hired executive, and his expected contribution to the Company in the future. Mr. Woestemeyer did not receive an equity award in 2014 due to his sizable equity stake in the Company as our founder.

The actual number of shares of our Common Stock issuable under MSUs is variable based on over-or under-performance of our stock price compared to the Index during the performance period. The MSUs awarded in 2014 (2014 MSUs) have a three year performance period beginning in January 2014. If we under-perform the Index, the percentage at which the MSUs convert into shares of our Common Stock will be reduced from 100%, at a rate of 4 to 1 (four-percentage-point reduction in the number of target units for each percentage point of under-performance), with a minimum percentage of 0%. If we outperform the Index, the percentage at which the MSUs convert to shares will be increased from 100%, at a rate of 4 to 1 (four percentage-point increase in the number of target units for each percentage point of over-performance), with a maximum percentage of 200%.

*Executive compensation activities in 2015.* In 2015, the Compensation Committee reconsidered the equity mix for our NEOs and believed it was in our best interests to again grant equity awards (a) in an equal mix of MSUs and RSUs to each of Messrs. Reiner and Crump, (b) in RSUs to Mr. Murphy and (c) in a higher percentage of RSUs relative to MSUs for Mr. Schulz. RSUs granted in 2015 to Messrs. Reiner and Crump vest in four equal annual installments on January 1st of each year. RSUs granted in 2015 to Mr. Schulz vest in four equal annual installments on March 2nd of each year. RSUs granted in 2015 to Mr. Murphy vest in February 2016. The MSUs awarded in 2015 (2015 MSUs) to (a) Messrs. Reiner and Crump have a three year performance period beginning in January 2015, and (b) Mr. Schulz have a three year performance period beginning in March 2015. If we under-perform the Index, the percentage at which the MSUs convert into shares of our Common Stock will be reduced from 100%, at a rate of 4 to 1 (four-percentage-point reduction in the number of target units for each percentage point of under-performance), with a minimum percentage of 0%. If we outperform the Index, the percentage at which the MSUs convert to shares will be increased from 100%, at a rate of 4 to 1 (four percentage-point increase in the number of target units for each percentage point of over-performance), with a maximum percentage of 200%.

For 2015, the value of Mr. Reiner's target equity award was positioned near the peer group 75<sup>th</sup> percentile, reflecting the Company's continued strong performance under his leadership in 2014. Mr. Crump's equity award was positioned above the 75<sup>th</sup> percentile, reflecting the Company's strong operational performance under his leadership in 2014, and his expected contribution to the Company in the future. Mr. Murphy's equity award was positioned below the 25<sup>th</sup> percentile, to assist in the retention of Mr. Murphy as an adviser through March 2016. Mr. Schulz's target equity award was positioned between the 50<sup>th</sup> percentile and the 75<sup>th</sup> percentile, reflecting his experience as a public company CFO, that he held no equity in the Company as a recently hired executive, and his expected contribution to the Company in the future. Mr. Woestemeyer did not receive an equity award in 2015 due to his sizable equity stake in the Company as our founder.

### ***Other Compensation***

*Benefits.* We provide our NEOs the following benefits, generally on the same terms as we provide our other employees:

- health, dental, travel, accident insurance and vision;
- life insurance;
- employee assistance plan;
- medical and dependent care flexible spending account;
- short-and long-term disability, accidental death and dismemberment;
- a 401(k) plan;
- an employee stock purchase plan;
- paid time off;
- sick days; and
- tuition reimbursement.

We believe these benefits are consistent with companies with whom we compete for employees.

*401(k) Plan.* We provide a tax-qualified employee savings and retirement plan (401(k) Plan) intended to qualify under Section 401(a) of the Code. Contributions, and income earned thereon, are not taxable to employees until withdrawn. Under the 401(k) Plan, employees may elect to reduce their current compensation up to the statutorily prescribed annual limit and have the amount of the reduction contributed to the 401(k) Plan. The 401(k) Plan also permits us to make matching contributions to the plan on behalf of participants. Historically, our matching contribution has been 50% of the first 6% of employee contributions. We may also make discretionary contributions. In 2014, we matched 50% of each employee's contribution up to 6% of the employee's eligible income contributed to our 401(k) Plan and made no discretionary contributions.

*Employee Stock Purchase Plan.* In 2014, we implemented an employee stock purchase plan (ESPP) intended to qualify as an “employee stock purchase plan” under section 423 of the Internal Revenue Code (Code). At the beginning of each offering under the plan, each participant in the ESPP is granted the right to purchase (Purchase Right) through accumulated payroll deductions up to a number of shares of our Common Stock determined on the first day of the offering period. The Purchase Right is automatically exercised on the last day of the offering period unless the participant has withdrawn from participation in the ESPP prior to such date. Generally, all of our employees are eligible to participate if they are employed by us, or any participating subsidiary, for at least 20 hours per week. However, an employee may not be granted a Purchase Right if such employee immediately after the grant would own stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock or that of any related corporation.

## **Severance compensation and termination protection**

We generally provide our NEOs with severance packages if they are terminated without cause (as defined in their employment agreements) or for good reason (as defined in their employment agreements) in order to attract and retain them. The amount of severance benefits is described below, and in more detail elsewhere in the section titled “Potential Payments Upon Termination or Change of Control.” The Compensation Committee reviews the potential payouts to ensure their market-competitiveness in order to incentivize our NEOs to maintain focus on both daily and long-term efforts.

Our severance compensation provisions are designed to meet the following objectives:

- *Change in Control:* As part of our normal course of business, we engage in discussions with other companies about possible collaborations and/or other ways in which the companies may work together to further our respective long-term objectives. In certain scenarios, the potential for merger or being acquired may be in the best interests of our stockholders. We provide a component of severance compensation if an NEO is terminated as a result of a change of control transaction to promote the ability of our NEOs to act in the best interests of our stockholders even though they could be terminated as a result of the transaction.
- *Termination Without Cause or For Good Reason:* If we terminate the employment of one of our NEOs “without cause” or one of our NEOs resigns for “good reason,” each as defined in the applicable agreement, we are obligated to make certain payments based on the NEO's then-effective base salary. We believe this is appropriate because the terminated NEO is bound by confidentiality and non-competition provisions continuing after termination. We also believe it is beneficial to have a mutually-agreed severance package in place prior to any termination event, to avoid disruptive conflicts and provide us with more flexibility to make a change in management if such a change is in our and our stockholders' best interests.

*Andres D. Reiner.* In May 2013, we entered into an amended and restated employment agreement with Mr. Reiner, our Chief Executive Officer and President. This agreement is for a three-year term and automatically renews for three-year terms unless the Company decides not to renew. The base salary payable to Mr. Reiner is subject to periodic review by our Compensation Committee. In the event Mr. Reiner's employment with us is terminated by him for good reason, by us without cause or we decide not to renew his agreement, he will receive (i) his full base salary each month for the following 12 months, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) the payment of a bonus at 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by us for twelve months, (iv) an amount equal to twelve times the monthly cost of Mr. Reiner's health benefits, and (v) the acceleration of vesting of all equity awards. Alternatively, if Mr. Reiner's employment is terminated by us without cause, if he resigns for good reason, or we decide not to renew his agreement within six months prior to, or any time after, a change of control of the Company, he will receive (i) an amount equal to 150% of his annual salary, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) the payment of an aggregate bonus equal to 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by us for eighteen months, (iv) an amount equal to eighteen times the monthly cost of Mr. Reiner's health benefits, and (v) the acceleration of vesting of all equity awards with respect to such shares that would have vested following the date of termination. In addition, if the surviving or acquiring entity (or its parent entity) elects not to assume, continue or substitute for the equity awards or options due under the 2007 Plan, all outstanding equity awards and options under the 2007 Plan will vest in full and become fully exercisable. Mr. Reiner is subject to non-competition and non-solicitation restrictions during the term of his employment and for the 12-month period following the termination of his employment.

*Stefan Schulz.* In March 2015, we entered into an employment agreement with Mr. Schulz, our Executive Vice President and Chief Financial Officer. This agreement is for a three-year term and automatically renews for three-year terms unless the Company decides not to renew. The base salary payable to Mr. Schulz is subject to periodic review by our Compensation Committee. In the event Mr. Schulz's employment with us is terminated by him for good reason, by us without cause, or we decide

not to renew his agreement, he will receive (i) his full base salary each month for the following 12 months, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) the payment of a bonus at 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by us for twelve months, (iv) an amount equal to twelve times the monthly cost of Mr. Schulz's health benefits, and (v) to the extent that the aggregate amount paid pursuant to items (i) through (iv) is not at least \$1,000,000, the acceleration of vesting of certain equity awards to bring the total separation pay package to \$1,000,000. Alternatively, if Mr. Schulz's employment is terminated by us without cause, if he resigns for good reason, or we decide not to renew his agreement within six months prior to, or any time after, a change of control of the Company, he will receive (i) an amount equal to 150% of his annual salary, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) the payment of an aggregate bonus equal to 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by us for eighteen months, (iv) an amount equal to eighteen times the monthly cost of Mr. Schulz's health benefits, and (v) the acceleration of vesting of all equity awards with respect to such shares that would have vested following the date of termination. In addition, if the surviving or acquiring entity (or its parent entity) elects not to assume, continue or substitute for the equity awards or options due under the 2007 Plan, all outstanding equity awards and options under the 2007 Plan will vest in full and become fully exercisable. Mr. Schulz is subject to non-competition and non-solicitation restrictions during the term of his employment and for the 12-month period following the termination of his employment.

*Charles H. Murphy.* In February 2014, Mr. Murphy announced his intention to retire from the Company. To assist in the retention of Mr. Murphy through his planned retirement, in April 2014, we entered into a second amended and restated employment agreement (Amended Agreement) with Mr. Murphy, and the term of such agreement expires on January 31, 2016. Pursuant to the Amended Agreement, Mr. Murphy will receive his full 2014 target bonus if he remains employed with us through January 31, 2015, and Mr. Murphy would transition to part-time employment with limited responsibilities on or before January 31, 2015 as determined by us. In the event Mr. Murphy's employment with us is terminated by him for good reason or by us without cause, he will receive (i) his full base salary each month for the following 12 months, (ii) an amount equal to twelve times the monthly cost of Mr. Murphy's health benefits, (iii) any unpaid bonus earned prior to the termination relating to completed bonus periods preceding the date of termination, and (iv) the payment in equal monthly installments of an aggregate bonus equal to 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by the Company for twelve months, and (v) the acceleration of vesting of all equity awards with respect to such shares that would have vested following the date of termination. Alternatively, if Mr. Murphy's employment is terminated by us without cause or if he resigns for good reason within six months prior to, or any time after, a change of control of the Company, he will receive (i) an amount equal to 150% of his annual salary, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) an aggregate bonus equal to 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by us for eighteen months, and (iv) an amount equal to eighteen times the monthly cost of Mr. Murphy's health benefits. In addition, in the event of a change of control of the Company, Mr. Murphy will receive acceleration of the vesting of stock options and certain other equity awards granted to him. Mr. Murphy is subject to non-competition and non-solicitation restrictions during the term of his employment and for the 12-month period following the termination of his employment. In January 2015, we amended Mr. Murphy's employment agreement (Second Amended Agreement) to change the date of Mr. Murphy's transition to part time employment from January 31, 2015 to March 31, 2015. Pursuant to the Second Amended Agreement, (a) Mr. Murphy will receive \$75,000 if he remains employed with us through March 31, 2015; (b) Mr. Murphy will transition to part-time employment with limited responsibilities on or before March 31, 2015 as determined by us; (c) Mr. Murphy will receive a reduced salary beginning on March 31, 2015 if he is still employed with us then and reimbursement for certain health benefits after transitioning to part time employment; and (d) in the event of Mr. Murphy's death or disability prior to the expiration of the Second Amended Agreement, all of his equity awards which would have otherwise vested by March 31, 2016 will accelerate in full. Mr. Murphy will otherwise continue to be eligible for the same compensation and benefits and will be subject to similar material terms and conditions as provided for in his prior amended and restated employment agreement.

*D. Blair Crump.* In February 2014, we entered into an employment agreement with Mr. Crump, our Chief Operating Officer. This agreement is for a three-year term and automatically renews for three-year terms unless the Company decides not to renew. The base salary payable to Mr. Crump is subject to periodic review by our Compensation Committee. In the event Mr. Crump's employment with us is terminated by him for good reason, by us without cause, or we decide not to renew his agreement, he will receive (i) his full base salary each month for the following 12 months, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) the payment of a bonus at 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by us for twelve months, (iv) an amount equal to twelve times the monthly cost of Mr. Crump's health benefits, and (v) the acceleration of vesting of all equity awards. Alternatively, if Mr. Crump's employment is terminated by us without cause, if he resigns for good reason, or we decide not to renew his agreement within six months prior to, or any time after, a change of control of the Company, he will receive (i) an amount equal to 150% of his annual salary, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) the payment of an aggregate bonus equal to 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by us for eighteen months, (iv) an amount equal to eighteen times the monthly cost of Mr. Crump's health

benefits, and (v) the acceleration of vesting of all equity awards with respect to such shares that would have vested following the date of termination. In addition, if the surviving or acquiring entity (or its parent entity) elects not to assume, continue or substitute for the equity awards or options due under the 2007 Plan, all outstanding equity awards and options under the 2007 Plan will vest in full and become fully exercisable. Mr. Crump is subject to non-competition and non-solicitation restrictions during the term of his employment and for the 12-month period following the termination of his employment.

*Ronald F. Woestemeyer.* In May 2013, we entered into an amended and restated employment agreement with Mr. Woestemeyer, our Executive Vice President. This agreement is for a three-year term and automatically renews for three-year terms unless the Company decides not to renew. Under this agreement, Mr. Woestemeyer's salary is subject to periodic review by our Compensation Committee. In the event Mr. Woestemeyer's employment with us is terminated by him for good reason, by us without cause, or we decide not to renew his agreement, he will receive (i) \$275,000 payable over 12 months and (ii) an amount equal to six times the monthly cost of Mr. Woestemeyer's health benefits. Alternatively, if Mr. Woestemeyer's employment is terminated by us without cause, if he resigns for good reason, or we decide not to renew his agreement within six months prior to, or eighteen months after, a change of control of the Company, he will receive (i) \$275,000 and (ii) an amount equal to twelve times the monthly cost of Mr. Woestemeyer's health benefits, and (iii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination. Mr. Woestemeyer is subject to non-competition and non-solicitation restrictions during the term of his employment and for the severance period following the termination of his employment.

"Cause" is defined in these employment agreements as (a) a breach by our officer of his duties of confidentiality which causes a material harm to us, (b) his conviction of, or a plea of guilty or no contest to, a felony or any other crime involving dishonesty or moral turpitude under the laws of the United States; (c) continued failure to perform assigned duties or comply with any Company policy after notice and a cure period; (d) any material breach by our officer of his employment agreement or any other agreement between our officer and us after notice and a cure period; (e) any intentional wrongdoing by them that adversely affects us; and (f) any failure to cooperate in good faith with us in any governmental investigation or formal proceeding.

Each of our NEOs can resign for "good reason" and be entitled to severance. "Good reason" is defined in their employment agreements as (i) a material diminution in their authority, duties or responsibilities or the assignment of duties to them that are not materially commensurate with their position with us, other than where they are asked to assume substantially similar duties and responsibilities in a larger entity after any change of control; (ii) the relocation of their offices to more than 25 miles from their present location; (iii) a material reduction in their base salaries other than reductions which are part of a general reduction affecting all employees; (iv) our failure to provide them with similar benefits that we provide to our other employees; (v) any material breach by us of any provision of their employment agreement; or (vi) any failure by any successor corporation to assume our obligations under the NEO's employment agreement.

## **Tax and accounting considerations**

### *Tax considerations*

We are subject to Section 162(m) of the Code, which limits the amount that we may deduct for compensation paid to our Chief Executive Officer and to each of our four most highly compensated officers other than our Chief Financial Officer to \$1,000,000 per person per year, unless certain exemption requirements are met. Exemptions to this deductibility limit may be made for various forms of "performance-based" compensation approved by our stockholders. In addition to salary and bonus compensation that is not "performance-based," certain equity grants may cause an officer's total compensation to exceed \$1,000,000. However, compensation from options or other equity grants that meet certain requirements will be exempt from the \$1,000,000 cap on deductibility. In the past, annual compensation to certain of our NEOs has exceeded \$1,000,000 per person, and we currently anticipate such compensation will exceed the \$1,000,000 limit for certain of our most highly compensated officers in 2015. If we do not qualify for the exemptions to this deductibility limit, we will not be able to deduct the compensation amount in excess of \$1,000,000. While the Compensation Committee cannot predict how the deductibility limit may impact our compensation program in future years, the Compensation Committee intends to maintain an approach to executive compensation that strongly links pay to performance. Accordingly, we have not adopted a policy that all compensation must qualify as deductible under Section 162(m) of the Code.

## **REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS**

The Compensation Committee has reviewed and discussed with management the preceding Compensation Discussion and Analysis contained in this Proxy Statement. Based on this review and discussion, the Compensation Committee recommended to our Board of Directors, and the Board of Directors has agreed that the Compensation Discussion and Analysis be included in our Proxy Statement.

THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Greg B. Petersen, Chairman

Timothy V. Williams

William Russell

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table presents the compensation paid to or earned by our NEOs, including our Chief Executive Officer and our Chief Financial Officer during 2014, 2013 and 2012:

| Name and Principal Position   | Year | Salary (\$) | Stock Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | All Other Compensation (2) (\$) | Total (\$) |
|---|------|-------------|-------------------|---|---------------------------------|------------|
| Andres D. Reiner<br><i>President and Chief Executive Officer</i>                      | 2014 | 475,000     | 3,157,533 (3)     | 496,375                                     | 28,469 (5)                      | 4,157,377  |
|   | 2013 | 475,000     | 6,090,800 (4)     | 416,100                                     | 24,256 (5)                      | 7,006,156  |
|   | 2012 | 425,000     | 3,626,400 (6)     | 535,170                                     | 45,266 (7)                      | 4,631,836  |
| Charles H. Murphy<br><i>Executive Vice President and Chief Financial Officer</i>      | 2014 | 357,500     | 931,250 (8)       | 360,000                                     | 21,324                          | 1,670,074  |
|   | 2013 | 345,000     | 2,155,980 (9)     | 241,776                                     | 18,799                          | 2,761,555  |
|   | 2012 | 325,000     | 1,223,916 (10)    | 292,222                                     | 36,891 (7)                      | 1,878,029  |
| Ronald F. Woestemeyer<br><i>Executive Vice President, Strategic Business Planning</i> | 2014 | 233,750     | —                 | 105,300                                     | 20,583                          | 359,633    |
|   | 2013 | 233,750     | —                 | 81,713                                      | 10,860                          | 326,323    |
|   | 2012 | 233,750     | —                 | 118,013                                     | 16,433 (7)                      | 368,196    |
| D. Blair Crump<br><i>Chief Operating Officer</i>                                      | 2014 | 366,667     | 6,776,250 (11)    | 400,000                                     | 24,117                          | 7,567,034  |
|   | 2013 | —           | —                 | —   | —                               | —          |
|   | 2012 | —           | —                 | —   | —                               | —          |

- (1) These amounts represent the aggregate grant date fair value of equity awards granted in the specified fiscal year as calculated in accordance with GAAP. For additional information about the valuation assumptions with respect to equity awards, refer to Note 10 of our financial statements in our Form 10-K for the year ended December 31, 2014, as filed with the SEC.
- (2) Represents matching contributions for each individual's 401(k) Plan contributions, life insurance premiums and health insurance, and HP Slates, tax-gross up payments on the HP Slates. The HP Slates and tax-gross up payments were provided to each full time Company employee as a reward for the Company's performance during 2013.
- (3) Represents 36,900 RSUs and 36,900 MSUs awarded to Mr. Reiner on February 11, 2014. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$37.25. The 2014 MSUs will vest on January 1, 2017, and have a grant date fair value of \$48.32. For additional information regarding the 2014 MSUs, see "2014 Grants of Plan-Based Awards" below.
- (4) Represents 105,000 RSUs and 100,000 MSUs awarded to Mr. Reiner on January 18 and February 25, 2013, respectively. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$19.36. The MSUs granted in 2013 (2013 MSUs) vest on January 1, 2016, and have a grant date fair value of \$40.58. The 2013 MSUs are performance-vested units under which the number of shares of Common Stock received following vesting is based on our TSR in relation to the Index over a three year period ending December 31, 2015 (2013 MSU Performance Period). The maximum number of shares issuable upon vesting is 200% of the 2013 MSUs initially granted based on the average price of our Common Stock relative to the Index during the 2013 MSU Performance Period.
- (5) Amount also includes reimbursement for annual medical examination.
- (6) Represents 80,000 RSUs and 80,000 2012 MSUs awarded to Mr. Reiner on February 14, 2012. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$19.25. The MSUs granted in 2012 (2012 MSUs) vested on January 1, 2014, and have a grant date fair value of \$26.08. The 2012 MSUs are performance-vested units under which the number of shares of Common Stock received following vesting is based on our TSR in relation to the Index over a two year period ending December 31, 2013 (2012 MSU Performance Period). The number of shares issued upon vesting was 200% of the MSUs initially granted based on the average price of our Common Stock relative to the Index during the 2012 MSU Performance Period.
- (7) Amount also includes iPads and tax-gross up payments and amounts paid for accrued but unused vacation. The iPads and tax-gross up payments were provided to each full time Company employee as a reward for the Company's performance during 2011. The amounts paid for accrued vacation related to a one-time payment provided to each Company employee which had accrued, but unused vacation as of December 31, 2011 as part of the Company's conversion from a vacation to a paid time off benefit in 2012.
- (8) Represents 25,000 RSUs awarded to Mr. Murphy on February 11, 2014. The RSUs vest annually in two installments on January 1st of each year and have a grant date fair value of \$37.25.
- (9) Represents 38,000 RSUs and 35,000 MSUs awarded to Mr. Murphy on January 18 and February 25, 2013, respectively. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$19.36. The MSUs granted in 2013 (2013 MSUs) vest on January 1, 2016, and have a grant date fair value of \$40.58. The 2013 MSUs are performance-vested units under which the number of shares of Common Stock received following vesting is based on our TSR in relation to the Index over a three year period ending December 31, 2015 (2013 MSU Performance Period). The maximum number of shares issuable upon vesting is 200% of the 2013 MSUs initially granted based on the average price of our Common Stock relative to the Index during the 2013 MSU Performance Period.

- (10) Represents 27,000 RSUs and 27,000 MSUs awarded to Mr. Murphy on February 14, 2012. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$19.25. The 2012 MSUs vested on January 1, 2014, and have a grant date fair value of \$26.08. The 2012 MSUs are performance-vested units under which the number of shares of Common Stock received following vesting is based on our TSR in relation to the Index the 2012 MSU Performance Period. The number of shares issued upon vesting was 200% of the MSUs initially granted based on the average price of our Common Stock relative to the Index during the 2012 MSU Performance Period.
- (11) Represents 75,000 RSUs and 75,000 MSUs awarded to Mr. Crump on February 24, 2014 as inducement awards outside our 2007 Plan in reliance on the exemption from shareholder approval for employment inducement awards under the NYSE rules. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$39.11. The 2014 MSUs are performance-vested units under which the number of shares of Common Stock received following vesting is based on the Company's TSR in relation to the Index over a three year period ending December 31, 2016 (2014 MSU Performance Period). The 2014 MSUs vest on January 1, 2017, and the maximum number of shares issuable upon vesting is 200% of the 2014 MSUs initially granted based on the average price of our Common Stock relative to the Index during the 2014 MSU Performance Period. Includes the target number of shares issuable at the grant date fair value per share of \$51.24.

## 2014 Grants of Plan-Based Awards

The following table shows all plan-based awards granted to our NEOs during 2014, including:

| Name                  | Type of Award  | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Awards |             |              | Estimated Future Payouts Under Equity Incentive Awards |             | All Other Stock Awards: Number of Shares of Stock or Units(#) | Exercise or Base Price of Option Awards (\$/Sh) | Grant Date Fair value of Options and Awards (\$) |
|-----------------------|----------------|------------|--|-------------|--------------|--|-------------|---|---|--|
|                       |                |            | Threshold (\$)   | Target (\$) | Maximum (\$) | Target (#)   | Maximum (#) |   |   |  |
| Andres D. Reiner      | RSU            | 2/11/2014  |  |             |              |  |             | 36,900  | \$ 37.25  | 1,374,525  |
|                       | MSU(1)         | 2/11/2014  |  |             |              | 36,900   | 73,800      |   |   | 1,783,008  |
|                       | Cash incentive | 2/20/2014  | \$ 261,250   | 522,500     | 1,045,000    |  |             |   |   |  |
| Charles H. Murphy     | RSU            | 2/11/2014  |  |             |              |  |             | 25,000  | \$ 37.25  | 931,250  |
|                       | Cash incentive | 2/20/2014  | \$ 180,000   | 360,000     | 720,000      |  |             |   |   |  |
| Ronald F. Woestemeyer | Cash incentive | 2/20/2014  | \$ 52,594  | 105,188     | 157,781      |  |             |   |   |  |
| D. Blair Crump        | Cash incentive | 2/20/2014  | \$ 200,000   | 400,000     | 800,000      |  |             |   |   |  |

(1) The 2014 MSUs are performance-vested units under which the number of shares of Common Stock received following vesting is based on the Company's TSR in relation to the Index over a three year period ending December 31, 2016 (2014 MSU Performance Period). The 2014 MSUs vest on January 1, 2017, and the maximum number of shares issuable upon vesting is 200% of the 2014 MSUs initially granted based on the average price of our Common Stock relative to the Index during the 2014 MSU Performance Period. Includes the target number of shares issuable at the grant date fair value per share of \$48.32 for the February 11, 2014 MSUs.

## Outstanding Equity Awards at Fiscal Year End—2014

The following table presents the number of options to purchase shares of our Common Stock, SARs, RSUs and MSUs held by our NEOs as of December 31, 2014:

| Name                  | Option Awards  |  |                                 |                             | Stock Awards   |  |
|-----------------------|--|--|---------------------------------|-----------------------------|--|--|
|                       | Number of securities underlying unexercised options/SARs (#) Exercisable | Number of securities underlying unexercised options/SARs (#) Unexercisable | Option/SARs exercise price (\$) | Option/SARs expiration date | Equity incentive plan awards: number of unearned shares or other rights that have not vested (#) | Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested (\$) |
| Andres D. Reiner      | 6,250  | —  | 0.43                            | 2/10/2015                   |  |  |
|                       | 10,782   | —  | 0.65                            | 12/30/2015                  |  |  |
|                       | 50,000   | —  | 6.00                            | 3/26/2017                   |  |  |
|                       | 100,000  | —  | 16.73                           | 11/15/2017                  |  |  |
|                       | 50,000   | —  | 12.72                           | 5/14/2018                   |  |  |
|                       | 20,000   | —  | 8.68                            | 3/9/2020                    |  |  |
|                       | 180,000  | —  | 11.33                           | 12/14/2020                  |  |  |
|                       |  |  |                                 |                             | 8,750 (1)  | 240,450  |
|                       |  |  |                                 |                             | 40,000 (2)   | 1,099,200  |
|                       |  |  |                                 |                             | 78,750 (3)   | 2,164,050  |
|                       |  |  |                                 |                             | 100,000 (4)  | 2,748,000  |
|                       |  |  |                                 |                             | 36,900 (5)   | 1,014,012  |
|                       |  |  |                                 |                             | 36,900 (6)   | 1,014,012  |
| Charles H. Murphy     | 9,663  | —  | 6.00                            | 4/2/2017                    |  |  |
|                       | 28,000   | —  | 8.68                            | 3/9/2020                    |  |  |
|                       | 46,000   | —  | 11.33                           | 12/14/2020                  |  |  |
|                       |  |  |                                 |                             | 6,250 (1)  | 171,750  |
|                       |  |  |                                 |                             | 13,500 (2)   | 370,980  |
|                       |  |  |                                 |                             | 28,500 (3)   | 783,180  |
|                       |  |  |                                 |                             | 35,000 (4)   | 961,800  |
|                       |  |  |                                 |                             | 25,000 (5)   | 687,000  |
| D. Blair Crump        | —  | —  |                                 |                             | 75,000 (7)   | 2,061,000  |
|                       |  |  |                                 |                             | 75,000 (8)   | 2,061,000  |
| Stefan Schulz (9)     | —  | —  |                                 |                             | —  | —  |
| Ronald F. Woestemeyer | —  | —  |                                 |                             | —  | —  |

- (1) Represents the unvested portion of the RSUs awarded to Messrs. Reiner and Murphy on May 10, 2011. Messrs. Reiner and Murphy were awarded 35,000 and 25,000 RSUs, respectively. The RSUs vest annually in one fourth installments on the date of grant and have a grant date fair value of \$18.23.
- (2) Represents the unvested portion of the RSUs awarded to Messrs. Reiner and Murphy on February 14, 2012. Messrs. Reiner and Murphy were awarded 80,000 and 27,000 RSUs, respectively. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$19.25.
- (3) Represents the unvested portion of the RSUs awarded to Messrs. Reiner and Murphy on January 18, 2013. Messrs. Reiner and Murphy were awarded 105,000 and 38,000 RSUs, respectively. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$19.36.
- (4) Represents 2013 MSUs awarded to Messrs. Reiner and Murphy on February 25, 2013. These 2013 MSUs vest on January 1, 2016. The amounts shown above reflect the number and market value, as of December 31, 2013, of 2013 MSUs that would be earned if the performance goals related to these awards were met at the target level at the end of the 2013 MSU Performance Period. If the minimum performance threshold is not met, there will be no payout. The number of shares that will actually be earned will depend on our TSR for the period from January 1, 2013 and December 31, 2015 as compared to the Index.



- (5) Represents the unvested portion of the RSUs awarded to Messrs. Reiner and Murphy on February 11, 2014. Messrs. Reiner and Murphy were awarded 36,900 and 25,000 RSUs, respectively. The RSUs awarded to Mr. Reiner vest annually in one fourth installments on January 1st of each year and the RSUs awarded to Mr. Murphy vest over a two year period on January 1st each year and have a grant date fair value of \$37.25.
- (6) Represents 2014 MSUs awarded to Mr. Reiner on February 11, 2014. These 2014 MSUs vest on January 1, 2017. The amounts shown above reflect the number and market value, as of December 31, 2014, of 2014 MSUs that would be earned if the performance goals related to these awards were met at the target level at the end of the 2014 MSU Performance Period. If the minimum performance threshold is not met, there will be no payout. The number of shares that will actually be earned will depend on our TSR for the period from January 1, 2014 and December 31, 2016 as compared to the Index.
- (7) Represents the unvested portion of the RSUs awarded to Mr. Crump on February 24, 2014 as employee inducement awards outside of our 2007 Plan. Mr. Crump was awarded 75,000 RSUs which vest annually in one fourth installments on January 1st of each year. The grant date fair value of \$39.11.
- (8) Represents 2014 MSUs awarded to Mr. Crump on February 11, 2014 as employee inducement awards outside of our 2007 Plan. These 2014 MSUs vest on January 1, 2017. The amounts shown above reflect the number and market value, as of December 31, 2014, of 2014 MSUs that would be earned if the performance goals related to these awards were met at the target level at the end of the 2014 MSU Performance Period. If the minimum performance threshold is not met, there will be no payout. The number of shares that will actually be earned will depend on our TSR for the period from January 1, 2014 and December 31, 2016 as compared to the Index.
- (9) Mr. Schulz began his employment with us in March 2015.

## Equity Awards Vested in 2014

The following table presents information on the vesting of RSUs and MSUs for our NEOs during the year ended December 31, 2014:

| Name              | Stock Awards                                     |  |                                    |
|-------------------|--|--|------------------------------------|
|                   | Number of shares acquired on RSU vesting (1) (#) | Number of shares acquired on MSU vesting (2) (#) | Value realized on vesting (3) (\$) |
| Andres D. Reiner  | 75,000   | 160,000  | \$ 9,035,838                       |
| Charles H. Murphy | 30,250   | 54,000   | \$ 3,203,533                       |

- (1) Represents the vesting of RSUs.
- (2) Represents the vesting of MSUs.
- (3) Represents the value realized upon vesting of RSUs and MSUs.

Mr. Woestemeyer has not been granted any share-based awards because of his significant equity position in the Company. Mr. Murphy exercised 140,337 stock options during 2014 with value realized on exercise of \$4,293,029. Mr. Crump did not have any equity awards which vested in 2014. Our NEOs did not exercise any SARs for the year ended December 31, 2014.

## Potential Payments Upon Termination or Change of Control

### *Termination events*

Our employment agreements with each of Messrs. Reiner and Crump provide that in the case of a termination of employment by us without cause, as defined in their agreements; by Mr. Reiner or Mr. Crump for good reason, as defined in their agreements; or we decide not to renew such agreements, they would be entitled to (i) a payment equal to one year of his then current base salary, (ii) any unpaid bonus earned prior to the termination related to completed bonus periods preceding the date of termination, (iii) an amount equal to twelve times the monthly cost of such NEO's health benefits, and (iv) the payment of a bonus at 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by the Company for twelve months, and (iv) acceleration of all equity awards.

In the event Mr. Schulz's employment with us is terminated by him for good reason, by us without cause, or we decide not to renew his agreement, he will receive (i) a payment equal to one year of his then current base salary, (ii) any unpaid bonus earned prior to the termination related to completed bonus periods preceding the date of termination, (iii) an amount equal to twelve times the monthly cost of such NEO's health benefits, and (iv) the payment of a bonus at 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by the Company for twelve months, and (iv) if (i) through (iv) is not at least \$1,000,000, the acceleration of vesting of certain equity awards to bring the total separation pay package to \$1,000,000.

In the event Mr. Woestemeyer's employment with us is terminated by him for good reason, by us without cause, or we decide not to renew his agreement, he will receive (i) \$275,000 payable over 12 months and (ii) an amount equal to six times the monthly cost of Mr. Woestemeyer's health benefits, and (iii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination.

The following table presents the amounts of such severance payments to Messrs. Reiner, Murphy and Woestemeyer assuming the event that triggered the payment occurred December 31, 2014:

| Name                  | Severance<br>(\$ (1)) | Bonus<br>(\$ (2)) | Health<br>Benefits<br>(\$ (3)) | Acceleration of<br>Vesting of Unvested<br>Equity Awards<br>(\$ (4)) | Total<br>(\$) |
|-----------------------|-----------------------|-------------------|--------------------------------|---|---------------|
| Andres D. Reiner      | \$ 475,000            | 475,000           | 19,427                         | 4,517,712   | \$ 5,487,139  |
| Charles H. Murphy     | \$ 345,000            | 276,000           | 14,124                         | 2,012,910   | \$ 2,648,034  |
| Ronald F. Woestemeyer | \$ 275,000            | 105,188           | 6,785                          | —   | \$ 386,973    |
| D. Blair Crump        | \$ 400,000            | 400,000           | 18,875                         | 2,061,000   | \$ 2,879,875  |

- (1) Reflects the then current base monthly salary for twelve months, payable on normal payroll cycles for Messrs. Reiner, Crump and Murphy.
- (2) Reflects the payment of a bonus at 100% of performance targets, including the discretionary components, within the bonus plan in effect as if employed by the Company for twelve months. The amounts in this column assume that as of December 31, 2014, there was no bonus earned but unpaid prior to termination.
- (3) Reflects health benefits as made generally available to employees for twelve months for Messrs. Reiner, Crump and Murphy and six months for Mr. Woestemeyer.
- (4) Reflects the acceleration of vesting on unvested equity awards using the closing price of the Company's stock on December 31, 2014.

### ***Termination Events after a Change in Control***

Our employment agreements with each of our NEOs, with the exception of Mr. Woestemeyer provide that in the event of a termination of employment without cause or for good reason, or we decide not to renew such NEOs agreement within six months of or any time after a change-in-control, each such NEO would be entitled to (i) an amount equal to eighteen times the monthly cost of such NEO's health benefits, (ii) full acceleration on the vesting on all equity awards with respect to such shares that would have vested following the date of termination, (iii) any unpaid bonus earned prior to the termination, (iv) the payment of an aggregate bonus equal to 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by the Company for eighteen months, and (v) a payment equal to 150% of such NEO's then current base salary. In the event Mr. Woestemeyer's employment is terminated by us without cause, if he resigns for good reason, or we decide not to renew his agreement within six months prior to, or eighteen months after, a change of control of the Company, he will receive (i) \$275,000 and (ii) an amount equal to twelve times the monthly cost of Mr. Woestemeyer's health benefits, and (iii) any unpaid bonus earned prior to the termination.

In addition, in the event of a change in control of the Company, any then-outstanding equity award or option under the 2007 Plan may be assumed, continued or substituted for by any surviving or acquiring entity (or its parent company). If the surviving or acquiring entity (or its parent company) elects not to assume, continue or substitute for the equity awards or options under the 2007 Plan, all outstanding equity awards and options under the 2007 Plan will vest in full and become fully exercisable.

The following table presents potential payments to each of Messrs. Reiner, Murphy, Woestemeyer and Crump in the event of a termination without cause or termination for good reason within six months before a change-in-control or any time after a change in control, in each case assuming the event that triggered the payment occurred on December 31, 2014:

| Name                  | Severance<br>(\$ (1)) | Bonus<br>(\$ (2)) | Health Benefits<br>(\$ (3)) | Acceleration of<br>Vesting of Unvested<br>Equity Awards<br>(\$ (4)) | Total<br>(\$) |
|-----------------------|-----------------------|-------------------|-----------------------------|---|---------------|
| Andres D. Reiner      | \$ 712,500            | 712,500           | 29,141                      | 8,279,724   | \$ 9,733,865  |
| D. Blair Crump        | \$ 600,000            | 600,000           | 28,313                      | 4,122,000   | \$ 5,350,313  |
| Charles H. Murphy     | \$ 517,500            | 414,000           | 21,186                      | 2,974,710   | \$ 3,927,396  |
| Ronald F. Woestemeyer | \$ 275,000            | 105,188           | 13,570                      | —   | \$ 393,758    |

- (1) Reflects the then current base monthly salary for 18 months for Messrs. Reiner, Crump and Murphy.
- (2) Reflects the payment of a bonus at 100% of performance targets, including the discretionary component, within the bonus plan in effect as if employed by the Company for 18 months for Messrs. Reiner, Crump and Murphy and 12 months for Mr. Woestemeyer. The amounts in this column assume that as of December 31, 2014, there was no bonus earned but unpaid prior to termination.
- (3) Reflects health benefits as made generally available to employees for 18 months for Messrs. Reiner, Crump and Murphy and 12 months for Mr. Woestemeyer.
- (4) Reflects acceleration of vesting on unvested equity awards using the closing price of our Common Stock on December 31, 2014.

## Director Compensation Table—2014

The following table presents the compensation details for each non-employee director for services to us during fiscal 2014:

| Name                    | Fees Earned or Paid in Cash (\$) | Restricted Stock Units (\$ (1)) | Total (\$) |
|-------------------------|----------------------------------|---------------------------------|------------|
| Ellen Keszler           | 57,500                           | 142,593                         | 200,093    |
| Greg B. Petersen        | 77,500                           | 142,593                         | 220,093    |
| William Russell         | 110,000                          | 142,593                         | 252,593    |
| Timothy V. Williams     | 87,500                           | 142,593                         | 230,093    |
| Mariette M. Woestemeyer | 35,000                           | 142,593                         | 177,593    |

- (1) These amounts represent the aggregate grant date fair value of equity awards granted for such director's services in 2014 as calculated in accordance with GAAP. For additional information about the valuation assumptions with respect to equity awards, refer to Note 10 of our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC. The February 11, 2014 grant of RSUs vested in full on January 1, 2015 and had a grant date fair value of \$37.25.

## Discussion of Director Compensation

Under our 2014 director compensation policy, our non-employee members of our Board of Directors received an annual retainer of \$35,000 and a retainer of \$15,000 if such director also serves on our Audit Committee or Compensation Committee. In addition, our Audit Committee chairman received a retainer of \$30,000, the Compensation Committee chairman received a retainer of \$20,000 and the Nominating and Corporate Governance Committee chairman received a retainer of \$10,000. Our Nominating and Corporate Governance Committee members each received a retainer of \$7,500. Our non-executive chairman received a retainer of \$50,000. All fees were paid on a quarterly basis. We have also agreed to reimburse our directors for reasonable out-of-pocket expenses incurred in connection with (i) their attendance at our Board of Directors or committee meetings, and (ii) director continuing education programs, including participation in the National Association of Corporate Directors (NACD), of which the Company is also a member. In addition, each non-employee member of our Board of Directors received a grant of 3,828 RSUs in February 2014, which vested in full on January 1, 2015.

The table below presents the aggregate number of outstanding shares of RSUs and stock option awards held by our non-employee directors as of December 31, 2014.

| Name                    | Restricted Stock Units (#) (1) | Stock Option Awards (#) (2) |
|-------------------------|--------------------------------|-----------------------------|
| Ellen Keszler           | 3,828                          | 30,000                      |
| Greg B. Petersen        | 3,828                          | 30,000                      |
| William Russell         | 3,828                          | —                           |
| Timothy V. Williams     | 3,828                          | 30,000                      |
| Mariette M. Woestemeyer | 3,828                          | 30,000                      |

- (1) Represents RSUs granted on February 11, 2014, which fully vested on January 1, 2015, under the 2014 director compensation policy. Each RSU represents the contingent right to receive one share of Common Stock.
- (2) Represents options to purchase 30,000 shares of our Common Stock which previously vested and are immediately exercisable.

## REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

This report is submitted by the Audit Committee of the Board of Directors. The Audit Committee currently consists of Timothy V. Williams (Chairman), Greg B. Petersen and Ellen Keszler. None of the members of the Audit Committee is an officer or employee of the Company. Our Board of Directors has determined that Messrs. Williams, Petersen and Ms. Keszler are each “independent” for Audit Committee purposes under the applicable rules of the NYSE and the SEC. Our Board of Directors has also determined that each of the members of the Audit Committee are each an “Audit Committee financial expert” as is currently defined under SEC regulations and the rules of the NYSE. The Audit Committee operates under a written charter adopted by the Board of Directors, a current copy of which is available under *Corporate Governance* in the *Investor Relations* section of our website at [www.PROS.com](http://www.PROS.com).

The Audit Committee oversees the Company’s accounting and financial reporting processes on behalf of the Board of Directors. The Company’s management has the primary responsibility for preparing the Company’s financial statements, for maintaining effective internal control over financial reporting, and for assessing the effectiveness of internal control over financial reporting. In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed with management the Company’s consolidated financial statements for the fiscal year ended December 31, 2014, including a discussion of, among other things, the quality of the Company’s accounting principles, the reasonableness of significant estimates and judgments, and the clarity of disclosures in the Company’s financial statements.

The Audit Committee has (1) reviewed and discussed the audited financial statements with management, (2) discussed with PricewaterhouseCoopers LLP, our independent registered public accounting firm, the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, (3) received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant’s communications with the Audit Committee concerning independence, and (4) discussed with the independent accountant the independent accountant’s independence. Based upon these discussions and reviews, the Audit Committee recommended to our Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and filed with the SEC.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the SEC.

### THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Timothy V. Williams, Chairman  
Ellen Keszler  
Greg B. Petersen

## MATTERS CONCERNING OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has adopted a policy for the pre-approval of all audit and permitted non-audit services that may be performed by our independent registered public accounting firm. Under this policy, each year, at the time it engages the independent registered public accounting firm, the Audit Committee pre-approves the audit engagement terms and fees and may also pre-approve detailed types of audit-related and permitted tax services, subject to certain dollar limits, to be performed during the year. All other permitted non-audit services are required to be pre-approved by the Audit Committee on an engagement-by-engagement basis.

The following table summarizes the aggregate fees billed for professional services rendered to us by PricewaterhouseCoopers LLP in 2014 and 2013. A description of these various fees and services follows the table:

|                    | 2014                | 2013                |
|--------------------|---------------------|---------------------|
| Audit fees         | \$ 1,836,900        | \$ 1,311,500        |
| Audit-related fees | —                   | 193,127             |
| Tax fees           | 284,705             | 119,500             |
| All other fees     | —                   | —                   |
| Total fees         | <u>\$ 2,121,605</u> | <u>\$ 1,624,127</u> |

### Fees Billed by PricewaterhouseCoopers, LLP

#### *Audit fees*

The aggregate fees billed to us by PricewaterhouseCoopers LLP in connection with the annual audit of our financial statements, for the reviews of our financial statements included in the quarterly reports on Form 10-Q, consents related to documents filed with the SEC and comfort letters, were \$1,836,900 and \$1,311,500 for the years ended December 31, 2014 and 2013, respectively.

#### *Audit-related fees*

Audit-related fees consist of fees for professional services that are reasonably related to the performance of the audit or review of the Company's financial statements. This category may include fees related to due diligence related to mergers and acquisitions, accounting and financial reporting consultations and research necessary to comply with generally accepted audit standards. There were no audit-related fees billed for the year ended December 31, 2014. The aggregate fees billed for all services were \$193,127 for the year ended December 31, 2013.

#### *Tax fees*

The aggregate fees billed to us by PricewaterhouseCoopers LLP in connection with the tax fees were related to the analysis of the Research and Experimentation Tax Credit, tax compliance, tax advice and tax planning were \$284,705 and \$119,500 for the years ended December 31, 2014 and 2013, respectively.

The Audit Committee is authorized by its charter to pre-approve all auditing and permitted non-audit services to be performed by our independent registered public accounting firm. The Audit Committee reviews and approves the independent registered public accounting firm's retention to perform attest services, including the associated fees. The Audit Committee also evaluates other known potential engagements of the independent registered public accounting firm, including the scope of the proposed work and the proposed fees, and approves or rejects each service, taking into account whether the services are permissible under applicable law and the possible impact of each non-audit service on the independent registered public accounting firm's independence from management. At subsequent meetings, the Audit Committee will receive updates on the services actually provided by the independent registered public accounting firm, and management may present additional services for approval. The Audit Committee has delegated to the chairman of the Audit Committee the authority to evaluate and approve engagements on behalf of the Audit Committee in the event that a need arises for pre-approval between Audit Committee meetings. If the Chairman so approves any such engagements, he will report that approval to the full Audit Committee at its next meeting. During fiscal year 2014, all such services were pre-approved in accordance with the procedures described above.

Our Audit Committee has reviewed the fees described above and believes that such fees are compatible with maintaining the independence of PricewaterhouseCoopers LLP.

## EXPENSES AND SOLICITATION

We will bear the expense of soliciting proxies in the enclosed form. In addition, we might reimburse banks, brokerage firms, and other custodians, nominees and fiduciaries representing beneficial owners of our Common Stock, for their expenses in forwarding soliciting materials to those beneficial owners. Proxies may also be solicited by our directors, officers or employees, personally or by telephone, telegram, facsimile or other means of communication. We do not intend to pay additional compensation for doing so.

## STOCKHOLDERS PROPOSALS

Stockholders may present proposals for action at meetings of stockholders only if they comply with the proxy rules established by the SEC, applicable Delaware law and our amended and restated bylaws as contained in the Current Report on Form 8-K filed with the SEC on August 21, 2013, a copy of which was filed as Exhibit 3.1 to such Current Report. No stockholder proposals were received for consideration at our 2015 Annual Meeting.

Pursuant to the various rules promulgated by the SEC, stockholders interested in submitting a proposal for inclusion in our proxy materials and for presentation at the 2016 Annual Meeting of Stockholders may do so by following the procedures set forth in Rule 14a-8 under the Exchange Act, as amended. To be eligible for inclusion in such proxy materials, stockholder proposals must be received by our Corporate Secretary no later than December 31, 2015.

Under our amended and restated bylaws, with respect to any stockholder proposal or director nomination that is not submitted for inclusion in the next year's proxy statement but instead is proposed to be presented directly at our 2015 Annual Meeting, the stockholder must provide us written notice not later than the close of business on the later of the ninetieth (90th) day prior to our Annual Meeting or the tenth (10th) day following the date on which public announcement of the date of the Annual Meeting is first made.

Any such notice shall set forth the following as to each matter the stockholder proposes to bring before the Annual Meeting: (a) a brief description of the business desired to be brought before the Annual Meeting and the text of the proposal or business; (b) the name and address, as they appear on our corporate books, of the stockholder proposing such business; (c) the class and number of our shares that are beneficially owned by such stockholder as of the date of the notice, and a representation that the stockholder will notify the Company in writing within five (5) business days after the record date for voting at the Annual Meeting of the class or series and number of shares of the Company owned beneficially and of record by the stockholder as of the record date for voting at the Annual Meeting; (d) a representation that the stockholder intends to appear in person or by proxy at the Annual Meeting to propose the business specified in the notice; (e) any material interest of the stockholder in such business; (f) the following information regarding the ownership interests of the stockholder, which shall be supplemented in writing by the stockholder not later than ten (10) days after the record date for voting at the Annual Meeting to disclose such interests as of such record date: (1) a description of any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Company or with a value derived in whole or in part from the value of any class or series of shares of the Company, any derivative or synthetic arrangement having the characteristics of a long position in any class or series of shares of the Company, or any contract, derivative, swap or other transaction or series of transactions designed to produce economic benefits and risks that correspond substantially to the ownership of any class or series of shares of the Company, including due to the fact that the value of such contract, derivative, swap or other transaction or series of transactions is determined by reference to the price, value or volatility of any class or series of shares of the Company, whether or not such instrument, contract or right shall be subject to settlement in the underlying class or series of shares of the Company, through the delivery of cash or other property, or otherwise, and without regard to whether the stockholder of record may have entered into transactions that hedge or mitigate the economic effect of such instrument, contract or right (Derivative Instrument) directly or indirectly owned beneficially by such stockholder, and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Company; (2) a description of any proxy, contract, arrangement, understanding, or relationship pursuant to which such stockholder has a right to vote any shares of any security of the Company; (3) a description of any agreement, arrangement, understanding, relationship or otherwise, including any repurchase or similar so-called "stock borrowing" agreement or arrangement, engaged in, directly or indirectly, by such stockholder, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of any class or series of the shares of the Company by, manage the risk of share price changes for, or increase or decrease the voting power of, such stockholder with respect to any class or series of the shares of the Company, or which provides, directly or indirectly, the opportunity to profit or share in any profit derived from any decrease in the price or value of any class or series of the shares of the Company (Short Interests); (4) a description of any rights to dividends on the shares of the Company owned beneficially by such stockholder that are separated or separable from the underlying shares of the Company; (5) a description of any proportionate interest in shares of the Company or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such stockholder is a general partner or, directly or indirectly, beneficially owns an interest in a general

partner; (6) a description of any performance-related fees (other than an asset-based fee) to which such stockholder is entitled based on any increase or decrease in the value of shares of the Company or Derivative Instruments, if any, as of the date of such notice, including, without limitation, any such interests held by members of such stockholder's immediate family sharing the same household; (7) a description of any significant equity interests or any Derivative Instruments or Short Interests in any principal competitor of the Company held by such stockholder; and (8) a description of any direct or indirect interest of such stockholder in any contract with the Company, any affiliate of the Company or any principal competitor of the Company (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement), and (g) any other information relating to such stockholder, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act, as amended, and the rules and regulations promulgated thereunder.

In addition, any notice of director nomination must also include (a) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder, (b) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such stockholder, on the one hand, and each nominee, and his respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the stockholder or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant, and (c) such other information regarding each nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors, and (d) the signed consent of each nominee to serve as a director of the corporation if so elected. In the absence of such notice meeting the above requirements, a stockholder shall not be entitled to present any business at our 2016 Annual Meeting.

Notwithstanding the above, in the event that the number of directors to be elected at an annual meeting of stockholders is increased and there is no public announcement by the Company naming the nominees for the additional directorships at least one hundred (100) days prior to the first anniversary of the date of the Company's previous year's annual meeting of stockholders, a stockholder's notice shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Corporate Secretary at our principal executive offices not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Company. In the event the Company calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder may nominate a person(s), for election to such positions as are specified in the Company's notice of meeting, if the stockholder's notice shall be delivered to the Corporate Secretary at our principal executive offices not earlier than the ninetieth (90th) day prior to such special meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by our Board of Directors to be elected at such meeting.

## **NO INCORPORATION BY REFERENCE OF CERTAIN PORTIONS OF THIS PROXY STATEMENT**

Notwithstanding anything to the contrary set forth in any of our filings made under the Securities Act of 1933, as amended, or the Exchange Act, as amended, that might incorporate information in this Proxy Statement, neither the Audit Committee Report nor the Compensation Committee Report is to be incorporated by reference into any such filings as provided by SEC regulations. In addition, this Proxy Statement includes certain website addresses intended to provide inactive, textual references only. The information on these websites shall not be deemed part of this Proxy Statement.

## **OTHER MATTERS**

The Board of Directors knows of no other matters to be submitted at the Annual Meeting. If any other matters properly come before the Annual Meeting, the persons appointed in the enclosed proxy intend to vote the shares represented thereby in accordance with their best judgment on such matters, under applicable laws.

The Board of Directors  
PROS HOLDINGS, INC.

April 10, 2015



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF  
2002**

I, Andres Reiner, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report of PROS Holdings, Inc., on Form 10-K for the period ended December 31, 2014 fully complies with the requirements of Section 13 (a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of PROS Holdings, Inc.

February 27, 2015

/s/ Andres Reiner  
Andres Reiner  
President and Chief Executive Officer

I, Charles H. Murphy, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report of PROS Holdings, Inc., on Form 10-K for the period ended December 31, 2014 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of PROS Holdings, Inc.

February 27, 2015

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

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to PROS Holdings, Inc. and will be retained by PROS Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. This certification "accompanies" the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

PROS HOLDINGS, INC.  
 3100 MAIN STREET, 9TH FLOOR  
 HOUSTON, TX 77002

**VOTE BY INTERNET - www.proxyvote.com**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time on May 20, 2015. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by PROS Holdings, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 20, 2015. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS  
 DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

|   |  |   |   |   |
|---|--|---|---|---|
| <p>The Board of Directors recommends you vote FOR the following:</p> <p>1. Election of Directors Nominees</p> <p>01 Ellen Keszler                      02 Leslie Rechan                      03 William Russell</p> | <p>For All</p> <p><input type="checkbox"/></p> | <p>Withhold All</p> <p><input type="checkbox"/></p> | <p>For All Except</p> <p><input type="checkbox"/></p> | <p>To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.</p> <p>_____</p> |
|---|--|---|---|---|

|   |  |  |  |
|---|--|--|--|
| <p>The Board of Directors recommends you vote FOR proposals 2 and 3.</p> <p>2 To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of PROS Holdings, Inc. for the fiscal year ending December 31, 2015.</p> <p>3 To conduct an advisory vote on executive compensation.</p> | <p>For</p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> | <p>Against</p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> | <p>Abstain</p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> |
|---|--|--|--|

**NOTE:** Such other business as may properly come before the meeting or any adjournment thereof will be voted at the proxies' discretion. The Board of Directors recommends a vote IN FAVOR OF the directors listed above, IN FAVOR OF the appointment of PricewaterhouseCoopers LLP, and IN FAVOR OF the advisory vote on executive compensation. This Proxy, when properly executed, will be voted as specified. If no specification is made, the Proxy will be voted IN FAVOR OF the directors listed above, IN FAVOR OF the appointment of PricewaterhouseCoopers LLP, and IN FAVOR OF advisory vote on executive compensation.

|  |  |
|--|--|
| <p>For address change/comments, mark here. (see reverse for instructions)</p> <p>Yes      No      <input type="checkbox"/></p> | <p>Yes      No</p> <p><input type="checkbox"/></p>   |
| <p>Please indicate if you plan to attend this meeting      <input type="checkbox"/>      <input type="checkbox"/></p>          | <p>Please indicate if you wish to view meeting materials electronically via the Internet rather than receiving a hard copy. Please note that you will continue to receive a proxy card for voting purposes only.</p> <p><input type="checkbox"/>      <input type="checkbox"/></p> |

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

|                                    |      |
|------------------------------------|------|
|                                    |      |
| Signature [PLEASE SIGN WITHIN BOX] | Date |

|                          |      |
|--------------------------|------|
|                          |      |
| Signature (Joint Owners) | Date |

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**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:** The Notice & Proxy Statement, Annual Report is/ are available at [www.proxyvote.com](http://www.proxyvote.com).

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PROS HOLDINGS, INC.  
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS  
ANNUAL MEETING OF STOCKHOLDERS  
May 21, 2015

The stockholder(s) hereby appoint(s) Stefan B. Schulz and Damian W. Olthoff, or each of them, as proxies, each with the power to appoint his substitute, and hereby authorize(s) them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of PROS Holdings, Inc. that the stockholder(s) is/are entitled to vote at the Annual Meeting of Stockholders to be held at 8:00 a.m. CDT on May 21, 2015, at 3100 Main Street, 9th Floor, Houston, TX 77002, and any adjournment or postponement thereof.

Such shares shall be voted as indicated with respect to the proposals listed on the reverse side hereof and the proxies' discretion on such other matters as may properly come before the meeting or any adjournment thereof.

**The Board of Directors recommends a vote IN FAVOR OF the directors listed on the reverse side, IN FAVOR OF the appointment of PricewaterhouseCoopers LLP, and IN FAVOR OF the advisory vote on executive compensation. If no specification is made, this Proxy will be voted IN FAVOR OF the election of directors listed on the reverse side of this proxy card, IN FAVOR OF the appointment of PricewaterhouseCoopers LLP, and IN FAVOR OF the advisory vote on executive compensation.**

**Address change / comments:**

|                   |
|-------------------|
| <hr/> <hr/> <hr/> |
|-------------------|

(If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.)

**Continued and to be signed on reverse side**

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Form 10-K**

(MARK ONE)

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

**For the fiscal year ended December 31, 2014**

**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**

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**PROS HOLDINGS, INC.**  
(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**76-0168604**

(I.R.S. Employer  
Identification No.)

**3100 Main Street, Suite 900, Houston, Texas**

(Address of Principal Executive Offices)

**77002**

(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

Common Stock, par value \$0.001 per share

Name of Each Exchange on Which Registered

New York Stock Exchange

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

None

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

Yes  No

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

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  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 (§232.405 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.:

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer  (do not check if a smaller reporting company) Smaller Reporting Company

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately \$636.3 million as of June 30, 2014 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 24, 2015, there were outstanding 29,332,176 shares of common stock, par value \$0.001, of the registrant.

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#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement relating to its 2015 Annual Stockholders Meeting, to be filed within 120 days of the end of the fiscal year ended December 31, 2014, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**PROS Holdings, Inc.**  
**Annual Report on Form 10-K**  
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For the Year Ended December 31, 2014

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## SIGNIFICANT RELATIONSHIPS REFERENCED IN THIS ANNUAL REPORT

The terms "PROS," "we," "us," and "our" refers to PROS Holdings, Inc., a Delaware corporation, and all of its subsidiaries that are consolidated in conformity with the generally accepted accounting principles 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 statements of future or forward-looking nature identify forward-looking statements. The forward-looking statements made herein are only made as of the date hereof, and we 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.

## Part I

### Item 1. *Business*

#### Overview

PROS provides big data software solutions designed to help companies outperform in their markets by using big data to sell more effectively. We apply years of data science experience to unlock buying patterns and preferences within transaction data to reveal which opportunities are most likely to close, which offers are most likely to sell and which prices are most likely to win. PROS offers big data software solutions to analyze, execute, and optimize sales, pricing, quoting, rebates, and revenue management. We also provide professional services to implement our software solutions. We have completed over 800 implementations of our solutions, across more than 40 industries in more than 55 countries.

We were incorporated in Texas in 1985. We reincorporated as a Delaware corporation in 1998. In 2002, we reorganized as a holding company in Delaware. In December 2013 we acquired SignalDemand, Inc., a Delaware corporation ("SignalDemand"), an optimization software company, for total cash consideration of \$13.5 million. In November 2014, we completed the acquisition of Cameleon Software SA, a French société anonyme ("Cameleon"), in an all-cash transaction valued at approximately €24 million (U.S. \$33 million), net of cash acquired. Our principal executive offices are located at 3100 Main Street, Suite 900, Houston, Texas 77002. We report as one operating segment with our Chief Executive Officer acting as our chief operating decision maker. Our telephone number is (713) 335-5151. Our website is [www.PROS.com](http://www.PROS.com). Our 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

Data-driven decision making is an important driver of business performance. The proliferation of high volume, high velocity and complex data, commonly referred to as "big data", is increasing rapidly, and companies are demanding cost-effective, innovative forms of information processing to exploit big data. Software applications can leverage big data to enhance insight and help companies make business decisions that affect growth and profitability. We believe software applications that apply data science to big data are one of the most compelling opportunities for companies to improve sales, pricing, quoting, rebates, and revenue management. These applications allow companies to move from instinct-driven sales, pricing, and revenue management strategies, to data-driven strategies. We expect market forces to continue to accelerate the demand for big data solutions. These forces include increasingly complex customers, markets and business models, uncertain demand for products and services, volatile costs, proliferation of competitive alternatives, and exponentially increasing enterprise and market data. We believe the market



for big data science and technology is a large and growing opportunity that spans most major industries.

## **Our solutions**

We believe our big data solutions help transform our customers' big data into a strategic advantage. By using our solutions, our customers can gain greater confidence and agility in their selling strategies through data-driven insights into sales transactions. These insights include the customers and prospects of a company that are most likely to buy, and which offers and pricing are most likely to result in a closed deal. We seek to deliver these insights through software packages that apply data science to a company's historic customer transaction, market and other data to uncover customer buying patterns and preferences. Our solutions make it easier for companies to configure the correct product(s), set the right price and get a quote into the hands of a customer quickly. The data science embedded in our solutions provides our customers with predictive and prescriptive guidance on key business decisions that drive growth and profitability, including product mix optimization, price forecasting, price optimization, product configuration recommendations, cross-sell and upsell recommendations, attrition detection, and willingness-to-pay. Our solutions also help to streamline sales, pricing and revenue management processes with enhanced automation, controls, and compliance.

Our high-performance software architecture supports real-time, high-volume transaction processing and enables us to handle the processing and database requirements of sophisticated customers, including those who need to respond to their 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 currently operate in some of the largest, most complex and demanding information technology environments.

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 license agreements provide customers with the right to use licensed solutions within a specific license scope, including but not limited to revenue, geography, users, and business unit. The vast majority of our software license customers also purchase software license updates and product support, generally for a period of two years. Software license updates include unspecified software updates and enhancements on a when and if available basis, maintenance releases, and patches released during the term of the support period.

We also offer some of our solutions as Software-as-a-Service ("SaaS"). Our SaaS offerings generally provide customers access to certain of our software within a cloud-based IT environment that we manage and offer to customers on a subscription basis and allow our customers to reduce infrastructure, installation, and ongoing administration requirements. This model provides an alternative to our perpetual license sales model. We offer both single-tenant and multi-tenant solutions under our SaaS model via multi-year subscriptions with pricing generally based on the number of users, data volume or revenue managed by our software.

Our license, services and subscription revenue comprised 71%, 68% and 66% of our total revenue in fiscal 2014, 2013 and 2012, respectively. 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 2 of the Notes to the Consolidated Financial Statements.

### ***Big Data Solutions for Pricing and Sales Effectiveness***

PROS pricing and sales effectiveness software solutions enable companies in the manufacturing, distribution and services industries to analyze, optimize and execute sales, pricing, quoting and rebate strategies. PROS big data solutions for pricing and sales effectiveness include the following solutions:

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

- **Sales Optimizer** provides sales people with a 360-degree view into a customer's business. By handling all forms of a company's commercial transactions, including contracts, quotes, bids, price lists and rebates, Sales Optimizer provides insights into a customer's book of business so it is able to make more informed decisions.
- **Cameleon CPQ** is a mobile, intelligent quoting solution designed to provides sales people or customers with the right questions to quickly identify the products and/or services that best meet the customers needs and prepare a quote featuring the correct combination of products/services at the optimum price, as well as identity cross-sell and up-sell opportunities to increase the value to the company. Cameleon CPQ helps companies (in both business-to-consumer (B2C) and business-to-business (B2B) sales environments) close deals faster through automation, data science, analytics, pricing guidance and execution by providing an intelligent pricing engine, proposal generator, quoting system, and rule engine complemented by approval workflows.

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 help:

- Provide sales negotiation guidance encompassing pricing, cross-sell and upsell opportunities using a foundation of data science;
- Establish pricing strategies that optimize product and account price points based on revenue, margin and/or market share goals;
- Benchmark sales opportunities to peer groups based on relevant metrics, including willingness to pay;
- Identify underperforming products and at-risk accounts to allow timely corrective action;
- Analyze key revenue and margin drivers, including price, cost, volume, product mix and exchange rates;
- Benchmark sales, pricing, and rebate performance and market conditions against performance goals;
- Create and manage pricing, rebate and discounting policies aligned with corporate strategies; and
- Automate quoting and pricing approval workflow to ensure consistency and auditability.

#### ***Big Data Solutions for Resource-Driven and Commodity-Based Companies***

PROS manufacturing optimization software solutions enable companies in the agri-business, food and mill product industries to analyze and optimize capacity planning, mix, blend and pricing decisions. PROS big data solutions for commodity based manufacturers include the following solutions:

- **EnterpriseOptimizer** enables manufacturers to optimize business performance through improved margins and profitability by recommending the ideal mix of customers and channels to sell to and the best price for each as well as an optimized product formulation, purchase plan and product mix that maximizes margins under changing market conditions.
- **MixOptimizer** allows manufacturers to coordinate raw material inputs, inventory, production capacity and demand forecasts to optimize product and channel mix.
- **CapacityOptimizer** allows asset intensive manufacturers to maximize capacity utilization and the margin per capacity unit of their facilities by defining the percentage of product that should be sold in advance, helping ensure product availability for key customers, and minimizing excess capacity.
- **MarginOptimizer** allows manufacturers to maximize margin contribution based on products, time, channels and customer segments when selling to customers in highly volatile markets.
- **BlendOptimizer** allows process manufacturers to forecast raw material prices across various time horizons to optimize the blend of component materials to help deliver finished goods at the lowest possible cost.

#### ***Big Data Solutions for Revenue Management for Travel Industry Companies***

PROS revenue management solutions are 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. PROS big data solutions for revenue management include the following solutions:

- **PROS Analytics for Airlines** identifies hidden revenue 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 ("PNR"), based revenue management;
- **PROS Real-Time Dynamic Pricing™** determines optimal availability 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 Availability Server** provides real-time availability and pricing to distribution channels, and keeps rules, fares and other data synchronized and deployable across multiple data centers;
- **PROS Cruise Pricing and Revenue Management** allows customers to understand their consumers price sensitivities, track competitor behavior, and quickly set prices and availability; and
- **PROS Hotel Revenue Management** helps customers simplify, accelerate and improve pricing decision making.

These big data solutions provide businesses the tools and processes to help:

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

## Technology

Software Architecture. Our software architecture is based on open standards such as Java, HTML5, JavaScript, 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 interface enables extension onto other platforms and the creation of rich integrated solutions. It 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®, Windows Phone®, 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, calculations, 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 configuration can be performed by a business user without information technology personnel involvement. 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. We leverage modern big data technologies such as MapReduce and Hadoop®, NoSQL databases such as Cassandra and MongoDB®, and in-memory and column-oriented data stores to scale to large data volumes and high user request rates. The scalability of our software solutions has been tested and validated by third-party vendor benchmark performance centers.

Data Integration. The data needed to execute and optimize sales, quoting, pricing, rebate and revenue management functionality typically resides in multiple sources, such as a company's enterprise resource planning ("ERP"), supply chain management ("SCM"), customer relationship management ("CRM"), reservations and inventory systems, and/or industry-specific 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 bring data from disparate sources together into a single cohesive database, both in real time and through scheduled batch tasks. We also provide certified content for integration with SAP® and Oracle® as well as integration development services using industry standard tools.

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, tablet, CRM systems, and client applications.

*Platform Support.* Our software solutions run on most standard information technology platforms including Microsoft SQL Server and Oracle databases, 64-bit processors from Intel, AMD, IBM and Oracle, server hardware from HP, Dell, IBM and Oracle, the Windows, Linux, AIX and Solaris operating systems, and virtualization technologies such as VMware. Our solutions can be deployed on-premises in our customers' data centers or hosted in our private data centers. We also have solutions which are deployed natively in the Salesforce.com CRM environment and on Microsoft Windows Azure.

## **Services**

We also provide software-related professional services, including implementation and configuration services, consulting and training.

### ***Implementation and configuration***

Our software solution implementations 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. We also assist customers in loading and validating data and supporting organizational activities to assist our customers' transition from awareness of their pricing challenges to adoption of pricing excellence best practices. In addition to our own internal professional services team, we also work with a team of globally diverse partners who have been certified to implement our software and are experienced in implementing PROS software solutions.

### ***Consulting***

Our 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, and recommending pricing best practices and strategic pricing services. We also offer change management, pricing process redesign, pricing organizational design, opportunity assessment and performance management consulting. These consulting services enhance our partnerships with our customers and help them achieve their specific pricing goals.

### ***Training***

We offer training to both our customers and partners to increase the knowledge and skills to deploy and use the full functionality of our software solutions. We offer an array of live and virtual classroom training, as well as tailored, private on-site classroom training. Our courses include training on all aspects of our software solutions, from introductory on-demand mini-courses to multi-day hands-on deep technical classroom sessions.

## **Maintenance and support**

We offer ongoing maintenance and support services for our software solutions using a global model to support our customers across major geographies. Maintenance enrollment entitles a customer to solicit 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 assists customers in deploying our standard releases for each software solution by providing release web seminars and documentation. Maintenance fees are an important source of recurring revenue, and we invest significant resources in providing these services. Revenue from maintenance and support services comprised 29%, 32%, and 34% of our total revenue in 2014, 2013 and 2012, respectively.

## **SaaS and Cloud-based services**

Our SaaS offerings generally provide customers access to certain of our software within a cloud-based IT environment that we manage and offer to customers on a subscription basis and allow our customers to reduce infrastructure, installation, and ongoing administration requirements. We also offer cloud-based services to allow customers to deploy our big data software solutions without any significant investment in hardware. Our cloud-based services offerings provide customers who have already

purchased licenses to our software to have access to that software within a cloud-based IT environment that we manage to allow those customers to reduce infrastructure, installation, and ongoing administration requirements. This model provides an alternative to an on-premise deployment for our customers. We generally offer these services via one to three year contracts with pricing based on the data volumes and service levels requested.

## **Customers**

We sell our software solutions to customers across more than 40 industries, including agri-business, airlines, cargo, chemical, consumer goods, equipment rental, food, food service, high tech, hotels, industrial, medical, mill products, petroleum, and service parts. Our customers are generally large global enterprises, although we also have customers that are much smaller in scope of operations. In each of 2014, 2013 and 2012, 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 includes deferred revenue and 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.

Our backlog is significantly based on estimates and judgments that we make regarding total contract values. For example, we 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 and support agreements. Backlog includes committed maintenance and amounts under maintenance and support agreements that we reasonably expect to renew.

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, our backlog may not be a meaningful indicator of future revenue to be recognized in any particular quarter, and there can be no assurance that our backlog at any point in time will translate into revenue in any specific quarter.

We had backlog of approximately \$194.0 million as of December 31, 2014 as compared to backlog of approximately \$175.1 million as of December 31, 2013. The portion of our backlog as of December 31, 2014 not reasonably expected to be recognized as revenue within the next twelve months is estimated to be approximately \$57.5 million.

## **Sales and marketing**

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

Our marketing activities consist of a variety of programs designed to generate sales leads and build awareness of our big data software solutions. We host conferences for sales, pricing, and revenue management professionals, host informational web seminars and 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 are located in Houston, Texas, and, as of December 31, 2014, we also have offices in London, England; Paris, France; Toulouse, France; Munich, Germany; San Francisco, California; Skokie, Illinois; and Austin, Texas. We also conduct development activities predominantly in France and the United States, and utilize third-party contractors in Bolivia, China, Colombia and India. We plan to expand our operations in international locations to meet the strategic objectives of our business.

Approximately 56%, 55%, and 56% of our total revenue came from customers outside the United States for the years ended December 31, 2014, 2013 and 2012, respectively. Our business, financial condition and results of operations could be adversely impacted by factors, including currency fluctuations or regulatory, political, social and economic developments or instability in the foreign jurisdictions in which we operate. For additional financial information about geographic areas, see Note 16 of the Notes to the Consolidated Financial Statements.

### **Seasonality**

We tend to experience a higher volume of transactions in the quarter ended December 31, which is our fourth fiscal quarter, and to a lesser extent, during other fiscal quarters.

### **Competition**

The market for big data applications that optimize sales, pricing, quoting, rebates, and revenue management is competitive, fragmented and rapidly evolving. For example, we believe the market for pricing software is converging with sales effectiveness software, as sales personnel are increasingly becoming the day to day users of both types of software. We have begun, and expect to continue, to compete with companies in sales enablement. In recent years, our competition has increased as we have expanded into adjacent technologies.

We believe our customers include the following factors when evaluating us against our competition:

- Large and referenceable global customer base;
- Industry domain expertise;
- Domain management best practices expertise and delivery;
- Ability for users to configure the solution to their needs;
- Depth of expertise in data and pricing science;
- Real-time solutions;
- 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; and
- Vendor viability.

We compete with a number of larger and smaller companies, which we estimate to be approximately 10 competitors. Most of our competitors compete against individual products of ours, rather than at a strategic level across multiple products. For example, Vendavo and Zilliant, compete against a portion of our pricing solutions. Others, such as Apptus, Oracle (through its acquisition of Big Machines), and SteelBrick compete against our sales effectiveness solutions. Yet others, such as Sabre Airline Solutions, Amadeus and Lufthansa Systems, compete against a portion of our big data solutions for revenue management in the airline industry. Several large enterprise application providers, such as JDA Software, Oracle and SAP, have developed offerings that include limited pricing and revenue management functionality. Our solutions also compete with solutions developed internally by businesses. These businesses generally rely on a combination of manual processes, external consultants, spreadsheets and internally-developed software tools.

We believe these competitors do not provide all of the functionality needed to support an organization interested in optimizing sales growth through data-driven pricing, rebates, quoting and revenue management. Some of these vendors have in the past, and may continue in the future, to compete on price and by bundling their pricing and revenue management applications with other enterprise applications. We believe that 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 science-based optimization software to our global customer base across multiple industries. In the future, we believe our competition will increase as more companies move into our market segment and as we expand into adjacent market segments.

### **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. Due to the rapidly changing nature of applicable technologies and recent changes in U.S. patent law, we believe that for the improvement of existing solutions and development of new solutions, reliance upon trade secrets and unpatented proprietary know-how are generally more advantageous than patent and trademark protection. We also rely on a combination of trade secrets, confidentiality procedures, contractual provisions, patents, trademarks, copyrights and other similar measures to protect our proprietary information.

### **Research and development**

We believe our innovation with respect to our software solutions is a foundation of our business and accordingly have made substantial investments in research and development. We also believe that our long-term investment in the scientific analysis of pricing and revenue management differentiates us from our competitors. We are committed to developing high-value, science-based sales, pricing, and revenue management software solutions as evidenced by our continued investment in research and development. In fiscal 2014, 2013 and 2012, we recognized expenses of \$43.2 million, \$32.5 million and \$27.6 million, respectively, in research and development to enhance our existing portfolio of solutions and to develop new solutions. 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 predominantly in the United States and to a lesser extent in France.

We employ scientists, most of whom are Ph.D.s, to advance sales, 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 help keep our science efforts relevant to real-world demands.

### **Employees**

As of December 31, 2014, we had 1,011 full time personnel which included 793 employees and 218 outsourced personnel. 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.PROS.com](http://www.PROS.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](http://www.sec.gov). You may also read and copy any materials we file with 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 6, 2014.

### 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 risks are not necessarily listed in terms of their importance or level of risk.

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

***We may not be able to achieve our key initiatives and grow our business as anticipated.***

While we currently intend to grow our business by pursuing key initiatives to broaden our product platform through internal development and acquisitions; increase our sales capacity by expanding our direct sales organization and developing our channel partnerships; expand our scale through system integrators; and employ marketing programs to increase awareness of our company and our big data products among existing and prospective customers, we may not be able to achieve these key initiatives. Our success depends on our ability to: appropriately manage our expenses as we grow our organization; identify or acquire companies or assets at attractive valuations; enter into and maintain beneficial channel relationships; develop new products; and successfully execute our marketing and sales strategies. If we are not able to execute on these actions, our business may not grow as we anticipate, and our operating results could be adversely affected.

***As we expand our software product portfolio, we could face increased competition as part of entering new markets.***

The market for our products is competitive, and we expect competition to increase in the future as we expand our product portfolio and features. We may not compete successfully against future potential competitors, especially those with significantly greater financial resources or brand name recognition. For example, we now compete with sales enablement, configure-price-quote and to a lesser extent, rebate management software. Large companies in these spaces may have advantages over us because of their greater brand name recognition, larger customer bases, broader product portfolios, larger distribution channels, or greater financial, technical and marketing resources. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements.

***If our new products and product enhancements do not achieve sufficient market acceptance, our results of operations and competitive position could suffer.***

We spend substantial amounts of time and money to enhance of our existing products, as well as to research and develop new products. We introduce new products and incorporate additional features, improve functionality or add other enhancements to our existing products in order to meet our customers' demands. Our new products or enhancements could fail to attain sufficient market acceptance for many reasons, including:

- delays in introducing new, enhanced or modified products;
- defects, errors or failures in any of our products;
- inability to operate effectively with the networks of our prospective customers;
- inability to protect against new types of attacks or techniques used by hackers;
- negative publicity about the performance or effectiveness of our network security products;
- reluctance of customers to purchase products based on open source software; and
- disruptions or delays in the availability and delivery of our products.



If our new products or enhancements do not achieve adequate acceptance in the market, our competitive position could be impaired, our revenue could be diminished and the effect on our operating results may be particularly acute because of the significant research and development, marketing, sales and other expenses we incurred in connection with the new product.

***We focus primarily on big data sales, pricing and revenue management software, and if the markets for this software develop more slowly than we expect, our business could be harmed.***

We derive most of our revenue from providing our sales, pricing and revenue management software solutions, implementation services and ongoing customer support. The sales and pricing market is evolving rapidly, and it is uncertain whether this software could achieve and sustain high levels of demand and market acceptance. Our success would depend on the willingness of businesses in the manufacturing, distribution, services industries to use sales and pricing software.

Some businesses may be reluctant or unwilling to implement sales and pricing software for a number of reasons, including failure to understand the potential returns of improving their processes and lack of knowledge about the potential benefits that such software may provide. Even if businesses recognize the need for improved sales and/or pricing processes, they may not select our solutions because they previously have made investments in internally developed 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 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 sales and pricing software, the sales and pricing 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 sales and pricing 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.

***Competition from vendors of big data sales, pricing, revenue management and configure-price-quote solutions and enterprise applications as well as from companies internally developing their own solutions could adversely affect our ability to sell our solutions and could result in pressure to price our solutions in a manner that reduces our margins and harms our operating results.***

The sales, pricing, revenue management and configure-price-quote software market is competitive and rapidly evolving. Our software solutions compete with both solutions developed internally by businesses as well as those solutions offered by competitors. We believe our principal competition consists of:

- pricing, quoting, rebate and revenue management software vendors, including a number of vendors that provide such software for specific industries; and
- large enterprise application providers that have developed offerings that include sales, pricing and revenue management functionality.

We expect additional competition from other established and emerging companies to the extent the sales, pricing, revenue management and configure-price-quote 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, such as Oracle through its acquisition of BigMachines. A number of our current and potential competitors have larger installed bases of users, longer operating histories, broader distribution and greater name recognition than we have. In addition, many of these companies have significantly greater 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 our software solutions and services on terms favorable to us. We do not know how our competition could set prices for their products. Businesses may internally develop solutions, rather than invest 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 solutions, services and maintenance pricing due to competitive pressures, our margins could be reduced and our operating results could be adversely affected. We cannot provide assurance that we would be able to compete successfully against current or future competitors or that competitive pressures could not materially and adversely affect our business, financial condition and operating results.

***If our security measures are breached and unauthorized access is obtained to a customer's data or our data or our IT systems, our solutions may be perceived as not being secure, customers may curtail or stop using our solutions and/or we may incur significant legal and financial exposure and liabilities.***

Our solutions and services involve the storage, and to a more limited extent, the transmission of our customers' proprietary information. Despite the implementation of security measures, these systems may still be vulnerable to data theft, computer viruses, malicious software programs, programming errors, attacks by third parties or similar disruptive problems, and could result in someone obtaining unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information, or our IT systems. Because the techniques used to compromise systems change frequently and may not be recognized until launched, we may be unable to anticipate these techniques or to implement adequate preventative measures. Malicious third-parties may also conduct attacks designed to temporarily deny customers access to our services. Any security breach could result in a loss of confidence in the security of our solutions and services, damage our reputation, negatively impact our future sales, disrupt our business, increase our information security costs, and lead to legal liability.

***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 often have to educate our potential customers about the benefits of our solutions. We expend substantial resources during our sales cycles with no assurance that a sale may ultimately result. The length of each individual sales cycle depends on many factors, a number of which we cannot control. These factors include the customer's requirements, the level of competition we face for that customer's business, and the customer's internal approval processes. Any unexpected lengthening of the sales cycle or failure to secure anticipated orders could 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 materially 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 also have a material adverse effect on our business, financial condition and results of operations.

***Any unauthorized, and potentially improper, actions of our personnel could adversely affect our business, operating results and financial condition.***

The recognition of our revenue depends on, among other things, the terms negotiated in our contracts with our customers. Our personnel may act outside of their authority and negotiate additional terms without our knowledge. We have implemented policies to help prevent and discourage such conduct, but there can be no assurance that such policies would be followed. For instance, in the event that our sales personnel negotiate terms that do not appear in the contract and of which we are unaware, whether such additional terms are written or verbal, we could be prevented from recognizing revenue in accordance with our plans. Furthermore, depending on when we learn of unauthorized actions and the size of the transactions involved, we may have to restate revenue for a previously reported period, which could seriously harm our business, operating results and financial condition.

***We made our first two acquisitions in late 2013 and early 2014, and in the future may continue to 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 made our first two acquisitions in late 2013 and early 2014, and in the future may continue to acquire businesses, technologies and products that we intend to complement our existing business, solutions, services and technologies. We cannot provide assurance that the acquisitions we have made or may make in the future could provide us with the benefits or achieve the results we anticipated when 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, including integrating financial reporting and operating systems, particularly with respect to foreign and/or public subsidiaries;
- 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 the acquisition.

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

Our recent acquisitions have required, and may continue to require, significant management time and attention during the finalization of the integration processes.

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 are not able to manage our anticipated growth effectively, our operating costs could increase and our operating margins could decrease.***

We have grown our infrastructure to build out our offerings as well as to accommodate our acquisitions and expect to continue to grow our infrastructure to ensure that our current and future offerings remain competitive as well as to address other potential additional business combinations. Our growth may place, to the extent that we are able to sustain such growth, a strain on our management, administrative, operational and financial infrastructure. If we continue to grow our operations, we may not be effective in enlarging our physical facilities, systems, procedures and internal controls may not be adequate to support such expansion. If we are unable to manage our growth, our operating costs could increase and our operating margins could decrease.

***Any downturn in sales to our target markets could 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 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 may 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 certain verticals within our target industries;
- it may be more difficult than we currently anticipate to increase our customer base in our target industries; and
- our limited experience implementing our software solutions in certain verticals within our target industries.

Our revenue growth has historically been derived from customers in many major industries. Our revenue growth is highly dependent upon continued growth of market acceptance in these industries, and there can be no assurance our solutions may achieve or sustain widespread acceptance among customers in these industries. Failure to expand market acceptance of our solutions or maintain sales in these industries could adversely affect our operating results and financial condition.

***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 any lack of 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 the percentage-of-completion method, 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 canceled, our ability to recognize the associated revenue and our operating results could be adversely affected.

***If our executives and other key personnel are unable to effectively manage our business, or if we fail to attract additional qualified sales, marketing, professional services, product development and other personnel, our revenue and operating results could be adversely affected.***

Our future success depends upon the performance and service of our executive officers and other key sales, marketing, 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 could depend in large part on our ability to attract and retain a sufficient number of highly qualified sales, marketing, professional services, product development and other personnel, and there can be no assurance that we may be able to do so. We have continued to add a significant number of new personnel to support our continued growth, and their ability to learn our business and manage it effectively could be important to our continued growth and expansion. In addition, given the highly sophisticated data science included in our solutions, the pool of data scientists and software developers qualified to work on our solutions is limited. 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.

***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. Global financial markets have experienced extreme disruption in recent years, including, among other factors, 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 are often accompanied by third-party hardware purchases and other capital commitments, can involve significant capital expenditure by our customers. Customers may reduce or defer their spending on technology. Customers may also elect to purchase our solutions via SaaS or term licenses, which could adversely impact our liquidity and/or result in the deferral of revenue over the contractual service period. 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 overall results and financial condition.

Periodic fluctuations in the U.S. Dollar and other currencies, corporate profits, lower spending, 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. We are unable to predict the strength, duration or impact of current market conditions.

***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 our customers or prospects are focused, 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 change 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, 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 our customers could have a material adverse effect on the collectability of our accounts receivable, liquidity and future operating results.

***We incurred indebtedness by issuing Senior notes, and our debt repayment obligations may adversely affect our financial condition and cash flows from operations in the future.***

In December 2014, we issued \$143.8 million aggregate principal amount of 2.0% convertible senior notes (the "Senior Notes") due December 1, 2019, unless earlier purchased or converted. Interest is payable semiannually in arrears on June 1 and December 1 of each year, commencing on June 1, 2015. Our indebtedness could have important consequences because it may impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and general corporate or other purposes, and a portion of our cash flows from operations may have to be dedicated towards repaying the principal beginning in 2019 or earlier if necessary.

Our ability to meet our debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. We cannot control many of these factors. Our future operations may not generate sufficient cash to enable us to repay our debt. If we fail to make a payment on our debt, we could be in default on such debt. If we are at any time unable to pay our indebtedness when due, we may be required to renegotiate the terms of the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that, in the future, we will be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

***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 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 revenues, and in particular our software license revenues, vary each quarter and are difficult to predict.***

Revenues from license fees in any quarter depend substantially upon our licensing activity with new and existing customers, and our ability to recognize revenues in that quarter under our revenue recognition policies. A delay or deferral in a small number of new software license transactions could cause our quarterly license revenue to fall significantly short of our expectations.

The period over which we recognize license and implementation revenue for each customer depends on a variety of factors, including the number of licensed software solutions and the scope and complexity of the customer's deployment requirements. As a result, a 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.

***For projects accounted for on a percentage-of-completion method, 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.***

Timing of revenue recognition on our contractual arrangements varies based on the nature of the performance obligations in each contract and the associated contract terms. For projects accounted for on a percentage-of-completion method, our ability to estimate the effort required to complete our implementation may be difficult to estimate.

***Changes in accounting principles or standards, or in the way they are applied, could result in unfavorable accounting charges or effects and unexpected financial reporting fluctuations, and could adversely affect our reported operating results.***

We prepare our consolidated financial statements in conformity with U.S. GAAP. These principles are subject to interpretation by the Securities and Exchange Commission ("SEC") and various bodies formed to interpret and create appropriate accounting principles and guidance. A change in existing principles, standards or guidance, in particular those related to revenue recognition, can have a significant effect on our reported results, may retroactively affect previously reported results, could cause unexpected financial reporting fluctuations, and may require us to make costly changes to our operational processes and accounting systems.

The Financial Accounting Standards Board ("FASB") is currently working with the International Accounting Standards Board ("IASB") to converge certain accounting principles and to facilitate more comparable financial reporting between companies that are required to follow U.S. GAAP and those that are required to follow International Financial Reporting Standards ("IFRS"). These projects may result in different accounting principles under U.S. GAAP, which may have a material impact on the way in which we report financial results in areas including, but not limited to, principles for recognizing revenue, lease accounting, and financial statement presentation. In connection with this initiative, the FASB issued a new accounting standard for revenue

recognition in May 2014 – Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" – that supersedes nearly all existing U.S. GAAP revenue recognition guidance. Although we are currently in the process of evaluating the impact of ASU 2014-09 on our consolidated financial statements, it could change the way we account for certain of our sales transactions. Adoption of the standard could have a significant impact on our financial statements and may retroactively affect the accounting treatment of transactions completed before adoption.

In addition, the SEC may make a determination in the future regarding the incorporation of IFRS into the financial reporting system for U.S. companies. Changes in accounting principles from U.S. GAAP to IFRS, or to converged accounting principles, may have a material impact on our financial statements and may retroactively affect the accounting treatment of previously reported transactions.

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

Maintenance, support, and subscription agreements are typically for a term of one to three years. Historically, maintenance and support revenue has represented a significant portion of our total revenue, including approximately 29%, 32% and 34% of our total revenue for the years ended December 31, 2014, 2013 and 2012, respectively. Subscription revenue has represented approximately 13%, 6% and 8% of our total revenue for the years ended December 31, 2014, 2013 and 2012, respectively. If our customers choose not to renew their maintenance, support and subscription 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 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.***

Historically, a portion of our implementation arrangements were priced on a fixed-fee basis, and we may price implementation arrangements on a fixed-fee basis in the future. If we underestimate the amount of effort required to implement our software solutions under these fixed-fee arrangements, our profitability could be reduced. Moreover, if the actual costs of completing the implementation exceed the agreed upon fixed price, we could incur a loss on the arrangement.

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

The sales, 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 enhancements to 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 big data software for sales, pricing and revenue management 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 that our competitors are heavily investing in research and development, and may develop and market new solutions that may compete with, and may reduce the demand for, our software solutions. We cannot provide assurance that we could 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, as well as develop and maintain relationships with platform providers. Any inability of our software solutions to operate effectively with existing or future platforms, or our inability to develop or maintain relationships with significant platform providers, could reduce the demand for our software solutions, result in customer dissatisfaction and limit our revenue.

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

The implementation of our big data 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. 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 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. We have in the past issued, and may in the future need to issue, corrective releases of our solutions to correct defects or errors, but we may not be able to detect and correct any such defects or errors before the final implementation of our software solutions. The occurrence of any defects or errors could result in:

- delayed market acceptance and lost 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 would continue to be available on acceptable terms. In addition, the insurer may deny coverage on any future claims. 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 may be diverted from our operations.

***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. Sales, pricing and revenue management solutions may become increasingly subject to infringement claims as the number of commercially available sales, pricing and revenue management solutions increases and the functionality of these solutions overlaps. In addition, changes in patent laws in the U.S. 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 licenses 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 could 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 could 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 advisor's and other contractors. These agreements may be breached, and we may not have adequate remedies for any such 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.

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 may be better able to develop products that compete with ours, which could adversely affect our competitive business position, business prospects and financial condition.

Any patent application we submit may not result in an issued patent. 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 technologies claimed in any 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 may 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 lawsuits 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 licensor's 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.

***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 may continue to invest the appropriate levels of resources in their products and services to maintain and enhance the capabilities of their software.

***Our international sales, and the growth of our international operations, subject us to risks that may adversely affect our operating results.***

International operations are subject to risks associated with operating outside of the United States. We may not be able to maintain or increase international market demand for our solutions. For the year ended December 31, 2014, 2013 and 2012, approximately 56%, 55% and 56% of our total revenue, respectively, was derived from outside the United States. We have customers in over 55 countries, and have operations in the United Kingdom, France and Germany (through wholly-owned subsidiaries). The financial impact of our international operations to our overall business has been insignificant to date. We expect our international operations to grow as the result of acquiring Cameleon in 2014. 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 jurisdictions;
- new and different sources of competition;
- costs of compliance and penalties for noncompliance with foreign laws and laws applicable to companies doing business in foreign jurisdictions;
- 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;

- the difficulty of managing and staffing our international operations 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;
- fluctuations in exchange rates; and
- tariffs and trade barriers, import and 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 could 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. To date, the majority of our sales have been denominated in U.S. dollars, although the majority of our expenses that we incur in our international operations are denominated in local currencies. To date, we have not used risk management techniques or "hedged" the risks associated with fluctuations in foreign currency exchange rates. As a result, our results of operations and financial condition, including our revenue and operating margins, are subject to losses from fluctuations in foreign currency exchange rates.

***Our cloud and other new offerings bring new business and operational risks.***

We have introduced new products and technology initiatives in the area of cloud computing. We include in this category our SaaS offerings. Our SaaS offerings provide our customers with existing and new software management through a hosted service as opposed to traditional software deployments. There can be no assurance that SaaS revenue may be significant in the future despite our investment. There is a risk that our SaaS offerings may reduce demand for licenses and maintenance of our traditional software products which could impact our financial performance in any given quarter. There is also a risk that our internal development and customer support teams could find it difficult or costly to support both traditional software installed by customers and software delivered as a service. In addition, interruptions or delays in service from our third-party service delivery hosts could impair the delivery of our services and harm our business. In the cloud, our products may be dependent upon third-party hardware, software and cloud hosting vendors, all of which must inter-operate for end users to achieve their computing goals. Additionally, operating margins on our new initiatives may be lower than those we have achieved in our more mature product markets, and our new initiatives may not generate sufficient revenue to recoup our investments in them. If any of these events were to occur, it could adversely affect our business, results of operations and financial condition.

***Our operations might be affected by the occurrence of a natural disaster or other catastrophic event.***

Our headquarters are located in Houston, Texas, from which we base our operations. We also conduct business in other domestic and international locations. Although we have contingency plans in effect for natural disasters or other catastrophic events (including terrorist attacks and hurricanes), these events 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. 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.

***The expiration of the research and experimentation tax 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 34% 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. Since its enactment in 1981, Congress has reinstated on a retroactive basis the research and experimentation tax credit several times. Cancellation of this research and experimentation tax credit could record federal income taxes at the enacted federal rate of 34%, without the benefit of this tax credit.

***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 ("Sarbanes-Oxley") 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 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.

***If we fail to continue to maintain internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, our market price may be adversely affected.***

Section 404 of the Sarbanes-Oxley Act requires our management to assess the effectiveness of our internal control over financial reporting and to provide a report by our registered independent public accounting firm addressing the effectiveness of our internal control over financial reporting. If we are unable to continue to assert that our internal controls over financial reporting are effective, or if a material weakness is identified in our internal controls over financial reporting, or if we are unable to implement internal controls over financial reporting for our acquisitions, our financial results may be adversely affected and we could lose investor confidence in the reliability of our financial statements. Accordingly failure to maintain effective controls over financial reporting may have an adverse effect on the market price of our common stock.

#### **Risks relating to ownership of our common stock and the Senior Notes:**

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

The market price for our common stock, and the software industry generally, 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 software 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 may incur substantial costs and our management's attention could 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. 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 or future 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.

***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 Bylaws 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, repayment of debt and for other general corporate purposes. Any payment of future dividends would be at the discretion of our board of directors and would 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.

***The accounting method for convertible debt securities that may be settled in cash, such as the Senior Notes, could have a material effect on our reported financial results.***

In May 2008, FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Senior Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Senior Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Senior Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Senior Notes to their face amount over the term of the Senior Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Senior Notes. In addition, under certain circumstances, convertible debt instruments (such as the Senior Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that any shares issuable upon conversion of the Senior Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Senior Notes, then our diluted earnings per share would be adversely affected.

***Our directors, executive officers, and certain significant stockholders hold a significant portion of our outstanding shares.***

Our directors and executive officers collectively control approximately 17% of our issued and outstanding common shares, and together with certain significant stockholders, including investment funds associated with Brown Capital Management, LLC, T. Rowe Price Associates, Inc. and Champlain Investment Partners, LLC, control approximately 44% of our issued and outstanding common shares. As a result, these stockholders could influence matters requiring stockholder approval in ways that may not align with your interest as a stockholder, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control of us even if such change of control would be beneficial to you as a stockholder, and could affect the market price of our shares if there is a sale by this group of stockholders.

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

None.

**Item 2. *Properties***

Our headquarters are located in Houston, Texas, where we lease approximately 98,000 square feet of office space. As of December 31, 2014, we also lease smaller regional offices in London, England; Paris, France; Toulouse, France; Munich, Germany; San Francisco, California; Skokie, Illinois; and Austin, 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.

**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, holders 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     |
| <b>Year ended December 31, 2013</b> |                             |          |
| First Quarter                       | \$ 18.03                    | \$ 27.97 |
| Second Quarter                      | \$ 23.74                    | \$ 31.49 |
| Third Quarter                       | \$ 29.36                    | \$ 34.57 |
| Fourth Quarter                      | \$ 30.72                    | \$ 40.25 |
| <b>Year ended December 31, 2014</b> |                             |          |
| First Quarter                       | \$ 30.47                    | \$ 41.06 |
| Second Quarter                      | \$ 21.59                    | \$ 32.25 |
| Third Quarter                       | \$ 24.01                    | \$ 28.52 |
| Fourth Quarter                      | \$ 23.08                    | \$ 30.39 |

On February 24, 2015 there were 62 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, 2014 with respect to compensation plans under which our equity securities are authorized for issuance. For additional information on our equity compensation plans, see Note 11 of the Notes to the Consolidated Financial Statements.

| Plan Category  | I   | II  | III  |
|--|---|---|--|
|  | Number of securities to be issued upon exercise of outstanding options and rights | Weighted-average exercise price of outstanding options and rights | Number of securities remaining available for future issuance under plans (excluding securities listed in Column (I)) |
| All compensation plans previously approved by security holders     | 3,943,008   | \$ 11.19  | 867,109  |
| All compensation plans not previously approved by security holders | —   | —   | —  |
| <b>Total</b>   | <b>3,943,008</b>  | <b>\$ 11.19</b>   | <b>867,109</b>   |

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.

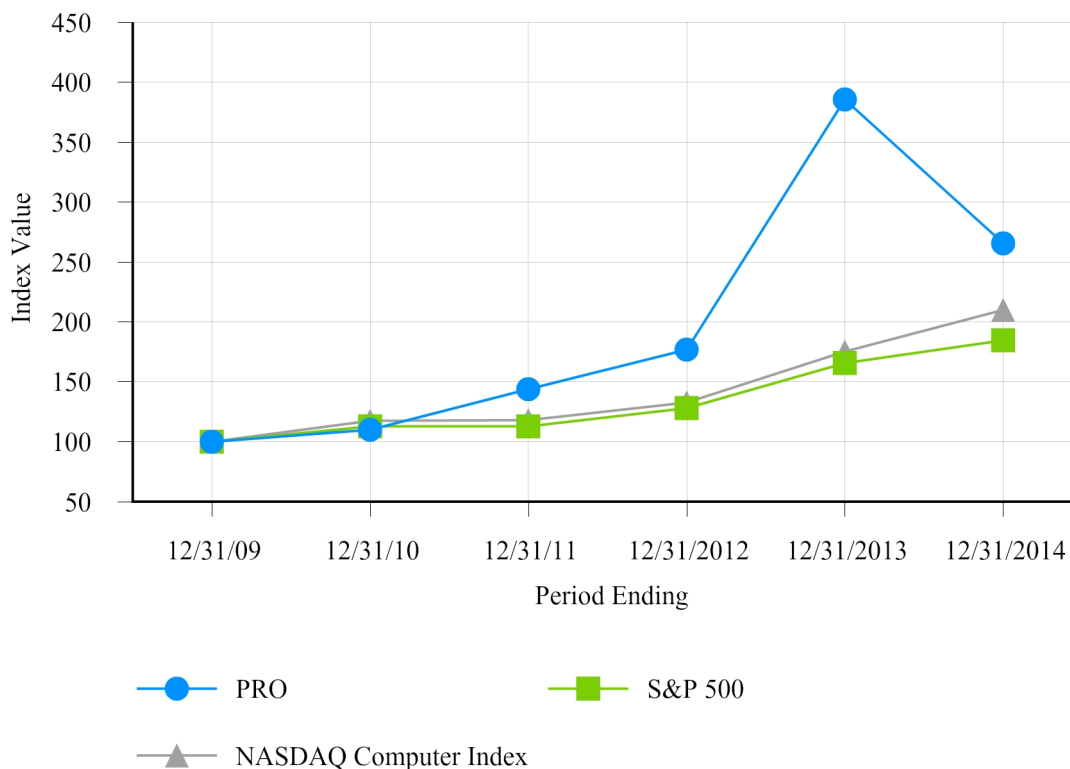
#### Performance graph

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 a five-year comparison of 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 December

31, 2009, and ending December 31, 2014. The graph is presented pursuant to the SEC rules and is not meant to be an indication of our future performance.

### Comparison of Cumulative Total Return



- (1) The graph assumes that \$100 was invested on December 31, 2009, in our common stock, 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.

|                       | 12/31/2010 | 12/31/2011 | 12/31/2012 | 12/31/2013 | 12/31/2014 |
|-----------------------|------------|------------|------------|------------|------------|
| PRO                   | \$ 110.05  | \$ 143.77  | \$ 176.71  | \$ 385.51  | \$ 265.51  |
| S&P 500               | \$ 112.78  | \$ 112.78  | \$ 127.90  | \$ 165.76  | \$ 184.64  |
| NASDAQ Computer Index | \$ 117.44  | \$ 118.01  | \$ 132.74  | \$ 175.15  | \$ 209.96  |

#### 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 2014, we did not make any purchases of our common stock under this program. As of December 31, 2014, \$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, 2014.

**Item 6. Selected financial data**

The following selected consolidated financial data presented under the captions "Selected consolidated 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, 2014 are derived from our Consolidated Financial Statements. 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, |            |            |           |            |
|--|-------------------------|------------|------------|-----------|------------|
|  | 2014                    | 2013       | 2012       | 2011      | 2010       |
| <b>Selected consolidated statement of operations data:</b>       |                         |            |            |           |            |
| Total revenue  | \$ 185,829              | \$ 144,837 | \$ 117,791 | \$ 96,639 | \$ 71,045  |
| Gross profit   | 127,743                 | 101,702    | 84,006     | 70,337    | 50,653     |
| (Loss) Income from operations                                    | (22,407)                | 3,538      | 8,180      | 8,775     | (4,112)    |
| Net (loss) income  | (37,551)                | 3,446      | 4,966      | 6,350     | (1,931)    |
| Net (loss) income attributable to common stockholders            | \$ (36,644)             | \$ 3,446   | \$ 4,966   | \$ 6,350  | \$ (1,931) |
| Net (loss) income attributable to common stockholders per share: |                         |            |            |           |            |
| Basic  | (1.27)                  | 0.12       | 0.18       | 0.24      | (0.07)     |
| Diluted  | (1.27)                  | 0.11       | 0.17       | 0.23      | (0.07)     |
| Weighted average number of shares:                               |                         |            |            |           |            |
| Basic  | 28,915                  | 28,004     | 27,366     | 26,832    | 26,090     |
| Diluted  | 28,915                  | 30,114     | 28,420     | 27,762    | 26,090     |
| <b>Selected consolidated balance sheet data:</b>                 |                         |            |            |           |            |
| Cash and cash equivalents, unrestricted                          | \$ 161,019              | \$ 44,688  | \$ 83,558  | \$ 68,457 | \$ 55,845  |
| Working capital  | 151,903                 | 72,127     | 72,950     | 66,334    | 52,326     |
| Total assets   | 300,125                 | 179,828    | 146,479    | 121,259   | 98,128     |
| Long-term obligations  | 112,740                 | 3,523      | 3,334      | 2,976     | 1,461      |
| Total stockholders' equity                                       | \$ 98,999               | \$ 111,303 | \$ 88,669  | \$ 73,943 | \$ 59,503  |



## Item 7. Management's discussion and analysis of financial condition and results of operations

### Overview

PROS provides big data software applications designed to help companies outperform in their markets by using big data to sell more effectively. We apply years of data science experience to unlock buying patterns and preferences within transaction data to reveal which opportunities are most likely to close, which offers are most likely to sell and which prices are most likely to win. PROS offers big data software applications to analyze, execute and optimize sales, pricing, quoting, rebates and revenue management. We also provide professional services to implement our software applications, as well as business consulting. Since inception, PROS has completed over 800 implementations of our solutions across more than 40 industries in more than 55 countries.

### Fiscal 2014 Overview

Fiscal 2014 was a year of continued investment, innovation and growth for PROS. Over the past twelve months, we continued to make significant investments in our on-going diversified growth strategy and initiatives to accelerate awareness. These increased investments included expanding our sales force and offering a new packaged offering in order to help reduce sales cycle time. These investments helped drive our results in fiscal 2014 and we believe position us well for future growth.

### License Revenue Recognition

Prior to 2013, we did not generally recognize license revenue upon customer contract signature and software delivery. However, beginning in 2013, we started recognizing more license revenue upon software delivery, with \$5.9 million of software license revenue recognized at contract during fiscal 2013. In fiscal 2014, the percentage of customer contracts for which we recognized license revenue on contract further increased, with \$27.2 million, or 46.5% of our license revenue recognized at contract. Our contractual performance obligations in the future may differ from historical periods impacting the timing of the recognition of revenue. A delay or deferral in a small number of large new software license transactions could cause our quarterly license revenue to fall significantly short of our expectations.

### Revenue by Geography

The following geographic information is presented for the years ended December 31, 2014, 2013 and 2012. The Company categorizes geographic revenues based on the location of the customer's headquarters.

|                          | Year Ended December 31, |         |                   |         |                   |         |
|--------------------------|-------------------------|---------|-------------------|---------|-------------------|---------|
|                          | 2014                    |         | 2013              |         | 2012              |         |
|                          | Revenue                 | Percent | Revenue           | Percent | Revenue           | Percent |
| United States of America | \$ 82,086               | 44%     | \$ 65,072         | 45%     | \$ 51,631         | 44%     |
| Europe                   | 45,987                  | 25%     | 33,666            | 23%     | 31,545            | 27%     |
| The rest of the world    | 57,756                  | 31%     | 46,099            | 32%     | 34,615            | 29%     |
| Total revenue            | <u>\$ 185,829</u>       | 100%    | <u>\$ 144,837</u> | 100%    | <u>\$ 117,791</u> | 100%    |

### Acquisitions

An active acquisition program is another important element of our corporate strategy. We believe our acquisition program strengthens our competitive position, enhances the products and services that we can offer to customers, expands our customer base, grows our revenues and increases our overall value. We expect to continue to acquire companies and technologies in furtherance of our corporate strategy.

### Fiscal 2014 Acquisition

In October 2013, we entered into a tender offer agreement with Cameleon, indicating the Company's intent to acquire Cameleon through the tender offer for all of the outstanding share capital of Cameleon in an all cash tender offer. As a result of shares purchased in the market following the completion of the tender in January 2014, the exercise of warrants in July 2014, and second tender completed in November 2014, we controlled 100% of Cameleon's common stock as of December 31, 2014. We acquired Cameleon for total cash consideration of approximately \$32 million, net of cash acquired.

In December 2013, we acquired SignalDemand, Inc. for total cash consideration of \$13.5 million.

### ***Financing Activities***

In December 2014, we issued \$143.8 million aggregate principal amount of 2.0% convertible Senior Notes due December 1, 2019, unless earlier purchased or converted. Interest is payable semiannually in arrears on June 1 and December 1 of each year, commencing on June 1, 2015.

### **Opportunities, trends and uncertainties**

We have noted opportunities, trends and uncertainties that we believe are particularly significant to understand our financial results and condition.

- *Growth opportunities.* We believe the market for our big data software applications for pricing and sales effectiveness is underpenetrated. Market interest for our software has increased over the past several years providing us with growth opportunities. We have and will continue to invest in our business to more effectively address these opportunities through significant investment in professional services, research and development, sales, marketing and support function. In addition to organic growth, we have acquired, and may continue to acquire companies or technologies that can contribute to the strategic, operational and financial growth of our business. We expect to continue to explore both organic and inorganic growth opportunities.
- *Managing our continued growth.* Since 2012, we have experienced strong growth in both our revenues and operations, including significant growth in our sales and marketing personnel. Our continued success depends on, among other things, our ability to successfully recruit, train and retain personnel to execute our sales and marketing strategies, successfully integrate the operations and personnel of companies we have acquired or may acquire, appropriately manage our expenses as we grow; enter into and maintain beneficial channel relationships; and develop new products. If we are not able to execute on these actions, our business may not grow as we anticipate.
- *Variability in revenue.* Our historical revenue recognition policy provided visibility into a significant portion of our revenue in near-term quarters, although the actual timing of revenue recognition varies based on the nature and requirements of our contracts. For the majority of our arrangements, we have not historically recognized license revenue upon customer contract signature and software delivery. However, in 2013 we began recognizing license revenue upon contract signature and software delivery, provided that the applicable revenue recognition criteria are met. Our contractual performance obligations in the future may differ from historical periods impacting the timing of the recognition of revenue. For example, growth in our term license and SaaS offerings may result in the deferral of revenue over the contractual term, growth in perpetual license arrangements may increase the recognition of license revenue on delivery, and a decline in perpetual license arrangements may decrease revenue in any individual quarter. Our revenue could also vary based on our customer mix and customer geographic location. A delay or deferral in a small number of large new software license transactions could cause our quarterly license revenue to fall significantly short of our expectations. From a geographical standpoint, approximately 56%, 55%, and 56% of our consolidated revenues were derived from customers outside the United States for each of the years ended December 31, 2014, 2013 and 2012, respectively. The economic and political environments around the world could change our concentration of revenue within industries and across geographies.
- *Uncertain global economic conditions.* During fiscal 2014, the global economic environment continued to show signs of improvement. However, there remain concerns and uncertainty about the strength of the recovery, future domestic and global economic growth, and the global financial system including numerous ongoing geopolitical issues around the globe. During uncertain economic conditions, we generally experience longer sales cycles, increased scrutiny on purchasing decisions and overall cautiousness taken by customers. In addition, certain foreign countries are still facing significant economic and political crises and it is possible that these crises could result in economic deterioration in the markets in which we operate. This economic uncertainty may negatively affect the overall demand environment in fiscal 2015, particularly in our EMEA region. We believe that our expanded offerings of industry-specific solutions and innovative technology will enable us to stay competitive in a challenging economic environment and outperform the broader market as business leaders continue to focus on projects that quickly deliver value, however the extent to which the current economic conditions will further affect our business is uncertain.

- *Effective tax rate.* Our effective tax rate can be adversely affected by several factors, many of which are outside of our control, including changes in the relative proportions of revenues and income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates; changing tax laws, regulations, and interpretations in multiple jurisdictions in which we operate; changes to the financial accounting rules for income taxes; unanticipated changes in tax rates; changes in accounting and tax treatment of our equity-based compensation; the tax effects of purchase accounting for acquisitions that may cause fluctuations between reporting periods; and changes to the valuation allowance on our net deferred tax assets.

## **Discussion of consolidated financial information**

### ***Revenue***

Our revenue is derived from the licensing and implementation of software solutions, associated software maintenance and support, and professional services. Revenue also includes nonsoftware related SaaS and cloud-based services. Our arrangements with customers typically include some, but not all, of the following: (a) license fees for the use of our solutions either in perpetuity or over a specified term, (b) professional service fees for configuration, implementation and training services, (c) maintenance and support fees related to technical support and software updates, and (d) subscription fees for our SaaS and cloud-based services. If there is significant uncertainty about contract completion or collectability is not reasonably assured, revenue is deferred until the uncertainty is sufficiently resolved or collectability is reasonably assured. In addition, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred and fees are considered fixed and determinable.

In determining whether professional services revenue should be accounted for separately from license revenue, we evaluate whether the professional services are considered essential to the functionality of the software. This evaluation is based on factors such as: the nature of our software products; whether they are ready for use by the customer upon receipt; the nature of our professional services; the availability of professional services from other vendors; whether the timing of payments for license revenue coincides with performance of services; and whether milestones or acceptance criteria exist that affect the realizability of the software license fee.

*License revenue.* We derive the majority of our license revenue from the sale of perpetual licenses. For software license arrangements that do not require significant modification or customization of the underlying software, we recognize software license revenues at contract provided professional services are not considered essential to the delivery of the software and when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) the sale price is fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Revenues that are not recognized at the time of sale because the foregoing conditions are not met, are recognized when those conditions are subsequently met.

We evaluate the nature and scope of professional services for each arrangement and if we determine that the professional services revenue should not be accounted for separately from license revenue, the license revenue is recognized together with the professional services revenue using the percentage-of-completion method or completed contract method. The completed contract method is also used for contracts where there is a risk over final acceptance by the customer or for contracts that are short-term in nature.

The portion of our license revenue that is recognized using the percentage-of-completion method, along with subscription and maintenance revenue, provides visibility into a portion of our revenue in the near-term quarters, although the actual timing of recognition of revenue on a percentage-of-completion arrangement varies based on the nature and requirements of our contracts. Under the percentage-of-completion method of accounting, our license revenue recognition generally begins when implementation efforts commence, and continues over the implementation period.

The percentage-of-completion method is measured by the percentage of man-days expended on an implementation during the reporting period as a percentage of the total man-days estimated to be necessary to complete the software implementation. We measure performance under the percentage-of-completion method using the total man-day method based on current estimates of man-days to complete the software implementation. We believe that for each such software implementation, man-days expended in proportion to total estimated man-days at completion represents the most reliable and meaningful measure for determining a software implementation's progress toward completion. In addition, for fixed-fee software implementation arrangements, should a loss be anticipated on a contract, the full amount of the loss is recorded when the loss is determinable. See "Critical accounting policies and estimates" for additional information regarding revenue recognition.

We also license software under term license agreements that typically include maintenance and support during the contractual license term. Our term license agreements typically range from two to five years. Revenue and the associated cost is deferred until the delivery of the licensed solution and recognized ratably over the remaining contractual license term. Revenue

from term license agreements represented 2.9%, 3.6%, and 4.8% of total revenue for the years ended December 31, 2014, 2013 and 2012, respectively.

*Service revenue.* We also provide software-related professional services, including implementation and configuration services, consulting and training. Professional services are generally provided under time and materials contracts and revenues are recognized as the services are provided. However, if we enter into arrangements with a fixed-fee, professional services revenue are recognized based upon a proportionate performance method. When we enter into arrangements where professional services are considered essential to the functionality of the software, professional services revenue is recognized based upon the percentage of completion method. Under this method, revenue is recognized based upon labor hours incurred as the percentage of total estimated labor hours to complete the project. Revenues for professional services that are bundled with license fees are recognized when the services are performed. We also recognize revenue associated with billable expenses when the expenses are incurred.

*Subscription revenue.* We also provide SaaS and cloud-based offerings. Our SaaS offerings generally provide customers access to certain of our software solution within a cloud-based IT environment that we manage and offer to customers on a subscription basis. Revenues for our SaaS offerings are generally recognized ratably over the contract term commencing with the date our service is made available to customers and all other revenue recognition criteria have been satisfied.

Our cloud-based services allow our customers to deploy PROS solutions without any significant investment in hardware as PROS software is integrated in cloud-based IT environments that are deployed, supported and managed on our customers' behalf. For arrangements that include cloud-based services, we allocate the arrangement consideration between the cloud-based service and other elements and recognize the cloud services fee ratably beginning on the date the customer commences use of our services and continuing through the end of the contractual cloud services term.

*Maintenance and support revenue.* We generate maintenance and support revenue from the sale of maintenance and support services on our software solutions. The vast majority of our software license arrangements include software license updates and product support contracts, generally ranging from one to two years. Software license updates provide customers with rights to unspecified software updates and enhancements on a when and if available basis, maintenance releases and patches released during the term of the support period. Software license updates and product support contracts are generally priced as a percentage of the software licenses fees. Substantially all of our customers renew their software license updates and product support contracts annually. Maintenance and support fees are invoiced to our customers generally on an annual basis, although they may be invoiced on a monthly or quarterly basis in certain circumstances.

### ***Cost of revenue***

*Cost of license.* Cost of license consists of third-party fees for our licensed software and an allocation of the amortization of intangibles.

*Cost of services.* Cost of services includes those costs related to professional services and implementation of our solutions, principally (a) personnel costs, which include our employees and employee benefits and third party contractors, (b) noncash share based compensation expense, (c) billable and nonbillable travel, lodging and other out-of-pocket expenses, and (d) an allocation of depreciation, facilities and information technology ("IT") support costs and other costs incurred in providing professional services to our customers. Cost of providing professional services may vary from quarter to quarter depending on a number of factors, including the amount of professional services required to deploy our solutions.

*Cost of subscription.* Cost of subscription includes those costs related to supporting our SaaS and cloud-based services, principally (a) personnel costs, which include our employees and third party contractors, (b) noncash share based compensation expense, (c) billable and nonbillable travel, lodging and other out-of-pocket expenses, (d) amortization of capitalized software for internal use and (e) an allocation of depreciation, amortization of intangibles, facilities and IT support costs and other costs incurred in providing SaaS and cloud-based services to our customers.

*Cost of maintenance and support.* Cost of maintenance and support consists largely of personnel related expenses and an allocation of depreciation, amortization of intangibles, facilities and IT support costs and other costs incurred in providing maintenance and support services to our customers.

### ***Operating expenses***

*Selling and marketing.* Selling and marketing expenses principally consist of (a) personnel costs, which include our employees and employee benefits, third party contractors and sales commissions related to selling and marketing personnel, (b) noncash share based compensation expense, (c) sales and marketing programs such as lead generation programs, company awareness programs, conferences, hosting and participation in industry trade shows, and other sales and marketing programs, (d) travel and other out-of-pocket expenses, (e) amortization expenses associated with acquired intangible assets and (f) an allocation of depreciation, facilities and IT support costs and other costs.

General and administrative. General and administrative expenses consist primarily of expenditures for executive, accounting and finance, legal, information technology, and human resources support functions. General and administrative expenses principally consist of (a) personnel costs, which include our employees and employee benefits and third-party contractors, (b) noncash share based compensation expenses, (c) travel and other out-of-pocket expenses, (d) accounting, legal and other professional fees and (e) an allocation of depreciation, facilities and IT support costs and other costs.

Research and development. Research and development expenses principally consist of (a) personnel costs, which include our employees and employee benefits and third party contractors, which are comprised of software developers, scientists and product managers working on enhancements of existing solutions, the development of new solutions, scientific research, quality assurance and testing, (b) noncash share based compensation expenses, (c) amortization expenses associated with acquired intangible assets and (d) an allocation of depreciation, facilities and IT support costs and other costs.

### ***Income taxes***

We estimate our income taxes based on the various jurisdictions where we conduct business and we use estimates in determining our provision for income taxes. We estimate separately our deferred tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax rules and the potential for future adjustment of our uncertain tax positions by the United States Internal Revenue Service or other taxing jurisdictions. We estimate our current tax liability and assess temporary differences that result from differing treatments of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we show on our balance sheet. At December 31, 2014, our deferred tax assets consisted primarily of temporary differences related to noncash share based compensation and acquired net operating losses.

We review the realizability of our deferred tax asset valuation allowances on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to our valuation allowances may be necessary. In the fourth quarter of fiscal 2014, we again performed an analysis related to the realizability of our worldwide deferred tax assets. After considering tax planning initiatives and other positive and negative evidence, we determined that it was more likely than not that our deferred tax assets would not be realized. Therefore, we recorded a \$19.5 million net valuation allowance as income tax expense in the year ended December 31, 2014.

As a part of our accounting for business combinations, intangible assets are recognized at fair value and goodwill is measured as the excess of consideration transferred over the net estimated fair value of assets acquired. Impairment charges associated with goodwill are generally not tax deductible and will result in an increased effective income tax rate in the period that any impairment is recorded. Amortization expenses associated with acquired intangible assets are generally not tax deductible pursuant to our existing tax structure.

Our federal effective tax rate has historically been lower than the federal rate of 34% largely due to the application of the research and experimentation ("R&E") tax credit. In January 2013, Congress passed the American Taxpayer Relief Act of 2012 which, among other things, made the R&E tax credit retroactive to January 1, 2012 and extended the R&E tax credit until December 31, 2013. As a result of the retroactive reinstatement of the R&E tax credit, the full benefit of the 2012 R&E tax credit was recorded in the first quarter of 2013. In December 2014, Congress passed the Tax Increase Prevention Act of 2014 which, among other things extended the R&E tax credit until December 31, 2014.

### ***Deferred revenue and unbilled receivables***

For our license and professional service fees, we invoice and are paid based upon contractual payment schedules in each customer arrangement, which in limited circumstances include payments linked to contractual milestones. We record as deferred revenue invoices that have been issued before the corresponding license and implementation revenue is recognized. We record as unbilled receivables any recognized license and implementation revenue in excess of the amount invoiced to the customer. We generally invoice for our maintenance and support services on a monthly, quarterly or annual basis through the maintenance and support period. Deferred revenue does not reflect the total contract value of our customer arrangements at any point in time as we only record deferred revenue if amounts are invoiced in advance of the corresponding recognition of license and implementation revenue. As a result, there is little correlation between the timing of our revenue recognition, the timing of our invoicing and the amount of deferred revenue.

## Results of operations

### Comparison of year ended December 31, 2014 with year ended December 31, 2013

#### Revenue:

| (Dollars in thousands)                   | For the Year Ended December 31, |                             |            |                             |             |            |
|--|---------------------------------|-----------------------------|------------|-----------------------------|-------------|------------|
|  | 2014                            |                             | 2013       |                             | Variance \$ | Variance % |
|  | Amount                          | Percentage of total revenue | Amount     | Percentage of total revenue |             |            |
| License                                  | \$ 58,515                       | 31%                         | \$ 41,116  | 28%                         | \$ 17,399   | 42%        |
| Services                                 | 49,225                          | 26%                         | 48,412     | 33%                         | 813         | 2%         |
| Subscription                             | 23,468                          | 13%                         | 9,221      | 6%                          | 14,247      | 155%       |
| Total license, services and subscription | 131,208                         | 71%                         | 98,749     | 68%                         | 32,459      | 33%        |
| Maintenance and support                  | 54,621                          | 29%                         | 46,088     | 32%                         | 8,533       | 19%        |
| Total revenue                            | \$ 185,829                      | 100%                        | \$ 144,837 | 100%                        | \$ 40,992   | 28%        |

License, services and subscription. License, services and subscription revenue increased \$32.5 million to \$131.2 million for the year ended December 31, 2014 from \$98.7 million for the year ended December 31, 2013, representing a 33% increase. The increase in total license, services and subscription revenue was the result of a \$17.4 million increase in license revenue, a \$14.2 million increase in subscription revenue and a \$0.8 million increase in services revenue. Our 2014 revenue was positively impacted by our acquisitions.

License revenue increased \$17.4 million to \$58.5 million for the year ended December 31, 2014 from \$41.1 million for the year ended December 31, 2013, representing a 42% increase. The increase in license revenue was attributable to an increase in license revenue recognized upon software delivery and an increase in the average license revenue recognized per customer. The average license revenue per customer, for customers with greater than \$0.1 million of license revenue recognized, increased to \$1.1 million for the year ended December 31, 2014 from \$0.7 million per customer for the year ended December 31, 2013. The increase in average license revenue recognized per customer was primarily attributable to an increase in license revenue recognized upon software delivery. We recognized \$27.2 million and \$5.9 million of license revenue upon software delivery for the years ended December 31, 2014 and 2013, respectively.

Services revenue increased \$0.8 million to \$49.2 million for the year ended December 31, 2014 from \$48.4 million for the year ended December 31, 2013, representing a 2% increase. The \$0.8 million increase in services revenue was primarily attributed to \$5.9 million of services revenue from our acquisitions, partially offset by a decrease of \$5.1 million in organic services revenue. The decrease of \$5.1 million was primarily a result of an increase in the number of third parties implementing our software, recent implementations requiring less implementation services and several customers delaying some services into 2015. Total service revenue increased due to an increase in the overall number of customers generating services revenue. The total number of customers generating services revenue was 193 for the year ended December 31, 2014, as compared to 108 in the corresponding period in 2013, an increase of 79%.

Subscription revenue increased \$14.2 million to \$23.5 million for the year ended December 31, 2014 from \$9.2 million for the year ended December 31, 2013, representing a 155% increase. The \$14.2 million increase in subscription revenue was primarily attributed to \$11.3 million of subscription revenue from our acquisitions and an increase in the overall total number of customers generating subscription revenue. The total number of customers generating subscription revenue was 90 for the year ended December 31, 2014, as compared to 36 in the corresponding period in 2013, an increase of 150%.

Maintenance and support. Maintenance and support revenue increased \$8.5 million to \$54.6 million for the year ended December 31, 2014 from \$46.1 million for the year ended December 31, 2013, representing a 19% increase. The \$8.5 million increase in maintenance and support revenue was principally a result of an increase in the number of customers purchasing maintenance and support services and included \$3.2 million of maintenance and support revenue from our acquisitions.

*Cost of revenue and gross profit:*

| (Dollars in thousands)                           | For the Year Ended December 31, |                               |            |                               |             |            |
|--|---------------------------------|-------------------------------|------------|-------------------------------|-------------|------------|
|  | 2014                            |                               | 2013       |                               | Variance \$ | Variance % |
|  | Amount                          | Percentage of related revenue | Amount     | Percentage of related revenue |             |            |
| Cost of license                                  | \$ 243                          | —%                            | \$ 282     | 1%                            | \$ (39)     | (14)%      |
| Cost of services                                 | 39,955                          | 81%                           | 32,492     | 67%                           | 7,463       | 23 %       |
| Cost of subscription                             | 7,334                           | 31%                           | 2,122      | 23%                           | 5,212       | 246 %      |
| Total cost of license, services and subscription | 47,532                          | 36%                           | 34,896     | 35%                           | 12,636      | 36 %       |
| Cost of maintenance and support                  | 10,554                          | 19%                           | 8,239      | 18%                           | 2,315       | 28 %       |
| Total cost of revenue                            | \$ 58,086                       | 31%                           | \$ 43,135  | 30%                           | \$ 14,951   | 35 %       |
| Gross profit                                     | \$ 127,743                      | 69%                           | \$ 101,702 | 70%                           | \$ 26,041   | 26 %       |

*Cost of license.* Cost of license primarily consists of third-party fees for licensed. Cost of license was \$0.2 million for the year ended December 31, 2014, compared to \$0.3 million for the year ended December 31, 2013. License gross profit percentages for the year ended December 31, 2014 and 2013, were 100% and 99%, respectively, as a result of limited third-party fees for licensed software incurred during both periods.

*Cost of services.* Cost of services increased \$7.5 million to \$40.0 million for the year ended December 31, 2014 from \$32.5 million for the year ended December 31, 2013, representing a 23% increase. The increase was primarily attributable to an increase of \$7.4 million from our acquisitions. Services gross profit percentages for the years ended December 31, 2014 and 2013, were 19% and 33%, respectively. The decrease in services gross margins was driven by increases in professional services personnel costs, primarily attributable to our acquisitions. In addition, lower service margins from our acquisitions contributed to the decrease in our services gross margins. Since a substantial portion of our cost of services are professional services personnel costs, services gross margins can vary from period to period depending the utilization of our professional services personnel and additional headcount needed to support anticipated future implementations.

*Cost of subscription.* Cost of subscription increased \$5.2 million to \$7.3 million for the year ended December 31, 2014 from \$2.1 million for the year ended December 31, 2013, representing a 246% increase. The increase was primarily attributable to a \$4.5 million increase from our acquisitions, which included \$1.4 million of intangible asset amortization. Subscription gross profit percentages for the years ended December 31, 2014 and 2013, were 69% and 77%, respectively. The decrease in subscription gross profit percentage was attributable to our acquisitions.

*Cost of maintenance and support.* Cost of maintenance and support revenue increased \$2.3 million to \$10.6 million for the year ended December 31, 2014, from \$8.2 million for the year ended December 31, 2013, representing a 28% increase. The cost of providing maintenance and support services consists largely of personnel related expenses. The increase in cost of maintenance was principally attributable to an increase of \$1.5 million of personnel costs associated with the continued growth in our customer maintenance and support function commensurate with maintenance and support revenue growth. In addition, there was an increase of \$0.8 million related to intangible asset amortization related to our acquisitions. Maintenance and support gross margins were 81% and 82% for the years ended December 31, 2014 and 2013, respectively.

*Gross profit.* Gross profit increased \$26.0 million to \$127.7 million for the year ended December 31, 2014 from \$101.7 million for the year ended December 31, 2013, representing a 26% increase. The increase in overall gross profit was principally attributable to a 28% increase in total revenue, which included revenue from our acquisitions. Our acquisitions contributed \$8.0 million of gross profit for the year ended December 31, 2014.

Operating expenses:

| (Dollars in thousands)     | For the Year Ended December 31, |                             |                  |                             |                  |            |
|----------------------------|---------------------------------|-----------------------------|------------------|-----------------------------|------------------|------------|
|                            | 2014                            |                             | 2013             |                             | Variance \$      | Variance % |
|                            | Amount                          | Percentage of total revenue | Amount           | Percentage of total revenue |                  |            |
| Selling and marketing      | \$ 62,156                       | 33%                         | \$ 39,478        | 27%                         | \$ 22,678        | 57%        |
| General and administrative | 37,761                          | 20%                         | 24,046           | 17%                         | 13,715           | 57%        |
| Research and development   | 43,174                          | 23%                         | 32,467           | 22%                         | 10,707           | 33%        |
| Acquisition-related        | 3,019                           | 2%                          | 2,173            | 2%                          | 846              | 39%        |
| Impairment charges         | 4,040                           | 2%                          | —                | —%                          | 4,040            | -          |
| Total operating expenses   | <u>\$ 150,150</u>               | <u>81%</u>                  | <u>\$ 98,164</u> | <u>68%</u>                  | <u>\$ 51,986</u> | <u>53%</u> |

Selling and marketing. Selling and marketing expenses increased \$22.7 million to \$62.2 million for the year ended December 31, 2014 from \$39.5 million for the year ended December 31, 2013, representing a 57% increase. The increase was attributable to an increase of \$14.8 million of personnel costs, which included \$4.4 million related to our acquisitions. Personnel costs, which include our employees and third-party consulting costs, increased primarily as a result of an increase in headcount in sales and marketing to support our current and future growth objectives and an increase in headcount from our acquisitions. Included in the increase in personnel costs was an increase of \$4.3 million in sales commissions resulting from higher revenue levels and an increase of \$1.3 million of noncash share-based compensation. The remaining increase of \$7.9 million included \$2.7 million in travel expenses, \$2.4 million in intangible assets amortization, \$2.3 million in sales and marketing events, \$0.3 million in facility and other overhead expenses and \$0.2 million in recruiting expenses.

General and administrative expenses. General and administrative expenses increased \$13.7 million to \$37.8 million for the year ended December 31, 2014 from \$24.0 million for the year ended December 31, 2013, representing a 57% increase. The increase was attributable to an increase of \$8.7 million of personnel costs, which included \$2.5 million related to our acquisitions. Personnel costs, which include our employees and third-party consulting costs, increased primarily as a result of an increase in headcount in general and administrative to support our current and future growth objectives and an increase in headcount from our acquisitions. Included in the increase in personnel costs was an increase of \$2.3 million of noncash share-based compensation. The remaining increase of \$5.0 million included \$3.3 million in facility and other overhead expenses, \$0.7 million in travel, \$0.6 million in professional fees and \$0.4 million in recruiting expenses.

Research and development expenses. Research and development expenses increased \$10.7 million to \$43.2 million for the year ended December 31, 2014 from \$32.5 million for the year ended December 31, 2013, representing a 33% increase. The increase was attributable to an increase of \$10.2 million of personnel costs, which included \$5.6 million related to our acquisitions. Personnel costs, which include our employees and third-party consulting costs, increased as a result of an increase in headcount from our acquisitions and headcount to support ongoing development activities. Included in the increase in personnel costs was an increase of \$1.5 million of noncash share based compensation expense. The remaining increase of \$0.5 million was primarily attributable to \$0.3 million of facility and other overhead expenses and \$0.2 million of travel.

Acquisition-related expense. Acquisition-related expenses were \$3.0 million and \$2.2 million for the year ended December 31, 2014 and 2013, respectively, consisting primarily of advisory and legal fees related to the acquisition and integration of SignalDemand and Cameleon.

Impairment charges. During the year ended December 31, 2014, we recorded \$4.0 million of impairment charges related to internally developed software. The full impairment resulted from a reduction of projected cash flows for product groups based on revisions to our projections during the year and was recorded to reduce the carrying value to fair value. This reduction reflected changes to our plans for certain product groups in connection with the integration of our acquisitions and changes in future product launches and support.

Other expense, net:

| (Dollars in thousands) | For the Year Ended December 31, |                             |              |                             |              |               |
|------------------------|---------------------------------|-----------------------------|--------------|-----------------------------|--------------|---------------|
|                        | 2014                            |                             | 2013         |                             | Variance \$  | Variance %    |
|                        | Amount                          | Percentage of total revenue | Amount       | Percentage of total revenue |              |               |
| Other expense, net     | <u>(2,651)</u>                  | <u>(1)%</u>                 | <u>(265)</u> | <u>— %</u>                  | <u>2,386</u> | <u>(900)%</u> |



The increase of \$2.4 million in other expense, net included an increase of \$1.5 million of foreign currency exchange losses on transactions denominated in currencies other than the functional currency, an increase of \$0.3 million of debt discount and issuance cost amortization, an increase of \$0.2 million of coupon interest related to our Senior Notes due 2019, and an increase of \$0.5 million of other miscellaneous income and expenses.

Income tax provision (benefit):

| (Dollars in thousands)         | For the Year Ended<br>December 31, |          | Variance \$ | Variance % |
|--------------------------------|------------------------------------|----------|-------------|------------|
|                                | 2014                               | 2013     |             |            |
| Effective tax rate             | (50)%                              | (5)%     | n/a         | (45)%      |
| Income tax provision (benefit) | \$ 12,493                          | \$ (173) | \$ 12,666   | nm         |

Our income tax provision increased \$12.7 million to \$12.5 million for the year ended December 31, 2014, from a tax benefit of \$0.2 million for the year ended December 31, 2013. Our effective tax rates were (50)% and (5)% for the years ended December 31, 2014 and 2013, respectively. Our effective tax rate for fiscal 2014 included a \$19.5 million net valuation allowance recorded in the fourth quarter of 2014 and included tax benefits from the reinstatement of the U.S. R&E tax credit of approximately \$1.8 million.

The change in our effective tax rate for fiscal 2014 compared to fiscal 2013 was driven by a \$19.5 million net valuation allowance recorded in the fourth quarter of 2014, increases in nondeductible share-based compensation expense and nondeductible acquisition costs and decreases in our R&E credit. The 2013 tax provision included a discrete benefit of \$1.4 million attributed to the 2012 R&E tax credit recorded in the first quarter of 2013.

**Comparison of year ended December 31, 2013 with year ended December 31, 2012**

*Revenue:*

| (Dollars in thousands)                   | For the Year Ended December 31, |                             |            |                             |             |            |
|--|---------------------------------|-----------------------------|------------|-----------------------------|-------------|------------|
|  | 2013                            |                             | 2012       |                             | Variance \$ | Variance % |
|  | Amount                          | Percentage of total revenue | Amount     | Percentage of total revenue |             |            |
| License                                  | \$ 41,116                       | 28%                         | \$ 32,968  | 28%                         | \$ 8,148    | 25%        |
| Services                                 | 48,412                          | 33%                         | 35,635     | 30%                         | 12,777      | 36%        |
| Subscription                             | 9,221                           | 6%                          | 9,053      | 8%                          | 168         | 2%         |
| Total license, services and subscription | 98,749                          | 68%                         | 77,656     | 66%                         | 21,093      | 27%        |
| Maintenance and support                  | 46,088                          | 32%                         | 40,135     | 34%                         | 5,953       | 15%        |
| Total revenue                            | \$ 144,837                      | 100%                        | \$ 117,791 | 100%                        | \$ 27,046   | 23%        |

License, services and subscription. License, services and subscription revenue increased \$21.1 million to \$98.7 million for the year ended December 31, 2013 from \$77.7 million for the year ended December 31, 2012, representing a 27% increase. The increase in total license, services and subscription revenue was the result of a \$12.8 million increase in services revenue, a \$8.1 million increase in license revenue, and a \$0.2 million increase in subscription revenue.

License revenue increased \$8.1 million to \$41.1 million for the year ended December 31, 2013 from \$33.0 million for the year ended December 31, 2012, representing a 25% increase. The increase in license revenue was attributable to an increase in the average license revenue recognized per customer. The average license revenue per customer, for customers with greater than \$0.1 million of license revenue recognized, increased to \$0.7 million for the year ended December 31, 2013 from \$0.6 million per customer for the year ended December 31, 2012. The increase in average license revenue recognized per customer was primarily attributable to an increase in license revenue recognized upon software delivery. We recognized \$5.9 million and \$3.2 million of license revenue upon software delivery for the years ended December 31, 2013 and 2012, respectively.

Services revenue increased \$12.8 million to \$48.4 million for the year ended December 31, 2013 from \$35.6 million for the year ended December 31, 2012, representing a 36% increase. The \$12.8 million increase in services revenue was primarily attributed to an increase in professional services associated with the implementation of our software. Total service revenue increased due to an increase in the overall number of customers generating services revenue. The total number of customers generating services revenue was 108 for the year ended December 31, 2013, as compared to 100 in the corresponding period in 2012, an increase of 8%.

Subscription revenue increased \$0.2 million to \$9.2 million for the year ended December 31, 2013 from \$9.1 million for the year ended December 31, 2012, representing a 2% increase. The \$0.2 million increase in subscription revenue was primarily attributed to an increase in the total number of customers generating subscription revenue. The total number of customers generating subscription revenue was 36 for the year ended December 31, 2013, as compared to 19 in the corresponding period in 2012, an increase of 89%.

Maintenance and support. Maintenance and support revenue increased \$6.0 million to \$46.1 million for the year ended December 31, 2013 from \$40.1 million for the year ended December 31, 2012, representing a 15% increase. The increase in maintenance and support revenue was principally the result of an increase in the number of customers that purchased maintenance and support services.

Cost of revenue and gross profit:

| (Dollars in thousands)                           | For the Year Ended December 31, |                               |           |                               |             |            |
|--|---------------------------------|-------------------------------|-----------|-------------------------------|-------------|------------|
|  | 2013                            |                               | 2012      |                               | Variance \$ | Variance % |
|  | Amount                          | Percentage of related revenue | Amount    | Percentage of related revenue |             |            |
| Cost of license                                  | \$ 282                          | 1%                            | \$ 244    | 1%                            | \$ 38       | 16%        |
| Cost of services                                 | 32,492                          | 67%                           | 24,329    | 68%                           | 8,163       | 34%        |
| Cost of subscription                             | 2,122                           | 23%                           | 1,257     | 14%                           | 865         | 69%        |
| Total cost of license, services and subscription | 34,896                          | 35%                           | 25,830    | 33%                           | 9,066       | 35%        |
| Cost of maintenance and support                  | 8,239                           | 18%                           | 7,955     | 20%                           | 284         | 4%         |
| Total cost of revenue                            | \$ 43,135                       | 30%                           | \$ 33,785 | 29%                           | \$ 9,350    | 28%        |
| Gross profit                                     | \$ 101,702                      | 70%                           | \$ 84,006 | 71%                           | \$ 17,696   | 21%        |

Cost of license. Cost of license consists of third-party fees for licensed software. Cost of license was \$0.3 million for the year ended December 31, 2013 as compared to \$0.2 million for the year ended December 31, 2012. License gross profit percentages for both the year ended December 31, 2013 and 2012, were 99%, as a result of limited third-party fees for licensed software incurred over both periods.

Cost of services. Cost of services increased \$8.2 million to \$32.5 million for the year ended December 31, 2013, from \$24.3 million for the year ended December 31, 2012, representing a 34% increase. The increase was primarily attributable to an increase of personnel costs, which include employees and third-party consulting costs, as a result of an increase in headcount needed to support the increased number of active and anticipated implementations. Included in the increase in personnel cost is an increase of \$0.5 million of noncash share based compensation expense. Services gross profit percentages for the year ended December 31, 2013 and 2012, were 33% and 32%, respectively. Service margins can vary from period to period depending on different factors, including the utilization of our professional services personnel and additional headcount needed to support anticipated future implementations.

Cost of subscription. Cost of subscription increased \$0.9 million to \$2.1 million for the year ended December 31, 2013, from \$1.3 million for the year ended December 31, 2012, representing a 69% increase. The increase was primarily attributable to personnel costs and an increase in expenses for our cloud-based infrastructure. Subscription gross profit percentages for the year ended December 31, 2013 and 2012, were 77% and 86%, respectively. The decrease in subscription gross profit percentage was attributable our increase investments in cloud-based infrastructure.

Cost of maintenance and support. Cost of maintenance and support revenue increased \$0.3 million to \$8.2 million for the year ended December 31, 2013, from \$8.0 million for the year ended December 31, 2012, representing a 4% increase. The cost of providing maintenance and support services consists largely of personnel related expenses. The increase in cost of maintenance was principally attributable to an increase of \$0.3 million of personnel costs associated with the continued growth in our customer maintenance and support function commensurate with maintenance and support revenue growth. Maintenance and support gross margins were 82% and 80% for the years ended December 31, 2013 and 2012, respectively. The improvements in gross margins was attributable to the scaling of existing resources in supporting the growth in our maintenance and support customer base.

Gross profit. Gross profit increased \$17.7 million to \$101.7 million for the year ended December 31, 2013, from \$84.0 million for the year ended December 31, 2012, representing a 21% increase. The increase in overall gross profit was principally attributable to a 23% increase in total revenue.

*Operating expenses:*

| (Dollars in thousands)     | For the Year Ended December 31, |                             |                  |                             |                  |            |
|----------------------------|---------------------------------|-----------------------------|------------------|-----------------------------|------------------|------------|
|                            | 2013                            |                             | 2012             |                             | Variance \$      | Variance % |
|                            | Amount                          | Percentage of total revenue | Amount           | Percentage of total revenue |                  |            |
| Selling and marketing      | \$ 39,478                       | 27%                         | \$ 29,987        | 25%                         | \$ 9,491         | 32%        |
| General and administrative | 24,046                          | 17%                         | 18,228           | 15%                         | 5,818            | 32%        |
| Research and development   | 32,467                          | 22%                         | 27,611           | 23%                         | 4,856            | 18%        |
| Acquisition-related        | 2,173                           | 2%                          | —                | —%                          | 2,173            | —%         |
| Total operating expenses   | <u>\$ 98,164</u>                | <u>68%</u>                  | <u>\$ 75,826</u> | <u>64%</u>                  | <u>\$ 22,338</u> | <u>29%</u> |

*Selling and marketing.* Selling and marketing expenses increased \$9.5 million to \$39.5 million for the year ended December 31, 2013 from \$30.0 million for the year ended December 31, 2012, representing a 32% increase. The increase was principally attributable to an increase of \$8.4 million in sales and marketing personnel costs as a result of an increase in headcount to support our current and future growth objectives and higher commission expenses resulting from higher revenue levels. Included in the increase in personnel costs is an increase of \$1.5 million of noncash share based compensation. In addition, there was an increase of \$1.1 million of non-personnel related expenses primarily a result of \$0.8 million of overhead and other expenses and \$0.3 million related to an increase in sales and marketing events.

*General and administrative expenses.* General and administrative expenses increased \$5.8 million to \$24.0 million for the year ended December 31, 2013, from \$18.2 million for the year ended December 31, 2012, representing a 32% increase. The increase was principally attributable to an increase of \$3.9 million in general and administrative personnel costs as a result of an increase in headcount to support our current and future growth objectives. Included in the increase in personnel costs is an increase of \$3.1 million of noncash share based compensation. In addition, there was an increase of \$1.9 million of non-personnel related expenses which included an increase of \$0.8 million of overhead and other expenses, an increase of \$0.6 million in professional fees and an increase of \$0.5 million of bad debt expense.

*Research and development expenses.* Research and development expenses increased \$4.9 million to \$32.5 million for the year ended December 31, 2013 from \$27.6 million for the year ended December 31, 2012, representing a 18% increase. The increase in research and development expenses was principally attributable to an increase of \$5.2 million in personnel costs as a result of increased headcount to support work on new projects and initiatives, offset by an increase of \$1.1 million of personnel costs that were capitalized related to the development of our cloud-based service offerings. Included in the increase in personnel costs is an increase of \$1.2 million of noncash share based compensation. In addition, there was an increase of \$0.7 million of overhead and other expenses.

*Acquisition-related expense.* Acquisition-related expenses were \$2.2 million for the year ended December 31, 2013 consisting primarily of advisory and legal fees related to the acquisition and integration of SignalDemand as well as the planned acquisition and integration of Cameleon.

*Other expense, net:*

| (Dollars in thousands) | For the Year Ended December 31, |                                  |          |                                  |             |            |
|------------------------|---------------------------------|----------------------------------|----------|----------------------------------|-------------|------------|
|                        | 2013                            |                                  | 2012     |                                  | Variance \$ | Variance % |
|                        | Amount                          | As a percentage of total revenue | Amount   | As a percentage of total revenue |             |            |
| Other expense, net     | \$ (265)                        | — %                              | \$ (163) | — %                              | \$ 102      | — %        |

*Other expense, net.* Other expense, net consists of interest expense which includes debt issuance cost amortization on the \$50 million revolving credit facility ("Revolver") we entered into with Wells Fargo in July 2012, foreign currency exchange gains and losses on transactions denominated in currencies other than the functional currency and interest income on our cash and cash equivalents. The increase in the expense was principally attributed to \$0.1 million of interest expense from the Revolver.

*Income tax provision:*

| (Dollars in thousands)         | For the Year Ended December 31, |          |             |            |
|--------------------------------|---------------------------------|----------|-------------|------------|
|                                | 2013                            | 2012     | Variance \$ | Variance % |
| Effective tax rate             | (5)%                            | 38%      | n/a         | (43)%      |
| Income tax (benefit) provision | \$ (173)                        | \$ 3,051 | \$ (3,224)  | (106)%     |

*Income tax (benefit) provision.* Our income tax benefit decreased \$3.2 million to \$0.2 million for the year ended December 31, 2013 from a tax provision of \$3.1 million for the year ended December 31, 2012. Our effective tax rates were (5)% and 38% for the years ended December 31, 2013 and 2012, respectively. The difference between the effective tax rate for the year ended December 31, 2013 compared to the year ended December 31, 2012 is primarily due to the application of the 2013 R&E tax credit, a discrete benefit attributed to the 2012 R&E tax credit recorded in the first quarter of 2013, partially offset by a rate increase attributed to an increase in non-deductible share-based compensation expense and a discrete tax provision amount recorded in the third quarter of 2012 related to a favorable return-to-provision adjustment attributed to higher than expected 2011 R&E tax credits.

**Liquidity and capital resources:**

At December 31, 2014, we had \$161.0 million of unrestricted cash and cash equivalents and \$151.9 million of working capital as compared to \$44.7 million of cash and cash equivalents and \$72.1 million of working capital at December 31, 2013.

Our principal sources of liquidity are our cash and cash equivalents, cash flows generated from operations and potential borrowings under our Revolver. To supplement our overall liquidity position, during the year ended December 31, 2014, we issued the Senior Notes. Our material drivers or variants of operating cash flow are net income, noncash expenses (principally share-based compensation and intangible amortization) and the timing of periodic invoicing and cash collections related to the sale of our software and related services. The primary source of operating cash flows is the collection of accounts receivable from our customers. Our operating cash flows are also impacted by the timing of payments to our vendors and the payments of our other liabilities. We generally pay our vendors and service providers in accordance with the invoice terms and conditions.

We believe our existing cash and cash equivalent balances, including funds provided by the issuance of our Senior Notes, funds available under our Revolver and our current estimates of future operating cash flows, will provide adequate liquidity and capital resources to meet our operational requirements, anticipated capital expenditures and coupon payments for our Senior Notes for the next twelve months. Our future working capital requirements will depend on many factors, including the operations of our existing business, our potential strategic expansion, future acquisitions we might undertake, and expansion into complementary businesses. If such need arises, we may raise additional funds through equity or debt financings.

The following table presents key components of our Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012:

| (Dollars in thousands)                              | For the Year Ended December 31, |           |           |
|---|---------------------------------|-----------|-----------|
|   | 2014                            | 2013      | 2012      |
| Net cash provided by operating activities           | \$ 1,754                        | \$ 16,971 | \$ 24,652 |
| Net cash provided by (used in) investing activities | 7,866                           | (58,766)  | (9,527)   |
| Net cash provided by (used in) financing activities | 106,305                         | 2,925     | (24)      |
| Cash and cash equivalents (beginning of period)     | 44,688                          | 83,558    | 68,457    |
| Cash and cash equivalents (end of period)           | \$ 161,019                      | \$ 44,688 | \$ 83,558 |

***Cash flow analysis:***

Our cash flows from operations were derived principally from: (i) our earnings from on-going operations prior to noncash expenses such as depreciation, amortization of intangibles, amortization of debt discount and issuance cost, impairment charges, changes in deferred tax assets and valuation allowances, changes in the provision for doubtful accounts, excess tax benefit on noncash share based compensation and non-cash share based compensation; and (ii) changes in our working capital.

*Net cash provided by operating activities.* Net cash provided by operating activities for the year ended December 31, 2014 was \$1.8 million, compared to \$17.0 million for the year ended in December 31, 2013. The \$15.2 million decrease was primarily due to a \$41.0 million decrease in net income and the net impact of working capital changes.

*Net cash provided by investing activities.* Net cash provided by investing activities was \$7.9 million for the year ended December 31, 2014 compared to net cash used in investing activities of \$58.8 million for the year ended December 31, 2013. The net cash used in 2013 was primarily related to the acquisitions totaling \$52.5 million. The net cash provided by investing activities for the year ended December 31, 2014, was primarily due to the acquisition of Cameleon, offset by a \$4.1 million increase of property and equipment.

*Net cash provided by financing activities.* Net cash provided by financing activities for the year ended December 31, 2014 was \$106.3 million compared to \$2.9 million for the year ended in December 31, 2013. The increase in net cash provided by financing activities consisted of proceeds from the issuance of our Senior Notes due 2019, net of issuance cost, of \$138.6 million and issuance of warrants of \$17.1 million, offset by the purchase of the convertible notes hedge of \$29.4 million, tax withholding related to the net share settlement of vesting of employee share-based awards of \$13.1 million, purchase of the remaining ownership of Cameleon of \$6.1 million, settlement of contingent consideration related to Cameleon of \$2.2 million, proceeds from stock option exercises of \$1.1 million and proceeds from our employee stock purchase plan of \$0.3 million.

Net cash provided by operating activities for the year ended December 31, 2013 was \$17.0 million, which represents a decrease of \$7.7 million when compared to the same period in 2012. For the year ended December 31, 2013, our cash flows from operations was derived principally from our earnings from on-going operations prior to noncash expenses such as depreciation, excess tax benefits on share-based compensation, tax benefits on share-based compensation, share-based compensation and changes in our working capital. The decrease in net cash provided by operating activities in 2013 as compared to 2012 was principally due to a decrease of \$9.1 million attributed to changes in deferred revenue as a result of a change in the timing of our revenue recognition as compared to the timing of our invoicing, and a decrease of \$1.5 million of net income. These decreases were partially offset by an increase of \$5.6 million of noncash expenses principally as the result of the increase period over period in share-based compensation.

Uses of cash from investing activities for the year ended December 31, 2013 consisted of \$39.4 million of restricted cash related to the planned Cameleon acquisition, \$13.1 million (net of cash acquired) for the acquisition of SignalDemand in December 2013, \$3.4 million of purchases of property and equipment as a result of infrastructure investments and costs related to the renovation and expansion of our facility and \$2.9 million in capitalized internal-use software development costs related to our cloud-based service offerings.

Net cash provided by financing activities for the year ended December 31, 2013 consisted of proceeds from stock option exercises of \$3.3 million and excess tax benefits from stock-based compensation of \$2.9 million, offset by tax withholding related to the net share settlement of vesting of employee share-based awards of \$3.3 million.

Net cash provided by operating activities for the year ended December 31, 2012 was \$24.7 million, which represents an increase of \$10.4 million when compared to the same period in 2011. For the year ended December 31, 2012, our cash flows from operations were derived principally from our earnings from on-going operations prior to noncash expenses such as depreciation, excess tax benefits on share-based compensation, tax benefits on share-based compensation, share-based compensation and changes

in our working capital. The increase in net cash provided by operating activities in 2012 as compared to 2011 was principally due to an increase of \$8.2 million attributed to changes in operating assets and liabilities, which are comprised of accounts receivable, unbilled receivables, prepaid and other assets, accounts payable, accrued liabilities, accrued payroll and other employee benefits and deferred revenue and \$3.6 million of noncash expenses principally as the result of the increase period over period in share-based compensation. These increases were partially offset by a decrease of \$1.4 million of net income. Included in our changes in operating assets and liabilities in 2012 was \$5.1 million of cash provided from a federal tax refund received in the second quarter. Uses of cash from investing activities consisted of \$7.5 million of purchases of property and equipment as a result of infrastructure investments and costs related to the renovation and expansion of our facility and \$2.0 million in capitalized internal-use software development costs related to our cloud-based service offerings.

Uses of cash from investing activities for the year ended December 31, 2012 consisted of \$7.5 million of purchases of property and equipment as a result of infrastructure investments and costs related to the renovation and expansion of our facility and \$2.0 million in capitalized internal-use software development costs related to our cloud-based service offerings.

Net cash provided by financing activities for the year ended December 31, 2012 consisted of proceeds from stock option exercises of \$1.4 million and excess tax benefits from stock-based compensation of \$1.7 million, offset by tax withholding related to the net share settlement of vesting of employee share-based awards of \$2.8 million and debt issuance cost of \$2.8 million related to the credit facility the company entered in 2012.

### *Stock repurchases*

In August 2008, we announced that our Board of Directors authorized a stock repurchase program for the purchase of up to \$15.0 million of our common stock. No shares were repurchased during the years ended December 31, 2014, 2013 and 2012, respectively. At December 31, 2014, \$10.0 million remained available in the stock repurchase program. The repurchase of stock if continued will be funded primarily with existing cash balances. The timing of any repurchases will depend upon various factors including but not limited to market conditions, the market price of our common stock and management's assessment of our liquidity and cash flow needs. For additional information on the stock repurchase program see "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

### **Contractual obligations**

The following table sets forth our contractual obligations as of December 31, 2014:

| (Dollars in thousands)               | Payment due by period |                  |              |              |                   |
|--------------------------------------|-----------------------|------------------|--------------|--------------|-------------------|
|                                      | Total                 | Less than 1 year | 1 to 3 years | 3 to 5 years | more than 5 years |
| Convertible debt, including interest | 158,048               | 2,918            | 5,750        | 149,380      | —                 |
| Operating leases                     | 5,328                 | 2,843            | 2,395        | 90           | —                 |
| Total contractual obligations        | \$ 163,376            | \$ 5,761         | \$ 8,145     | \$ 149,470   | \$ —              |

### *Operating Leases*

In June 2012, we entered into a fourth amendment to our corporate office lease in Houston, TX (the "Lease Amendment"). The Lease Amendment, among other things, provides for an increase in the square footage of our corporate office to 90,389, and provided an option to an additional 7,411 square feet. The term of this lease runs until until September 30, 2016. The lease has two options to extend the total term of the lease for an additional 72 months, and provides for an early termination at any time after July 31, 2013. In addition, we lease approximately 3,100 square feet in London, United Kingdom, and 3,300 square feet in Austin, Texas. These leases expire in August 2022, with an option to terminate in August 2015, and September 2016, respectively. We also lease approximately 6,600 square feet in San Francisco, California, which expires in November 2015. As part of the Cameleon acquisition, we assumed a lease for approximately 14,380 square feet of office space in Toulouse, France, which expires February 24, 2018. As part of the Cameleon acquisition, we also assumed a lease for approximately 9,666 square feet of office space in Skokie, Illinois, which expires February 28, 2018 with an option to extend the term of the lease for an additional 5 years.

### *Credit Facility*

In July 2012, we, through our wholly owned operating subsidiary, PROS, Inc., entered into the \$50 million Revolver with Wells Fargo which matures in July 2017. In connection with the issuance of the Senior Notes, PROS, Inc. amended the Revolver in December 2014 to among, other things, allow for the Company's issuance of the Senior Notes and the associated convertible note hedge and warrant.

Outstanding borrowings under the Revolver bear interest, at the end of the applicable one month, three month or six month interest period, at a rate per annum equal to LIBOR plus an applicable margin of 1.50% to 2.25% or the Federal Funds Rate plus an applicable margin of 1.50% to 2.25%. Borrowings under the Revolver are collateralized by a first priority interest in and lien on all of our material assets.

The Revolver contains affirmative and negative covenants, including covenants which restrict our ability to, among other things, create liens, incur additional indebtedness and engage in certain other transactions, in each case subject to certain exclusions. In addition, the Revolver contains certain financial covenants which become effective in the event our availability under the Revolver plus cash and cash equivalents falls below \$20.0 million or upon the occurrence of an event of default. As of December 31, 2014, we are in compliance with all financial covenants under the Revolver.

Debt interest expense of \$0.2 million, \$0.2 million, and \$0.1 million was incurred during the year ended December 31, 2014, 2013 and 2012, respectively.

There were no outstanding borrowings under the Revolver as of December 31, 2014.

### **Off-balance sheet arrangements**

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

### **New Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The new guidance will be effective for fiscal 2017, including interim periods within that reporting period, using one of two prescribed retrospective methods. No early adoption is permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements and related disclosures.

### **Critical accounting policies and estimates:**

We make estimates and assumptions in the preparation of our Consolidated Financial Statements, and our estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The complexity and judgment of our estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the percentage-of-completion method of accounting could affect the amounts of revenue, expenses, unbilled receivables and deferred revenue. Estimates are also used for, but not limited to, receivables, allowance for doubtful accounts, useful lives of assets, depreciation, income taxes and deferred tax asset valuation, valuation of stock options, other current liabilities and accrued liabilities. Numerous internal and external factors can affect estimates. Our management has reviewed these critical accounting policies, our use of estimates and the related disclosures with our Audit Committee.

We believe the critical accounting policies listed below affect significant judgment and estimates used in the preparation of our Consolidated Financial Statements.

#### ***Revenue recognition***

Our revenue is derived from the licensing and implementation of software solutions, associated software maintenance and support, and professional services. To a lesser extent, our revenue includes nonsoftware related SaaS and cloud-based services. Our arrangements with customers typically include some, but not all, of the following: (a) license fees for the use of our software solutions either in perpetuity or over a specified term, (b) professional service fees for configuration, implementation and training services, (c) maintenance and support fees related to technical support and software updates, and (d) subscription fees for our SaaS and cloud-based services. If there is significant uncertainty about contract completion or collectability is not reasonably assured, revenue is deferred until the uncertainty is sufficiently resolved or collectability is reasonably assured. In addition, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred and fees are considered fixed and determinable.

In determining whether professional services revenue should be accounted for separately from license revenue, we evaluate whether the professional services are considered essential to the functionality of the software using factors such as: the nature of

our software products; whether they are ready for use by the customer upon receipt; the nature of our professional services; the availability of professional services from other vendors; whether the timing of payments for license revenue coincides with performance of services; and whether milestones or acceptance criteria exist that affect the realizability of the software license fee.

License revenue. We derive the majority of our license revenue from the sale of perpetual licenses. For software license arrangements that do not require significant modification or customization of the underlying software, we recognize software license revenues when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) the sale price is fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. Revenues that are not recognized at the time of sale because the foregoing conditions are not met, are recognized when those conditions are subsequently met.

We evaluate the nature and scope of professional services for each arrangement and if we determine that the services revenue should not be accounted for separately from license revenue, the license revenue is recognized together with the services revenue using the percentage-of-completion method or completed contract method. The completed contract method is also used for contracts where there is a risk over final acceptance by the customer or for contracts that are short-term in nature.

We have historically recognized license revenue from the majority of our software sales using the percentage-of-completion method, which has provided visibility into a significant portion of our revenue in the near-term quarters, although the actual timing of recognition of revenue on these types of arrangements will vary based on the nature and requirements of our contracts. However, in 2014 we recognized less software revenue using the percentage-of-completion method than historically. Under the percentage-of-completion method of accounting, our license revenue recognition generally begins when efforts are expended during the implementation. As a result of our revenue recognition policy, revenue from license arrangements is generally recognized over the implementation period, which typically ranges from four to fifteen months.

The percentage-of-completion method is measured by the percentage of man-days expended on an implementation during the reporting period as a percentage of the total man-days estimated to be necessary to complete the software implementation. We measure performance under the percentage-of-completion method using the total man-day method based on current estimates of man-days to complete the software implementation. We believe that for each such software implementation, man-days expended in proportion to total estimated man-days at completion represents the most reliable and meaningful measure for determining a software implementation's progress toward completion. In addition, under our fixed-fee software implementation arrangements, should a loss be anticipated on a contract, the full amount of the loss is recorded when the loss is determinable.

We also license software under term license agreements that typically include maintenance and support during the contractual license term. Our term license agreements typically range from two to five years. Revenue and the associated costs are deferred until the delivery of the licensed solution and recognized ratably over the remaining contractual license term.

Service revenue. We also provide software-related professional services, including implementation and configuration services, consulting and training. Professional services are generally provided under time and materials contracts and revenues are recognized as the services are provided. However, when we enter into arrangements with a fixed-fee, services revenue is recognized based upon a proportionate performance method. When we enter into arrangements where services are considered essential to the functionality of the software, professional services revenue is recognized based upon the percentage of completion method. Under this method, revenue is recognized based upon labor hours incurred as the percentage of total estimated labor hours to complete the project. Revenues for professional services that are bundled with license fees are recognized when the services are performed. We also recognize revenue associated with billable expenses when the expenses are incurred.

Subscription revenue. We also provide SaaS and cloud-based offerings. Our SaaS offerings generally provide customers access to certain of our software within a cloud-based IT environment that we manage and offer to customers on a subscription basis. Revenues for our SaaS offerings are generally recognized ratably over the contract term commencing with the date our service is made available to customers and all other revenue recognition criteria have been satisfied.

Our cloud-based services are designed to be options for customers to deploy PROS software solutions without any significant investment in hardware as PROS software is integrated in cloud-based IT environments that are deployed, supported and managed on our customers' behalf. For arrangements that include cloud-based services, we allocate the arrangement consideration between the cloud-based service and other elements and recognize the cloud services fee ratably beginning on the date the customer commences use of our services and continuing through the end of the contractual cloud services term.

Maintenance and support revenue. We generate maintenance and support revenue from the sale of maintenance and support services on our software solutions. The vast majority of our software license arrangements include software license updates and product support contracts, generally ranging from one to two years. Software license updates provide customers with rights to unspecified software updates and enhancements on a when and if available basis, maintenance releases and patches are released



during the term of the support period. Software license updates and product support contracts are generally priced as a percentage of the software licenses fees. Substantially all of our customers renew their software license updates and product support contracts annually.

Our customer arrangements typically contain multiple elements that include software license, implementation services, and post-implementation maintenance and support. For multiple element arrangements involving our nonsoftware services, we (1) determine whether and when each element has been delivered; (2) determine the fair value of each element using the selling price hierarchy of VSOE of fair value, third party evidence ("TPE"), or best estimated selling price ("BESP"), as applicable, and (3) allocate the total price among the various elements based on the selling price method.

For multiple-element arrangements that include software and nonsoftware elements such as our cloud-based service offerings, we allocate revenue between the software and software-related elements as a group and any nonsoftware elements based on a relative fair value allocation. We determine fair value for each deliverable using this hierarchy and utilize VSOE of fair value if it exists.

In certain instances, we may not be able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to our limited experience selling each element separately, not pricing solutions or services within a narrow range, or only having a limited sales history. In addition, TPE may not be available. When we are unable to establish selling prices using VSOE or TPE, we use BESP in the allocation of arrangement consideration. The objective of BESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. For transactions that only include software and software-related elements, we continue to account for such arrangements under the software revenue recognition standards which require it to establish VSOE of fair value to allocate arrangement consideration among multiple deliverables.

Revenue that has been recognized, but for which we have not invoiced the customer, is recorded as unbilled accounts receivables. Invoices that have been issued before revenue has been recognized is recorded as deferred revenue in the accompanying consolidated balance sheets.

#### ***Allowance for doubtful accounts***

In addition to our initial credit evaluations at the inception of arrangements, we regularly assess our ability to collect outstanding customer invoices. To do so, we make estimates of the collectability of accounts receivable. We provide an allowance for doubtful accounts when we determine that the collection of an outstanding customer receivable is not probable. We also analyze accounts receivable and historical bad debt experience, customer creditworthiness, changes in customer payment history and industry concentration on an aggregate basis when evaluating the adequacy of the allowance for doubtful accounts. If any of these factors change, our estimates may also change, which could affect the level of our future provision for doubtful accounts.

#### ***Noncash share based compensation***

We have two noncash share based compensation plans, the 1999 equity incentive plan and the 2007 equity incentive plan, which authorize the discretionary granting of various types of stock awards to key employees, officers, directors and consultants. Our 1999 equity incentive plan was terminated in March 2007 for purposes of granting any future equity awards. Our 2007 equity incentive plan was adopted in March 2007. We may provide noncash share based compensation through the grant of: (i) restricted stock awards; (ii) restricted stock unit awards ("RSUs"); (iii) stock options; (iv) stock appreciation rights ("SARs"); (v) phantom stock; and (vi) performance awards. In February 2014, we granted inducement awards in an aggregate amount of up to 308,250 shares in accordance with NYSE Rule 303A.08. These inducement awards were in the form of RSUs and Market Stock Units ("MSUs") granted to our recently appointed Chief Operating Officer and RSUs granted to certain new employees in connection with our acquisitions of Cameleon and SignalDemand.

As of December 31, 2014, we have granted stock options, RSUs, SARs and MSUs. RSUs granted include both time-based awards, as well as performance-based awards in which the number of shares that vest are based upon the revenue expected to be earned by us from binding customer agreements for our configure-price-quote ("CPQ") solutions related to the Cameleon acquisition.

Noncash share based compensation expense is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period.

The fair value of the restricted stock units is based on the closing price of our stock on the date of grant. We estimate the fair value of stock options and SARs, using the Black-Scholes option pricing model, which requires us to use significant judgment to make estimates regarding the expected life of the award, volatility of our stock price, the risk-free interest rate and the dividend yield of our stock over the life of the award. The expected life of the award is a historical weighted average of the expected lives of similar securities of comparable public companies. We estimate volatility using our historical volatility. The risk-free interest

rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on our expectation of paying no dividends.

As we issue stock options and SARs, we evaluate the assumptions used to value our stock option awards and SARs. If factors change and we employ different assumptions, noncash share based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned noncash share based compensation expense. Future noncash share based compensation expense and unearned noncash share based compensation will increase to the extent that we grant additional equity awards to employees.

We estimate the number of awards that will be forfeited and recognize expense only for those awards that ultimately are expected to vest. Significant judgment is required in determining the adjustment to noncash share based compensation expense for estimated forfeitures. Noncash share based compensation expense in a period could be impacted, favorably or unfavorably, by differences between forfeiture estimates and actual forfeitures.

The MSUs are performance-based awards that cliff vest based on our shareholder return relative to the total shareholder return of the Russell 2000 Index ("Index") over the three year periods ending December 31, 2015, December 31, 2016, and June 30, 2017 ("Performance Period"), respectively. The MSUs vest on January 1, 2016, January 1, 2017 and July 1, 2017, respectively. The maximum number of shares issuable upon vesting is 200% of the MSUs initially granted based on the average price of our common stock relative to the Index during the Performance Period. We estimate the fair value of MSUs on the date of grant using a Monte Carlo simulation model. The determination of fair value of the MSUs is affected by our stock price and a number of assumptions including the expected volatilities of our stock and the Index, the risk-free interest rate and expected dividends. Our expected volatility at the date of grant was based on the historical volatilities of our stock and the Index over the Performance Period.

We record deferred tax assets for stock-based compensation awards that will result in future deductions on our income tax returns, based on the amount of stock-based compensation recognized at the statutory tax rate in the jurisdiction in which we will receive a tax deduction. Because the deferred tax assets we record are based upon the stock-based compensation expenses in a particular jurisdiction, the aforementioned inputs that affect the fair values of our stock awards may also indirectly affect our income tax expense. In addition, differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on our income tax returns are recorded in additional paid-in capital. If the tax deduction is less than the deferred tax asset, the calculated shortfall reduces our pool of excess tax benefits. If the pool of excess tax benefits is reduced to zero, then subsequent shortfalls would increase our income tax expense.

At December 31, 2014, we had \$45.6 million of total unrecognized compensation costs related to noncash share based compensation arrangements for stock options, SARs, RSUs and MSUs granted. These costs will be recognized over a weighted-average period of 2.4 years.

### **Accounting for income taxes**

We estimate our income taxes based on the various jurisdictions where we conduct business and we use estimates in determining our provision for income taxes. We estimate separately our deferred tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax rules and the potential for future adjustment of our uncertain tax positions by the United States Internal Revenue Service or other taxing jurisdictions. We estimate our current tax liability and assess temporary differences that result from differing treatments of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we show on our balance sheet. At December 31, 2014, our deferred tax assets consisted primarily of temporary differences related to noncash share based compensation, R&E tax credit carryforwards and net operating losses.

We review the realizability of our deferred tax asset on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to our valuation allowances may be necessary. In the fourth quarter of fiscal 2014, we performed an analysis related to the realizability of our worldwide deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, we determined that it was more likely than not that our deferred tax assets would not be realized. Therefore, we recorded a \$19.5 million net valuation allowance as income tax expense in the year ended December 31, 2014.

We account for uncertain income tax positions recognized in our financial statements in accordance with the Income Tax Topic of the Accounting Standards Codification ("ASC"), issued by the FASB. This interpretation requires companies to use a

prescribed model for assessing the financial recognition and measurement of all tax positions taken or expected to be taken in its tax returns. This guidance provides clarification on recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. Please see Note 12 to the Consolidated Financial Statements for more information.

### ***Business combinations***

We record tangible and intangible assets acquired and liabilities assumed in business combinations under the purchase method of accounting. Amounts paid for each acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. We then allocate the purchase price in excess of net tangible assets acquired to identifiable intangible assets based on detailed valuations that use information and assumptions provided by management. We allocate any excess purchase price over the fair value of the net tangible and intangible assets acquired and liabilities assumed to goodwill. If the fair value of the assets acquired exceeds our purchase price, the excess is recognized as a gain.

Significant management judgments and assumptions are required in determining the fair value of acquired assets and liabilities, particularly acquired intangible assets. The valuation of purchased intangible assets is based upon estimates of the future performance and cash flows from the acquired business. Each asset is measured at fair value from the perspective of a market participant.

If different assumptions are used, it could materially impact the purchase price allocation and adversely affect our results of operations, financial condition and cash flows.

### ***Intangible assets, goodwill and long-lived assets***

When we acquire a business, a portion of the purchase consideration is typically allocated to acquired technology and other identifiable intangible assets, such as customer relationships. The excess of the purchase consideration over the net of the acquisition-date fair value of identifiable assets acquired and liabilities assumed is recorded as goodwill. We estimate fair value primarily utilizing the market approach, which calculates fair value based on the market values of comparable companies or comparable transactions. The amounts allocated to acquired technology and other intangible assets represent our estimates of their fair values at the acquisition date. We amortize our intangible assets that have finite lives using either the straight-line method or, if reliably determinable, the pattern in which the economic benefit of the asset is expected to be consumed utilizing expected undiscounted future cash flows. Amortization is recorded over the estimated useful lives ranging from two to eight years.

We review our intangible assets subject to amortization to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. If the carrying value of an asset exceeds its undiscounted cash flows, we will write down the carrying value of the intangible asset to its fair value in the period identified. In assessing recoverability, we must make assumptions regarding estimated future cash flows and discount rates. If these estimates or related assumptions change in the future, we may be required to record impairment charges. If the estimate of an intangible asset's remaining useful life is changed, we will amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

We assess goodwill for impairment as of November 30 of each fiscal year, or more frequently if events or changes in circumstances indicate that the fair value of our reporting unit has been reduced below its carrying value. When conducting our annual goodwill impairment assessment, we use a three step process. The first step is to perform an optional qualitative evaluation as to whether it is more likely than not that the fair value of our reporting unit is less than its carrying value, using an assessment of relevant events and circumstances. In performing this assessment, we are required to make assumptions and judgments including but not limited to an evaluation of macroeconomic conditions as they relate to our business, industry and market trends, as well as the overall future financial performance of our reporting unit and future opportunities in the markets in which it operates. If we determine that it is not more likely than not that the fair value of our reporting unit is less than its carrying value, we are not required to perform any additional tests in assessing goodwill for impairment. However, if we conclude otherwise or elect not to perform the qualitative assessment, we perform a second step for our reporting unit, consisting of a quantitative assessment of goodwill impairment. This quantitative assessment requires us to estimate the fair value of our reporting unit and compare the estimated fair value to its respective carrying value (including goodwill) as of the date of the impairment test. The third step, employed for our reporting unit if it fails the second step, is used to measure the amount of any potential impairment and compares the implied fair value of our reporting unit with the carrying amount of goodwill.

### **Recent accounting pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The new guidance will be effective for fiscal 2017, including interim periods within that reporting period, using one of two prescribed retrospective methods. No early adoption is permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements and related disclosures.

## **Item 7A. *Quantitative and qualitative disclosures about market risk***

### **Foreign Currency Exchange Risk**

Our contracts are predominately denominated in U.S. dollars; however, we have contracts denominated in foreign currencies and therefore a portion of our revenue is subject to foreign currency risks. The primary market risk we face is from foreign currency exchange rate fluctuations. Our cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The effect of an immediate 10% adverse change in exchange rates on foreign denominated receivables as of December 31, 2014, would have resulted in a \$0.4 million loss. We are also exposed to foreign currency risk due to our French subsidiary, Cameleon Software SA. A hypothetical 10% adverse change in the value of the U.S. dollar in relation to the Euro, which is the Company's single most significant foreign currency exposure, would have changed revenue for the year ended December 31, 2014 by approximately \$0.9 million. In addition, as of December 31, 2014, we had operating subsidiaries in Ireland, Canada, the United Kingdom and Germany. Due to the relative low volume of payments made by us through these foreign subsidiaries, we do not believe we have significant exposure to foreign currency exchange risks, however, fluctuations in currency exchange rates could harm our results of operations in the future.

We currently do not use derivative financial instruments to mitigate foreign currency exchange risks. We continue to review this issue and may consider hedging certain foreign exchange risks through the use of currency futures or options in future years.

### **Exposure to Interest Rates**

Our exposure to market risk for changes in interest rates relates to the variable interest rate on borrowings under our Revolver. As of December 31, 2014, we had no borrowings under the Revolver.

As of December 31, 2014, we had \$143.8 million principal amount of Senior Notes outstanding which are fixed rate instruments. Therefore, our results of operations are not subject to fluctuations in interest rates.

## **Item 8. *Financial statements and supplementary data***

The consolidated financial statements required to be filed are indexed on page F-1 and are incorporated herein by reference. See Item 15(a)(1) and (2).

## **Item 9. *Change in and disagreements with accountants on accounting and financial disclosure***

None.

## **Item 9A. *Controls and procedures***

### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation as of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Changes in Internal Control over Financial Reporting**

In 2014, we acquired Cameleon. For purposes of determining the effectiveness of our internal controls over financial reporting, management has excluded Cameleon from its evaluation of these matters. Cameleon represented approximately 4.3% of our consolidated total assets as of December 31, 2014 and approximately 6.4% of our consolidated revenues for the year-ended December 31, 2014.

Other than the change described above, there have been no other changes in our internal control over financial reporting that occurred during most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting is a framework that includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

In 2014, we acquired Cameleon. For purposes of determining the effectiveness of our internal controls over financial reporting, management has excluded Cameleon from its evaluation of these matters. Cameleon represented approximately 4.3% of our consolidated total assets as of December 31, 2014, and approximately 6.4% of our consolidated revenues for the year-ended December 31, 2014.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2014, based on the criteria in Internal Control — Integrated Framework (2013) issued by COSO. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2014 based upon the COSO criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

### **Item 9B. Other information**

None.

### **Part III**

#### **Item 10. *Directors, executive officers and corporate governance***

The information required by this item is incorporated by reference from our proxy statement in connection with our 2015 Annual Meeting of Stockholders, which proxy statement will be filed with the SEC not later than 120 days after the close of our fiscal year ended December 31, 2014.

#### **Item 11. *Executive compensation***

The information required by this item is incorporated by reference from our proxy statement in connection with our 2015 Annual Meeting of Stockholders, which proxy statement will be filed with the SEC not later than 120 days after the close of our fiscal year ended December 31, 2014.

#### **Item 12. *Security ownership of certain beneficial owners and management and related stockholder matters***

The information required by this item is incorporated by reference from our proxy statement in connection with our 2015 Annual Meeting of Stockholders, which proxy statement will be filed with the SEC not later than 120 days after the close of our fiscal year ended December 31, 2014.

#### **Item 13. *Certain relationships, related transactions and director independence***

The information required by this item is incorporated by reference from our proxy statement in connection with our 2015 Annual Meeting of Stockholders, which proxy statement will be filed with the SEC not later than 120 days after the close of our fiscal year ended December 31, 2014.

#### **Item 14. *Principal accountant fees and services***

The information required by this item is incorporated by reference from our proxy statement in connection with our 2015 Annual Meeting of Stockholders, which proxy statement will be filed with the SEC not later than 120 days after the close of our fiscal year ended December 31, 2014.

## Part IV

### **Item 15. Exhibits and financial statements schedules**

#### **(a)(1) Financial Statements**

Reference is made to the Index to Financial Statements in the section entitled "Financial Statements and Supplementary Data" in Part II, Item 8 of this Annual Report on Form 10-K.

#### **(a)(2) Financial Statement Schedules**

Reference is made to Schedule II, Valuation and Qualifying Accounts, as indexed on page F-31.

Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

#### **(a)(3) Exhibits**

Exhibits are as set forth in the section entitled "Exhibit Index" which follows the section entitled "Signatures" in this Annual Report on Form 10-K. Exhibits which are incorporated herein by reference can be inspected and copied at the public reference rooms maintained by the SEC in Washington, D.C., New York, New York, and Chicago, Illinois, and are also available to the public from commercial document retrieval services and at the website maintained by the SEC at <http://www.sec.gov>.



## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 27, 2015.

PROS Holdings Inc.

By: /s/ Andres Reiner

Andres Reiner

*President and Chief Executive Officer*

KNOW BY THESE PRESENT, that each person whose signature appears below constitutes and appoints each of Andres Reiner and Charles H. Murphy, his attorney-in-fact, with the power of substitution, for him in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of the attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirement of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signatures</u>   | <u>Title</u>  | <u>Date</u>       |
|---|---|-------------------|
| <u>/s/ Andres Reiner</u><br>Andres Reiner                     | President, Chief Executive Officer,<br>and Director<br>(Principal Executive Officer)      | February 27, 2015 |
| <u>/s/ Charles H. Murphy</u><br>Charles H. Murphy             | Executive Vice President and Chief<br>Financial Officer<br>(Principal Accounting Officer) | February 27, 2015 |
| <u>/s/ Ronald F. Woestemeyer</u><br>Ronald Woestemeyer        | Executive Vice President, Strategic<br>Business Planning and Director                     | February 27, 2015 |
| <u>/s/ William Russell</u><br>William Russell                 | Chairman of the Board   | February 27, 2015 |
| <u>/s/ Ellen Keszler</u><br>Ellen Keszler                     | Director  | February 27, 2015 |
| <u>/s/ Greg B. Petersen</u><br>Greg B. Petersen               | Director  | February 27, 2015 |
| <u>/s/ Timothy V. Williams</u><br>Timothy V. Williams         | Director  | February 27, 2015 |
| <u>/s/ Mariette M. Woestemeyer</u><br>Mariette M. Woestemeyer | Director  | February 27, 2015 |

**PROS Holdings, Inc.**  
**Index to the Consolidated Financial Statements**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of PROS Holdings, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of PROS Holdings, Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, management has excluded Cameleon from its assessment of internal control over financial reporting as of December 31, 2014 because it was acquired by the Company in a purchase business combination during 2014. We have also excluded Cameleon from our audit of internal control over financial reporting. Cameleon is a wholly-owned subsidiary whose total assets and total revenues represent 4.3% and 6.4%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2014.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
February 27, 2015

**PROS Holdings, Inc.**  
**Consolidated Balance Sheets**  
(In thousands, except share amounts)

|  | December 31, |            |
|--|--------------|------------|
|  | 2014         | 2013       |
| <b>Assets:</b>   |              |            |
| Current assets:  |              |            |
| Cash and cash equivalents  | \$ 161,019   | \$ 44,688  |
| Accounts and unbilled receivables, net of allowance of \$868 and \$1,060, respectively   | 71,095       | 46,566     |
| Prepaid and other current assets   | 8,075        | 6,157      |
| Restricted cash - current  | 100          | 39,718     |
| Total current assets   | 240,289      | 137,129    |
| Restricted cash - noncurrent   | —            | 100        |
| Property and equipment, net  | 15,788       | 15,587     |
| Intangibles, net   | 20,195       | 8,232      |
| Goodwill   | 21,563       | 7,024      |
| Deferred tax assets - noncurrent, net of valuation allowance   | —            | 10,505     |
| Other long-term assets   | 2,290        | 1,251      |
| Total assets   | \$ 300,125   | \$ 179,828 |
| <b>Liabilities and Stockholders' Equity:</b>   |              |            |
| Current liabilities:   |              |            |
| Accounts payable and other liabilities   | \$ 10,564    | \$ 7,839   |
| Accrued liabilities  | 5,355        | 5,210      |
| Accrued payroll and other employee benefits  | 15,154       | 9,679      |
| Deferred revenue   | 57,313       | 42,274     |
| Total current liabilities  | 88,386       | 65,002     |
| Long-term deferred revenue   | 1,121        | 2,977      |
| Convertible debt, net  | 110,448      | —          |
| Other long-term liabilities  | 1,171        | 546        |
| Total liabilities  | 201,126      | 68,525     |
| Commitments and contingencies (Note 15)  |              |            |
| Stockholders' equity:  |              |            |
| Preferred stock, \$0.001 par value, 5,000,000 shares authorized none issued  | —            | —          |
| Common stock, \$0.001 par value, 75,000,000 shares authorized; 33,477,810 and 32,606,228 shares issued, respectively; 29,060,225 and 28,188,643 shares outstanding, respectively | 34           | 33         |
| Additional paid-in capital   | 134,375      | 106,880    |
| Treasury stock, 4,417,585 common shares, at cost   | (13,938)     | (13,938)   |
| Accumulated (deficit) earnings   | (19,223)     | 18,328     |
| Accumulated other comprehensive loss   | (2,249)      | —          |
| Total stockholders' equity   | 98,999       | 111,303    |
| Total liabilities and stockholders' equity   | \$ 300,125   | \$ 179,828 |

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

**PROS Holdings, Inc.**  
**Consolidated Statements of Comprehensive Income**  
(In thousands, except per share data)

|  | For the Year Ended December 31, |                 |                 |
|--|---------------------------------|-----------------|-----------------|
|  | 2014                            | 2013            | 2012            |
| <b>Revenue:</b>  |                                 |                 |                 |
| License  | \$ 58,515                       | \$ 41,116       | \$ 32,968       |
| Services   | 49,225                          | 48,412          | 35,635          |
| Subscription   | 23,468                          | 9,221           | 9,053           |
| Total license, services and subscription                           | <u>131,208</u>                  | <u>98,749</u>   | <u>77,656</u>   |
| Maintenance and support  | 54,621                          | 46,088          | 40,135          |
| Total revenue  | <u>185,829</u>                  | <u>144,837</u>  | <u>117,791</u>  |
| <b>Cost of revenue:</b>  |                                 |                 |                 |
| License  | 243                             | 282             | 244             |
| Services   | 39,955                          | 32,492          | 24,329          |
| Subscription   | 7,334                           | 2,122           | 1,257           |
| Total license, services and subscription                           | <u>47,532</u>                   | <u>34,896</u>   | <u>25,830</u>   |
| Maintenance and support  | 10,554                          | 8,239           | 7,955           |
| Total cost of revenue  | <u>58,086</u>                   | <u>43,135</u>   | <u>33,785</u>   |
| Gross profit   | 127,743                         | 101,702         | 84,006          |
| <b>Operating expenses:</b>   |                                 |                 |                 |
| Selling and marketing  | 62,156                          | 39,478          | 29,987          |
| General and administrative   | 37,761                          | 24,046          | 18,228          |
| Research and development   | 43,174                          | 32,467          | 27,611          |
| Acquisition-related  | 3,019                           | 2,173           | —               |
| Impairment charges   | 4,040                           | —               | —               |
| (Loss) Income from operations                                      | <u>(22,407)</u>                 | <u>3,538</u>    | <u>8,180</u>    |
| Other expense, net   | (2,651)                         | (265)           | (163)           |
| (Loss) Income before income tax provision                          | <u>(25,058)</u>                 | <u>3,273</u>    | <u>8,017</u>    |
| Income tax provision (benefit)                                     | 12,493                          | (173)           | 3,051           |
| Net (loss) income  | <u>(37,551)</u>                 | <u>3,446</u>    | <u>4,966</u>    |
| Net loss attributable to non-controlling interest                  | (907)                           | —               | —               |
| Net (loss) income attributable to PROS Holdings, Inc.              | <u>\$ (36,644)</u>              | <u>\$ 3,446</u> | <u>\$ 4,966</u> |
| Net (loss) earnings per share attributable to PROS Holdings, Inc.: |                                 |                 |                 |
| Basic  | (1.27)                          | 0.12            | 0.18            |
| Diluted  | (1.27)                          | 0.11            | 0.17            |
| Weighted average number of shares:                                 |                                 |                 |                 |
| Basic  | 28,915                          | 28,004          | 27,366          |
| Diluted  | 28,915                          | 30,114          | 28,420          |
| <b>Other comprehensive (loss) income, net of tax:</b>              |                                 |                 |                 |
| Foreign currency translation adjustment                            | (2,249)                         | —               | —               |
| Other comprehensive (loss) income, net of tax                      | <u>(2,249)</u>                  | <u>—</u>        | <u>—</u>        |
| Comprehensive (loss) income  | <u>(39,800)</u>                 | <u>3,446</u>    | <u>4,966</u>    |
| Comprehensive loss attributable to non-controlling interest        | (922)                           | —               | —               |
| Comprehensive (loss) income attributable to PROS Holdings, Inc.    | <u>\$ (38,878)</u>              | <u>\$ 3,446</u> | <u>\$ 4,966</u> |

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

**PROS Holdings, Inc.**  
**Consolidated Statements of Cash Flows**  
(In thousands)

|   | Year Ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2014                    | 2013             | 2012             |
| <b>Operating activities:</b>  |                         |                  |                  |
| Net (loss) income   | \$ (37,551)             | \$ 3,446         | \$ 4,966         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |                  |                  |
| Depreciation and amortization   | 10,443                  | 4,307            | 2,286            |
| Amortization of debt discount and issuance costs                                  | 329                     | —                | —                |
| Share-based compensation  | 22,665                  | 16,272           | 9,645            |
| Excess tax benefits on share-based compensation                                   | —                       | (2,940)          | (1,686)          |
| Tax (shortfall) benefit from share-based compensation                             | (110)                   | 2,931            | 1,573            |
| Deferred income tax, net  | 12,638                  | (2,776)          | 962              |
| Provision for doubtful accounts   | (192)                   | 300              | (326)            |
| Impairment charges  | 4,040                   | —                | —                |
| Changes in operating assets and liabilities:                                      |                         |                  |                  |
| Accounts and unbilled receivables   | (14,026)                | (7,492)          | (4,609)          |
| Prepaid expenses and other assets   | (3,383)                 | 1,204            | 2,215            |
| Accounts payable and other liabilities  | (3,104)                 | 2,885            | (790)            |
| Accrued liabilities   | (1,080)                 | 1,002            | 1,700            |
| Accrued payroll and other employee benefits                                       | 3,289                   | 1,050            | 2,879            |
| Deferred revenue  | 7,796                   | (3,218)          | 5,837            |
| Net cash provided by operating activities   | <u>1,754</u>            | <u>16,971</u>    | <u>24,652</u>    |
| <b>Investing activities:</b>  |                         |                  |                  |
| Purchase of property and equipment  | (7,499)                 | (3,401)          | (7,514)          |
| Acquisition of SignalDemand, net of cash acquired                                 | —                       | (13,102)         | —                |
| Acquisition of Cameleon Software, net of cash acquired                            | (22,048)                | —                | —                |
| Capitalized internal-use software development costs                               | (2,305)                 | (2,874)          | (2,013)          |
| Change in restricted cash   | 39,718                  | (39,389)         | —                |
| Net cash provided by (used in) investing activities                               | <u>7,866</u>            | <u>(58,766)</u>  | <u>(9,527)</u>   |
| <b>Financing activities:</b>  |                         |                  |                  |
| Exercise of stock options   | 1,105                   | 3,327            | 1,354            |
| Excess tax benefits on share-based compensation                                   | —                       | 2,940            | 1,686            |
| Proceeds from employee stock plans  | 335                     | —                | —                |
| Tax withholding related to net share settlement of restricted stock units         | (13,089)                | (3,342)          | (2,814)          |
| Increase in Parent's ownership in Cameleon Software                               | (6,147)                 | —                | —                |
| Payment of contingent consideration for Cameleon Software                         | (2,225)                 | —                | —                |
| Proceeds from issuance of convertible debt, net                                   | 138,631                 | —                | —                |
| Proceeds from issuance of warrants  | 17,106                  | —                | —                |
| Purchase of convertible note hedge  | (29,411)                | —                | —                |
| Debt issuance costs related to Revolver   | —                       | —                | (250)            |
| Net cash provided by (used in) financing activities                               | <u>106,305</u>          | <u>2,925</u>     | <u>(24)</u>      |
| Effect of foreign currency rates on cash  | 406                     | —                | —                |
| Net increase (decrease) in cash and cash equivalents                              | 116,331                 | (38,870)         | 15,101           |
| <b>Cash and cash equivalents:</b>   |                         |                  |                  |
| Beginning of period   | 44,688                  | 83,558           | 68,457           |
| End of period   | <u>\$ 161,019</u>       | <u>\$ 44,688</u> | <u>\$ 83,558</u> |

**PROS Holdings, Inc.**  
**Consolidated Statements of Cash Flows**  
(In thousands)

**Supplemental disclosure of cash flow information:**

Cash (paid) refund during period for:

|          |    |       |    |       |    |       |
|----------|----|-------|----|-------|----|-------|
| Taxes    | \$ | (233) | \$ | (278) | \$ | 4,694 |
| Interest | \$ | (243) | \$ | (87)  | \$ | (68)  |

Noncash investing activities:

|   |    |       |    |       |    |       |
|---|----|-------|----|-------|----|-------|
| Purchase of property and equipment accrued but not paid | \$ | 1,140 | \$ | 2,045 | \$ | 1,425 |
|---|----|-------|----|-------|----|-------|

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

**PROS Holdings, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
(In thousands, except share data)

|  | Common Stock |        | Additional Paid-In Capital | Treasury Stock |             | Accumulated (Deficit) Retained Earnings | Accumulated other comprehensive loss | Total Stockholders' Equity |
|--|--------------|--------|----------------------------|----------------|-------------|---|--------------------------------------|----------------------------|
|  | Shares       | Amount |                            | Shares         | Amount      |   |                                      |                            |
| Balance at December 31, 2011   | 27,014,845   | \$ 31  | \$ 77,934                  | 4,417,585      | \$ (13,938) | \$ 9,916                                | \$ —                                 | \$ 73,943                  |
| Exercise of stock options  | 126,604      | —      | 1,354                      | —              | —           | —                                       | —                                    | 1,354                      |
| Restricted stock units net settlement  | 407,398      | 1      | (2,814)                    | —              | —           | —                                       | —                                    | (2,813)                    |
| Tax benefit from share-based compensation  | —            | —      | 1,574                      | —              | —           | —                                       | —                                    | 1,574                      |
| Noncash share based compensation   | —            | —      | 9,645                      | —              | —           | —                                       | —                                    | 9,645                      |
| Net income   | —            | —      | —                          | —              | —           | 4,966                                   | —                                    | 4,966                      |
| Balance at December 31, 2012   | 27,548,847   | \$ 32  | \$ 87,693                  | 4,417,585      | \$ (13,938) | \$ 14,882                               | \$ —                                 | \$ 88,669                  |
| Exercise of stock options  | 354,973      | 1      | 3,326                      | —              | —           | —                                       | —                                    | 3,327                      |
| Restricted stock units net settlement  | 284,823      | —      | (3,342)                    | —              | —           | —                                       | —                                    | (3,342)                    |
| Tax benefit from share-based compensation  | —            | —      | 2,931                      | —              | —           | —                                       | —                                    | 2,931                      |
| Noncash share based compensation   | —            | —      | 16,272                     | —              | —           | —                                       | —                                    | 16,272                     |
| Net income   | —            | —      | —                          | —              | —           | 3,446                                   | —                                    | 3,446                      |
| Balance at December 31, 2013   | 28,188,643   | \$ 33  | \$ 106,880                 | 4,417,585      | \$ (13,938) | \$ 18,328                               | \$ —                                 | \$ 111,303                 |
| Exercise of stock options  | 214,162      | —      | 1,105                      | —              | —           | —                                       | —                                    | 1,105                      |
| Restricted and market stock net settlement   | 644,028      | 1      | (13,089)                   | —              | —           | —                                       | —                                    | (13,088)                   |
| Tax (shortfall) benefit from share-based compensation  | —            | —      | (110)                      | —              | —           | —                                       | —                                    | (110)                      |
| Proceeds from employee stock plans   | 13,392       | —      | 335                        | —              | —           | —                                       | —                                    | 335                        |
| Proceeds from issuance of warrants   | —            | —      | 17,106                     | —              | —           | —                                       | —                                    | 17,106                     |
| Equity component of the Senior Notes issuance, net   | —            | —      | 28,714                     | —              | —           | —                                       | —                                    | 28,714                     |
| Purchase of convertible bond hedge   | —            | —      | (29,411)                   | —              | —           | —                                       | —                                    | (29,411)                   |
| Noncash share based compensation   | —            | —      | 22,845                     | —              | —           | —                                       | —                                    | 22,845                     |
| Other comprehensive loss   | —            | —      | —                          | —              | —           | —                                       | (2,249)                              | (2,249)                    |
| Net loss   | —            | —      | —                          | —              | —           | (37,551)                                | —                                    | (37,551)                   |
| Net loss attributable to non-controlling interest  | —            | —      | —                          | —              | —           | (907)                                   | —                                    | (907)                      |
| Cumulative earnings previously allocated to non-controlling interest ("NCI") and re-allocated to Parent's equity | —            | —      | —                          | —              | —           | 907                                     | —                                    | 907                        |
| Balance at December 31, 2014   | 29,060,225   | \$ 34  | \$ 134,375                 | 4,417,585      | \$ (13,938) | \$ (19,223)                             | \$ (2,249)                           | \$ 98,999                  |

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



**PROS Holdings, Inc.**  
**Notes to Consolidated Financial Statements**

**1. Organization and Nature of Operations**

PROS Holdings, Inc., a Delaware corporation, through its operating subsidiaries (the "Company"), provides big data software applications that are designed to help companies outperform in their markets by using big data to sell more effectively. The Company applies data science to unlock buying patterns and preferences within transaction data to reveal which opportunities are most likely to close, which offers are most likely to sell and which prices are most likely to win. The Company offers big data software applications to analyze, execute, and optimize sales, pricing, quoting, rebates and revenue management. The Company also provides professional services to implement its software applications as well as business consulting. In addition, the Company provides product maintenance and support to its customers to receive unspecified upgrades, maintenance releases and bug fixes during the term of the support period on a when-and-if-available basis. The Company provides its big data software applications to enterprises across a range of industries, including manufacturing, distribution, services, and travel.

**2. Summary of Significant Accounting Policies**

*Principles of consolidation and basis of presentation*

The Consolidated Financial Statements include the accounts of the Company, and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Consolidated Financial Statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP").

Certain reclassifications of previously recorded amounts have been made to conform to the current period presentation, such reclassifications impacted the classification of components of cost of revenue, but did not have an impact on our results of operations, cash flows, or financial position.

*Dollar amounts*

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

*Use of estimates*

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

*Cash and cash equivalents*

The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase, or have the ability to be settled in cash within a period of three months, to be cash equivalents. The Company has a cash management program that provides for the investment of excess cash balances, primarily in short-term money market instruments.

*Financial instruments*

The carrying amount of the Company's financial instruments, which include cash equivalents, short-term investments, receivables and accounts payable, approximates their fair values at December 31, 2014 and 2013. For additional information on the Company's fair value measurements, see Note 9 to the Consolidated Financial Statements.

*Prepaid expenses and other assets*

Prepaid expenses and other assets consist primarily of short-term deferred tax assets, prepaid income taxes, deferred project costs and prepaid third-party license fees.

### ***Property and equipment, net***

Property and equipment are recorded at cost, less accumulated depreciation. Maintenance, repairs and minor replacements are charged to expense as incurred. Significant renewals and betterments are capitalized. Depreciation on property and equipment, with the exception of leasehold improvements, is recorded using the straight-line method over the estimated useful lives of the assets. Depreciation on leasehold improvements is recorded using the shorter of the lease term or useful life. When property is retired or disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in the Consolidated Statements of Comprehensive Income in the period of disposal.

### ***Internal-use software***

Costs incurred to develop internal-use software during the application development stage are capitalized, stated at cost, and depreciated using the straight-line method over the estimated useful lives of the assets. Application development stage costs generally include salaries and personnel costs and third-party contractor expenses associated with internal-use software development, configuration, coding and testing. Capitalized internal-use software is included in property and equipment, net in the Consolidated Balance Sheets.

### ***Impairment of long-lived assets***

Long-lived assets are reviewed for impairment whenever an event or change in circumstances indicates that the carrying amount of an asset or group of assets may not be recoverable. The impairment review includes comparison of future cash flows expected to be generated by the asset or group of assets with the associated assets' carrying value. If the carrying value of the asset or group of assets exceeds its expected future cash flows (undiscounted and without interest charges), an impairment loss is recognized to the extent that the carrying amount of the asset exceeds its fair value. During the year ended December 31, 2014, the Company recorded a full impairment of \$4.0 million related to capitalized internal-use software associated with the expected future cash flows. The Company did not record any impairment charges in any of the years ended December 31, 2013 and 2012.

### ***Intangible assets and goodwill***

Intangible assets that have finite lives are amortized over their useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During this review, the Company reevaluates the significant assumptions used in determining the original cost and estimated lives of long-lived assets. Although the assumptions may vary from asset to asset, they generally include operating results, changes in the use of the asset, cash flows and other indicators of value. Management then determines whether the remaining useful life continues to be appropriate or whether there has been an impairment of long-lived assets based primarily upon whether expected future undiscounted cash flows are sufficient to support the assets' recovery. If impairment exists, the Company would adjust the carrying value of the asset to fair value, generally determined by a discounted cash flow analysis.

Goodwill represents the excess of the purchase consideration over the net of the acquisition-date fair value of identifiable assets acquired, including identifiable intangible assets, and liabilities assumed in connection with business combinations. Goodwill is not amortized, but is evaluated for impairment annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill is assessed for impairment as of November 30 of each fiscal year, or more frequently if events or changes in circumstances indicate that the fair value of the Company's reporting unit has been reduced below its carrying value. When conducting the annual goodwill impairment assessment, a three step process is used. The first step is to perform an optional qualitative evaluation as to whether it is more likely than not that the fair value of the Company's reporting unit is less than its carrying value, using an assessment of relevant events and circumstances. In performing this assessment, the Company is required to make assumptions and judgments including but not limited to an evaluation of macroeconomic conditions as they relate to the business, industry and market trends, as well as the overall future financial performance of the reporting unit and future opportunities in the markets in which it operates. If it is determined that it is not more likely than not that the fair value of the reporting unit is less than its carrying value, no additional tests are required to be performed in assessing goodwill for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, the Company performs a second step, consisting of a quantitative assessment of goodwill impairment. This quantitative assessment requires us to estimate the fair value of the reporting unit and compare the estimated fair value to its respective carrying value (including goodwill) as of the date of the impairment test. The third step, employed for the reporting unit failing the second step, is used to measure the amount of any potential impairment and compares the implied fair value of the reporting unit with the carrying amount of goodwill. Based on the results of the qualitative review of goodwill performed as of November 30, 2014, the Company did not identify any indicators of impairment. As such, the second and third steps described above were not necessary.

### ***Research and development***

Research and development costs for software sold to customers is expensed as incurred. These costs include salaries and personnel costs, including employee benefits, third-party contractor expenses, software development tools, an allocation of facilities and depreciation expenses and other expenses in developing new solutions and upgrading and enhancing existing solutions.

### ***Treasury stock***

The Company is authorized to make treasury stock purchases in the open market pursuant to the share repurchase program, which was approved by its Board of Directors on August 28, 2008. The Company accounts for the purchase of treasury stock under the cost method. For additional information on the Company's stock repurchase program, see Note 10 to the Consolidated Financial Statements. There were no treasury stock repurchases for the years ended December 31, 2014, 2013 and 2012.

### ***Revenue recognition***

The Company derives its revenue from the licensing and implementation of software solutions and associated software maintenance and support. To a lesser extent, the Company's revenue includes nonsoftware related hosting services. The Company's arrangements with customers typically include: (a) license fees paid for the use of software solutions either in perpetuity or over a specified term and implementation fees for configuration, implementation and training services and (b) maintenance and support fees related to technical support and software updates. If there is significant uncertainty about contract completion or collectability is not reasonably assured, revenue is deferred until the uncertainty is sufficiently resolved or collectability is reasonably assured. In addition, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred and fees are fixed or determinable.

In determining whether professional services revenue should be accounted for separately from license revenue, the Company evaluates whether the professional services are considered essential to the functionality of the software using factors such as: the nature of its software products; whether they are ready for use by the customer upon receipt; the nature of professional services; the availability of services from other vendors; whether the timing of payments for license revenue coincides with performance of services; and whether milestones or acceptance criteria exist that affect the realizability of the software license fee.

If the Company determines that professional services revenue should not be accounted for separately from license revenue, the license revenue is recognized together with the professional services revenue using the percentage-of-completion method or completed contract method. The completed contract method is also used for contracts where there is a risk over final acceptance by the customer or for contracts that are short-term in nature.

The percentage-of-completion method is measured by the percentage of man-days incurred during the reporting period as compared to the estimated total man-days necessary for each contract for implementation of the software solutions. The Company measures performance under the percentage-of-completion method using total man-day method based on current estimates of man-days to complete the project. The Company believes that for each such project, man-days expended in proportion to total estimated man-days at completion represents the most reliable and meaningful measure for determining a project's progress toward completion. Under our fixed-fee arrangements, should a loss be anticipated on a contract, the full amount is recorded when the loss is determinable.

The Company also licenses software solutions under term license agreements that typically include maintenance during the license term. When maintenance is included for the entire term of the license, there is no renewal rate and the Company has not established vendor specific objective evidence ("VSOE") of fair value for the maintenance on term licenses. For term license agreements, revenue and the associated costs are deferred until the delivery of the solution and recognized ratably over the remaining license term. Revenue from term licenses represented approximately 2.9%, 3.6% and 4.8% of total revenue for the years ended December 31, 2014, 2013 and 2012, respectively.

For arrangements that include cloud-based services, the Company allocates the arrangement consideration between the service and other elements and recognize the cloud-based services fee ratably beginning on the date the customer commences use of those services and continues through the end of the service term.

The Company's customer arrangements typically contain multiple elements that include software license, professional services and post-implementation maintenance and support. For multiple element arrangements containing our nonsoftware services, the Company must (1) determine whether and when each element has been delivered; (2) determine fair value of each element using the selling price hierarchy of VSOE of fair value, third party evidence ("TPE"), or BESP, as applicable, and (3) allocate the total price among the various elements based on the relative selling price method.

For multiple-element arrangements that contain software and nonsoftware elements such as the Company's hosting service offerings, the Company allocates revenue between the software and software related elements as a group and any nonsoftware elements based on a relative fair value allocation. The Company determines fair value for each deliverable using this hierarchy and utilize VSOE of fair value if it exists.

In certain instances, the Company may not be able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to infrequently selling each element separately, not pricing solutions or services within a narrow range, or only having a limited sales history. In addition, third party evidence may not be available. When the Company is unable to establish selling prices using VSOE or TPE, it uses BESP in the allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. For transactions that only include software and software-related elements, the Company continues to account for such arrangements under the software revenue recognition standards which require it to establish VSOE of fair value to allocate arrangement consideration to multiple deliverables.

Maintenance and support revenue includes post-implementation customer support and the right to unspecified software updates and enhancements on a when and if available basis. The Company recognizes revenue from maintenance arrangements ratably over the period in which the services are provided.

Revenue that has been recognized, but for which the Company has not invoiced the customer, is recorded as unbilled receivables. Invoices that have been issued before revenue has been recognized are recorded as deferred revenue in the accompanying consolidated balance sheets.

#### *Foreign currency*

The Company has contracts denominated in foreign currencies and therefore a portion of the Company's revenue is subject to foreign currency risks. Gains and losses from foreign currency transactions, such as those resulting from the settlement of receivables, are classified in other expense, net included in the accompanying Consolidated Statements of Comprehensive Income.

The functional currency of Cameleon is its local currency. The financial statements of this subsidiary are translated into U.S. dollars using period-end rates of exchange for assets and liabilities, historical rates of exchange for equity, and average rates of exchange for the period for revenue and expenses. Translation gains (losses) are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity.

#### *Noncash share based compensation*

The Company has two noncash share based compensation plans, the 1999 Equity Incentive Plan ("1999 Stock Plan") and the 2007 Equity Incentive Plan ("2007 Stock Plan"), which authorize the discretionary granting of various types of stock awards to key employees, officers, directors and consultants. The 1999 Stock Plan was terminated in March 2007 for purposes of granting any future equity awards. The 2007 Stock Plan was adopted in March 2007. The Company may provide noncash share based compensation through the grant of: (i) restricted stock awards; (ii) restricted stock unit awards; (iii) stock options; (iv) stock appreciation rights; (v) phantom stock; and (vii) performance awards. Also in February 2014, the Company granted inducement awards in an aggregate amount of up to 308,250 shares in accordance with NYSE Rule 303A.08. These inducement awards were in the form of RSUs and MSUs granted to our recently appointed Chief Operating Officer and RSUs granted to certain new employees in connection with our acquisitions of Cameleon and SignalDemand.

To date, the Company has granted stock options, stock appreciation rights, restricted stock units, time based and performance based, and market stock units. The Company issues common stock from its pool of authorized stock upon exercise of stock options, settlement of stock appreciation rights and market stock units or upon vesting of restricted stock units. The following table presents the number of awards outstanding for each award type as of December 31, 2014 and 2013:

| Award type                                 | Year Ended December 31, |       |
|--|-------------------------|-------|
|  | 2014                    | 2013  |
| Stock options                              | 961                     | 1,160 |
| Restricted stock units (time based)        | 1,830                   | 1,543 |
| Restricted stock units (performance based) | 34                      | —     |
| Stock appreciation rights                  | 673                     | 721   |
| Market stock units                         | 444                     | 469   |

Stock options. The Company did not grant stock options during 2014 and 2013. The fair value of each stock option was estimated on the date of grant using the Black-Scholes option pricing model.

Restricted stock units. The fair value of the restricted stock units ("RSUs") is based on the closing price of the Company's stock on the date of grant and is amortized over the vesting period.

Stock appreciation rights. Stock appreciation rights ("SARs") will be settled in stock at the time of exercise and vest over four years from the date grant. The Company used the Black-Scholes option pricing model to estimate the fair value of its SARs. The determination of the fair value of SARs utilizing the Black-Scholes model is affected by the Company's stock price and a number of assumptions, including expected volatility, expected life, deliver risk-free interest rate and expected dividends. The Company estimates the expected volatility of common stock at the date of grant based on a combination of its historical volatility and the average volatility of comparable companies. The expected life of the SARs noncash share based payment awards is a historical weighted average of the expected lives of similar securities of comparable public companies. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of the Company's awards. The dividend yield assumption is based on our expectation of paying no dividends.

Market stock units. The market stock units ("MSUs") are performance-based awards that vest based upon the Company's relative shareholder return. The actual number of MSUs that will be eligible to vest is based on the total shareholder return of the Company relative to the total shareholder return of the Russell 2000 Index ("Index") over a three year period ending December 31, 2015, December 31, 2016 and June 30, 2017 ("Performance Period"), respectively. The MSUs granted in 2013 vest on January 1, 2016, and the MSUs granted in 2014 vest on January 1, 2017 and July 1, 2017, respectively. The maximum number of shares issuable upon vesting is 200% of the MSUs initially granted based on the average price of our common stock relative to the Index during the Performance Period. The Company estimates the fair value of MSUs on the date of grant using a Monte Carlo simulation model. The determination of fair value of the MSUs is affected by the Company's stock price and a number of assumptions including the expected volatility of the Company's stock and the Index, its risk-free interest rate and expected dividends. The Company's expected volatility at the date of grant was based on the historical volatilities of the Company and the Index over the Performance Period.

As the Company issues stock options and SARs, it evaluates the assumptions used to value our stock option awards and SARs. If factors change and the Company employs different assumptions, noncash share based compensation expense may differ significantly from what has been recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, the Company may be required to accelerate, increase or cancel any remaining unearned noncash share based compensation expense. Future noncash share based compensation expense and unearned noncash share based compensation will increase to the extent that the Company grants additional equity awards to employees.

At December 31, 2014, there were an estimated \$45.6 million of total unrecognized compensation costs related to noncash share based compensation arrangements. These costs will be recognized over a weighted average period of 2.4 years. For further discussion of the Company's noncash share based compensation plans, see Note 11 to the Consolidated Financial Statements.

### ***Product warranties***

The Company generally issues warranties for 90 days following the first use of the software in a production environment, depending on the contract, for software licenses and implementation services. In the Company's experience, warranty costs have been insignificant.

### ***Income taxes***

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

The Company accounts for uncertain income tax positions recognized in an enterprise's financial statements in accordance with the income tax topic of the ASC issued by the FASB. This interpretation requires companies to use a prescribed model for assessing the financial recognition and measurement of all tax positions taken or expected to be taken in its tax returns. This guidance provides clarification on recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. The Company recognized accrued interest and penalties related to income taxes as a component of income tax expense. For additional information regarding the Company's income taxes, see Note 12 to the Consolidated Financial Statements.

### ***Segment reporting***

The Company reports as one operating segment with the Chief Executive Officer ("CEO") acting as the Company's chief operating decision maker. The Company's CEO reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company has a single reporting unit, and there are no segment managers who are held accountable for operations, operating results or components below the consolidated unit level.

### ***Earnings per share***

The Company computes basic earnings (loss) per share by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares and dilutive potential common shares then outstanding. Diluted earnings per share reflect the assumed conversion of all dilutive securities, using the treasury stock method. Dilutive potential common shares consist of shares issuable upon the exercise of stock options, shares of unvested restricted stock units, and settlement of stock appreciation rights. When the Company incurs a net loss, the effect of the Company's outstanding stock options, stock appreciation rights and restricted stock units are not included in the calculation of diluted earnings (loss) per share as the effect would be anti-dilutive. Accordingly, basic and diluted net loss per share are identical.

### ***Recent accounting pronouncements***

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes nearly all existing revenue recognition guidance under GAAP. The new guidance will be effective for fiscal 2017, including interim periods within that reporting period, using one of two prescribed retrospective methods. No early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2014-09 on their consolidated financial statements and related disclosures.

## **3. Business Combination**

### ***Cameleon Software, SA***

In October 2013, the Company entered into a tender offer agreement with Cameleon, indicating the Company's intent to acquire Cameleon through the tender offer for all of the outstanding share capital of Cameleon in an all cash tender offer. In January 2014, the Company announced that the initial tender offer for Cameleon was successful and upon completion of the initial tender offer, the Company controlled 81.7% of Cameleon's common stock and 94.0% of Cameleon's outstanding warrants, inclusive of the commitments from Cameleon's management regarding their Cameleon free shares. As a result of shares purchased by the Company in the market following the completion of the tender, the Company's exercise of Cameleon warrants in July 2014, and the Company's completion of a second tender in November 2014, the Company controlled 100% of Cameleon's common stock as of December 31, 2014. The Company acquired Cameleon for total cash consideration of approximately \$32 million, net of cash acquired.

During the year ended December 31, 2014, the Company incurred acquisition-related costs of \$1.7 million, consisting primarily of the cost for the retention of key employees, and advisory and legal fees.

The Company recorded revenue for Cameleon of approximately \$11.9 million in the consolidated statement of operations from the acquisition date through December 31, 2014.

All of the assets acquired and the liabilities assumed in the transaction have been recognized at their acquisition date fair values at January 8, 2014.

The acquisition initially resulted in \$16.2 million of goodwill. During the year ended December 31, 2014, the fair value of the other tangible assets and liabilities was increased and resulted in a net change in goodwill of \$0.5 million.

The allocation of the purchase price for Cameleon is updated as follows (in thousands):

|  |                  |
|--|------------------|
| Cash and cash equivalents                | \$ 7,086         |
| Accounts receivables                     | 10,395           |
| Prepaid and other assets                 | 1,418            |
| Intangible assets                        | 18,653           |
| Goodwill                                 | 15,717           |
| Accounts payable and accrued liabilities | (12,539)         |
| Deferred revenue                         | (5,392)          |
| Non-controlling interest                 | (6,204)          |
| Net assets acquired                      | <u>\$ 29,134</u> |

The following are the identifiable intangible assets acquired and their respective useful lives (in thousands):

|                           | <b>Amount</b>    | <b>Useful Life</b> |
|---------------------------|------------------|--------------------|
|                           |                  | (years)            |
| Trade Name                | \$ 1,020         | 8                  |
| Customer Relationships    | 1,455            | 2-5                |
| Maintenance Relationships | 3,808            | 8                  |
| Developed Technology      | 11,147           | 7                  |
| Other                     | 1,223            | 2                  |
| Total                     | <u>\$ 18,653</u> |                    |

In performing the purchase price allocation, the Company considered, among other factors, its anticipated future use of the acquired assets, analysis of historical financial performance, and estimates of future cash flows from Cameleon's products and services. The allocation resulted in acquired intangible assets of \$18.7 million. The acquired intangible assets consisted of developed technology, customer and maintenance relationships, trade name and other and were valued using the income approach in which the after-tax cash flows are discounted to present value. The cash flows are based on estimates used to price the transaction, and the discount rates applied were benchmarked with reference to the implied rate of return from the transaction model as well as the weighted average cost of capital. Additionally, the Company assumed certain liabilities in the acquisition, including deferred revenue to which a fair value of \$5.4 million was ascribed using a cost-plus profit approach.

Liabilities assumed include \$2.7 million related to the Company's offer to pay an additional €0.15 per share cash premium to the Cameleon stock and warrant holders tendering their shares and warrants in the initial tender offer if the Company acquired at least 95% of the share capital and voting rights of Cameleon on a fully diluted basis on or before December 31, 2014. The Company recorded this liability at fair value as the Company expected to meet this threshold prior to December 31, 2014. The Company settled the contingent liability related to the share premium in December 2014 for \$2.2 million. In addition, the net assets acquired include contingent consideration of \$1.4 million related to the committed purchase of free shares owned by Cameleon management.

Goodwill of \$15.7 million represents the excess of the purchase price over the fair value of the underlying net tangible and identifiable intangible assets, and represents the expected synergistic benefits of the transaction, the knowledge and experience of Cameleon's workforce in place, and the expectation that the combined company's complementary products will significantly broaden the Company's CPQ solution offering. The Company believes the combined company will benefit from a broader global presence and, with the Company's direct sales force and larger channel coverage, significant cross selling opportunities. None of the goodwill is expected to be currently deductible for tax purposes. In accordance with applicable accounting standards, goodwill will not be amortized but instead will be tested for impairment at least annually, or, more frequently if certain indicators are present. In the event that the management of the combined company determines that the value of goodwill has become impaired, the combined company will incur an accounting charge for the amount of the impairment during the fiscal quarter in which the determination is made.

### ***SignalDemand, Inc.***

In December 2013, the Company acquired SignalDemand, Inc. for total cash consideration of \$13.5 million.

During the year ended December 31, 2014 and 2013, the Company incurred acquisition-related costs of \$1.3 million and \$0.4 million, respectively, consisting primarily of the cost for the retention of key employees, and advisory and legal fees.

The Company recorded revenue for SignalDemand of approximately \$8.7 million and \$0.2 million in the consolidated statement of operations for the year ended December 31, 2014 and 2013, respectively.

All of the assets acquired and the liabilities assumed in the transaction have been recognized at their acquisition date fair values at December 16, 2013.

The acquisition initially resulted in \$7.0 million of goodwill. During the year ended December 31, 2014, the fair value of the other tangible assets and liabilities were adjusted and resulted in a net change of \$0.2 million to goodwill.

The final allocation of the total purchase price for SignalDemand is as follows (in thousands):

|  |           |               |
|--|-----------|---------------|
| Current assets                           | \$        | 881           |
| Deferred tax asset - current             |           | 2,752         |
| Noncurrent assets                        |           | 193           |
| Intangibles                              |           | 8,300         |
| Goodwill                                 |           | 7,175         |
| Deferred tax asset - noncurrent          |           | 2,447         |
| Accounts payable and accrued liabilities |           | (1,560)       |
| Deferred revenue                         |           | (6,688)       |
|  | <u>\$</u> | <u>13,500</u> |

The following are the identifiable intangible assets acquired and their respective useful lives:

|                                 | <u>Amount</u>   | <u>Useful Life</u><br>(years) |
|---------------------------------|-----------------|-------------------------------|
| Developed technology            | \$ 4,600        | 7                             |
| Internally developed technology | 160             | 2                             |
| Customer relationships          | 3,500           | 8                             |
| Trade name                      | 40              | 2                             |
| Total                           | <u>\$ 8,300</u> |                               |

In performing the purchase price allocation, the Company considered, among other factors, its intention for future use of the acquired assets, analyses of historical financial performance, and estimates of future cash flows from SignalDemand's products and services. The allocation resulted in acquired intangible assets of \$8.3 million. The acquired intangible assets consisted of developed technology, customer relationships and trade name and were valued using the income approach in which the after-tax cash flows are discounted to present value. The cash flows are based on estimates used to price the transaction, and the discount rates applied were benchmarked with reference to the implied rate of return from the transaction model as well as the weighted average cost of capital. Additionally, the Company assumed certain liabilities in the acquisition, including deferred revenue to which a fair value of \$6.7 million was ascribed using a cost-plus profit approach.

The Company assumed \$5.2 million of net deferred tax assets at the acquisition date. The deferred tax assets primarily relate to net operating losses and other expenses accrued but not expensed for tax purposes.

The excess of the purchase price over the estimated amounts of net assets as of the effective date of the acquisition was allocated to goodwill. The factors contributing to the recognition of the amount of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the SignalDemand acquisition. These benefits include the expectation that the combined company's complementary products will significantly broaden the Company's offerings in sales optimization solutions. The combined company will benefit from a broader global presence, and with the Company's direct sales force and larger channel coverage, the combined company anticipates significant crossselling opportunities. None of the goodwill is expected to be currently deductible for tax purposes.



The unaudited financial information in the table below summarizes the combined results of operations of the Company, Cameleon and SignalDemand, on a pro forma basis, as though the Company had acquired Cameleon and SignalDemand on January 1, 2013. In addition, the unaudited financial information in the table below includes the effect of SignalDemand as if it had occurred as of January 1, 2012. The pro forma information for all periods presented also includes the effect of business combination accounting resulting from the acquisition, including amortization charges from acquired intangible assets.

| (in thousands)                               | Year Ended December 31, |            |            |
|--|-------------------------|------------|------------|
|  | 2014                    | 2013       | 2012       |
| Total revenue                                | \$ 186,081              | \$ 168,974 | \$ 120,345 |
| Net loss attributable to PROS Holdings, Inc. | (36,776)                | (3,647)    | (3,252)    |
| Earnings per share - basic and diluted       | \$ (1.27)               | \$ (0.13)  | \$ (0.12)  |

#### 4. Non-controlling interest

The following table presents a rollforward of the non-controlling interest from the date of acquisition of Cameleon on January 8, 2014 through December 31, 2014 (in thousands):

|  |    |         |
|--|----|---------|
| Beginning balance as of January 8, 2014  | \$ | 6,204   |
| Change in Parent's ownership in the subsidiary, net of cumulative earnings previously allocated to NCI and re-allocated to Parent's equity |    | (5,282) |
| Net loss allocated to non-controlling interest   |    | (907)   |
| Foreign currency translation adjustment  |    | (15)    |
| Ending balance as of December 31, 2014   | \$ | —       |

#### 5. Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the years ended December 31, 2014 and 2013, was as follows (in thousands):

|  |    |         |
|--|----|---------|
| Balance as of December 31, 2012          | \$ | —       |
| Goodwill acquired                        |    | 7,024   |
| Balance as of December 31, 2013          |    | 7,024   |
| Goodwill acquired                        |    | 15,717  |
| Purchase accounting adjustments          |    | 151     |
| Foreign currency translation adjustments |    | (1,329) |
| Balance as of December 31, 2014          | \$ | 21,563  |

The increase in goodwill for the year ended December 31, 2014 was primarily the result of the acquisition of Cameleon. The goodwill balance related to Cameleon is denominated in local currency.

The increase in goodwill for the year ended December 31, 2013 was a result of the acquisition of SignalDemand.

Intangible assets consisted of the following as of December 31, (in thousands):

|                                 | Weighted<br>average useful<br>life (years) | December 31, 2013        |                             |                        |
|---------------------------------|--|--------------------------|-----------------------------|------------------------|
|                                 |  | Gross Carrying<br>Amount | Accumulated<br>Amortization | Net Carrying<br>Amount |
| Developed technology            | 7  | \$ 4,600                 | \$ 27                       | \$ 4,573               |
| Internally developed technology | 2  | 160                      | 3                           | 157                    |
| Customer relationships          | 8  | 3,500                    | 37                          | 3,463                  |
| Trade name                      | 2  | 40                       | 1                           | 39                     |
| Total                           |  | <u>\$ 8,300</u>          | <u>\$ 68</u>                | <u>\$ 8,232</u>        |

|   | Weighted<br>average useful<br>life (years) | December 31, 2014        |                              |                        |
|---|--|--------------------------|------------------------------|------------------------|
|   |  | Gross Carrying<br>Amount | Accumulated<br>Amortization* | Net Carrying<br>Amount |
| Developed technology                      | 7  | \$ 14,567                | \$ 2,082                     | \$ 12,485              |
| Internally developed technology and other | 2  | 1,254                    | 620                          | 634                    |
| Maintenance Relationship                  | 8  | 3,591                    | 788                          | 2,803                  |
| Customer relationships                    | 7  | 4,853                    | 1,399                        | 3,454                  |
| Trade name                                | 8  | 952                      | 133                          | 819                    |
| Total                                     |  | <u>\$ 25,217</u>         | <u>\$ 5,022</u>              | <u>\$ 20,195</u>       |

\*Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, decreased total intangible assets by approximately \$1.5 million as of December 31, 2014.

Customer relationships are amortized over a period ranging from two to eight years. Trade names are amortized over a period ranging from two to eight years.

Intangible asset amortization expense for the years ended December 31, 2014 and 2013 was \$5.2 million and \$0.1 million, respectively. As of December 31, 2014, the expected future amortization expense for the acquired intangible assets for each of the five succeeding years and thereafter was as follows (in thousands):

| Year Ending December 31,   | Amount           |
|----------------------------|------------------|
| 2015                       | \$ 4,429         |
| 2016                       | 3,254            |
| 2017                       | 3,000            |
| 2018                       | 3,000            |
| 2019                       | 2,873            |
| Thereafter                 | 3,639            |
| Total amortization expense | <u>\$ 20,195</u> |

## 6. Accounts receivable and contracts in progress

Accounts receivable at December 31, 2014 and 2013, consists of the following:

|                                       | December 31,     |                  |
|---------------------------------------|------------------|------------------|
|                                       | 2014             | 2013             |
| Accounts receivable                   | \$ 64,004        | \$ 40,842        |
| Unbilled receivables                  | 7,959            | 6,784            |
| Total receivables                     | 71,963           | 47,626           |
| Less: Allowance for doubtful accounts | (868)            | (1,060)          |
| Accounts receivable, net              | <u>\$ 71,095</u> | <u>\$ 46,566</u> |

The bad debt expense reflected in general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012, totaled approximately \$(0.1) million, \$0.4 million and \$(0.3) million, respectively.

Activity related to contracts in progress at December 31, 2014 and 2013, is summarized as follows:

|   | December 31,       |                    |
|---|--------------------|--------------------|
|   | 2014               | 2013               |
| Costs and estimated earnings recognized to date | \$ 349,874         | \$ 221,905         |
| Progress billings to date                       | (400,349)          | (260,372)          |
| Total   | <u>\$ (50,475)</u> | <u>\$ (38,467)</u> |

The foregoing table reflects the aggregate invoiced amount of all contracts in progress and maintenance as of the respective dates, including amounts that have already been collected.

These amounts are included in the accompanying Consolidated Balance Sheets at December 31, 2014 and 2013, as follows:

|                      | December 31,       |                    |
|----------------------|--------------------|--------------------|
|                      | 2014               | 2013               |
| Unbilled receivables | \$ 7,959           | \$ 6,784           |
| Deferred revenue     | (58,434)           | (45,251)           |
| Total                | <u>\$ (50,475)</u> | <u>\$ (38,467)</u> |

At December 31, 2014 and 2013, the Company had approximately \$20.2 million and \$11.4 million, respectively, in deferred maintenance and support revenue, which is reflected above within deferred revenue and progress billing.

## 7. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share:

|  | For the Year Ended December 31, |               |               |
|--|---------------------------------|---------------|---------------|
|  | 2014                            | 2013          | 2012          |
| Numerator:   |                                 |               |               |
| Net (loss) income attributable to PROS Holdings, Inc.                                  | \$ (36,644)                     | \$ 3,446      | \$ 4,966      |
| Denominator:   |                                 |               |               |
| Weighted average shares (basic)  | 28,915                          | 28,004        | 27,366        |
| Dilutive effect of stock options, restricted stock units and stock appreciation rights | —                               | 2,110         | 1,054         |
| Weighted average shares (diluted)  | <u>28,915</u>                   | <u>30,114</u> | <u>28,420</u> |
| Basic earnings per share   | \$ (1.27)                       | \$ 0.12       | \$ 0.18       |
| Diluted earnings per share   | \$ (1.27)                       | \$ 0.11       | \$ 0.17       |

Approximately 452,000, 14,000 and 416,000 of potential common shares have not been considered in the diluted earnings per calculation for the years ended December 31, 2014, 2013 and 2012, respectively, as the effect would be anti-dilutive.

Since the Company will settle the principal amount of our Senior Notes (see Note 13) in cash, the treasury stock method is used for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of common stock for a given period exceeds the conversion price of \$33.79 per share.

## 8. Property and equipment, net

Property and equipment, net as of December 31, 2014 and 2013 consists of the following:

|   | Estimated useful life                | December 31, |           |
|---|--------------------------------------|--------------|-----------|
|   |                                      | 2014         | 2013      |
| Furniture and fixtures                              | 7-10 years                           | \$ 2,874     | \$ 2,423  |
| Computers and equipment                             | 3-5 years                            | 15,662       | 10,857    |
| Software  | 2-6 years                            | 5,068        | 4,322     |
| Capitalized internal-use software development costs | 3 years                              | 2,639        | 5,064     |
| Leasehold improvements                              | Shorter of lease term or useful life | 5,625        | 4,568     |
| Construction in progress                            |                                      | 5            | 305       |
| Property and equipment, gross                       |                                      | 31,873       | 27,539    |
| Less: Accumulated depreciation and amortization     |                                      | (16,085)     | (11,952)  |
| Property and equipment, net                         |                                      | \$ 15,788    | \$ 15,587 |

Depreciation and amortization was approximately \$5.0 million, \$4.2 million and \$2.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. During the year ended December 31, 2014, the Company had no disposal of fully depreciated assets. During the years ended December 31, 2013 and 2012, the Company disposed of approximately \$1.5 million and \$0.8 million, respectively, of fully depreciated assets. As of December 31, 2014 and 2013, the Company had approximately \$6.7 million and \$3.8 million, respectively, of fully depreciated assets in use.

During the years ended December 31, 2014 and 2013, the Company capitalized internal-use software development costs of approximately \$2.5 million and \$3.1 million, respectively, related to its cloud-based offerings. During the years ended December 31, 2014 and 2013, approximately \$1.6 million and \$1.7 million, respectively, of capitalized internal-use software development cost were subject to amortization. Included in accumulated depreciation and amortization is approximately \$0.2 million and \$0.5 million, respectively, of amortization related to capitalized internal-use software development costs.

During the year ended December 31, 2014, the Company recorded \$4.0 million of impairment charges related to internally developed software. The impairment resulted from a reduction of projected cash flows for product groups based on revisions to the Company's projections during the year and was recorded to reduce the carrying value to fair value. This reduction reflected changes to the Company's plans for certain product groups in connection with the integration of acquisitions and changes in future product launches and support. No impairment was recorded for the years ended December 31, 2013 and 2012, respectively.

## 9. Fair value measurements

The Company adopted fair value measurements guidance for financial and nonfinancial assets and liabilities. The guidance defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements.

The guidance defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. The guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

A portion of the Company's existing cash and cash equivalents are invested in short-term interest bearing obligations with original maturities less than 90 days, principally various types of money market funds. In addition, the Company had short-term investments consisting of certificates of deposit. The Company does not enter into investments for trading or speculative purposes.

At December 31, 2014 and 2013, the Company had approximately \$135.3 million and \$21.0 million invested in treasury money market funds, respectively. These investments are required to be measured at fair value on a recurring basis. The fair value of these accounts is determined based on quoted market prices, which represents level 1 in the fair value hierarchy. The Company's

diversified money market funds, treasury money market funds and short-term investments have a fair value that is not materially different from its carrying amount. The fair value of the Company's Senior Notes is classified in the Level 2 hierarchy.

## 10. Stockholders' equity

### *Stock repurchase*

On August 25, 2008, the Company's Board of Directors approved a stock repurchase program that authorized the Company to purchase up to \$15.0 million of the Company's outstanding shares of 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.

The Company did not repurchase any shares under this plan for the years ended December 31, 2014 and 2013. The remaining amount available to purchase common stock under this plan was \$10.0 million as of December 31, 2014.

## 11. Noncash share based compensation

### *Employee noncash share based compensation plans:*

The Company has two noncash share based compensation plans; the 1999 Stock Plan and the 2007 Stock Plan. These plans authorize the discretionary granting of various types of stock awards to key employees, officers, directors and consultants. The discretionary issuance of stock awards generally contains vesting provisions ranging from one to four years.

*1999 Stock Plan.* Under the 1999 Stock Plan, the Company is authorized to grant options to purchase shares of common stock to its employees, directors and consultants at the Company's discretion. The Company's 1999 Stock Plan was terminated in March 2007 for purposes of granting any future equity awards. There were issued and outstanding stock options to purchase 33,325 shares of the Company's common stock under the 1999 Stock Plan as of December 31, 2014.

*2007 Stock Plan.* The Company's 2007 Stock Plan was adopted in March 2007. The purpose of the 2007 Stock Plan is to promote the Company's long-term growth and profitability. The 2007 plan is intended to make available incentives that will help the Company to attract, retain and reward employees whose contributions are essential to its success. Under the 2007 Stock Plan, the Company's employees, officers, directors and other individuals providing services to the Company or any of its affiliates are eligible to receive awards. The 2007 Stock Plan has an evergreen provision that allows for an annual increase equal to the lesser of (i) 3.5% of the Company's outstanding shares (ii) 900,000 shares or (iii) any lesser amount determined by the Compensation Committee of the Board of Directors. The Company may provide these incentives through the grant of: (i) restricted stock awards; (ii) restricted stock unit awards; (iii) stock options; (iv) stock appreciation rights; (v) phantom stock; and (vii) performance awards.

In February 2014, the Company increased the number of shares available to grant by 900,000 under the evergreen provision in the Company's 2007 Stock Plan, increasing the number shares reserved for issuance to 8,168,000. As of December 31, 2014, the Company had outstanding equity awards to acquire 3,634,758 shares of its common stock held by the Company's employees, directors and consultants under the 2007 Stock Plan. Included in the outstanding equity awards are 961,377 of stock options, 1,631,041 RSUs, 673,068 SARs and 369,272 MSUs held by the Company's employees, directors and consultants. As of December 31, 2014, 867,109 shares remain available for grant under the 2007 Stock Plan. As of December 31, 2014, there were no restricted stock awards or phantom stock issued under the 2007 Stock Plan.

In February 2014, the Company granted inducement awards in an aggregate amount of up to 308,250 shares in accordance with NYSE Rule 303A.08. These inducement awards were in the form of RSUs and MSUs granted to our recently appointed Chief Operating Officer and RSUs granted to certain new employees in connection with our acquisitions of Cameleon and SignalDemand. As of December 31, 2014, the Company had outstanding equity inducement awards to acquire 308,250 shares of its common stock held by the Company's employees and officers. Included in the outstanding equity awards are 233,250 RSUs (time and performance based) and 75,000 MSUs.

Noncash share based compensation expense for all noncash share based payment awards granted is determined based on the grant-date fair value of the award. The Company recognizes compensation expense, net of estimated forfeitures, which represents noncash share based awards expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term. Noncash share based awards typically vest over four years. Stock options are generally granted for a ten-year term. The Company estimates forfeiture rates based on its historical experience for grant years where the majority

of the vesting terms have been satisfied. Changes in estimated forfeiture rates are recognized through a cumulative catch-up adjustment in the period of change and thus impact the amount of noncash share based compensation expense to be recognized in future periods.

Noncash share based compensation expense is allocated to expense categories on the Consolidated Statements of Comprehensive Income. The following table summarizes noncash share based compensation expense, net of amounts capitalized, for the years ended December 31, 2014, 2013 and 2012.

|  | For the Year Ended December 31, |                  |                 |
|--|---------------------------------|------------------|-----------------|
|  | 2014                            | 2013             | 2012            |
| Share-based compensation:              |                                 |                  |                 |
| Cost of revenue                        | \$ 3,469                        | \$ 2,071         | \$ 1,451        |
| Operating expenses:                    |                                 |                  |                 |
| Selling and marketing                  | 5,142                           | 3,834            | 2,335           |
| General and administrative             | 9,375                           | 7,055            | 3,938           |
| Research and development               | 4,679                           | 3,139            | 1,921           |
| Total included in operating expenses   | <u>19,196</u>                   | <u>14,028</u>    | <u>8,194</u>    |
| Total share-based compensation expense | <u>\$ 22,665</u>                | <u>\$ 16,099</u> | <u>\$ 9,645</u> |

At December 31, 2014, there was an estimated \$45.6 million of total unrecognized compensation costs related to noncash share based compensation arrangements. These costs will be recognized over a weighted average period of 2.4 years.

**Stock Options:**

The following table summarizes the Company's stock option activity for the year ended December 31, 2014:

|   | Number of<br>shares<br>under option | Weighted<br>average<br>exercise price | Weighted<br>average<br>remaining<br>contractual<br>term (year) | Aggregate<br>intrinsic<br>value (1) |
|---|-------------------------------------|---------------------------------------|--|-------------------------------------|
| Outstanding, December 31, 2013              | 1,160                               | \$ 11.12                              |  |                                     |
| Granted                                     | —                                   | —                                     |  |                                     |
| Exercised                                   | (196)                               | 7.37                                  |  |                                     |
| Forfeited                                   | —                                   | —                                     |  |                                     |
| Expired                                     | (3)                                 | 14.93                                 |  |                                     |
| Outstanding, December 31, 2014              | <u>961</u>                          | \$ 11.87                              | 2.80   | \$ 15,006                           |
| Vested and exercisable at December 31, 2014 | <u>961</u>                          | \$ 11.87                              | 2.80   | \$ 15,006                           |

(1) The aggregate intrinsic value was calculated based on the positive difference between the estimated fair value of the Company's common stock on December 31, 2014 of \$27.48 and the grant date fair value.

For the years ended December 31, 2014 and 2013, respectively, the Company did not grant any stock options. The total intrinsic value of stock options exercised for the years ended December 31, 2014, 2013 and 2012 was \$4.5 million, \$5.2 million and \$0.6 million, respectively.

**RSUs:**

The Company has granted RSUs under the 2007 Stock Plan and as part of the February 2014 inducement awards grant. RSUs include both time-based awards as well as performance-based awards in which the number of shares that vest are based upon the revenue expected to be earned by the Company from binding customer agreements for the provision of CPQ solutions. Generally, the time-based RSUs granted to employees, directors and consultants vest in equal annual installments over a one to four year period from the grant date. At December 31, 2014 there were 1,864,291 shares related to RSUs outstanding and unvested.

The following table summarizes the Company's unvested RSUs as of December 31, 2014, and changes during the year then ended, is as follows:

|                                       | Number of shares | Weighted average grant date fair value | Weighted average remaining contractual term (year) | Aggregate intrinsic value (1) |
|---------------------------------------|------------------|--|--|-------------------------------|
| Unvested at December 31, 2013         | 1,543            | \$ 18.25                               |  |                               |
| Granted                               | 1,028            | 33.46                                  |  |                               |
| Vested                                | (582)            | 17.42                                  |  |                               |
| Forfeited                             | (125)            | 25.28                                  |  |                               |
| Unvested at December 31, 2014         | 1,864            | \$ 26.67                               | 4.65   | \$ 51,231                     |
| Expected to vest at December 31, 2014 | 1,822            | \$ 26.60                               | 4.64   | \$ 50,067                     |

(1) The aggregate intrinsic value was calculated based on the fair value of the Company's common stock on December 31, 2014 of \$27.48.

The weighted average grant-date fair value of the RSUs granted during the years ended December 31, 2014, 2013 and 2012 was \$33.46, \$20.08 and \$18.65, respectively.

### **SARs:**

The Company has granted SARs under the 2007 Stock Plan. The SARs will be settled in stock at the time of exercise and vest four years from the date of grant subject to the recipient's continued employment with the Company. The number of shares issued upon the exercise of the SARs is calculated as the difference between the share price of the Company's stock on the date of exercise and the date of grant multiplied by the number of SARs divided by the share price on the exercise date.

The following table summarizes the Company's SARs activity for the year ended December 31, 2014:

|  | Stock appreciation rights | Weighted average exercise price | Weighted average remaining contractual term (year) | Aggregate intrinsic value (1) |
|--|---------------------------|---------------------------------|--|-------------------------------|
| Outstanding, December 31, 2013                   | 721                       | \$ 10.74                        |  |                               |
| Granted  | —                         | —                               |  |                               |
| Exercised  | (48)                      | 10.59                           |  |                               |
| Forfeited  | —                         | —                               |  |                               |
| Expired  | —                         | —                               |  |                               |
| Outstanding, December 31, 2014                   | 673                       | \$ 10.75                        | 5.82   | \$ 11,260                     |
| Exercisable at December 31, 2014                 | 662                       | \$ 10.74                        | 5.81   | \$ 11,083                     |
| Vested and expected to vest at December 31, 2014 | 673                       | \$ 10.75                        | 5.82   | \$ 11,260                     |

(1) The aggregate intrinsic value was calculated based on the positive difference between the estimated fair value of the Company's common stock on December 31, 2014 of \$27.48 and the exercise price of the underlying SARs.

The Company did not grant SARs in 2014, 2013 and 2012.

### **MSUs:**

In 2014, 2013 and 2012, the Company granted MSUs to certain executives and senior level employees under the 2007 Stock Plan as part of the 2014 inducement awards grant. The MSUs are performance-based awards that vest based upon the Company's relative shareholder return. The actual number of MSUs that will be eligible to vest is based on the total shareholder return of the Company relative to the total shareholder return of the Index over a two or three year period ending December 31, 2013, December 31, 2015, December 31, 2016 and June 30, 2017 ("Performance Period"), respectively. The MSUs granted in 2012 vested on January 1, 2014, the MSUs granted in 2013 vest on January 1, 2016, and the MSUs granted in 2014 vest on January 1, 2017 and July 1, 2017. The MSUs maximum number of shares issuable upon vesting is 200% of the MSUs initially granted.

|                               | Number of<br>unvested awards | Weighted<br>average<br>grant date fair<br>value | Weighted<br>average<br>remaining<br>contractual<br>term (year) | Aggregate<br>intrinsic<br>value (1) |
|-------------------------------|------------------------------|---|--|-------------------------------------|
| Unvested at December 31, 2013 | 469                          | 34.24   |  |                                     |
| Granted                       | 198                          | \$ 48.54  |  |                                     |
| Exercised                     | (205)                        | 26.08   |  |                                     |
| Forfeited                     | (18)                         | 43.07   |  |                                     |
| Expired                       | —                            | —   |  |                                     |
| Unvested at December 31, 2014 | 444                          | \$ 44.03  | 6.30   | \$ 12,209                           |

(1) The aggregate intrinsic value was calculated based on the positive difference between the estimated fair value of the Company's common stock on December 31, 2014 of \$27.48 and the grant date fair value of the underlying MSUs.

The Company estimates the fair value of MSUs on the date of grant using a Monte Carlo simulation model. The determination of fair value of the MSUs is affected by the Company's stock price and a number of assumptions including the expected volatilities of the Company's stock and the Index, its risk-free interest rate and expected dividends. The Company's expected volatility at the date of grant was based on the historical volatilities of the Company and the Index over the Performance Period. The Company did not estimate a forfeiture rate for the MSUs due to the limited size, the vesting period and nature of the grantee population and the lack of history of granting this type of award.

Significant assumptions used in the Monte Carlo simulation model for MSUs granted during December 31, 2014, 2013 and 2012 are as follows:

|                               | For the Year Ended December 31, |       |       |
|-------------------------------|---------------------------------|-------|-------|
|                               | 2014                            | 2013  | 2012  |
| Volatility                    | 50.86%                          | 57%   | 61%   |
| Risk-free interest rate       | 0.68%                           | 0.35% | 0.28% |
| Expected option life in years | 2.88                            | 2.84  | 1.9   |
| Dividend yield                | —                               | —     | —     |

The assumptions related to fiscal year 2014 are presented on weighted average basis for the various awards granted throughout the period.

***Employee stock purchase plan:***

In June 2013, the Board of Directors authorized an Employee Stock Purchase Plan ("ESPP") which provides for eligible employees to purchase shares on an after-tax basis in an amount between 1% and 10% of their annual pay: (i) on June 30 of each year at a 5% discount of the fair market value of our common stock on January 1 or June 30, whichever is lower, and (ii) on December 31 of each year at a 5% discount of the fair market value of our common stock on July 1 or December 31, whichever is lower. An employee may not purchase more than \$5,000 in either of the six-month measurement periods described above or more than \$10,000 annually. During the year ended December 31, 2014, the Company issued 13,392 shares under the ESPP. As of December 31, 2014, 486,608 shares remain authorized and available for issuance under the ESPP. As of December 31, 2014, the Company held approximately \$0.4 million on behalf of employees for future purchases under the ESPP and this amount was recorded in accrued liabilities in the Company's consolidated balance sheet.

**12. Income taxes**

The income tax provision (benefit) consisted of the following for the years ended December 31, 2014, 2013 and 2012:



|                                | Year Ended December 31, |                 |                 |
|--------------------------------|-------------------------|-----------------|-----------------|
|                                | 2014                    | 2013            | 2012            |
| Current:                       |                         |                 |                 |
| Federal                        | \$ (935)                | \$ 2,444        | \$ 2,015        |
| State and Foreign              | 790                     | 160             | 74              |
|                                | <u>(145)</u>            | <u>2,604</u>    | <u>2,089</u>    |
| Deferred:                      |                         |                 |                 |
| Federal                        | 12,334                  | (2,651)         | 1,030           |
| State                          | 304                     | (126)           | (68)            |
| Income tax provision (benefit) | <u>\$ 12,493</u>        | <u>\$ (173)</u> | <u>\$ 3,051</u> |

The differences between the effective tax rates reflected in the total provision for income taxes and the U.S. federal statutory rate of 34% for the years ended December 31, 2014, 2013 and 2012, respectively, were as follows:

|  | Year Ended December 31, |                 |                 |
|--|-------------------------|-----------------|-----------------|
|  | 2014                    | 2013            | 2012            |
| Provision at the U.S. federal statutory rate                   | \$ (8,520)              | \$ 1,113        | \$ 2,726        |
| Increase (decrease) resulting from:                            |                         |                 |                 |
| State income taxes, net of federal taxes                       | 49                      | (583)           | (84)            |
| Nondeductible expenses   | 653                     | 235             | 214             |
| Acquisition-related expense                                    | 434                     | 606             | —               |
| Purchase accounting - Statutory to GAAP income adjustment      | 990                     | —               | —               |
| Foreign Tax Expense  | 837                     | 135             | 111             |
| Domestic production activities                                 | —                       | (47)            | (146)           |
| Nondeductible noncash share based compensation                 | 1,784                   | 1,308           | 622             |
| Incremental benefits from prior years' tax credits             | 59                      | (1,254)         | (439)           |
| Incremental benefits for tax credits                           | (3,259)                 | (2,165)         | (111)           |
| Change in tax rate/income subject to lower tax rates and other | (40)                    | (30)            | 158             |
| Change in valuation allowance                                  | 19,506                  | 509             | —               |
|  | <u>\$ 12,493</u>        | <u>\$ (173)</u> | <u>\$ 3,051</u> |

The Company's historical effective tax rate has been lower than the statutory rate of 34% largely due to the application of the R&E tax credit. The Company's effective tax rate was a provision of 50%, a benefit of 5% and a provision of 38% for the years ended December 31, 2014, 2013 and 2012, respectively. During the year ended December 31, 2014 the Company's effective tax rate was impacted by a valuation allowance, nondeductible officer's compensation and other nondeductible expenses, partially offset by the R&E credit.

As of December 31, 2014 and 2013, the Company had an income tax receivable of approximately \$1.4 million and \$0.6 million, respectively, which is classified as prepaid and other current assets in the accompanying Consolidated Balance Sheet. As of December 31, 2014 and 2013, the Company had approximately \$0.8 million and \$0.1 million of foreign tax credits ("FTC") arising from foreign taxes paid.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2014 and 2013 are as follows:

|  | Year Ended December 31, |                  |
|--|-------------------------|------------------|
|  | 2014                    | 2013             |
| Current deferred tax assets:                     |                         |                  |
| State deferred                                   | \$ 185                  | \$ (7)           |
| Accruals not currently deductible                | 178                     | (191)            |
| Current deferred revenue                         | 1,664                   | 2,601            |
| Total current deferred tax assets                | <u>2,027</u>            | <u>2,403</u>     |
| Less: valuation allowance                        | (1,953)                 | (270)            |
| Total current deferred tax assets                | <u>74</u>               | <u>2,133</u>     |
| Noncurrent deferred tax (liability) assets:      |                         |                  |
| Property and equipment                           | (2,186)                 | (1,786)          |
| Noncash share based compensation                 | 9,095                   | 7,808            |
| State deferred                                   | 217                     | 292              |
| Capitalized software                             | (897)                   | (1,541)          |
| Amortization                                     | (2,193)                 | (2,366)          |
| R&E tax credit carryforwards                     | 4,316                   | 2,708            |
| Deferred revenue                                 | 56                      | 431              |
| Federal Net Operating Losses ("NOLs")            | 5,733                   | 4,724            |
| State NOLs                                       | 537                     | 813              |
| State Credits                                    | 1,240                   | 509              |
| Foreign NOLs                                     | 10,111                  | —                |
| Foreign tax credit carryforward                  | 837                     | —                |
| Other  | (21)                    | —                |
| Total noncurrent deferred tax assets             | <u>26,845</u>           | <u>11,592</u>    |
| Less: valuation allowance                        | (26,919)                | (1,087)          |
| Total noncurrent deferred tax (liability) assets | <u>(74)</u>             | <u>10,505</u>    |
| Total net deferred tax assets                    | <u>\$ —</u>             | <u>\$ 12,638</u> |

The current net deferred tax assets and noncurrent net deferred tax liability are classified as prepaids and other current assets, other long-term assets and other noncurrent liabilities, respectively, in the accompanying Consolidated Balance Sheets.

The Company has federal and state net operating loss carryforwards pursuant to the acquisition of SignalDemand, Cameleon, and current year losses. Internal Revenue Code Section 382 ("Section 382") places certain limitations on the annual amount of U.S. net operating loss carryforwards that can be utilized when a change of ownership occurs. The Company believes the 2013 acquisition of SignalDemand and the 2014 acquisition of Cameleon were changes in ownership pursuant to Section 382. According to French law the net operating loss carryforwards of Cameleon are not subject to ownership change limitations.

Taking into account the 382 annual limitation and current year losses, the federal and foreign net operating loss and R&E tax credit carryforward amount available to be used in future periods is approximately \$68.4 million and \$5.6 million, respectively. The Company's net operating losses will begin to expire in 2029, R&D credits will begin to expire in 2033, and foreign tax credits will begin to expire in 2024. Also included in net operating losses are \$33.8 million of carryforwards attributable to Cameleon which have no expiration.

The Company's \$16.4 million deferred tax asset related to NOL carryforwards is net of \$7.2 million of unrealized excess tax benefits related to stock-based compensation. The impact of the excess tax benefit will be recognized in additional paid-in capital upon utilization of the Company's NOL and tax credits carryforward.

As of December 31, 2014, the Company determined it was more likely than not that it will be unable to fully utilize the majority of its U.S. and state deferred tax assets. As a result, the Company has recorded a valuation allowance against those assets

to the extent that they cannot be realized through net operating loss carrybacks to prior years. This conclusion was reached in the fourth quarter of 2014 as a result of the convertible debt transaction. Because of the impact of interest charges associated with the convertible debt on the Company's financial projections, the Company did not believe it would have sufficient income to support the utilization of its U.S. deferred tax assets of \$16.2 million. The majority of the remaining valuation allowance was attributable to the Cameleon acquisition. Valuation allowances were established for Cameleon upon acquisition primarily due to historical losses. This valuation allowance will be evaluated periodically and will be reversed partially or in whole if business results and the economic environment have sufficiently improved to support realization of some or all of the Company's deferred tax assets.

Undistributed earnings of the Company's foreign subsidiaries are considered permanently reinvested and, accordingly, no provision for U.S. federal or state income taxes has been provided thereon. The cumulative amount of undistributed earnings of the Company's non-U.S. subsidiaries was approximately \$0.3 million for the year ended December 31, 2014.

The determination of the deferred tax liability, which requires complex analysis of international tax situations related to repatriation, is not practical at this time. The Company is presently investing in international operations located in Europe and North America. The Company is funding the working capital needs of its foreign operations through its U.S. operations. In the future, the Company will utilize its foreign undistributed earnings, as well as continued funding from its U.S. operations, to support its continued foreign investment.

For the years ended December 31, 2014, 2013 and 2012, the Company had \$0.4 million, \$0.3 million and \$0.3 million, respectively, of net unrecognized tax benefits which, if recognized, would impact our effective tax rate. The Company has accrued \$56,000, \$3,000 and \$3,000 for the payment of interest and penalties as of December 31, 2014, 2013 and 2012, respectively. The Company believes that it is reasonably possible that there will be no change in our unrecognized tax benefits within the next twelve months. The Company is currently under examination for the 2009 U.S. federal income tax return, of which an unrecognized tax benefit has been recorded. The Company files tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. The Company is subject to U.S. federal income tax examination for the calendar tax years 2011, 2012 and 2013 and state and foreign income tax examination for various years depending on the statutes of limitation of those jurisdictions.

The following table sets forth the changes to the Company's unrecognized tax benefit for the year ended December 31, 2014, 2013 and 2012:

|  | Year Ended December 31, |               |               |
|--|-------------------------|---------------|---------------|
|  | 2014                    | 2013          | 2012          |
| Beginning Balance                                    | \$ 349                  | \$ 349        | \$ 349        |
| Changes based on tax positions related to prior year | 46                      | —             | —             |
| Ending Balance                                       | <u>\$ 395</u>           | <u>\$ 349</u> | <u>\$ 349</u> |

The table above has been updated to reflect gross tax liability, exclusive of interest and penalties and other offsetting amounts.

### 13. Convertible Senior Notes

#### *2.0% Convertible Senior Notes Due December 1, 2019*

In December 2014, the Company issued \$143.8 million aggregate principal amount of 2.0% convertible Senior Notes (the "Senior Notes") due December 1, 2019, unless earlier purchased by the Company or converted. Interest is payable semiannually in arrears on June 1 and December 1 of each year, commencing on June 1, 2015.

The Senior Notes are governed by an Indenture between the Company, as issuer, and Wilmington Trust, National Association, as trustee. The Senior Notes are the Company's general unsecured obligations and will rank senior in right of payment to all of the Company's indebtedness that is expressly subordinated in right of payment to the Senior Notes, will rank equally in right of payment with all of Company's existing and future liabilities that are not so subordinated, will be effectively junior to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness and will be structurally subordinated to all indebtedness and other liabilities (including trade payables but excluding intercompany obligations owed to the Company or its subsidiaries).

Upon conversion of the Senior Notes, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election.

The initial conversion rate for the Senior Notes will be 29.5972 shares of common stock per \$1,000 in principal amount of Senior Notes, equivalent to a conversion price of approximately \$33.79 per share of common stock. Throughout the term of the Senior Notes, the conversion rate may be adjusted upon the occurrence of certain events. Holders of the Senior Notes will not receive any cash payment representing accrued and unpaid interest upon conversion. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than canceled, extinguished or forfeited. Holders may convert their Senior Notes at their option at any time prior to the close of business on the business day immediately preceding September 1, 2019 only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2015, if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five consecutive business day period immediately following any five consecutive trading day period in which the trading price per \$1,000 principal amount of Senior Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or
- upon the occurrence of specified corporate events.

On or after September 1, 2019 to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Senior Notes regardless of the above. Upon conversion, the Company will pay or deliver cash, shares of its common stock or a combination of cash and shares of its common stock, at its election, as described in the indenture.

As of December 31, 2014, the Senior Notes are not yet convertible.

In accounting for the issuance of the Senior Notes, the Company separated the Senior Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Senior Notes as a whole. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the Senior Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the Senior Notes issuance, the Company allocated the total amount incurred to the liability and equity components based on their relative values. Issuance costs attributable to the liability component, totaling \$4.3 million, are being amortized to expense over the term of the Senior Notes, and issuance costs attributable to the equity component, totaling \$1.2 million, were netted with the equity component in stockholders' equity. Additionally, the Company recorded a nominal deferred tax asset on a portion of the equity component transaction costs which are deductible for tax purposes.

The Senior Notes consist of the following (in thousands):

|  | <b>As of December 31, 2014</b> |
|--|--------------------------------|
| Liability component:                     |                                |
| Principal                                | \$ 143,750                     |
| Less: debt discount, net of amortization | (33,302)                       |
| Net carrying amount                      | <u>\$ 110,448</u>              |
| Equity component (1)                     | <u>\$ 28,714</u>               |

(1) Recorded in the consolidated balance sheet within additional paid-in capital, net of \$1.2 million issuance cost in equity.

The following table sets forth total interest expense recognized related to the Senior Notes (in thousands):

|                                     | <b>Year Ended December 31, 2014</b> |
|-------------------------------------|-------------------------------------|
| 2.0% coupon                         | \$ 162                              |
| Amortization of debt issuance costs | 46                                  |
| Amortization of debt discount       | 283                                 |
| Total                               | <u>\$ 491</u>                       |

As of December 31, 2014, the fair value of the Senior Notes was \$114.7 million. The fair value was determined based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, including our stock price, interest rates and carrying value of the debt instrument (carrying value excludes the equity component of the Company's convertible notes classified in equity).

#### *Note Hedge*

To minimize the impact of potential economic dilution upon conversion of the Senior Notes, the Company entered into convertible note hedge transactions with respect to its common stock (the "Note Hedge"). In December 2014, the Company paid an aggregate amount of \$29.4 million for the Note Hedge. The Note Hedge will expire upon maturity of the Senior Notes. The Note Hedge is intended to offset the potential dilution upon conversion of the Senior Notes and/or offset any cash payments the Company is required to make in excess of the principal amount upon conversion of the Senior Notes in the event that the market value per share of the Company's common stock, as measured under the Senior Notes, is greater than the strike price of the Note Hedge, which initially corresponds to the conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Senior Notes.

#### *Warrant*

Separately, in December 2014, the Company entered into warrant transactions (the "Warrant"), whereby the Company sold warrants to acquire shares of the Company's common stock at a strike price of \$45.48 per share. The Company received aggregate proceeds of \$17.1 million from the sale of the Warrant. If the average market value per share of the Company's common stock for the reporting period, as measured under the Warrant, exceeds the strike price of the Warrant, the Warrant will have a dilutive effect on the Company's earnings per share. The Warrant is a separate transaction, entered into by the Company and is not part of the Senior Notes or the Note Hedge, and has been accounted for as part of additional paid-in capital. Holders of the Senior Notes and Note Hedge will not have any rights with respect to the Warrant.

### **14. Credit Facility**

In July 2012, the Company, through its wholly owned subsidiary PROS, Inc., entered into a \$50 million secured Credit Agreement (the "Revolver") with Wells Fargo Bank, N.A. ("Wells Fargo"). In connection with the issuance of the Senior Notes, PROS, Inc. amended the Revolver in December 2014 to, among other things, allow for the Company's issuance of the Senior Notes, Note Hedge and Warrant.

The Revolver is for a five year term, with interest paid at the end of the applicable one month, three month or six month interest period at a rate per annum equal to LIBOR plus an applicable margin of 1.5% to 2.25% or the Federal Funds Rate plus an applicable margin of 1.5% to 2.25%. Borrowings under the Revolver are collateralized by a first priority interest in and lien on all of the Company's material assets.

The Revolver contains affirmative and negative covenants, including covenants which restrict the ability of the Company to, among other things, create liens, incur additional indebtedness and engage in certain other transactions, in each case subject to certain exclusions. In addition, the Revolver contains certain financial covenants which become effective in the event the Company's availability under the revolver plus cash and cash equivalents falls below \$20 million or upon the occurrence of an event of default. As of December 31, 2014, the Company was in compliance with all financial covenants in the Revolver.

As of December 31, 2014 and 2013, \$0.1 million and \$0.2 million of unamortized debt issuance costs related to the Revolver is included in other long-term assets in the consolidated balance sheets. For both years ended December 31, 2014 and 2013, \$0.1 million of debt issuance cost amortization is included in Other Expense, net in the consolidated statements of comprehensive income.

As of December 31, 2014, the Company had no outstanding borrowings under the Revolver.

## 15. Commitments and contingencies

### *Litigation:*

In the ordinary course of the Company's business, the Company regularly becomes involved in contract and other negotiations and, in more limited circumstances, becomes involved in legal proceedings, claims and litigation. The outcomes of these matters are inherently unpredictable. The Company is not currently involved in any outstanding litigation that it believes, individually or in the aggregate, will have a material adverse effect on its business, financial condition, results of operations or cash flows.

### *Indemnification:*

The Company's software agreements generally include certain provisions for indemnifying customers against liabilities if the Company's software solutions infringe a third party's intellectual property rights. To date, the Company has not incurred any losses as a result of such indemnifications and has not accrued any liabilities related to such obligations in the Company's Consolidated Financial Statements.

### *Lease commitments:*

The Company leases office space and office equipment under noncancelable operating leases that expire at various dates. The Company incurred approximately \$3.3 million, \$2.1 million and \$2.0 million of total rent expense for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, the future minimum lease commitments related to lease agreements were as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u>   |
|---------------------------------|-----------------|
| 2015                            | \$ 2,843        |
| 2016                            | 1,822           |
| 2017                            | 573             |
| 2018                            | 90              |
| 2019 and thereafter             | —               |
| Total minimum lease payments    | <u>\$ 5,328</u> |

The Company's headquarters are located in Houston, Texas, where it leases approximately 98,000 square feet of office space. The Company also has small regional office in London, England; Paris, France; Toulouse, France; Munich, Germany; San Francisco, California; Skokie, Illinois; and Austin, Texas. In July 2011, the Company entered into a third amendment to its corporate office lease in Houston, TX (the "Third Lease Amendment"). The Third Lease Amendment, among other things, provides for a five year extension, until September 30, 2016, and an increase in the square footage. The Third Lease Amendment has two options to extend the term of the lease for an additional 72 months. Also, the Third Lease Amendment provides for an early termination at any time after July 31, 2013. In June 2012, the Company entered into a fourth amendment to its corporate office lease in Houston, TX which increased the square footage of the corporate offices to approximately 90,000 square feet, and provided an option to an additional 7,411 square feet.

In August 2012, the Company entered into a ten year lease for approximately 3,100 square feet of office space in London, United Kingdom. The lease provides an option to terminate the lease in August 2015.

In June 2011, the Company entered into a five year lease for approximately 3,300 square feet of office space in Austin, Texas. This lease expires in September 2016.

As part of the SignalDemand acquisition, the Company assumed a lease for approximately 6,600 square feet of office in San Francisco, California. This lease expires in November 2015.

As part of the Cameleon acquisition, the Company assumed a lease for approximately 14,380 square feet of office space in Toulouse, France, which expires February 24, 2018. As part of the Cameleon acquisition, the Company also assumed a lease for approximately 9,666 square feet of office space in Skokie, Illinois, which expires February 28, 2018 with an option to extend the term of the lease for an additional 5 years.

The Company believes its existing facilities are sufficient for its current needs. The Company may add new facilities and expand its existing facilities as it adds employees, and it believes that suitable additional or substitute space will be available as needed to accommodate any such expansion of its operations.

The Company had no capital leases at December 31, 2014 and 2013.

## 16. Segment and geographic information

Operating segments are the components of an enterprise about which separate financial information is available that is evaluated on a regular basis by the chief operating decision-maker (CODM) in deciding how to allocate resources to an individual segment and in assessing performance of the segment. The Company's CODM is its Chief Executive Officer (CEO), who reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company sells its pricing and revenue management software to customers in multiple industries and geographies, but has no segment managers who are held accountable for operations, operating results or components below the consolidated unit level. The company does not allocate costs at a level that would give segment managers the ability to meaningfully evaluate financial performance below the level presented to the CODM. Therefore, the Company believes that it operates in one segment and has a single reporting unit.

### *Revenue by Geography*

The Company presents financial information on a consolidated basis and does not assess the profitability of its geographic regions. Accordingly the Company does not attempt to comprehensively assign or allocate costs to these regions and does not produce reports for, or measure the performance of, its geographic regions based on any asset-based metrics.

International revenue for the years ended December 31, 2014, 2013 and 2012, amounted to approximately \$103.7 million, \$79.8 million and \$66.2 million, respectively, representing 56%, 55% and 56%, respectively, of annual revenue.

The following geographic information is presented for the years ended December 31, 2014, 2013 and 2012. The Company categorizes geographic revenues based on the location of the customer's headquarters.

|                          | Year Ended December 31, |         |                   |         |                   |         |
|--------------------------|-------------------------|---------|-------------------|---------|-------------------|---------|
|                          | 2014                    |         | 2013              |         | 2012              |         |
|                          | Revenue                 | Percent | Revenue           | Percent | Revenue           | Percent |
| The Americas:            |                         |         |                   |         |                   |         |
| United States of America | \$ 82,086               | 44%     | \$ 65,072         | 45%     | \$ 51,631         | 44%     |
| Other                    | 15,365                  | 8%      | 12,222            | 8%      | 5,457             | 5%      |
| Subtotal                 | <u>97,451</u>           | 52%     | <u>77,294</u>     | 54%     | <u>57,088</u>     | 49%     |
| Europe                   | 45,987                  | 25%     | 33,666            | 23%     | 31,545            | 27%     |
| Asia Pacific             | 34,170                  | 18%     | 22,411            | 15%     | 15,356            | 13%     |
| The Middle East          | 6,239                   | 3%      | 9,840             | 7%      | 10,914            | 9%      |
| Africa                   | 1,982                   | 1%      | 1,626             | 1%      | 2,888             | 2%      |
| Total revenue            | <u>\$ 185,829</u>       | 100%    | <u>\$ 144,837</u> | 100%    | <u>\$ 117,791</u> | 100%    |

## 17. Concentrations of credit risk

For the years ended December 31, 2014, 2013 and 2012, no customer accounted for 10% or more of revenue. For the year ended December 31, 2014, one customer accounted for 10.7% of accounts receivables, net and unbilled.

The Company's cash and cash equivalents and short-term investments on deposit with any one party and at any point in time may exceed federally insured limits. To date, the Company has not incurred any losses in connection with short-term investments.

## 18. Related-party transactions

The Company currently has employment agreements with its executive officers. The employment agreements provide for six months to one and one half years of salary upon termination without cause or, in some cases, for good reason and the vesting of certain stock options or other equity awards.

## 19. Employee retirement savings plan

The Company sponsors a 401(k) savings plan ("401(k) Plan"). The 401(k) Plan is available to substantially all United States employees and is designed to provide eligible employees with an opportunity to make regular contributions to a long-term investment and savings program. Historically, the Company's matching contribution is defined as 50% of the first 6% of employee contributions. The Company may also make discretionary contributions. Matching contributions by the Company in 2014, 2013 and 2012 totaled approximately \$1.4 million, \$1.1 million and \$1.0 million, respectively.

## 20. Quarterly results (Unaudited)

The following table presents certain unaudited quarterly financial data for the years ended December 31, 2014 and 2013. This information has been prepared on the same basis as the accompanying Consolidated Financial Statements and all necessary adjustments have been included in the amounts below to state fairly the selected quarterly information when read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto.

|   | Quarter Ended        |                       |                  |                   |
|---|----------------------|-----------------------|------------------|-------------------|
|   | December 31,<br>2014 | September 30,<br>2014 | June 30,<br>2014 | March 31,<br>2014 |
| Total revenue   | \$ 53,829            | \$ 46,719             | \$ 44,368        | \$ 40,913         |
| Gross profit  | \$ 39,319            | \$ 32,442             | \$ 29,615        | \$ 26,367         |
| Loss from operations                                    | \$ (2,316)           | \$ (3,720)            | \$ (7,871)       | \$ (8,500)        |
| Net loss attributable to PROS Holdings, Inc.            | \$ (17,459)          | \$ (3,734)            | \$ (6,996)       | \$ (8,455)        |
| Net loss attributable to common stockholders per share: |                      |                       |                  |                   |
| Basic   | \$ (0.60)            | \$ (0.13)             | \$ (0.24)        | \$ (0.29)         |
| Diluted   | \$ (0.60)            | \$ (0.13)             | \$ (0.24)        | \$ (0.29)         |

|   | Quarter Ended        |                       |                  |                   |
|---|----------------------|-----------------------|------------------|-------------------|
|   | December 31,<br>2013 | September 30,<br>2013 | June 30,<br>2013 | March 31,<br>2013 |
| Total revenue   | \$ 38,871            | \$ 36,813             | \$ 35,527        | \$ 33,626         |
| Gross profit  | \$ 28,101            | \$ 25,787             | \$ 24,741        | \$ 23,073         |
| Income from operations                                      | \$ 409               | \$ 1,395              | \$ 780           | \$ 689            |
| Net income attributable to PROS Holdings, Inc.              | \$ 139               | \$ 993                | \$ 580           | \$ 1,734          |
| Net earnings attributable to common stockholders per share: |                      |                       |                  |                   |
| Basic   | \$ —                 | \$ 0.04               | \$ 0.02          | \$ 0.06           |
| Diluted   | \$ —                 | \$ 0.03               | \$ 0.02          | \$ 0.06           |

In connection with the preparation of the Company's financial statements for the year ended December 31, 2014, the Company revised the classification of the amortization expense of developed technology arising from the acquisitions of Cameleon and Signal Demand. The amortization expense was previously recorded within research and development expenses as a component of operating expenses and was reclassified as a component of cost of revenue. Accordingly, the Consolidated Statements of Comprehensive Income were adjusted for the periods ended March 31, 2014, June 30, 2014, and September 30, 2014 to increase cost of revenue and reduce gross profit by \$0.5 million, \$0.6 million and \$0.6 million, respectively. Research and development expenses were reduced by the same adjustments resulting in no change to reported net income attributable to PROS Holdings, Inc. or basic or diluted net earnings attributable to common stockholders per share.

These revisions were not deemed material, individually or in aggregate, to the Consolidated Statements of Comprehensive Income for the corresponding prior periods. These revisions do not impact the Company's previously reported Consolidated Balance Sheets or Statements of Cash Flows.



**Schedule II**  
**Valuation and Qualifying Accounts**

|  | Balance at<br>beginning<br>of period | Additions<br>charged to<br>costs and<br>expenses | Deductions (1) | Other (2) | Balance at<br>end of<br>period |
|--|--------------------------------------|--|----------------|-----------|--------------------------------|
| <b>Allowance for doubtful accounts</b> |                                      |  |                |           |                                |
| 2014                                   | \$ 1,060                             | \$ 8   | \$ (200)       | \$ —      | \$ 868                         |
| 2013                                   | \$ 760                               | \$ 369   | \$ (69)        | \$ —      | \$ 1,060                       |
| 2012                                   | \$ 1,130                             | \$ —   | \$ (370)       | \$ —      | \$ 760                         |
| <b>Valuation allowance</b>             |                                      |  |                |           |                                |
| 2014                                   | \$ 1,357                             | \$ 19,506  | \$ —           | \$ 8,009  | \$ 28,872                      |
| 2013                                   | \$ —                                 | \$ 509   | \$ —           | \$ 848    | \$ 1,357                       |
| 2012                                   | \$ —                                 | \$ —   | \$ —           | \$ —      | \$ —                           |

(1) Deductions column represents the reversal of additions previously charged to costs and expenses and uncollectible accounts written off, net of recoveries.

(2) Additions represent valuation allowance adjustments recorded as part of the purchase accounting allocation related to the SignalDemand and Cameleon acquisitions.



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## EXECUTIVE OFFICERS

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**Andres D. Reiner**

*President, Chief Executive Officer and Director*

**Stefan B. Schulz**

*Executive Vice President and Chief Financial Officer*

**D. Blair Crump**

*Chief Operating Officer*

**Ronald F. Woestemeyer**

*Executive Vice President and Director*

For additional listing of PROS senior management, please visit: <http://www.PROS.com/company/>

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## BOARD OF DIRECTORS

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**William Russell** <sup>(2)(3)</sup>

*Non-Executive Chairman*

**Andres D. Reiner**

*President, Chief Executive Officer and Director*

**Ellen Keszler** <sup>(1)(3)</sup>

*Director*

**Greg B. Petersen** <sup>(1)(2)(3)</sup>

*Director*

**Timothy V. Williams** <sup>(1)(2)(3)</sup>

*Director*

**Mariette M. Woestemeyer**

*Director*

**Ronald F. Woestemeyer**

*Executive Vice President and Director*

**Leslie Rechan**

*Director Nominee*

(1) Member Audit Committee; (2) Member Compensation Committee; (3) Member Nominating and Corporate Governance Committee



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## STOCKHOLDER INFORMATION

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### Corporate Offices

#### **PROS Holdings, Inc.**

3100 Main Street, Suite 900  
Houston, TX 77002  
713.335.5151  
[www.PROS.com](http://www.PROS.com)

### Annual Meeting

Our 2015 annual stockholders meeting will be held at 8:00 a.m. Central Daylight Time on Thursday, May 21, 2015 at our corporate offices in Houston, Texas. Only stockholders of record at the close of business on April 2, 2015 will be entitled to vote at the annual meeting.

### Common Stock Listing

Our Common Stock is traded on the New York Stock Exchange under the symbol "PRO".

### Independent Registered Public Accounting Firm

#### **Pricewaterhouse Coopers, LLP**

488 Almaden Boulevard, Suite 1800  
San Jose, CA 95110  
T: (408) 817 3700  
[www.pwc.com](http://www.pwc.com)

### Transfer Agent and Registrar

Shareholders with inquiries regarding address corrections, lost certificates or changes in registered ownership should contact our stock transfer agent:

#### **Computershare**

P.O. BOX 30170  
College Station, TX 77842-3170  
[www.computershare.com/investor](http://www.computershare.com/investor)

### Contacts

#### ***Investor Relations***

713.335.5151  
[IR@PROS.com](mailto:IR@PROS.com)

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