

PROS[®]

2016
Annual Report





Letter from CEO

Dear Shareholders, Customers, Partners and Employees:

2016 was a breakthrough year for PROS. Less than two years ago, we embarked on our cloud transformation to help more companies outperform with modern commerce solutions that are easy to buy, implement and expand. Today, we are operating as a cloud company.

In 2016, every new company added was a cloud customer. We doubled the number of product releases from the previous year, helped customers get to value faster, and leveraged our adaptive cloud platform to deliver rich, real-time machine learning solutions to customers across the globe. These are just a few examples of strong execution that helped us deliver 31% year-over-year growth in subscription revenue and 24% year-over-year growth in Annual Recurring Revenue (ARR), while outperforming on expenses and free cash flow.

I am proud of our PROS team for our performance in 2016. Our people are what make PROS special. Our people are owners and innovators who care deeply about our customers, the community and each other. Our passionate, smart and caring people enable us to achieve our mission of helping companies outperform.

We enter 2017 energized and motivated to continue delivering value to customers and shareholders. We are confident that we have the right team, the right strategy, and the right solutions to capitalize on our market opportunity as more companies turn to machine learning solutions to power modern commerce.

I would like to extend my sincerest thanks to our customers for the trust they place in us, and to our shareholders, partners and employees for joining us on our transformational journey.

A handwritten signature in blue ink, appearing to read 'Andres', with a stylized flourish above it.

Andres



NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS

DATE **Thursday, May 18, 2017**

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

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

AGENDA

- 1 Elect three (3) Class I directors named in the Proxy Statement to the Board of Directors each to serve a three-year term until our Annual Meeting to be held in the year 2020;
- 2 Approval of our 2017 Equity Incentive Plan (including, without limitation, certain material terms of the 2017 Plan for purposes of Section 162(m) of the Internal Revenue Code, as amended);
- 3 Advisory vote on named executive officer compensation;
- 4 Ratification of appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2017; and
- 5 Transaction of other business that may properly come before the Annual Meeting.

RECORD DATE

Only stockholders of record at the close of business on March 28, 2017 will be entitled to receive notice of, and to vote at 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, 2016 (2016 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 2016 Annual Report and a form of proxy card or voting instruction card.

PROXY VOTING

Please vote your shares promptly to ensure the presence of a quorum at the meeting. Voting your shares now via the Internet, by telephone, or by signing, dating, and returning the accompanying proxy card or voting instruction form will save the expenses and extra work of additional solicitation. If you wish to vote by mail, we have enclosed an addressed envelope, postage prepaid if mailed in the United States. Submitting your proxy now will not prevent you from voting your shares at the meeting, as your proxy is revocable at your option.

By Order of the Board of Directors,

/s/ Damian Olthoff

Damian Olthoff

General Counsel and Secretary

Houston, Texas
April 7, 2017



PROS
PROS Holdings, Inc.
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PROXY SUMMARY

Your Vote is Important

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. This summary does not contain all of the information that you should consider, and you should review our Annual Report on Form 10-K and this entire Proxy Statement carefully before voting.

Meeting Agenda and Vote Recommendation

Proposal	Page #	Vote Required	Abstentions	Uninstructed Shares	Board Vote Recommendation
Elect three directors	20	Plurality	Not Voted	Not Voted	For each director nominee
Approve our 2017 Equity Incentive Plan	21	Majority	Voted Against	Not Voted	For
Advisory vote on NEO compensation	48	Majority	Voted Against	Not Voted	For
Ratification of appointment of PricewaterhouseCoopers LLP for 2017	56	Majority	Voted Against	Not Voted	For

In light of the expiration of the Company's existing 2007 Equity Incentive Plan this year, our stockholders are being asked to approve a new 2017 Equity Incentive Plan. This plan provides up to 2.5 million shares for equity awards, including awards that are intended to satisfy the requirements of Section 162(m) of the Internal Revenue Code, and terminates in 2022. This plan does not contain the evergreen feature of the 2007 Equity Incentive Plan, and also requires a minimum initial vesting period of one year.

Business Highlights

2016 was a breakthrough year for PROS in our journey to transform to a cloud company. We accelerated awareness and adoption of our data science-driven solutions, expanded our global reach and scale, and made great progress toward our long-term profitability goals. The following highlights some of our accomplishments in 2016:

- Made significant progress in delivering on our cloud transformation, including,
 - Subscription revenue increased 32%, to \$38.2 million for 2016, with all net new companies added purchasing cloud solutions;
 - Expanded our global data center footprint from four to eleven; and
 - Doubled the number of product updates in 2016 vs. 2015.
- Drove substantial growth, including, ending 2016 with \$122.2 million of annual recurring revenue (ARR),¹ representing 24% year-over-year growth, and achieved annual contract value (ACV) bookings² of \$29.7 million, a 38% increase over 2015.
- Prudently managed expenses and free cash flow³; and
- Strengthened our leadership position in the market with numerous awards around innovation and customer success.

¹ARR is currently one of our key performance metrics to assess the health and trajectory of our overall cloud business. ARR should be viewed independently of revenue, deferred revenue and any other GAAP measure as ARR is a performance metric and is not intended to be combined with any of these items. ARR is defined as the annualized contracted recurring revenue from subscription and maintenance contracts. Contracted revenue from perpetual license, term license and service agreements is not included in ARR.

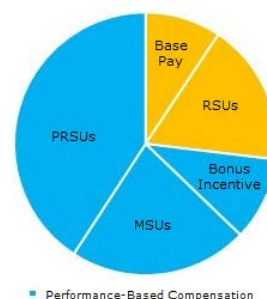
²ACV bookings are comprised of the estimated annual value of the total contract value of business closed during the fiscal year, including license, maintenance, subscription, and services, but excluding committed maintenance beyond one year. ACV bookings are comprised of annual maintenance and subscriptions, one seventh of the license TCV, and excludes services and subscription renewals.

³Free cash flow is a non-GAAP financial measure which is defined as net cash provided by operating activities, less additions to property, plant and equipment, purchases of other (non-acquisition-related) intangible assets and capitalized internal-use software development costs.

Compensation Highlights

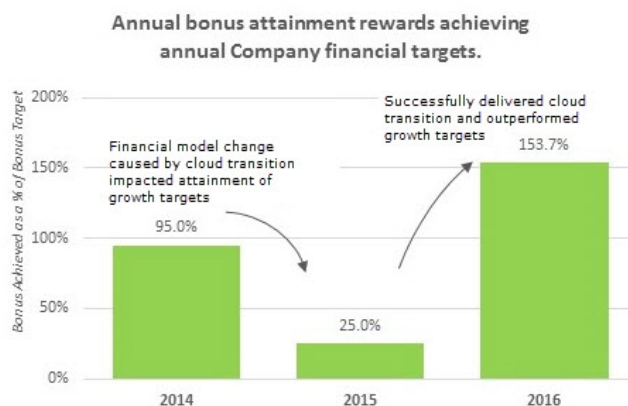
The compensation package for our named executive officers is designed to motivate them to successfully implement our cloud strategy, execute our corresponding financial plan, and create sustainable long-term value for shareholders. For example, in 2016, Mr. Reiner was paid through performance-based annual cash incentive awards and performance-based equity, designed to motivate him to create sustainable long-term value for shareholders. As a result, for Mr. Reiner's total target compensation in fiscal year 2016, over 70% is contingent upon Company performance, and over 90% is at-risk based on Company performance.

Majority of CEO pay is Performance-Based

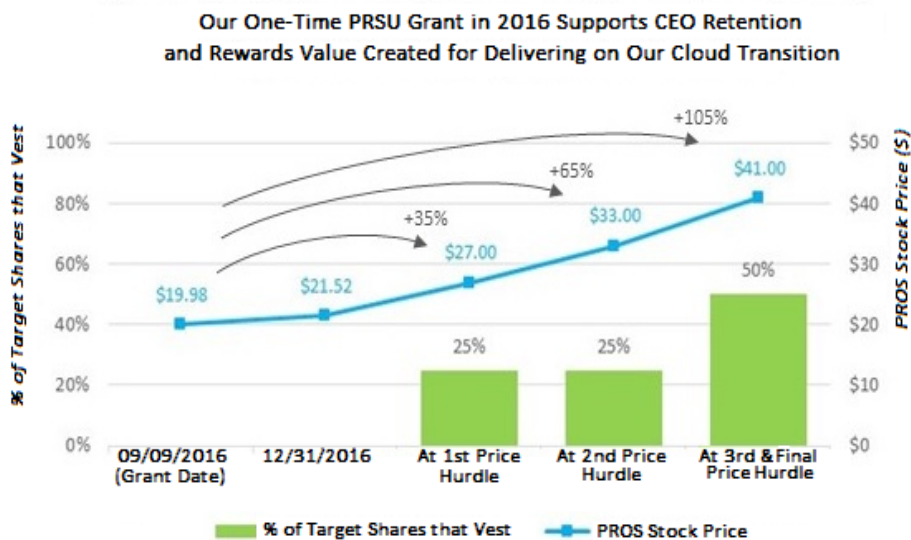


Key decisions and resulting executive compensation that reflect our pay for performance philosophy included:

- Annual cash incentive.** The annual cash incentive award for Mr. Reiner paid out well below target for 2015 at 25.0%, reflecting the Company's mixed financial results in 2015 during the beginning of our cloud transition. Conversely, the annual cash incentive award for Mr. Reiner for 2016 performance paid out at 153.7% of target, reflecting the Company's strong performance in 2016.



- Equity awards.** The RSU and MSU equity awards granted to Mr. Reiner in 2016 were positioned below the 50th percentile of our peer group, reflecting the mixed financial results in 2015 during the initial portion of our cloud transition. The Compensation Committee also chose to make a one-time award of performance restricted stock units (PRSUs) in 2016 to Mr. Reiner. These PRSUs vest upon achieving and maintaining for 105 calendar days each certain PROS stock price hurdles of \$27, \$33, and \$41 per share prior to September 9, 2020, representing significant share price improvement over the stock price on the date of grant as shown below. This decision was made to ensure retention and further align CEO compensation with shareholder return as we complete our cloud transition.



Compensation Practices

What We Do

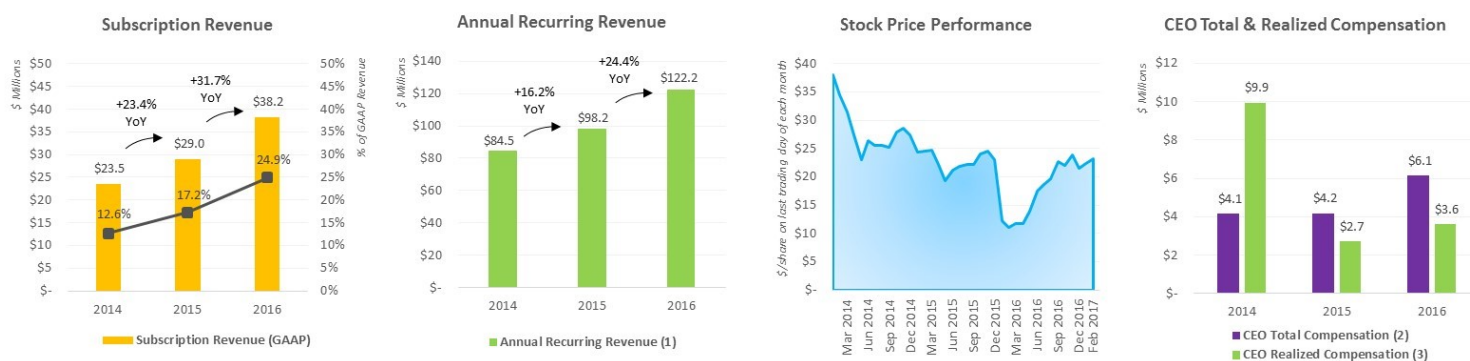
- ✓ Emphasize pay-for-performance where compensation is contingent upon the performance of our business, our stock price and individual performance
- ✓ Utilize performance-based pay through MSUs and cash incentive awards
- ✓ Maintain “double trigger” change in control agreements
- ✓ Maintain a clawback policy
- ✓ Compensation Committee oversees risks associated with compensation policies and practices
- ✓ Compensation Committee retains an independent compensation consultant
- ✓ Require our CEO to hold Company stock equal to four times his base salary
- ✓ Require all other NEOS to hold stock equal to two times their base salary

What We Do Not Do

- ✗ No hedging or pledging of Company stock
- ✗ No excessive perquisites
- ✗ No pensions
- ✗ No short sales of our stock

CEO Pay and Company Performance

The relationship between our performance (based on our subscription revenue, ARR, and stock price) and our CEO's compensation was as follows:



(1) ARR is contracted recurring revenue at any point in time, which includes both subscription and maintenance contracts that are current and contracted with a future start date, and excludes perpetual license, term license and service agreements.

(2) Represents Mr. Reiner's total compensation as reported in the Summary Compensation table on page 42.

(3) Realized compensation represents Mr. Reiner's compensation as reported on his IRS W-2 form. This includes base salary paid for the year, cash incentive paid in the year, all equity awards that vested during the year using vesting date market value calculations, and the value of any other benefits received.

CEO Summary Compensation and Realized Compensation

Realized pay differs from reported total compensation, and these amounts often differ substantially in a particular year because the reported pay disclosed in our Summary Compensation table on page 42 may not be realized in that year, or at all. To supplement the SEC-required disclosure, we have added the “W-2 Comp.” column to the table below to compare our CEO's 2016 compensation as determined under SEC rules with the compensation actually realized, as reported on his IRS W-2 forms:

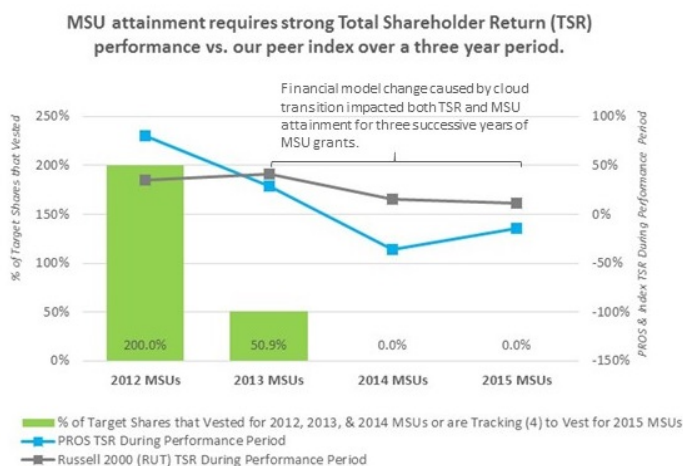
	Reported Pay ⁽¹⁾				Realized Pay ⁽²⁾	
	Salary	Stock Awards	Non-Equity Incentive Plan Comp.	All Other Comp.	SEC Total Comp.	W-2 Comp.
Andres D. Reiner	\$ 525,000	\$ 4,696,100	\$ 887,618	\$ 20,837	\$ 6,129,555	\$ 3,594,770

(1) Reported pay includes base salary, actual annual incentive earned, the grant date fair value of equity compensation, and all other compensation, each as reported in the 2016 Summary Compensation. For more information on total compensation as calculated under SEC rules, see the notes accompanying the 2016 Summary Compensation Table on page 42.

(2) Realized pay includes base salary, actual annual incentive earned and all other compensation, each as reported in the 2016 Summary Compensation table on page 42, and the value of stock options exercised or equity awards vested in the applicable year. For more information regarding Realized Pay and the “W-2 Comp.” column, see “Realized Compensation” on page 42.

Tracking of Equity Awards

Equity compensation is the largest component of pay for our executives. In the last three years, we granted a combination of MSUs, RSUs and PRSUs to our executives. 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 in relation to the Russell 2000 Index over a three-year period.



(1) The three-year performance period for MSUs granted in 2015 will not complete until 12/31/2017. However, the 2015 MSUs are tracking to vest 0% of the shares granted based on current PROS vs. peer index for the performance period to date.

RSUs are time-vested units which convert into Common Stock upon vesting and are intended to assist in retaining our NEOs and to reward them for sustaining and increasing the share price of our common stock. PRSUs are performance vested units that vest only if our stock price exceeds minimum growth thresholds. While no PRSUs awards and MSU awards granted in 2014, 2015 or 2016, or PSUs had been realized by Mr. Reiner as of December 31, 2016, a portion of the RSU awards granted to Mr. Reiner in 2013, 2014 and 2015 have vested.

Board Nominees

Name	Age	Director Since	Independent	Class	AC	CC	NC	Other Public Company Boards
Greg B. Petersen	54	2007	Yes	I	M	C		-
Timothy V. Williams	68	2007	Yes	I	C		M	ChannelAdvisor Corporation; Halogen Software
Mariette M. Woestemeyer	65	1985	No	I				-

AC Audit Committee **CC** Compensation Committee **NC** Nominating and Corporate Governance Committee
C Chair **M** Member

Continuing Directors

Name	Age	Director Since	Independent	AC	CC	NC	Other Public Company Boards
Ellen Keszler	54	2008	Yes	M	M		-
Andres D. Reiner	46	2010	No				Paylocity Holding Corporation
William Russell	65	2008	Yes		M	C	-
Leslie Rechan	55	2015	Yes		M	M	Halogen Software
Ronald F. Woestemeyer	71	1985	No				-

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

Corporate Governance Highlights

Independence	Each member of our Board of Director's committees is independent under the listing standards of the New York Stock Exchange.	Independent Lead Director	Our Board of Directors is led by our non-executive chairman, who is an independent director under the listing standards of the New York Stock Exchange.
Board Tenure	Average tenure of 13 years: 0-2 years: One Director 3-10 years: Two Directors 10-15 years: Three Directors >15 years: Two Directors	Diversity	25% women 63% under age 60
Executive Sessions	The independent directors regularly meet without management. Our non-executive Chairman of the Board of Directors presides at these executive sessions.	Shareholder Outreach	We maintain a shareholder outreach program to regularly engage with our shareholders on a variety of topics. As part of this program, we proactively engage with shareholders throughout each year, including at earnings conference calls, investor road shows, investor days, as well as at individual shareholder meetings. We also welcome shareholders to attend our annual OutPerform event for customers and prospects. During 2016, independent members of our Board and our senior management conducted outreach to shareholders owning over 75% of our outstanding shares.
Board Continuing Education	Our directors regularly attend continuing education events related to board governance best practices, including conferences and webinars provided by NYSE, NACD, Equilar, among others.	Accountability	Our director resignation policy requires director nominees who do not receive at least 50% of the stockholder votes "for" re-election to tender their resignation. Our proposed 2017 Equity Incentive Plan prohibits the repricing of underwater stock options without stockholder approval, and our Compensation Committee had adopted a policy for our 2007 Equity Incentive Plan, prohibiting 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 our NEOs as a result of any NEOs fraud or intentional misconduct.
Board Practices	Our Board of Directors, and each of its committees annually review their effectiveness as a group.		
Board Oversight of Risk Management	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.		

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2017 ANNUAL MEETING OF STOCKHOLDERS MAY 18, 2017

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 18, 2017 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 March 28, 2017 (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, 2016 (2016 Annual Report), including financial statements, was first mailed and those documents were first made available on or about April 6, 2017 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 I directors to the Board of Directors, each to serve for a three-year term until the Annual Meeting to be held in the year 2020;
- 2 To approve our 2017 Equity Incentive Plan (including, without limitation, certain material terms of the 2017 Plan for purposes of Section 162(m) of the Internal Revenue Code, as amended);
- 3 To conduct an advisory vote on executive compensation;
- 4 To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017; and
- 5 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, 31,401,656 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 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 (Nominating and Corporate Governance Committee) 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, the approval of our 2017 Equity Incentive Plan, 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 and other “non-routine” matters 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 for purposes of Proposals One, Two and Three of this Proxy Statement.

Attending the Annual Meeting

The Annual Meeting will be held at 8:00 a.m., local time, on Thursday, May 18, 2017, 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 2016 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 2016 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. 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 17, 2017. 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 17, 2017. 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 promptly 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.

CORPORATE GOVERNANCE

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. The Board of Directors has determined that the following directors 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 directors 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 are comprised of all independent directors.

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. Independent directors also meet by themselves at least annually at scheduled in-person Board of Directors meetings. 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.

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 at least on an annual 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.

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 the interests 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.

Director Nomination

The Nominating and Corporate Governance Committee 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, diversity 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.

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 52. 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.

Director Resignation Policy

Our Board of Directors has 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 procedures described below.

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' and directors' 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. These guidelines 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 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 or director 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, 2016, each of our NEOs and directors were in compliance with the applicable guidelines.

Prohibition Against Hedging, Short-Sale, Pledging, and Repricing Underwater Stock Options

We have implemented both anti-hedging and anti-pledging policies, as well as a prohibition on our executives participating in short sales of our stock, to ensure that our executives' stock remains at-risk. We also have implemented a policy related to our 2007 Equity Incentive Plan to prohibit repricing, repurchase or exchange of underwater stock options without stockholder approval.

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.

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.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Company's governance framework provides the Board with flexibility to select the appropriate leadership structure for the Company. In making leadership structure determinations, the Board considers many factors, including the specific needs of the business and what is in the best interests of the Company's stockholders. The current leadership structure is comprised of a non-executive chairman of the Board, and Board committees led by independent Directors. The Board believes this structure provides an effective balance between strong Company leadership and appropriate safeguards and oversight by independent Directors.

Our Board of Directors currently consists of eight members, which is divided into three classes, each of whose members serve for a staggered three-year term. 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. Our Board of Directors also has three standing committees: an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. Our Board of Directors has determined that each member of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance

Committee meets the independence requirements of the NYSE listing standards and federal securities laws. Each committee has a written charter, which can be found under the *Corporate Governance – Investor Relations* section of our website at www.PROS.com. A printed copy of these charters 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. The table below provides ages, positions, current membership, term of office, and other relevant information for each of our directors:

Name	Age	Position(s) with the Company	Director Since	Current Term Expires	Current Class of Director	Audit	Compensation	Nominating and Corporate Governance
Ellen Keszler	54	Director	2008	2018	II	Member		Member
Greg B. Petersen	54	Director (Nominee)	2007	2017	I	Member	Chair	
Leslie Rechan	55	Director	2015	2018	II		Member	Member
Andres D. Reiner	46	President, CEO and Director	2010	2019	III			
William Russell	65	Non-Executive Chairman	2008	2018	II		Member	Chair
Timothy V. Williams	68	Director (Nominee)	2007	2017	I	Chair		Member
Mariette M. Woestemeyer	65	Director (Nominee)	1985	2017	I			
Ronald F. Woestemeyer	71	Director	1985	2019	III			
Number of meetings in 2016						10	7	3

Directors and Director Nominees

Ellen 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 three 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 currently serves as president of Brookview Capital Advisors based in Austin, Texas. Mr. Petersen has served as a board member on three other technology companies - Diligent Corporation, Pikel, Inc. and Synthesio. Mr. Petersen served as the Chairman of the Audit Committee at Diligent and Pikel, and an Advisory Board Member at Synthesio. Previously Mr. Petersen served as the Executive Vice Chairman at Diligent Corporation, a high growth SaaS business from 2014 to 2015, and as 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 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, governance, compensation planning and risk management knowledge.

Leslie J. Rechan has served as President and Chief Executive Officer and a director of Halogen Software, a cloud-based talent management software provider since November 2015. He previously served as General Manager, IBM Business Analytics Division from November 2011 to April 2014. He served as Vice President, Sales, Solutions and Services, IBM Business Analytics Division from February 2008 through October 2011. He served as Chief Operating Officer of Cognos Inc. from 2006 to 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 August 2004 to February 2006.

Mr. Rechan served as Senior Vice President and General Manager of North American Worldwide Field Operations of Cadence Design Systems Inc. from May 2003 to July 2004. He served as President and Chief Operating Officer of Onyx Software Corp. from February 2001 to October 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, throughout his career, has demonstrated strong leadership, and operational excellence. Mr. Rechan served as Director of Applix Inc. since October 2007 and previously served as a Director of Cognitive Scale, a privately held cognitive cloud company. 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 extensive business and leadership experience in software companies, including experience in software sales and operations management.

Andres D. Reiner serves as our President and Chief Executive Officer. Mr. Reiner has also served on the Board of Directors of Paylocity Holding Corporation since 2014, and is currently on the compensation and nominating and governance committees for Paylocity. 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. For more information on Mr. Reiner, see "Executive Officers" on page 27.

William Russell serves on the board of directors of 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 SABA Software, Inc., 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. Mr. Russell is a National Association of Corporate Directors (NACD) Board Leadership Fellow, demonstrating his commitment to the highest standards of boardroom excellence. NACD Fellowship is a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. 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 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. 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.

Ronald F. Woestemeyer co-founded the Company in 1985 with his wife, Mariette Woestemeyer. Mr. Woestemeyer previously served as our Executive Vice President, Strategic Business Planning from 1997 until his retirement in 2015. 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.

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	Ellen Keszler	Greg B. Petersen (Nominee)	Leslie Rechan	Andres D. Reiner	William Russell	Timothy V. Williams (Nominee)	Mariette M. Woestemeyer (Nominee)	Ronald F. Woestemeyer
Accounting	●	●				●	●	
Business Operations	●	●	●	●	●	●	●	●
Finance	●	●		●		●	●	
International			●	●	●		●	●
Leadership	●	●	●	●	●	●	●	●
M&A		●	●	●	●	●		
Public Company/Governance	●	●	●	●	●	●		
Risk Management	●	●				●		
Sales & Marketing			●	●	●			●
Software Industry	●	●	●	●	●	●	●	●
Travel Industry	●	●	●	●			●	●
SaaS	●	●	●		●	●		

Meeting Attendance

During 2016, our Board of Directors held five meetings, the Audit Committee held ten meetings, the Compensation Committee held seven meetings, and the Nominating and Corporate Governance Committee held three meetings. The incumbent directors attended each meeting of our Board of Directors and the committees on which he or she served during 2016, with the exception that Mr. Rechan did not attend one Compensation Committee meeting. The Board of Directors encourages all directors to attend annual meetings of the stockholders. All incumbent directors attended the 2016 meeting of the stockholders.

Director Continuing Education

Our directors regularly attend continuing education events related to board governance best practices, including conferences and webinars provided by the New York Stock Exchange (NYSE), NACD, Equilar, among others. For example, the majority of our independent directors have regularly attended the NACD Global Board Leaders' Summit over the last three years. In addition, Mr. Russell, our Non-Executive Chairman, was recognized as an NACD Board Leadership Fellow in 2016, the highest credential for corporate directors offered by the NACD.

Audit Committee

Our Board of Directors has determined that each member of the Audit Committee 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, including discussions with independent auditors without management present;
- 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.

Compensation Committee

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.

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;
- 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; and
- overseeing succession planning for executive officers jointly with the Nominating and Corporate Governance Committee.

Nominating and Corporate Governance Committee

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.

PROPOSAL ONE

ELECTION OF DIRECTORS

Three (3) directors are to be elected at the Annual Meeting. Our Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, has nominated Greg B. Petersen, Timothy V. Williams and Mariette M. Woestemeyer as Class I Directors, each to hold office until the Annual Meeting to be held in the year 2020 and until their 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 three Class II directors, whose terms expire upon the election and qualification of directors at the Annual Meeting to be held in 2018, and two Class III directors, whose terms expire upon the election and qualification of directors at the Annual Meeting to be held in 2019.

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

Directors are elected by a plurality vote of the votes cast by holders of our Common Stock entitled to vote at the Annual Meeting. Abstentions and broker non-votes will not have any effect on this proposal. 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.

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. In accordance with our Director Resignation Policy, 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 whether to accept the resignation and make a recommendation to our independent directors as to the action to be taken with respect to the offer. 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 I NOMINEES.

PROPOSAL TWO

APPROVAL OF OUR 2017 EQUITY INCENTIVE PLAN

Our Board of Directors believes that equity-based incentive awards can play an important role in the success of the Company by encouraging and enabling the employees, officers, non-employee directors and other key persons of the Company and its subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. Our Board of Directors anticipates that providing such persons with a direct stake in the Company will assure a closer identification of the interests of such individuals with those of the Company and its stockholders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company. Further, our Board of Directors believes that the use of equity-based incentive awards supports the Company's goal of aligning our employees' compensation with long-term shareholder value, and serves as a retention tool for talent in a highly competitive environment.

On March 23, 2017 our Board of Directors, upon the recommendation of the Compensation Committee, voted to approve the 2017 Equity Incentive Plan (2017 Plan), subject to the approval of the Company's stockholders. The 2017 Plan is intended to replace our 2007 Equity Incentive Plan (Predecessor Plan), which terminated automatically on the tenth anniversary of its initial adoption in March 2007. If the stockholders approve the 2017 Plan, it will become effective on the day of the Annual Meeting.

The 2017 Plan provides flexibility to the Compensation Committee to use various equity-based incentive awards as compensation tools to motivate the Company's workforce. A copy of the 2017 Plan is attached as Appendix A to this Proxy Statement and is incorporated herein by reference.

The material features of the 2017 Plan are:

- The 2017 Plan prohibits the repricing of stock options and stock appreciation rights without the approval of our stockholders.
- No discount from fair market value is permitted in setting the exercise price of stock options and stock appreciation rights.
- The 2017 Plan generally provides for gross share counting. The number of shares remaining available for grant under the 2017 Plan is reduced by the gross number of shares subject to options and stock appreciation rights settled on a net basis, provided that any shares withheld for taxes in connection with the vesting or settlement of any full value award (but not options or stock appreciation rights) will not reduce the number of shares remaining available for the future grant of awards.
- The number of shares for which awards may be granted to any nonemployee member of our Board of Directors in a fiscal year is limited.

- The 2017 Plan requires each award to have a minimum vesting period of one year, except for 5% of the authorized shares.
- The 2017 Plan does not contain a “liberal” change in control definition (e.g., mergers require actual consummation).
- Performance awards require the achievement of pre-established goals. The 2017 Plan establishes a list of measures of business and financial performance from which the Compensation Committee may construct predetermined performance goals that must be met for an award to vest.
- The 2017 Plan has a fixed term of ten years.

The 2017 Plan is designed to preserve the Company’s ability to deduct in full for federal income tax purposes the compensation recognized by its executive officers in connection with certain types of awards. Section 162(m) of the Internal Revenue Code (Code) would generally limit us from taking a corporate tax deduction for annual compensation exceeding \$1 million paid to any of our “covered employees,” consisting of the chief executive officer and any of the three other most highly compensated officers other than the chief financial officer. However, qualified performance-based compensation is excluded from this limit. To enable compensation in connection with stock options, stock appreciation rights, certain restricted stock and restricted stock unit awards, performance shares, performance units and certain other stock-based awards and cash-based awards granted under the 2017 Plan to qualify as “performance-based” within the meaning of Section 162(m), the stockholders are being asked to approve certain material terms of the 2017 Plan. By approving the 2017 Plan, the stockholders will be specifically approving, among other things:

- the eligibility requirements for participation in the 2017 Plan;
- the maximum numbers of shares for which stock-based awards intended to qualify as performance-based may be granted to an employee in any fiscal year;
- the maximum dollar amount that a participant may receive under a cash-based award intended to qualify as performance-based for each fiscal year contained in the performance period; and
- the performance measures that may be used by the Compensation Committee to establish the performance goals applicable to the grant or vesting of awards of restricted stock, restricted stock units, performance shares, performance units, other stock-based awards and cash-based awards that are intended to result in qualified performance-based compensation.

While we believe that compensation provided by such awards under the 2017 Plan generally will be deductible by the Company for federal income tax purposes, under certain circumstances, such as a change in control of the Company, compensation paid in settlement of certain awards may not qualify as performance-based. Further, the Compensation Committee will retain the discretion to grant awards to covered employees that are not intended to qualify for deduction in full under Section 162(m).

Requested Share Authorization

The 2017 Plan authorizes the Compensation Committee to provide incentive compensation in the form of stock options, stock appreciation rights, restricted stock and stock units, performance shares and units, other stock-based awards and cash-based awards. Under the 2017 Plan, we will be authorized to issue up to 2.5 million shares. No shares subject to awards currently outstanding under the Predecessor Plan that expire or are forfeited will become available for issuance under the 2017 Plan.

As of March 27, 2017, options were outstanding under the Predecessor Plan for a total of 967,257 shares of our common stock with a weighted average exercise price of \$12.47 per share and weighted average expected remaining term of approximately 2.3 years, and a total of 3,153,206 shares remained subject to unvested awards of restricted stock, restricted stock units, PRSUs and MSUs outstanding under the Predecessor Plan. No further awards will be granted under the Predecessor Plan, which has terminated.

Grant Practices

In operating our Predecessor Plan, the Compensation Committee has monitored and managed dilution to reasonable levels. From 2014 through 2016 we granted equity awards consisting of 3,356,978 in time-based restricted stock units (RSUs), up to 963,744 in performance-based market stock units (MSUs) and a one-time grant of 460,000 in performance-based restricted stock units (PRSUs). In total, we granted equity awards which could potentially total 4,780,722 shares, and could represent an average annual grant of 5.1% compared to the total shares outstanding as of the Record Date. The 963,744 MSU awards represent the maximum amount of shares that could be earned assuming the performance of MSUs at 200% achievement in relation to the Russell 2000 Index for each annual grant. The 460,000 in PRSUs represent the shares that would be earned assuming achievement of minimum stock price hurdles. As further evidence of our reasonable equity grant practices, we will be relinquishing over 1,055,000 shares under our Predecessor Plan as we transition to our 2017 Plan.

Summary of the 2017 Plan

The following description of certain features of the 2017 Plan is intended to be a summary only. The summary is qualified in its entirety by the full text of the 2017 Plan that is attached hereto as Appendix A.

General. The purpose of the 2017 Plan is to advance the interests of the Company and its stockholders by providing an incentive program that will enable the Company to attract and retain employees, consultants and directors and to provide them with an equity interest in the growth and profitability of the Company. These incentives are provided through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, other stock-based awards and cash-based awards.

Authorized Shares. The maximum aggregate number of shares authorized for issuance under the 2017 Plan is 2.5 million.

Share Counting. Each share made subject to an award will reduce the number of shares remaining available for grant under the 2017 Plan by one share. If any award granted under the 2017 Plan expires or otherwise terminates for any reason without having been exercised or settled in full, or if shares subject to forfeiture or repurchase are forfeited or repurchased by the Company for not more than the participant's purchase price, any such shares reacquired or subject to a terminated award will again become available for issuance under the 2017 Plan. Shares will not be treated as having been issued under the 2017 Plan and will therefore not reduce the number of shares available for issuance to the extent an award is settled in cash. Shares that are withheld or that are tendered in payment of the exercise price of an option will not be made available for new awards under the 2017 Plan. However, shares withheld or reacquired by the Company in satisfaction of a tax withholding obligation in connection with the vesting or settlement of any full value award (but not options or stock appreciation rights) will not reduce the number of shares remaining available for the future grant of awards. Upon the exercise of a stock appreciation right or net-exercise of an option, the number of shares available under the 2017 Plan will be reduced by the gross number of shares for which the award is exercised.

Adjustments for Capital Structure Changes. Appropriate and proportionate adjustments will be made to the number of shares authorized under the 2017 Plan, to the numerical limits on certain types of awards described below, and to outstanding awards in the event of any change in our common stock through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares or similar change in our capital structure, or if we make a distribution to our stockholders in a form other than common stock (excluding regular, periodic cash dividends) that has a material effect on the fair market value of our common stock. In such circumstances, the Compensation Committee also has the discretion under the 2017 Plan to adjust other terms of outstanding awards as it deems appropriate.

Nonemployee Director Award Limits. A nonemployee director may not be granted awards under the 2017 Plan in any fiscal year having an aggregate grant date fair value exceeding \$500,000.

Other Award Limits. To enable compensation provided in connection with certain types of awards intended by the Compensation Committee to qualify as "performance-based" within the meaning of Section 162(m) of the Code, the 2017 Plan establishes a limit on the maximum aggregate number of shares or dollar value for which such awards may be granted to an employee in any fiscal year, as follows:

- No more than 1,250,000 shares under stock-based awards.
- No more than \$2,000,000 for each full fiscal year contained in the performance period under cash-based awards.

In addition, to comply with applicable tax rules, the 2017 Plan also limits to 1,500,000 the number of shares that may be issued upon the exercise of incentive stock options granted under the 2017 Plan.

Administration. The 2017 Plan generally will be administered by the Compensation Committee of the Board of Directors, although the Board of Directors retains the right to appoint another of its committees to administer the 2017 Plan or to administer the 2017 Plan directly. Awards intended to qualify for the performance-based compensation exemption under Section 162(m) of the Code must be administered by a compensation committee comprised solely of two or more "outside directors" within the meaning of Section 162(m). (For purposes of this summary, the term "Committee" will refer to either such duly appointed committee or the Board of Directors.) Subject to the provisions of the 2017 Plan, the Committee determines in its discretion the persons to whom and the times at which awards are granted, the types and sizes of awards, and all of their terms and conditions. The Committee may, subject to certain limitations on the exercise of its discretion required by Section 162(m) or otherwise provided by the 2017 Plan, amend, cancel or renew any award, waive any restrictions or conditions applicable to any award, and accelerate, continue, extend or defer the vesting of any award.

The 2017 Plan provides, subject to certain limitations, for indemnification by the Company of any director, officer or employee against all reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the 2017 Plan. All awards granted under the 2017 Plan will be evidenced by a written or digitally signed agreement between the Company and the participant specifying the terms and conditions of the award, consistent with the requirements of the 2017 Plan. The Committee will interpret the 2017 Plan and awards granted thereunder, and all determinations of the Committee generally will be final and binding on all persons having an interest in the 2017 Plan or any award.

Prohibition of Option and SAR Repricing. The 2017 Plan expressly provides that, without the approval of a majority of the votes cast in person or by proxy at a meeting of our stockholders, the Committee may not provide for any of the following with respect to underwater options or stock appreciation rights: (1) either the cancellation of such outstanding options or stock appreciation rights in exchange for the grant of new options or stock appreciation rights at a lower exercise price or the amendment of outstanding options or stock appreciation rights to reduce the exercise price, (2) the issuance of new full value awards in exchange for the cancellation of such outstanding options or stock appreciation rights, or (3) the cancellation of such outstanding options or stock appreciation rights in exchange for payments in cash.

Minimum Vesting. No more than 5% of the aggregate number of shares authorized under the 2017 Plan may be issued pursuant to awards that provide for service-based vesting over a period of less than one year or performance-based vesting over a performance period of less than one year.

Eligibility. Awards may be granted to employees, directors and consultants of the Company or any present or future parent or subsidiary corporation or other affiliated entity of the Company. Incentive stock options may be granted only to employees who, as of the time of grant, are employees of the Company or any parent or subsidiary corporation of the Company. As of March 17, 2017, we had approximately 850 employees, including two executive officers, and seven non-employee directors who would be eligible under the 2017 Plan.

Stock Options. The Committee may grant nonstatutory stock options, incentive stock options within the meaning of Section 422 of the Code, or any combination of these. The exercise price of each option may not be less than the fair market value of a share of our common stock on the date of grant. However, any incentive stock option granted to a person who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company (10% Stockholder) must have an exercise price equal to at least 110% of the fair market value of a share of common stock on the date of grant. On March 31, 2017, the closing price of our common stock as reported on the New York Stock Exchange was \$24.19 per share.

The 2017 Plan provides that the option exercise price may be paid in cash, by check, or cash equivalent; by means of a broker-assisted cashless exercise; by means of a net-exercise procedure; to the extent legally permitted, by tender to the Company of shares of common stock owned by the participant having a fair market value not less than the exercise price; by such other lawful consideration as approved by the Committee; or by any combination of these. Nevertheless, the Committee may restrict the forms of payment permitted in connection with any option grant. No option may be exercised unless the participant has made adequate provision for federal, state, local and foreign taxes, if any, relating to the exercise of the option, including, if permitted or required by the Company, through the participant's surrender of a portion of the option shares to the Company.

Options will become vested and exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the Committee. The maximum term of any option granted under the 2017 Plan is ten years, provided that an incentive stock option granted to a 10% Stockholder must have a term not exceeding five years. Unless otherwise permitted by the Committee, an option generally will remain exercisable for three months following the participant's termination of service, provided that if service terminates as a result of the participant's death or disability, the option generally will remain exercisable for 12 months, but in any event the option must be exercised no later than its expiration date.

Options are nontransferable by the participant other than by will or by the laws of descent and distribution, and are exercisable during the participant's lifetime only by the participant. However, an option may be assigned or transferred to certain family members or trusts for their benefit to the extent permitted by the Committee and, in the case of an incentive stock option, only to the extent that the transfer will not terminate its tax qualification.

Stock Appreciation Rights. The Committee may grant stock appreciation rights either in tandem with a related option (Tandem SAR) or independently of any option (Freestanding SAR). A Tandem SAR requires the option holder to elect between the exercise of the underlying option for shares of common stock or the surrender of the option and the exercise of the related stock appreciation right. A Tandem SAR is exercisable only at the time and only to the extent that the related stock option is exercisable, while a Freestanding SAR is exercisable at such times or upon such events and subject to such terms, conditions, performance

criteria or restrictions as specified by the Committee. The exercise price of each stock appreciation right may not be less than the fair market value of a share of our common stock on the date of grant.

Upon the exercise of any stock appreciation right, the participant is entitled to receive an amount equal to the excess of the fair market value of the underlying shares of common stock as to which the right is exercised over the aggregate exercise price for such shares. Payment of this amount upon the exercise of a Tandem SAR may be made only in shares of common stock whose fair market value on the exercise date equals the payment amount. At the Committee's discretion, payment of this amount upon the exercise of a Freestanding SAR may be made in cash or shares of common stock. The maximum term of any stock appreciation right granted under the 2017 Plan is ten years.

Stock appreciation rights are generally nontransferable by the participant other than by will or by the laws of descent and distribution, and are generally exercisable during the participant's lifetime only by the participant. If permitted by the Committee, a Tandem SAR related to a nonstatutory stock option and a Freestanding SAR may be assigned or transferred to certain family members or trusts for their benefit to the extent permitted by the Committee. Other terms of stock appreciation rights are generally similar to the terms of comparable stock options.

Restricted Stock Awards. The Committee may grant restricted stock awards under the 2017 Plan either in the form of a restricted stock purchase right, giving a participant an immediate right to purchase common stock, or in the form of a restricted stock bonus, in which stock is issued in consideration for services to the Company rendered by the participant. The Committee determines the purchase price payable under restricted stock purchase awards, which may be less than the then current fair market value of our common stock. Restricted stock awards may be subject to vesting conditions based on such service or performance criteria as the Committee specifies, including the attainment of one or more performance goals similar to those described below in connection with performance awards. Shares acquired pursuant to a restricted stock award may not be transferred by the participant until vested. Unless otherwise provided by the Committee, a participant will forfeit any shares of restricted stock as to which the vesting restrictions have not lapsed prior to the participant's termination of service. Participants holding restricted stock will have the right to vote the shares and to receive any dividends or other distributions paid in cash or shares subject to the same restrictions as the original award.

Restricted Stock Units. The Committee may grant restricted stock units under the 2017 Plan, which represent rights to receive shares of our common stock at a future date determined in accordance with the participant's award agreement. No monetary payment is required for receipt of restricted stock units or the shares issued in settlement of the award, the consideration for which is furnished in the form of the participant's services to the Company. The Committee may grant restricted stock unit awards subject to the attainment of one or more performance goals similar to those described below in connection with performance awards, or may make the awards subject to vesting conditions similar to those applicable to restricted stock awards. Restricted stock units may not be transferred by the participant. Unless otherwise provided by the Committee, a participant will forfeit any restricted stock units which have not vested prior to the participant's termination of service. Participants have no voting rights or rights to receive cash dividends with respect to restricted stock unit awards until shares of common stock are issued in settlement of such awards. However, the Committee may grant restricted stock units that entitle their holders to dividend equivalent rights, which are rights to receive cash or additional restricted stock units whose value is equal to any cash dividends the Company pays. Dividend equivalent rights will be subject to the same vesting conditions and settlement terms as the original award.

Performance Awards. The Committee may grant performance awards subject to such conditions and the attainment of such performance goals over such periods as the Committee determines in writing and sets forth in a written agreement between the Company and the participant. These awards may be designated as performance shares or performance units, which consist of unfunded bookkeeping entries generally having initial values equal to the fair market value determined on the grant date of a share of common stock in the case of performance shares and a monetary value established by the Committee at the time of grant in the case of performance units. Performance awards will specify a predetermined amount of performance shares or performance units that may be earned by the participant to the extent that one or more performance goals are attained within a predetermined performance period. To the extent earned, performance awards may be settled in cash, shares of common stock (including shares of restricted stock that are subject to additional vesting) or any combination of these.

Prior to the beginning of the applicable performance period or such later date as permitted under Section 162(m) of the Code, the Committee will establish one or more performance goals applicable to the award. Performance goals will be based on the attainment of specified target levels with respect to one or more measures of business or financial performance of the Company and each subsidiary corporation consolidated with the Company for financial reporting purposes, or such division or business unit of the Company as may be selected by the Committee. The Committee, in its discretion, may base performance goals on one or more of the following such measures: bookings, revenue; sales; expenses; operating income; gross margin; operating margin; earnings before any one or more of: stock-based compensation expense, interest, taxes, depreciation and amortization; pre-tax profit; adjusted pre-tax profit; net operating income; net income; economic value added; free cash flow; operating cash flow; balance of cash, cash

equivalents and marketable securities; stock price; earnings per share; return on stockholder equity; return on capital; return on assets; return on investment; total stockholder return, employee satisfaction; employee retention; market share; customer satisfaction; product development; research and development expense; completion of an identified special project and completion of a joint venture or other corporate transaction.

The target levels with respect to these performance measures may be expressed on an absolute basis or relative to an index, budget or other standard specified by the Committee. The degree of attainment of performance measures will be calculated in accordance with the Company's financial statements, generally accepted accounting principles, if applicable, or other methodology established by the Committee, but prior to the accrual or payment of any performance award for the same performance period, and, according to criteria established by the Committee, excluding the effect (whether positive or negative) of changes in accounting standards or any unusual or infrequently occurring event or transaction occurring after the establishment of the performance goals applicable to a performance award.

Following completion of the applicable performance period, the Committee will certify in writing the extent to which the applicable performance goals have been attained and the resulting value to be paid to the participant. The Committee retains the discretion to eliminate or reduce, but not increase, the amount that would otherwise be payable on the basis of the performance goals attained to a participant who is a "covered employee" within the meaning of Section 162(m) of the Code. However, no such reduction may increase the amount paid to any other participant. The Committee may make positive or negative adjustments to performance award payments to participants other than covered employees to reflect the participant's individual job performance or other factors determined by the Committee. In its discretion, the Committee may provide for a participant awarded performance shares to receive dividend equivalent rights with respect to cash dividends paid on the Company's common stock to the extent that the performance shares become vested. The Committee may provide for performance award payments in lump sums or installments.

Unless otherwise provided by the Committee, if a participant's service terminates due to the participant's death or disability prior to completion of the applicable performance period, the final award value will be determined at the end of the performance period on the basis of the performance goals attained during the entire performance period but will be prorated for the number of days of the participant's service during the performance period. The Committee may provide similar treatment for a participant whose service is involuntarily terminated. If a participant's service terminates prior to completion of the applicable performance period for any other reason, the 2017 Plan provides that the performance award will be forfeited. No performance award may be sold or transferred other than by will or the laws of descent and distribution prior to the end of the applicable performance period.

Cash-Based Awards and Other Stock-Based Awards. The Committee may grant cash-based awards or other stock-based awards in such amounts and subject to such terms and conditions as the Committee determines. Cash-based awards will specify a monetary payment or range of payments, while other stock-based awards will specify a number of shares or units based on shares or other equity-related awards. Such awards may be subject to vesting conditions based on continued performance of service or subject to the attainment of one or more performance goals similar to those described above in connection with performance awards. Settlement of awards may be in cash or shares of common stock, as determined by the Committee. A participant will have no voting rights with respect to any such award unless and until shares are issued pursuant to the award. The Committee may grant dividend equivalent rights with respect to other stock-based awards. The effect on such awards of the participant's termination of service will be determined by the Committee and set forth in the participant's award agreement.

Change in Control. The 2017 Plan provides that a "Change in Control" occurs upon (a) a person or entity (with certain exceptions described in the 2017 Plan) becoming the direct or indirect beneficial owner of more than 50% of the Company's voting stock; (b) stockholder approval of a liquidation or dissolution of the Company; or (c) the occurrence of any of the following events upon which the stockholders of the Company immediately before the event do not retain immediately after the event direct or indirect beneficial ownership of more than 50% of the voting securities of the Company, its successor or the entity to which the assets of the company were transferred: (i) a sale or exchange by the stockholders in a single transaction or series of related transactions of more than 50% of the Company's voting stock; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

If a Change in Control occurs, the surviving, continuing, successor or purchasing entity or its parent may, without the consent of any participant, either assume or continue outstanding awards or substitute substantially equivalent awards for its stock. If so determined by the Committee, stock-based awards will be deemed assumed if, for each share subject to the award prior to the Change in Control, its holder is given the right to receive the same amount of consideration that a stockholder would receive as a result of the Change in Control. The vesting of any awards that are not assumed, continued or replaced in connection with a Change in Control will be accelerated in full, and, if not exercised prior to the Change in Control, will terminate effective as of the time of the Change in Control. The vesting of any awards that are assumed, continue or replaced will be accelerated in full if, within 18

months following the Change in Control, the holder's employment is terminated without cause or the holder resigns following reduction in base salary of 15% or more.

Subject to the restrictions of Section 409A of the Code, the Committee may provide for the acceleration of vesting or settlement of any or all outstanding awards upon such other terms and to such extent as it determines. The vesting of all awards held by non-employee directors will be accelerated in full upon a Change in Control.

The 2017 Plan also authorizes the Committee, in its discretion and without the consent of any participant, to cancel each or any award denominated in shares of stock upon a Change in Control in exchange for a payment to the participant with respect each vested share (and each unvested share if so determined by the Committee) subject to the canceled award of an amount equal to the excess of the consideration to be paid per share of common stock in the Change in Control transaction over the exercise or purchase price per share, if any, under the award.

Awards Subject to Section 409A of the Code. Certain awards granted under the 2017 Plan may be deemed to constitute "deferred compensation" within the meaning of Section 409A of the Code, providing rules regarding the taxation of nonqualified deferred compensation plans, and the regulations and other administrative guidance issued pursuant to Section 409A. Any such awards will be required to comply with the requirements of Section 409A. Notwithstanding any provision of the 2017 Plan to the contrary, the Committee is authorized, in its sole discretion and without the consent of any participant, to amend the 2017 Plan or any award agreement as it deems necessary or advisable to comply with Section 409A.

Amendment, Suspension or Termination. The 2017 Plan will continue in effect until its termination by the Committee, provided that no awards may be granted under the 2017 Plan following the tenth anniversary of the 2017 Plan's effective date, which will be the date on which it is approved by the stockholders. The Committee may amend, suspend or terminate the 2017 Plan at any time, provided that no amendment may be made without stockholder approval that would increase the maximum aggregate number of shares of stock authorized for issuance under the 2017 Plan, change the class of persons eligible to receive incentive stock options or require stockholder approval under any applicable law or the rules of any stock exchange on which the Company's shares are then listed. No amendment, suspension or termination of the 2017 Plan may affect any outstanding award unless expressly provided by the Committee, and, in any event, may not have a materially adverse effect on an outstanding award without the consent of the participant unless necessary to comply with any applicable law, regulation or rule, including, but not limited to, Section 409A of the Code.

Tax Aspects Under the Code

The following summary is intended only as a general guide to the U.S. federal income tax consequences of participation in the 2017 Plan and does not attempt to describe all possible federal or other tax consequences of such participation or tax consequences based on particular circumstances.

Incentive Stock Options. A participant recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Code. Participants who neither dispose of their shares within two years following the date the option was granted nor within one year following the exercise of the option will normally recognize a capital gain or loss upon the sale of the shares equal to the difference, if any, between the sale price and the purchase price of the shares. If a participant satisfies such holding periods upon a sale of the shares, we will not be entitled to any deduction for federal income tax purposes. If a participant disposes of shares within two years after the date of grant or within one year after the date of exercise (a "disqualifying disposition"), the difference between the fair market value of the shares on the option exercise date and the exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. Any ordinary income recognized by the participant upon the disqualifying disposition of the shares generally should be deductible by us for federal income tax purposes, except to the extent such deduction is limited by applicable provisions of the Code.

In general, the difference between the option exercise price and the fair market value of the shares on the date of exercise of an incentive stock option is treated as an adjustment in computing the participant's alternative minimum taxable income and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to participants subject to the alternative minimum tax.

Nonstatutory Stock Options. Options not designated or qualifying as incentive stock options are nonstatutory stock options having no special tax status. A participant generally recognizes no taxable income upon receipt of such an option. Upon

exercising a nonstatutory stock option, the participant normally recognizes ordinary income equal to the difference between the exercise price paid and the fair market value of the shares on the date when the option is exercised. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the exercise date, will be taxed as capital gain or loss. We generally should be entitled to a tax deduction equal to the amount of ordinary income recognized by the participant as a result of the exercise of a nonstatutory stock option, except to the extent such deduction is limited by applicable provisions of the Code.

Stock Appreciation Rights. A Participant recognizes no taxable income upon the receipt of a stock appreciation right. Upon the exercise of a stock appreciation right, the participant generally will recognize ordinary income in an amount equal to the excess of the fair market value of the underlying shares of common stock on the exercise date over the exercise price. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant in connection with the exercise of the stock appreciation right, except to the extent such deduction is limited by applicable provisions of the Code.

Restricted Stock. A participant acquiring restricted stock generally will recognize ordinary income equal to the excess of the fair market value of the shares on the “determination date” over the price paid, if any, for such shares. The “determination date” is the date on which the participant acquires the shares unless the shares are subject to a substantial risk of forfeiture and are not transferable, in which case the determination date is the earlier of (i) the date on which the shares become transferable or (ii) the date on which the shares are no longer subject to a substantial risk of forfeiture (e.g., when they become vested). If the determination date follows the date on which the participant acquires the shares, the participant may elect, pursuant to Section 83(b) of the Code, to designate the date of acquisition as the determination date by filing an election with the Internal Revenue Service no later than 30 days after the date on which the shares are acquired. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of shares acquired pursuant to a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the determination date, will be taxed as capital gain or loss. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

Restricted Stock Unit, Performance, Cash-Based and Other Stock-Based Awards. A participant generally will recognize no income upon the receipt of a restricted stock unit, performance share, performance unit, cash-based or other stock-based award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of settlement in an amount equal to the cash received and the fair market value of any substantially vested shares of stock received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. If the participant receives shares of restricted stock, the participant generally will be taxed in the same manner as described above under “Restricted Stock.” Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the determination date (as defined above under “Restricted Stock”), will be taxed as capital gain or loss. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

New 2017 Plan Benefits

No awards will be granted under the 2017 Plan prior to its approval by the stockholders of the Company. All awards will be granted at the discretion of the Committee, and, accordingly, are not yet determinable.

Vote Required

Approval of this proposal requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote on this proposal. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have the same effect as a negative vote. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have authority to vote your shares. Broker non-votes will have no effect on the outcome of this vote. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum.

The Board believes that the proposed adoption of the 2017 Plan is in the best interests of the Company and its stockholders for the reasons stated above.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING “FOR” THE APPROVAL OF OUR 2017 EQUITY INCENTIVE PLAN (INCLUDING, WITHOUT LIMITATION, CERTAIN MATERIAL TERMS OF SUCH PLAN FOR PURPOSES OF SECTION 162(M) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED).

EXECUTIVE OFFICERS

The following table sets forth the 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
<i>Named Executive Officers:</i>		
Andres D. Reiner	46	Chief Executive Officer, President and Director
Stefan B. Schulz	50	Executive Vice President and Chief Financial Officer
<i>Other Significant Employees:</i>		
Mike Jahoda	37	Senior Vice President, Professional Services
Chris Jones	53	Senior Vice President, North America Sales
Damian Olthoff	42	General Counsel and Secretary
Rob Reiner	55	Chief Technology Officer
Wagner Williams	38	Chief People Officer
Benson Yuen	56	Senior Vice President, Travel
Craig Zawada	46	Chief Innovation Officer

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 holds a Bachelor of Science in Computer Science with a minor in Mathematics from the University of Houston.

Stefan B. 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. Before joining Lawson Software, Mr. Schulz spent 12 years with BMC Software in various finance and accounting roles, including Vice President and Corporate Controller. Prior to BMC Software, Mr. Schulz was with Arthur Andersen LLP in Houston, ultimately serving as an Audit Manager in the firm's Enterprise Group. Mr. Schulz holds a B.B.A. in Accounting from Lamar University.

In addition to our executive officers immediately prior to the Annual Meeting, D. Blair Crump, our former Chief Operating Officer, served as one of our named executive officers in 2016. Mr. Crump joined the Company in February 2014 and served as our Chief Operating Officer through July 2016. 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. Mr. Crump holds a Bachelor of Science from the Wharton School at the University of Pennsylvania.

COMPENSATION DISCUSSION AND ANALYSIS

In this section, we describe the executive compensation program for our named executive officers (NEOs). We also explain how the Compensation Committee determined the pay of our NEOs and its rationale for specific decisions in 2016. Our NEOs for 2016 are as follows:

Name	Title
Andres D. Reiner	Chief Executive Officer, President and Director
Stefan B. Schulz	Executive Vice President and Chief Financial Officer
D. Blair Crump ⁽¹⁾	Chief Operating Officer

(1) Mr. Crump, our former Chief Operating Officer, separated from his employment with us on July 29, 2016.

Executive Summary

2016 Business Highlights

2016 was a breakthrough year for PROS in our journey to transform to a cloud company. We accelerated awareness and adoption of our data science-driven solutions to power modern commerce, extended our product leadership position through continued innovation, expanded our global reach and scale, and made progress toward our long-term profitability goals. The following highlights some of our accomplishments in 2016:

- Made significant progress in delivering on our cloud transformation, including,
 - Subscription revenue increased 32%, to \$38.2 million for 2016, with all net new companies purchasing cloud solutions;
 - Expanded our global data center footprint from four to eleven; and
 - Doubled the number of product releases in 2016 versus 2015.
- Drove substantial growth:
 - Subscription revenue of \$38.2 million for 2016, a 32% increase over 2015;
 - ACV bookings¹ of \$29.7 million, a 38% increase over 2015; and
 - ARR² of \$122.2 million as of December 31, 2016, a 24% increase over December 31, 2015.
- Improved efficiencies, with free cash flow³ and expenses significantly outperforming our targets.
- Strengthened our management team through the addition of Wagner Williams as our Chief People Officer, Rob Reiner as our Chief Technology Officer, and Michael Jahoda as our Sr. Vice President of Professional Services.
- Added a record number of new customers across a diverse range of industries and expanded relationships with a significant number of existing customers.
- Strengthened leadership position in the market with numerous awards around innovation and customer success, including the Computerworld Data + Editor's Choice Award, Digital Edge 50 Award, the prestigious CRM Watchlist Award and multiple Stevie Awards in the American and International programs.

¹ACV bookings are comprised of the estimated annual value of the total contract value of business closed during 2016, including license, maintenance, subscription, and services, but excluding committed maintenance beyond one year. ACV bookings are comprised of annual maintenance and subscriptions, and one seventh of the license TCV, and excludes services and subscription renewals.

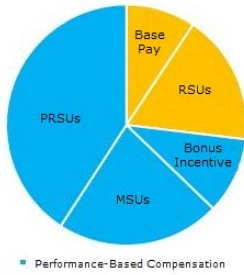
²ARR is currently one of our key performance metrics to assess the health and trajectory of our overall cloud business. ARR should be viewed independently of revenue, deferred revenue and any other GAAP measure as ARR is a performance metric and is not intended to be combined with any of these items. ARR is defined as the annualized contracted recurring revenue from subscription and maintenance contracts. Contracted revenue from perpetual license, term license and service agreements are not included in ARR.

³Free cash flow is a non-GAAP financial measure which is defined as net cash provided by operating activities, less additions to property, plant and equipment, purchases of other (non-acquisition-related) intangible assets and capitalized internal-use software development costs.

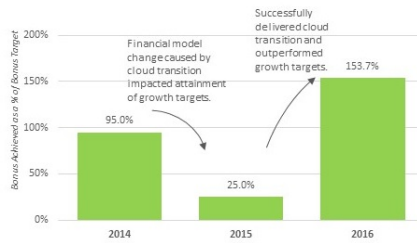
2016 Compensation Highlights

- *Continued emphasis on pay-for-performance.* In 2016, our Compensation Committee again sought to motivate our NEOs with “performance-based” compensation through performance-based equity awards and performance-based cash incentive 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, and the payouts of our performance restricted stock units (PRSU) awards to our NEOs are contingent on our stock achieving minimum growth thresholds. Similarly, our cash incentive plan incentivizes our NEOs to continuously improve our financial performance and to achieve our key strategic priorities with increased incentive opportunities possible based on improved Company performance. For example, as a result of our transition to a cloud company, we withstood planned revenue reduction and did not compare as well to our peer group, and therefore, for 2016 our CEO received no increase in annual base salary or target annual incentive, and target RSU and MSU equity awards were positioned below the 50th percentile of our peer group. In fact, *over 70%* of our CEO's total target compensation in fiscal year 2016 was contingent upon Company performance as illustrated below:

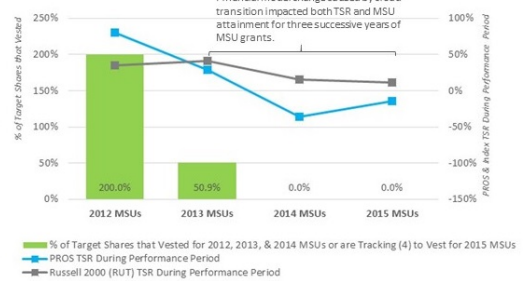
Majority of CEO pay is Performance-Based



Annual bonus attainment rewards achieving annual Company financial targets.



MSU attainment requires strong Total Shareholder Return (TSR) performance vs. our peer index over a three year period.



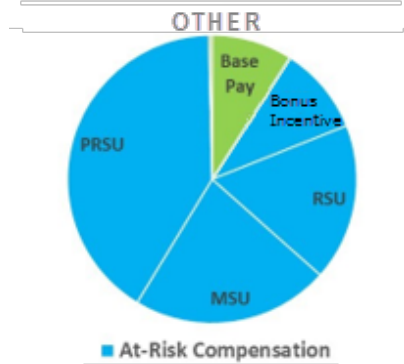
- Say-On-Pay Vote.** Each year, our Compensation Committee takes into account the result of the say-on-pay vote cast by our stockholders. At our 2016 Annual Meeting of Stockholders, our stockholders had the opportunity to provide an advisory vote on the compensation paid to our NEOs, or a “say-on-pay” vote. More than 85% of the total votes cast were 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 affirmed stockholder support of our approach to executive compensation. While say-on-pay is a key indicator of stockholder sentiment, we also keep an open dialogue with our institutional investors and stockholders throughout the year. We reach out to discuss business topics, seek feedback on our performance and address other matters of importance to our stockholders, such as executive compensation. Since our 2016 Annual Meeting, we have actively engaged with a significant majority of our largest institutional investors.
- One-Time Grant of Performance-based Restricted Stock Units.** In 2016, in addition to our normal practice of granting restricted stock unit (RSU) and market stock unit (MSU) awards, our Compensation Committee chose to make a one-time award of PRSUs to our NEOs in order to facilitate executive retention in a shareholder friendly way, as we complete our transition to a cloud company. These PRSUs also further ensure alignment with shareholders because the shares only vest upon achieving certain PROS stock price hurdles which represent significant growth targets over grant day stock prices as illustrated below:

Our one-time PRSU grant in 2016 supports CEO retention and rewards value created for delivering on our cloud transition.



- At-Risk Compensation.** As illustrated by the graph below, over 90% of our NEOs' target 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 cash incentive 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.

Percentage of 2016 Target Compensation
(Bonus Incentive, MSUs & PRSUs at Target Performance)
(Equity at Grant Date Fair Value)



Relationship Between Company Performance, Stock Price and CEO Compensation.

The following illustrates the directional relationship between our performance, based on our subscription revenue, ARR, our stock price, and the compensation of our CEO from 2014 to 2016. These metrics reflect our continued focus on aligning our executive compensation with our stockholder's interests.



(1) ARR is contracted recurring revenue at any point in time, which includes both subscription and maintenance contracts that are current and contracted with a future start date, and excludes perpetual license, term license and service agreements.

(2) Represents Mr. Reiner's total compensation as reported in the Summary Compensation table on page 42.

(3) Realized compensation represents Mr. Reiner's compensation as reported on his IRS W-2 form. This includes base salary paid for the year, cash incentive paid in the year, all equity awards that vested during the year using vesting date market value calculations, and the value of any other benefits received.

Our Compensation Philosophy

Our executive compensation program is designed to 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 executive compensation program is designed to reward superior performance and to achieve the following overall objectives:

Objective	Rationale
Competitive pay	Enable the Company to attract and retain high-caliber talent by setting compensation competitive with that being offered to individuals holding comparable positions at other public companies with which we compete for business and talent
Pay for performance	Provide a compensation package that is weighted heavily towards performance-based pay to motivate high performance among our NEOs, with compensation levels reflecting the achievement of short- and long-term performance objectives
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, as well as granting any share-based awards to 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;

- 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; and
- our Compensation Committee members attended continuing education related to compensation best practices provided by NYSE, NACD, and Equilar, among others.

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 to 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.

Role of Management

During 2016, Mr. Reiner reviewed the performance and compensation of the NEOs, other than himself, and made recommendations as to their compensation to the Compensation Committee. In making its decisions regarding executive compensation, the Compensation 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. In addition, 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 Independent Compensation Consultant

In 2016, the Compensation Committee retained Compensia to advise the Compensation Committee on executive compensation matters due to the breadth and depth of Compensia's experience with executive compensation matters and their particular expertise in the software industry. Compensia has served as our independent compensation consultant since 2010. Compensia did not perform any services for us in 2016 other than as serving as an adviser to the Compensation Committee.

During 2016, Compensia advised the Compensation Committee on a variety of subjects such as compensation plan design and trends, pay for performance analytics, benchmarking norms, executive compensation best practices, and other related matters. Compensia reports directly to the Committee, participates in meetings as requested and communicates with the Compensation Committee Chair between meetings as necessary.

Prior to engaging Compensia, the Compensation Committee reviewed the firm's qualifications, as well as its independence and any potential conflicts of interest. The Compensation Committee has the sole authority to modify or approve Compensia's compensation, determine the nature and scope of its services, evaluate its performance, and terminate the engagement and hire a replacement or additional consultant at any time.

Stockholder Say-On-Pay

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 2016, more than 85% 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' continued 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.

Peer Group

To assist the Compensation Committee in its deliberations on executive compensation, Compensia reviewed our peer group for appropriateness based on a variety of factors including: similarities in revenue levels and size of market capitalization,

similarities to the industries in which we operate, the overlapping labor market for top management talent, our status as a publicly traded, U.S.-based firm, and various other characteristics. As a result of this review, the Committee determined the following changes to the peer group were appropriate:

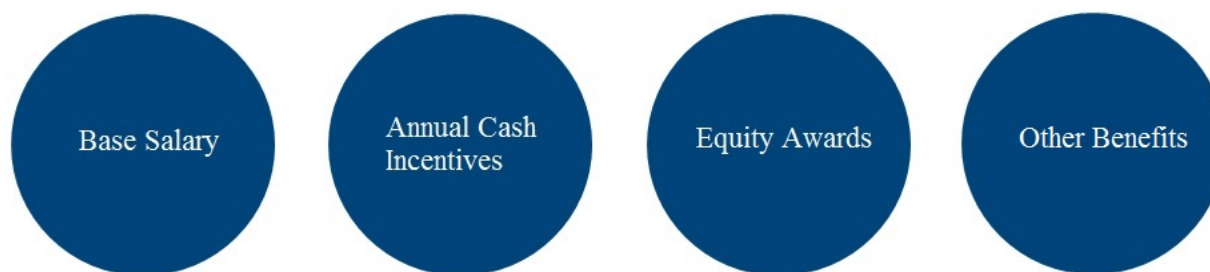
Changes	Companies	
Removals	comScore	SolarWinds
	Perficient	Ultimate Software
	Qlik Technologies	
Additions	Callidus Software	TubeMogul
	Jive Software	Varonis Systems
	Paylocity Holdings	

With these changes, the Compensation Committee examined the practices of the following 18 companies that we believe most closely approximate the size, scope and complexity of our business. This new group was used in 2016 for setting target compensation levels for NEOs for 2016, among other things:

Aspen Technology	Demandware	Paylocity Holding
Bazaarvoice	Imperva	RealPage
Bottomline Technologies	Jive Software	SPS Commerce
Callidus Software	LivePerson	TubeMogul
Constant Contact	LogMeIn	Varonis Systems
Cornerstone OnDemand	Marketo	VASCO Data Security

Compensia prepared a compensation analysis using data gathered from publicly available information for this 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.

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 and represent the minimum payment for a satisfactory level of individual performance as long as the executive remains employed with us. Base salary is set at the Compensation Committee's discretion after taking into account the competitive landscape including the compensation practices of the companies in our selected peer groups, our business strategy, our performance goals and certain individual factors, such as position, salary history, individual performance and contribution, length of service with the Company and placement within the general base salary range offered to our NEOs.

In February 2016, the Compensation Committee reviewed the responsibilities and performance of our NEOs, their tenure with us, and their existing compensation packages. Based on this review, the Compensation Committee set the base salaries for our NEOs for 2016 as follows:

NEO	Base Salary ⁽¹⁾		Percentage Increase	2016 Peer Group Percentile
	2016	2015		
Andres D. Reiner	\$ 525,000	\$ 525,000	-	75th
Stefan B. Schulz	\$ 365,000	\$ 350,000	4.3%	75th
D. Blair Crump	\$ 420,000	\$ 420,000	-	>75th

(1) Reflects annual base salaries. The 2015 base salary for Mr. Schulz and 2016 base salary for Mr. Crump are annualized.

The Compensation Committee did not make any changes to the salaries of Messrs. Reiner and Crump in 2016 because their base annual salaries remained at or above 75th percentile for our peer group. Instead the Compensation Committee focused on incenting performance through variable, rather than fixed, performance-based compensation. The Compensation Committee increased Mr. Schulz's base salary for 2016, in light of his expected contributions and responsibilities for 2016.

Executive compensation activities in 2017. In January 2017, the Compensation Committee reviewed the responsibilities and performance of Messrs. Reiner and Schulz, their tenure with us, and their existing compensation packages. Based on this review, the Compensation Committee did not make any changes to the salaries of Messrs. Reiner and Schulz for 2017 as their salaries remained at or above 75th percentile for our peer group.

Cash Incentives

We have a cash incentive plan for our NEOs under which cash incentive payments may be made at the end of each quarter and after the end of each year based on our performance against our corporate objectives for each quarter and the year, respectively. The cash incentive program is intended to reward our NEOs upon the achievement of 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 threshold target and maximum levels.

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 threshold, target and the maximum goal levels are pro-rated. The discretionary component for 2016 was determined by the Compensation Committee 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 successfully implement our cloud strategy and execute our corresponding financial plan by achieving quarterly and annual goals.

Executive compensation activities in 2016. In March 2016, our Compensation Committee approved our 2016 Named Executive Officer Plan (2016 NEO Plan) for each of our NEOs. The 2016 NEO Plan introduces ACV bookings and free cash flow as new components in order to tie our NEOs compensation to the health and trajectory of our overall cloud business, and also includes the ARR and discretionary components consistent with the Revised 2015 NEO Plan. In order to closely tie our NEOs' compensation to the performance of our business, the 2016 NEO Plan sets targets incentive payment amounts based upon achievement of quarterly and annual goals related to ACV bookings and ARR and annual goals related to free cash flow. The discretionary component of the 2016 NEO Plan includes non-numeric goals and objectives intended to position the Company for longer term growth. The weighting of the 2016 NEO Plan components is set forth in the following table:

	Quarterly	Annually
Component Weighting		
ACV ¹	20.0% (5% per Qtr)	10%
ARR ²	20.0% (5% per Qtr)	10%
Free Cash Flow ³	-	25.0%
Discretionary	-	15.0%
Subtotal:	40.0%	60%
Total Incentive Opportunity	100.0%	

⁽¹⁾ACV bookings are comprised of the estimated annual value of the total contract value of business closed during 2016, including license, maintenance, subscription, and services, but excluding committed maintenance beyond one year. ACV bookings are comprised of annual maintenance and subscriptions, and one seventh of the license TCV, and excludes services and subscription renewals.

⁽²⁾ARR is contracted recurring revenue at any point in time, which includes both subscription and maintenance contracts that are current and contracted with a future start date, and excludes perpetual license, term license and service agreements.

⁽³⁾Free cash flow is a non-GAAP financial measure which is defined as net cash provided by operating activities, less additions to property, plant and equipment, purchases of other (non-acquisition-related) intangible assets and capitalized internal-use software development costs.

Payouts under the 2016 NEO Plan were based on Company performance each quarter and at the end of the year compared to each component's target. The discretionary component was determined by the Compensation Committee after the end of the Company's fiscal year. The Compensation Committee authorized the payments under the 2016 NEO Plan after audited results were determined for each quarter and annual performance period in February 2017. No incentive payment could be earned for performance below the target minimum threshold and the maximum incentive earned could not exceed the incentive amount at the target maximum. The quarterly and annual target, minimum threshold and maximum for each component are set forth in the following table:

	Threshold, Target, & Maximum Goals (\$M)				
	Quarterly				Annual
Component	Q1	Q2	Q3	Q4	2016
ACV Bookings					
Maximum	0	0	0	0	33.0
Target	7.3	7.2	7.3	7.2	29.0
Threshold	6.3	6.2	6.3	6.2	25.0
ARR					
Maximum	0	0	0	0	124.5
Target	102.5	108.3	114.5	120.6	120.6
Threshold	101.7	106.7	111.9	117.0	117.0
Free Cash Flow					
Maximum	0	0	0	0	(32.2)
Target	0	0	0	0	(36.2)
Threshold	0	0	0	0	(38.2)

For the 2016 NEO Plan, the Compensation Committee set the incentive pay as a percentage of the base salary of each of our NEOs, based on achievement of the minimum threshold targets for each component above, as set forth in the following table:

Named Executive Officer	At Target Threshold	At Target	At Target Maximum
Andres D. Reiner	55%	110%	220%
Stefan B. Schulz	40%	80%	160%
D. Blair Crump	50%	100%	200%

The actual payout for 2016 performance as a percentage of the base salary of each 2016 NEO reflects actual performance against the target range as described above, and are set forth in the following table:

Named Executive Officer	Actual Payout
Andres D. Reiner	169.1%
Stefan B. Schulz	123.0%
D. Blair Crump	17.1%

For 2016, the target total cash compensation (base salary plus target cash incentives) was positioned relative to our peer group for 2016 near the 75th percentile for Mr. Reiner, above the 75th percentile for Mr. Crump, and near the 75th percentile for Mr. Schulz.

Executive compensation activities in 2017. In March 2017, our Compensation Committee approved our 2017 Named Executive Officer Plan (2017 NEO Plan) for each of our NEOs. The 2017 NEO Plan eliminated the ACV bookings and discretionary elements from the 2016 NEO Plan, retained the ARR and free cash flow elements from the 2016 NEO Plan, and added non-GAAP gross profit as a new element for 2017. ACV was eliminated because new bookings from ACV are reflected in ARR and was replaced with the addition of non-GAAP gross profit. We believe the combination of ARR, non-GAAP gross profit, and free cash flow are the best indicators to measure the health and trajectory of our overall cloud business at this point in our cloud transition. In order to closely tie NEO compensation to the performance of our business, the 2017 NEO Plan sets target incentive payment amounts based upon achievement of quarterly and annual goals related to ARR and non-GAAP gross profit, and annual goals related to free cash flow. The weighting of the 2017 NEO Plan components is set forth in the following table:

	Threshold	Target	Maximum
Quarterly Component			
ARR	14.0% (3.5% per Qtr)	28.0% (7% per Qtr)	28.0% (7% per Qtr)
Non-GAAP Gross Profit ¹	10.0% (2.5% per Qtr)	20.0% (5% per Qtr)	20.0% (5% per Qtr)
Free Cash Flow	0	0	0
Quarterly Total:	24.0%	48.0%	48.0%
Annual Component			
ARR	11.0%	22.0%	72.0%
Non-GAAP Gross Profit ¹	2.5%	5.0%	30.0%
Free Cash Flow	12.5%	25.0%	50.0%
Annual Total:	26.0%	52.0%	152.0%
Total Incentive Opportunity	50.0%	100.0%	200.0%

⁽¹⁾ Non-GAAP gross profit is gross profit calculated in accordance with generally accepted accounting principles, excluding the impact of stock-based compensation, severance and the amortization of acquisition-related intangibles.

In setting the targets for these components, 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 the 2017 NEO Plan, the incentive payment as a percentage of the base salary for each continuing NEO remains unchanged from 2016. For 2017, the target total cash compensation (base salary plus target cash incentives) was positioned relative to our peer group for 2017 above the 75th percentile for each of Messrs. Reiner and Schulz.

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.

Executive compensation activities in 2016. In 2016, the Compensation Committee considered the equity mix for our NEOs and believed it was in our best interests to grant equity awards in a mix of MSUs, RSUs, and PRSUs under our 2007 Equity Incentive Plan (2007 Plan). We granted equity awards to each of our NEOs in an equal mix of MSUs and RSUs in March 2016, and provided a one-time supplementary grant of PRSUs to each of Messrs. Reiner and Schulz in September 2016.

Based on the Company's mixed financial results vs. targets in 2015 during the beginning of our cloud transition, the MSU and RSU grants combined for 2016 were positioned below the 50th percentile of our peer group for Mr. Reiner and between the 50th and 75th percentile of our peer group for Mr. Schulz.

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. The vesting of MSUs has played a key role in our pay for performance approach but because they are performance based, MSUs can cause NEO Realized Pay to differ materially from reported pay for several reasons. First, because the performance period for our MSUs is generally three years, there is a multi-year lag between the MSU grant date and vesting date. During this period, the MSU grant is a component of total NEO reported compensation, but there is no realized compensation unless and until the MSU vests. Second, total NEO reported compensation includes the fair market value of the MSUs, which on a per share basis, differs from the actual market value of the underlying shares of our Common Stock. For example, the 2016 MSUs granted on March 24, 2016 had fair market value of \$14.29 per share, which was 25% higher than the \$11.40 per share closing price of our Common Stock as reported on the NYSE. Finally, MSUs may not vest, or may vest below target if our TSR does not sufficiently perform relative to the Index. For example, none of the MSUs granted in 2014 vested in 2017, and only 51% of the MSUs granted in 2013 vested in 2016. These limited vesting results were caused by the decrease in the Company's stock price during the early stages of the Company's transition to a cloud company. For more information on realized versus reported pay, see page 42.

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 2016 to each of Messrs. Reiner and Schulz vest in four equal annual installments on March 1st of each year.

PRSUs are performance vested units which will vest if the average trailing closing price of the Company's Common Stock meets certain minimum stock price growth hurdles. The Committee believes these PRSUs further align the interests of the Company's senior management with the Company's shareholders and further enhances the relationship between their pay and performance. The Committee provided these PRSUs as a one-time supplementary grant in 2016 after consulting with Compensia on the unvested equity value remaining for Messrs. Reiner and Schulz. The Committee considered that the impact of our cloud transition on share price appreciation caused the 2013 MSUs to vest under target, the 2014 MSUs to vest at zero attainment, and the 2015 MSUs were not on track to vest many shares as of the date the PRSUs were granted. Therefore, the Committee decided to supplement these previous year MSUs with an additional, one-time grant of PRSUs to both (a) reward our NEOs for creating shareholder value by executing on all key milestones during the first 15 months of our cloud transition, and (b) retain and incent our NEOs to create further incremental shareholder value through our cloud transition, with shareholder-friendly payouts only if our stock price substantially appreciates and exceeds preset share price growth targets.

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 2016, the value of Mr. Reiner's target equity award was positioned below the peer group 50th percentile, reflecting the Company's mixed performance in 2015 during the beginning of our cloud transition. Mr. Crump did not receive an equity award in 2016 due to our mixed financial performance vs. results in 2015 and the substantial equity awards granted to Mr. Crump in 2014 and 2015. Mr. Schulz's target equity award in 2016 was positioned between the 50th percentile and the 75th percentile, reflecting his performance in 2015 and his expected contribution to the Company in the future.

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 2016 (2016 MSUs) have a three year performance period beginning in March 2016. 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%.

The actual number of shares of our Common Stock issuable under PRSUs is based on our stock price performance for at least 105 calendar days prior to September 9, 2020, with 25% vesting at \$27, an additional 25% vesting at \$33, and the remaining 50% vesting at \$41 (each, an "Average Per Share Closing Price"). In the event of a change in control, the stock price at the time of the change in control would determine the percentage of PRSUs issued using the same price hurdles above.

The following table sets forth information as of December 31, 2016 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 in our 2016 Annual Report.

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	4,280,965	\$ 11.75	774,967
All compensation plans not previously approved by security holders	7,500	—	—
Total	4,288,465	\$ 11.75	774,967

Our 2007 Plan provided a formula for automatic increases in the number of securities available for issuance under such plan. The maximum aggregate number of securities that could have been issued under the 2007 equity incentive plan cumulatively increased 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 of Directors.

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 former Chief Operating Officer and RSUs granted to certain new employees in connection with the acquisitions of Cameleon Software SA and SignalDemand, Inc.

Executive compensation activities in 2017. In 2017, the Compensation Committee reconsidered 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 to our Chief Executive Officer and adjusted the equity mix for Mr. Schulz to be 60% RSUs and 40% MSUs to better align with our peer group compensation practices. RSUs granted in 2017 to our NEOs vest in four equal annual installments on January 1st of each year. The MSUs awarded in 2017 (2017 MSUs) to each of our NEOs have a three year performance period beginning March 2017. 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 2.5 to 1 (two and one-half-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 2.5 to 1 (two and one-half-percentage-point increase in the number of target units for each percentage point of over-performance), with a maximum percentage of 200%. The 2016 PRSU grant was a one-time action to reward our executives for the shareholder value created through the successful performance through our cloud transition in 2016. The Committee does not plan to grant PRSUs in 2017.

For 2017, the value of Mr. Reiner's target equity award was positioned at the peer group 75th percentile and Mr. Schulz's target equity award was positioned above the peer group 75th percentile given the Company's positive results against targets in 2016 and the substantial progress made in leading the Company's cloud transition. The decision to go above the 75th percentile for Mr. Schulz was based on his especially positive performance 2016 and the direct impact of his performance on the Company's results.

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
- business-related 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 eligible compensation. We may also make discretionary contributions. In 2016, 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. We provide 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 may 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.

Employment Agreements

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 automatically renewed for an additional three year term in May 2016, and will automatically renew for additional 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 with respect to such shares that would have vested following the date of termination. 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. 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 B. 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.

D. Blair Crump. On July 29, 2016, Mr. Crump, our former Chief Operating Officer, separated from his employment with us. In connection with such separation, we and Mr. Crump entered into a General Release dated as of August 1, 2016 (the "Separation Agreement"), pursuant to the terms of the employment agreement we entered into with Mr. Crump in February 2014. Pursuant to the terms of the Separation Agreement, we (i) paid Mr. Crump as severance his full base salary in effect on the departure date for a period of 12 months, (ii) paid Mr. Crump his unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) paid 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) paid an amount equal to twelve times the monthly cost of Mr. Crump's health benefits, and (v) accelerated the vesting of 72,525 of Mr. Crump's RSU awards. Mr. Crump remains subject to non-competition and non-solicitation restrictions for the 12-month 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.

Executive 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' and directors' 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. These guidelines 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 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 or director 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, 2016, each of our NEOs and directors were in compliance with the applicable guidelines.

Clawback Policy

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. This “clawback” policy is designed to further link our executive compensation and our long-term performance.

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 2017. 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.

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REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

We, the Compensation Committee of the Board of Directors of PROS Holdings, Inc., have reviewed and discussed the preceding Compensation Discussion and Analysis with management. Based on this review and discussion, we recommended to the Board of Directors, and the Board of Directors has agreed that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Greg B. Petersen, Chairman
Leslie Rechan
William Russell

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EXECUTIVE COMPENSATION

Realized Compensation

Realized pay differs from the reported total compensation required to be disclosed by the SEC in our Summary Compensation Table below, and is not a substitute for the amounts reported in that table. Realized pay differs from reported total compensation primarily as a result of the difference between the grant-date fair value of equity-based awards required to be disclosed in the Summary Compensation Table and the value realized by our executives when the restrictions on equity awards vest before payment of withholding taxes and brokerage commissions. In addition, these amounts may differ substantially in a particular year because reported pay may be realizable only if performance measures are met or stock price level is achieved. To supplement the required SEC disclosure, for the past three years in aggregate, realized pay was 64% of reported pay, as further detailed on the following table which shows compensation actually realized by each named executive, as reported on his IRS W-2 form, as compared with the total reported pay included in the 2016 Summary Compensation Table:

Name and Principal Position	Year	Total Reported Comp. (\$)	W-2 Realized Comp.
Andres D. Reiner ⁽¹⁾ <i>President and Chief Executive Officer</i>	2016	6,129,555	3,594,770
	2015	4,158,991	2,705,603
	2014	4,146,583	9,926,938
Stefan B. Schulz ⁽²⁾ <i>Executive Vice President and Chief Financial Officer</i>	2016	3,154,350	759,006
	2015	3,255,779	389,198
	2014	—	—
D. Blair Crump ⁽³⁾ <i>Former Chief Operating Officer</i>	2016	2,676,216	2,942,722
	2015	3,378,595	1,335,250
	2014	7,556,251	363,846

- (1) In 2014, realized pay for Mr. Reiner included the vesting and payment of MSUs for the 2012-2013 performance period. In 2016, realized pay for Mr. Reiner included the vesting and payment of MSUs for the 2013-2015 performance period.
- (2) Mr. Schulz commenced his employment with us on March 3, 2015.
- (3) Mr. Crump separated from his employment with us on July 29, 2016.

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 2016, 2015 and 2014:

Name and Principal Position	Year	Salary (\$)	Stock Awards (1) (\$)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (2) (\$)	Total (\$)
Andres D. Reiner <i>President and Chief Executive Officer</i>	2016	525,000	4,696,100 (3)	887,618	20,837	6,129,555
	2015	525,000	3,472,040 (4)	144,375	17,576	4,158,991
	2014	475,000	3,157,533 (5)	496,375	17,675	4,146,583
Stefan B. Schulz <i>Executive Vice President and Chief Financial Officer</i>	2016	365,000	2,320,825 (7)	448,804	19,721	3,154,350
	2015	289,198 (6)	2,780,800 (8)	70,000 (6)	115,781 (9)	3,255,779
	2014	—	—	—	—	—
D. Blair Crump <i>Former Chief Operating Officer</i>	2016	245,000 (10)	—	42,000	2,389,216 (13)	2,676,216
	2015	420,000	2,834,690 (11)	105,000	18,905	3,378,595
	2014	366,667	6,776,250 (12)	400,000	13,334	7,556,251

- (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 11 of our financial statements in our Form 10-K for the year ended December 31, 2016, as filed with the SEC.
- (2) Represents matching contributions for each individual's 401(k) Plan contributions, life insurance premiums and health insurance. For Mr. Reiner, includes executive physical and for Mr. Crump, includes severance benefits.
- (3) Represents 90,000 RSUs and 90,000 MSUs awarded to Mr. Reiner on March 24, 2016 and 200,000 PRSUs awarded to Mr. Reiner on September 9, 2016. The RSUs vest annually in one fourth installments on March 1st of each year and have a grant date fair value of \$11.40. The 2016 MSUs will vest on March 1, 2019, and have a grant date fair value of \$14.29. The 2016 PRSUs will vest based on stock price performance criteria, and have a grant date fair value of \$11.92. For additional information regarding the 2016 MSUs, see "2016 Grants of Plan-Based Awards" below.

- (4) Represents 57,200 RSUs and 57,200 MSUs awarded to Mr. Reiner on January 23, 2015. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$27.11. The 2015 MSUs will vest on January 1, 2018, and have a grant date fair value of \$33.59. The January 2015 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, 2017 (January 2015 MSU Performance Period).
- (5) 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 MSUs granted in February 2014 (2014 MSUs) vested on January 1, 2017, and had a grant date fair value of \$48.32. The 2014 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, 2016 (2014 MSU Performance Period). Based on the average price of our Common Stock relative to the Index during the 2014 MSU Performance Period, the actual number of shares issued upon vesting of the 2014 MSUs was 0% of the 2014 MSUs initially granted.
- (6) Mr. Schulz commenced his employment with us in March 2015.
- (7) Represents 62,500 RSUs and 62,500 MSUs awarded to Mr. Schulz on March 24, 2016 and 60,000 PRSUs awarded to Mr. Schulz on September 9, 2016. The RSUs vest annually in one fourth installments on March 1st of each year and have a grant date fair value of \$11.40. The 2016 MSUs will vest on March 1, 2019, and have a grant date fair value of \$14.29. The 2016 PRSUs will vest based on stock price performance criteria, and have a grant date fair value of \$11.92. For additional information regarding the 2016 MSUs, see "2016 Grants of Plan-Based Awards" below.
- (8) Represents 82,500 RSUs and 27,500 MSUs awarded to Mr. Schulz on March 3, 2015. The RSUs vest annually in one fourth installments on March 3rd of each year and have a grant date fair value of \$24.32. The 2015 MSUs will vest on March 3, 2018, and have a grant date fair value of \$28.16. The March 2015 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 March 2, 2018 (March 2015 MSU Performance Period).
- (9) Includes one-time relocation and related costs in the amount of \$100,000 related to Mr. Schulz relocation to Houston, Texas in connection with his employment with the Company.
- (10) Mr. Crump's employment with us ended on July 29, 2016.
- (11) Represents 46,700 RSUs and 46,700 MSUs awarded to Mr. Crump on January 23, 2015. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$27.11. The 2015 MSUs vest on January 1, 2018, and had a grant date fair value of \$33.59. Upon Mr. Crump's separation from employment with the Company, the last two annual installments for these RSUs vested while the MSUs failed to vest.
- (12) 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. 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. Upon Mr. Crump's separation, the final annual installments for these RSUs vested while the MSUs failed to vest.
- (13) Amounts shown include severance (\$1,027,215) and the cost (value at vest) of accelerated vesting of RSUs (\$1,347,515).

Grants of Plan-Based Awards

The following table shows all plan-based awards granted to our NEOs during 2016, 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	PRSU ⁽¹⁾	9/9/2016				200,000	200,000		\$ 11.92	2,384,000
	RSU	3/24/2016						90,000	\$ 11.40	1,026,000
	MSU ⁽²⁾	3/24/2016				90,000	180,000		\$ 14.29	1,286,100
	Cash incentive	2/17/2016	\$ 288,750	577,500	1,155,000					
Stefan B. Schulz	PRSU ⁽¹⁾	9/9/2016				60,000	60,000		\$ 11.92	715,200
	RSU	3/24/2016						62,500	\$ 11.40	712,500
	MSU ⁽²⁾	3/24/2016				62,500	125,000		\$ 14.29	893,125
	Cash incentive	2/17/2016	\$ 140,000	280,000	560,000					
D. Blair Crump ⁽³⁾	Cash incentive	2/17/2016	\$ 210,000	420,000	840,000					

- (1) The 2016 PRSUs are performance-vested units which will vest if the average trailing closing price of the Company's Common Stock meets certain minimum performance hurdles for at least 105 calendar days prior to September 9, 2020, with 25% vesting at \$27, an additional 25% vesting at \$33, and the remaining 50% vesting at \$41.
- (2) The 2016 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 February 28, 2019 (2016 MSU Performance Period). The 2016 MSUs vest on March 1, 2019, and the maximum number of shares issuable upon vesting is 200% of the 2016 MSUs initially granted based on the average price of our Common Stock relative to the Index during the 2016 MSU Performance Period. Includes the target number of shares issuable at the grant date fair value per share of \$14.29 for the 2016 MSUs.
- (3) Mr. Crump separated from his employment with the Company in July 2016.

Outstanding Equity Awards at Fiscal Year End

The following table presents the number of options to purchase shares of our Common Stock, SARs, RSUs, MSUs and PRSUs held by our NEOs as of December 31, 2016:

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, units 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	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		
					26,250 (1)	564,900
					18,450 (2)	397,044
					36,900 (3)	794,088
					42,900 (4)	923,208
					57,200 (5)	1,230,944
					90,000 (6)	1,936,800
					90,000 (7)	1,936,800
					200,000 (8)	4,304,000
Stefan B. Schulz	—	—			61,875 (9)	1,331,550
					27,500 (10)	591,800
					62,500 (6)	1,345,000
					62,500 (7)	1,345,000
					60,000 (8)	1,291,200

- (1) Represents the unvested portion of the 105,000 RSUs awarded to Mr. Reiner on January 18, 2013. The RSUs vest annually in one fourth installments on January 1st of each year and have a grant date fair value of \$19.36.
- (2) Represents the unvested portion of the 36,900 RSUs 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.
- (3) Represents 2014 MSUs awarded to Mr. Reiner on February 11, 2014. These 2014 MSUs vested on January 1, 2017. The amounts shown above reflect the number and market value, as of December 31, 2016, 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. Based on the average price of our Common Stock relative to the Index during the 2014 MSU Performance Period, the actual number of shares issued upon vesting of the 2014 MSUs was 0% of the 2014 MSUs initially granted.
- (4) Represents the unvested portion of the 57,200 RSUs awarded to Mr. Reiner on January 23, 2015. These RSUs vest annually in one fourth installments on January 1st of each year.
- (5) Represents January 2015 MSUs awarded on January 23, 2015. These January 2015 MSUs vest on January 1, 2018. The amounts shown above reflect the number and market value, as of December 31, 2016, of January 2015 MSUs that would be earned if the performance goals related to these awards were met at the target level at the end of the January 2015 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 depend on our TSR for the period from January 1, 2015 and December 31, 2017 as compared to the Index.
- (6) Represents the unvested portion of the 2016 RSUs awarded to Messrs. Reiner and Schulz on March 24, 2016. These RSUs vest annually in one fourth installments on March 1 of each year and had a grant date fair value of \$11.40.
- (7) Represents 2016 MSUs awarded to Messrs. Reiner and Schulz on March 24, 2016. These 2016 MSUs vest on March 1, 2019. The amounts shown above reflect the number and market value, as of December 31, 2016, of 2016 MSUs that would be earned if the performance goals related to these awards were met at the target level at the end of the 2016 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 March 1, 2016 and March 1, 2019 as compared to the Index.
- (8) Represents 2016 PRSUs awarded to Messrs. Reiner and Schulz on September 9, 2016. These 2016 PRSUs will vest if the average trailing closing price of the Company's Common Stock meets certain minimum performance hurdles for at least 105 calendar days prior to September 9, 2020, with 25% vesting at \$27, an additional 25% vesting at \$33, and the remaining 50% vesting at \$41.
- (9) Represents the unvested portion of the RSUs awarded to Mr. Schulz on March 3, 2015. Mr. Schulz was awarded 82,500 RSUs. The RSUs vest annually in one fourth installments on March 3rd of each year and have a grant date fair value of \$24.32.
- (10) Represents March 2015 MSUs awarded on March 3, 2015 to Mr. Schulz. These March 2015 MSUs vest on March 3, 2018. The amounts shown above reflect the number and market value, as of December 31, 2016, of March 2015 MSUs that would be earned if the performance goals related to these awards were met at the target level at the end of the March 2015 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 depend on our TSR for the period from March 3, 2015 and March 2, 2018 as compared to the Index.

Equity Awards Vested

The following table presents information on the vesting of RSUs and MSUs for our NEOs during the year ended December 31, 2016:

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	69,775	50,929	\$ 2,781,020
Stefan B. Schulz	20,625	—	\$ 251,006
D. Blair Crump ⁽⁴⁾	102,950	—	\$ 2,048,507

(1) Represents the vesting of RSUs.

(2) Represents the vesting of MSUs.

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

(4) Includes January 1, 2016 time vesting of RSUs and accelerated RSU vesting upon separation from employment.

Potential Payments Upon Termination or Change of Control

The terms and conditions of our employment agreements with all of our NEOs are discussed above under “Compensation Discussion and Analysis – Employment Agreements.” The following table shows potential payments upon termination or a change of control for NEOs who are currently employed by us assuming the event that triggered the payment occurred December 31, 2016, and that there was no bonus earned but unpaid prior to termination.

Name	Potential Payment on		
	Voluntary Termination or Termination for Cause (\$)	Involuntary Termination (Without Cause) or Termination by NEO for Good Reason (\$)	Involuntary Termination (Without Cause) or Termination by NEO for Good Reason on Change of Control (\$)
Andres D. Reiner			
Severance ⁽¹⁾	\$ —	\$ 1,102,500	\$ 1,653,750
Bonus ⁽²⁾	—	404,250	404,250
Health Benefits ⁽³⁾	—	22,331	33,497
Accelerated Equity	—	3,821,952	12,087,784
Total	\$ —	\$ 5,351,033	\$ 14,179,281
Stefan B. Schulz			
Severance ⁽¹⁾	\$ —	\$ 657,000	\$ 985,500
Bonus ⁽²⁾	—	204,400	204,400
Health Benefits ⁽³⁾	—	17,837	26,755
Accelerated Equity	—	120,763	5,904,550
Total	\$ —	\$ 1,000,000	\$ 7,121,205

(1) Reflects the NEOs' then current base monthly salary for twelve months for termination without cause, and eighteen months for termination without cause on a change of control, and in each case, payable on normal payroll cycles.

(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 for termination without cause, and for eighteen months for termination without cause on change of control.

(3) Reflects health benefits as made generally available to employees for twelve months for termination without cause, and for eighteen months for termination without cause on change of control.

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 2018.

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 28) and related compensation tables for detailed information about our executive compensation programs, including information about the fiscal year 2016 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.

DIRECTOR COMPENSATION

The Board of Directors has approved a compensation structure for non-employee directors consisting of an equity award, annual cash retainer and, for certain positions, a supplemental cash retainer(s). All cash retainers are paid on a quarterly basis. In 2016, each non-employee member of our Board of Directors received 6,274 RSUs which vested in full on January 1, 2017. Each non-employee member of our Board of Directors received an annual cash retainer of \$35,000 in 2016. The non-executive chairman of our Board of Directors received a supplemental retainer of \$50,000 in 2016. In addition, each non-employee director serving as a chair or member of a standing committee of our Board of Directors received the following supplemental cash retainer(s):

Committee Role	Audit Committee (\$)	Compensation Committee (\$)	Nominating and Corporate Governance Committee (\$)
Member	15,000	15,000	7,500
Chair	30,000	20,000	10,000

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, committee meetings, and other Company 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.

2016 Director Compensation Table

The following table sets forth the compensation paid to our non-employee directors for service on our Board during 2016. Compensation for Andres D. Reiner our President and Chief Executive Officer, is set forth in the Summary Compensation Table on page 42. Mr. Reiner does not receive any compensation for his services as a director.

Name	Fees Earned or Paid in Cash (\$)	Restricted Stock Units (\$ (1))	Total (\$)
Ellen Keszler	57,500	85,577	143,077
Greg B. Petersen	70,000	85,577	155,577
Leslie Rechan	57,500	85,577	143,077
William Russell	110,000	85,577	195,577
Timothy V. Williams	72,500	85,577	158,077
Mariette M. Woestemeyer	35,000	85,577	120,577
Ronald F. Woestemeyer	35,000	85,577	120,577

(1) These amounts represent the aggregate grant date fair value of equity awards granted for such director's services in 2016 as calculated in accordance with GAAP. For additional information about the valuation assumptions with respect to equity awards, refer to Note 11 of our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC. The January 20, 2016 grant of RSUs awarded to all non-employee directors vested in full on January 1, 2017 and had a grant date fair value of \$13.64.

The following table presents the aggregate number of outstanding RSUs and stock option awards held by our non-employee directors as of December 31, 2016.

Name	Restricted Stock Units (#) (1)	Stock Option Awards (#) (2)
Ellen Keszler	6,274	30,000
Greg B. Petersen	6,274	30,000
Leslie Rechan	6,274	—
William Russell	6,274	—
Timothy V. Williams	6,274	30,000
Mariette M. Woestemeyer	6,274	30,000
Ronald F. Woestemeyer	6,274	—

(1) Represents RSUs granted on January 20, 2016, which fully vested on January 1, 2017, under the 2016 director compensation policy, for all non-employee directors. 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 granted on June 27, 2007 which previously vested and are immediately exercisable.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following tables set 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 issued and outstanding Common Stock as of the date indicated in the corresponding footnote;
- each director and director nominee; and
- each of our NEOs named in the Summary Compensation table, both individually and as a group.

Applicable percentage of ownership is based on 31,401,656 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.

Principal Shareholders	Shares Beneficially Owned	Percentage
Brown Capital Management, LLC ⁽¹⁾	4,884,820	15.4
Ronald F. and Mariette M. Woestemeyer ⁽²⁾	4,163,488	13.1
Riverbridge Partners, LLC ⁽³⁾	2,319,600	7.3
BlackRock, Inc. ⁽⁴⁾	1,586,478	5.0
D.F. Dent & Company, Inc. ⁽⁵⁾	1,580,150	5.0

- (1) Information regarding Brown Capital Management, LLC (Brown Capital) is based solely upon a Schedule 13G/A filed by Brown Capital with the SEC on February 9, 2017, which indicates that Brown Capital or certain of its affiliates beneficially owned 4,884,820 shares of our Common Stock as of December 31, 2016, and they had (a) sole voting power to direct the vote of 2,606,368 shares of our Common Stock and (b) sole dispositive power with respect to 4,884,820 shares of our Common Stock. The address of Brown Capital is 1201 N. Calvert Street, Baltimore, MD 21202.
- (2) Includes 4,163,488 shares held by various trusts for the benefit of certain family members.
- (3) Information regarding Riverbridge Partners LLC (Riverbridge) is based solely upon a Schedule 13G/A filed by Riverbridge with the SEC on January 24, 2017, which indicates that Riverbridge or certain of its affiliates beneficially owned 2,319,600 shares of our Common Stock as of December 31, 2016, and they had (a) sole voting power to direct the vote of 1,630,225 shares of our Common Stock and (b) sole dispositive power with respect to 2,319,600 shares of our Common Stock. The address of Riverbridge is 80 South Eighth St., Suite 1200, Minneapolis, MN 55402.
- (4) Information regarding BlackRock, Inc. (BlackRock) is based solely upon a Schedule 13G filed by BlackRock with the SEC on January 30, 2017, which indicates that BlackRock or certain of its affiliates beneficially owned, and had sole voting and dispositive power, with respect to 1,586,478 shares of our Common Stock as of December 31, 2016. The address of BlackRock is 55 East 52nd Street, New York, NY 10055.
- (5) Information regarding D.F. Dent & Company, Inc. (D.F. Dent) is based solely upon a Schedule 13G filed by D.F. Dent with the SEC on September 2, 2016, which indicates that D.F. Dent or certain of its affiliates beneficially owned, and had sole voting power with respect to 1,580,150 shares of our Common Stock as of December 31, 2015. The address of D. F. Dent is 400 East Pratt Street, 7th Floor, Baltimore, MD 21202.

Name of Beneficial Owner	Shares Beneficially Owned ⁽¹⁾	Percentage
Named Executive Officers		
Andres D. Reiner ⁽²⁾	810,363	2.5
Stefan B. Schulz	43,246	*
D. Blair Crump ⁽³⁾	45,840	*
Non-Employee Directors and Director Nominees		
Ellen Keszler ⁽⁴⁾	86,167	*
Greg B. Petersen	91,233	*
Leslie Rechan	20,334	*
William Russell	114,667	*
Timothy V. Williams ⁽⁴⁾	96,167	*
Mariette M. Woestemeyer ⁽⁵⁾	4,163,488	13.1
Ronald F. Woestemeyer ⁽⁵⁾	4,163,488	13.1
All NEOs, directors and director nominees as a group	5,471,505	17.2

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

- (1) Includes shares held and stock options, restricted stock units (RSUs), performance restricted stock units (PRSUs) and stock appreciation rights (SARs) exercisable within 60 days of the Record Date.
- (2) Includes 350,000 shares issuable pursuant to stock options and SARs that are immediately exercisable or exercisable within 60 days of the Record Date.
- (3) Mr. Crump separated from his employment with the Company as Chief Operating Officer on July 29, 2016. Information with respect to Mr. Crump's shares is based solely on Forms 4 filed prior to his separation.
- (4) Includes 30,000 shares issuable pursuant to stock options which are immediately exercisable.
- (5) Mr. and Mrs. Woestemeyer beneficially own an aggregate of 4,163,488 shares, which include shares held by various trusts for the benefit of certain family members.

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 2016, all of our NEOs and directors filed the required reports on a timely basis under Section 16(a).

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since January 1, 2016, 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 and Mariette Woestemeyer, who each serve on our Board of Directors, jointly 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.

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REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

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. The Audit Committee reviews and assesses the adequacy of its charter at least annually and, when appropriate, recommends changes to the Board to reflect the evolving role of the Audit Committee. The Audit Committee is composed of non-employee directors who meet the independence and financial literacy requirements of the NYSE and additional, heightened independence criteria applicable to members of the Audit Committee under SEC and NYSE rules. The Audit Committee currently consists of Timothy V. Williams (Chairman), Greg B. Petersen and Ellen Keszler. Our Board of Directors has 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.

Primary Responsibilities

The Audit Committee oversees the Company’s accounting and financial reporting processes on behalf of the Board of Directors, and assists the Board in fulfilling its oversight responsibility relating to the integrity of the Company’s financial statements and the financial reporting process, the systems of internal accounting and financial controls, and the annual independent audit of the Company’s financial statements. The Audit Committee also oversees the independent auditors’ qualifications and independence. 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.

Oversight of Independent Auditors

The Audit Committee engaged PricewaterhouseCoopers LLP as our independent auditors for the year ended December 31, 2016. In its meetings with our independent auditors, the Audit Committee asks them to address, and discusses their responses to, several questions that the Audit Committee believes are relevant to its oversight. The Audit Committee also discussed with the independent auditors those matters required to be discussed by the auditors with the Audit Committee under the rules adopted by the Public Company Accounting Oversight Board (PCAOB). The Audit Committee received the written disclosures and the letter from the independent auditors required by applicable requirements of the PCAOB regarding the independent auditors’ communication with the Audit Committee concerning independence, and has discussed with the independent auditors their independence.

2016 Audited Financial Statements

In its oversight role, the Audit Committee relies on the work and assurances of the Company’s management. In fulfilling its oversight responsibilities in 2016, the Audit Committee reviewed and discussed with management the Company’s consolidated financial statements for the fiscal year ended December 31, 2016, 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 has discussed with the independent accountant the independent accountant’s independence, and (4) considered with the independent auditors whether the provision of non-audit services provided by them to the Company during 2016 was compatible with their independence. Based upon these discussions and reviews, the Audit Committee recommended to our Board of Directors, and the Board has approved, that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and filed with the SEC.

THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES

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 our 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 in 2016 billed for professional services rendered to us by PricewaterhouseCoopers LLP (PwC) in 2016 and 2015. A description of these various fees and services follows the table:

	2016	2015
Audit fees	\$ 1,434,387	\$ 1,398,563
Audit-related fees	—	—
Tax fees	140,000	201,000
All other fees	1,919	—
Total fees	<u>\$ 1,576,306</u>	<u>\$ 1,599,563</u>

Fees Billed by PricewaterhouseCoopers, LLP

Audit fees

The aggregate fees billed to us by PwC in connection with the annual audit of our financial statements, 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 \$1,434,387 and \$1,398,563 for the years ended December 31, 2016 and 2015, respectively. The fees remained relatively consistent over the two periods.

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 years ended December 31, 2016 and 2015.

Tax fees

The aggregate tax fees billed to us by PwC related to Research and Experimentation Tax Credit analysis, tax compliance, tax advice and tax planning, and were \$140,000 and \$201,000 for the years ended December 31, 2016 and 2015, respectively.

All other fees

The other fees consist of subscription fees for accounting and auditing research tool.

Audit Committee Approval of Services

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 2016, 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 PwC.

PROPOSAL FOUR

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, 2017. We have determined to submit the selection of auditors to stockholder ratification, even though it is not required by our governing documents or Delaware law. If the selection of PricewaterhouseCoopers LLP as our independent auditors is not ratified by our stockholders, our Audit Committee will reconsider, but might not change, its selection. 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.

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, 2017.

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 2017 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 2018 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, 2017.

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 2017 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 2017 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.

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.

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 7, 2017

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PROS 2017 Equity Incentive Plan

1. Establishment, Purpose and Term of Plan.

1.1 **Establishment.** The PROS 2017 Equity Incentive Plan (the “*Plan*”) is hereby established effective as of May __, 2017, the date of its approval by the stockholders of the Company (the “*Effective Date*”).

1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan seeks to achieve this purpose by providing for Awards in the form of Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Performance Shares, Performance Units, Cash-Based Awards and Other Stock-Based Awards.

1.3 **Term of Plan.** The Plan will continue in effect until its termination by the Committee; provided, however, that all Awards must be granted, if at all, within ten (10) years from the Effective Date.

2. Definitions and Construction.

2.1 **Definitions.** Whenever used herein, the following terms have their respective meanings set forth below:

a. “*Affiliate*” means (i) a parent entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) a subsidiary entity, other than a Subsidiary Corporation, that is controlled by the Company directly or indirectly through one or more intermediary entities. For this purpose, the terms “parent,” “subsidiary,” “control” and “controlled by” have the meanings assigned such terms for the purposes of registration of securities on Form S-8 under the Securities Act.

b. “*Award*” means any Option, Stock Appreciation Right, Restricted Stock Purchase Right, Restricted Stock Bonus, Restricted Stock Unit, Performance Share, Performance Unit, Cash-Based Award or Other Stock-Based Award granted under the Plan.

c. “*Award Agreement*” means a written or electronic agreement between the Company and a Participant setting forth the terms, conditions and restrictions applicable to an Award.

d. “*Board*” means the Board of Directors of the Company.

e. “*Cash-Based Award*” means an Award denominated in cash and granted pursuant to Section 11.

f. “*Cashless Exercise*” means a Cashless Exercise as defined in Section 6.3(b)(i).

g. “*Cause*” means, unless such term or an equivalent term is otherwise defined by the applicable Award Agreement or other written agreement between a Participant and a Participating Company applicable to an Award, any of the following: (i) the Participant’s theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit, or falsification of any Participating Company documents or records; (ii) the Participant’s material failure to abide by a Participating Company’s code of conduct or other policies (including, without limitation, policies relating to confidentiality and reasonable workplace conduct); (iii) the Participant’s unauthorized use, misappropriation, destruction or diversion of any tangible or intangible asset or corporate opportunity of a Participating Company (including, without limitation, the Participant’s improper use or disclosure of a Participating Company’s confidential or proprietary information); (iv) any intentional act by the Participant which has a material detrimental effect on a Participating Company’s reputation or business; (v) the Participant’s repeated failure to perform any reasonable assigned duties after written notice from a Participating Company of, and a reasonable opportunity to cure, such failure; (vi) any material breach by the Participant of any employment, service, non-disclosure, non-competition, non-solicitation or other similar agreement between the Participant and a Participating Company, which breach is not cured pursuant to the terms of such agreement; or (vii) the Participant’s conviction (including any plea of guilty or *nolo contendere*) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs the Participant’s ability to perform his or her duties with a Participating Company.

h. “**Change in Control**” means the occurrence of any one or a combination of the following:

i. any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total Fair Market Value or total combined voting power of the Company’s then-outstanding securities entitled to vote generally in the election of Directors; provided, however, that a Change in Control shall not be deemed to have occurred if such degree of beneficial ownership results from any of the following: (A) an acquisition by any person who on the Effective Date is the beneficial owner of more than fifty percent (50%) of such voting power, (B) any acquisition directly from the Company, including, without limitation, pursuant to or in connection with a public offering of securities, (C) any acquisition by the Company, (D) any acquisition by a trustee or other fiduciary under an employee benefit plan of a Participating Company or (E) any acquisition by an entity owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company; or

ii. an Ownership Change Event or series of related Ownership Change Events (collectively, a “**Transaction**”) in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding securities entitled to vote generally in the election of Directors or, in the case of an Ownership Change Event described in Section 2.1(ff)(iii), the entity to which the assets of the Company were transferred (the “**Transferee**”), as the case may be; or

iii. a date specified by the Committee following approval by the stockholders of a plan of complete liquidation or dissolution of the Company;

provided, however, that a Change in Control shall be deemed not to include a transaction described in subsections (i) or (ii) of this Section 2.1(h) in which a majority of the members of the board of directors of the continuing, surviving or successor entity, or parent thereof, immediately after such transaction is comprised of Incumbent Directors.

For purposes of the preceding sentence, indirect beneficial ownership includes, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Committee shall determine whether multiple events described in subsections (i), (ii) and (iii) of this Section 2.1(h) are related and to be treated in the aggregate as a single Change in Control, and its determination shall be final, binding and conclusive.

i. “**Code**” means the Internal Revenue Code of 1986, as amended, and any applicable regulations and administrative guidelines promulgated thereunder.

j. “**Committee**” means the Compensation Committee and such other committee or subcommittee of the Board, if any, duly appointed to administer the Plan and having such powers in each instance as specified by the Board. If, at any time, there is no committee of the Board then authorized or properly constituted to administer the Plan, the Board must exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

k. “**Company**” means PROS Holdings, Inc., a Delaware corporation, and any successor corporation thereto.

l. “**Consultant**” means a person engaged to provide consulting or advisory services (other than as an Employee or a Director) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on Form S-8 under the Securities Act.

m. “**Covered Employee**” means, at any time the Plan is subject to Section 162(m), any Employee who is or may reasonably be expected to become a “covered employee” as defined in Section 162(m), or any successor statute, and who, with respect to a Performance Award, is designated, either as an individual Employee or a member of a class of Employees, by the Committee no later than the earlier of (i) the date that is ninety (90) days after the beginning of the Performance Period, or (ii) the date on which twenty-five percent (25%) of the Performance Period has elapsed, as a “Covered Employee” under this Plan for such applicable Performance Period.

n. “**Director**” means a member of the Board.

o. “**Disability**” means, unless such term or an equivalent term is otherwise defined by the applicable Award Agreement or other written agreement between the Participant and a Participating Company applicable to an Award, the permanent and total disability of the Participant, within the meaning of Section 22(e)(3) of the Code.

p. “**Dividend Equivalent Right**” means the right of a Participant, granted at the discretion of the Committee or as otherwise provided by the Plan, to receive a credit for the account of such Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award held by such Participant.

q. “**Employee**” means any person treated as an employee (including an Officer or a Director who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a Director nor payment of a Director’s fee is sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual’s employment or termination of employment, as the case may be. For purposes of an individual’s rights, if any, under the terms of the Plan as of the time of the Company’s determination of whether or not the individual is an Employee, all such determinations by the Company are final, binding and conclusive as to such rights, if any, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination as to such individual’s status as an Employee.

r. “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

s. “**Fair Market Value**” means, as of any date, the value of a share of Stock or other property as determined by the Committee, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

i. Except as otherwise determined by the Committee, if, on such date, the Stock is listed or quoted on a national or regional securities exchange or quotation system, the Fair Market Value will be the closing price of a share of Stock as quoted on the national or regional securities exchange or quotation system constituting the primary market for the Stock, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or quotation system, the date on which the Fair Market Value is established will be the last day on which the Stock was so traded or quoted prior to the relevant date, or such other appropriate day as determined by the Committee, in its discretion.

ii. Notwithstanding the foregoing, the Committee may, in its discretion, determine the Fair Market Value of a share of Stock on the basis of the opening, closing, or average of the high and low sale prices of a share of Stock on such date or the preceding trading day, the actual sale price of a share of Stock received by a Participant, any other reasonable basis using actual transactions in the Stock as reported on a national or regional securities exchange or quotation system, or on any other basis consistent with the requirements of Section 409A. The Committee may vary its method of determination of the Fair Market Value as provided in this Section for different purposes under the Plan to the extent consistent with the requirements of Section 409A.

iii. If, on such date, the Stock is not listed or quoted on a national or regional securities exchange or quotation system, the Fair Market Value of a share of Stock must be determined by the Committee in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse, and in a manner consistent with the requirements of Section 409A.

t. “**Full Value Award**” means any Award settled in Stock, other than (i) an Option, (ii) a Stock Appreciation Right, or (iii) a Restricted Stock Purchase Right or an Other Stock-Based Award under which the Company will receive monetary consideration equal to the Fair Market Value (determined on the effective date of grant) of the shares subject to such Award.

u. “**Incentive Stock Option**” means an Option intended to be (as set forth in the Award Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

v. “**Incumbent Director**” means a Director who either (i) is a member of the Board as of the Effective Date or (ii) is elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but excluding a Director who was elected or nominated in connection with an actual or threatened proxy contest relating to the election of Directors of the Company).

- w. “**Insider**” means an Officer, a Director or other person whose transactions in Stock are subject to Section 16 of the Exchange Act.
- x. “**Net Exercise**” means a Net Exercise as defined in Section 6.3(b)(iii).
- y. “**Nonemployee Director**” means a Director who is not an Employee.
- z. “**Nonemployee Director Award**” means any Award granted to a Nonemployee Director.
- aa. “**Non-Exempt Employee**” means an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended.
- bb. “**Nonstatutory Stock Option**” means an Option not intended to be (as set forth in the Award Agreement evidencing such Option) or which does not qualify as an incentive stock option within the meaning of Section 422(b) of the Code.
- cc. “**Officer**” means any person designated by the Board as an officer of the Company.
- dd. “**Option**” means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.
- ee. “**Other Stock-Based Award**” means an Award denominated in shares of Stock and granted pursuant to Section 11.
- ff. “**Ownership Change Event**” means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company’s then outstanding securities entitled to vote generally in the election of Directors; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).
- gg. “**Parent Corporation**” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.
- hh. “**Participant**” means any eligible person who has been granted one or more Awards.
- ii. “**Participating Company**” means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.
- jj. “**Participating Company Group**” means, at any point in time, the Company and all other entities collectively which are then Participating Companies.
- kk. “**Performance Award**” means an Award of Performance Shares or Performance Units.
- ll. “**Performance Award Formula**” means, for any Performance Award, a formula or table established by the Committee pursuant to Section 10.3 which provides the basis for computing the value of a Performance Award at one or more levels of attainment of the applicable Performance Goal(s) measured as of the end of the applicable Performance Period.
- mm. “**Performance-Based Compensation**” means compensation under an Award that satisfies the requirements of Section 162(m) for certain performance-based compensation paid to Covered Employees.
- nn. “**Performance Goal**” means a performance goal established by the Committee pursuant to Section 10.3.
- oo. “**Performance Period**” means a period established by the Committee pursuant to Section 10.3 at the end of which one or more Performance Goals are to be measured.

- pp.* “**Performance Share**” means a right granted to a Participant pursuant to Section 10 to receive a payment equal to the value of a Performance Share, as determined by the Committee, based upon attainment of applicable Performance Goal(s).
- qq.* “**Performance Unit**” means a right granted to a Participant pursuant to Section 10 to receive a payment equal to the value of a Performance Unit, as determined by the Committee, based upon attainment of applicable Performance Goal(s).
- rr.* “**Restricted Stock Award**” means an Award of a Restricted Stock Bonus or a Restricted Stock Purchase Right.
- ss.* “**Restricted Stock Bonus**” means Stock granted to a Participant pursuant to Section 8.
- tt.* “**Restricted Stock Purchase Right**” means a right to purchase Stock granted to a Participant pursuant to Section 8.
- uu.* “**Restricted Stock Unit**” means a right granted to a Participant pursuant to Section 9 to receive on a future date or occurrence of a future event a share of Stock or cash in lieu thereof, as determined by the Committee.
- vv.* “**Rule 16b-3**” means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.
- ww.* “**SAR**” or “**Stock Appreciation Right**” means a right granted to a Participant pursuant to Section 7 to receive payment, for each share of Stock subject to such Award, of an amount equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the Award over the exercise price thereof.
- xx.* “**Section 162(m)**” means Section 162(m) of the Code.
- yy.* “**Section 409A**” means Section 409A of the Code.
- zz.* “**Section 409A Deferred Compensation**” means compensation provided pursuant to an Award that constitutes nonqualified deferred compensation within the meaning of Section 409A.
- aaa.* “**Securities Act**” means the Securities Act of 1933, as amended.
- bbb.* “**Service**” means a Participant’s employment or service with the Participating Company Group, whether as an Employee, a Director or a Consultant. Unless otherwise provided by the Committee, a Participant’s Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders Service or a change in the Participating Company for which the Participant renders Service, provided that there is no interruption or termination of the Participant’s Service. Furthermore, a Participant’s Service shall not be deemed to have been interrupted or terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company. However, unless otherwise provided by the Committee, if any such leave taken by a Participant exceeds ninety (90) days, then on the ninety-first (91st) day following the commencement of such leave the Participant’s Service shall be deemed to have terminated, unless the Participant’s right to return to Service is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, an unpaid leave of absence shall not be treated as Service for purposes of determining vesting under the Participant’s Award Agreement. A Participant’s Service shall be deemed to have terminated either upon an actual termination of Service or upon the business entity for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant’s Service has terminated and the effective date of and reason for such termination.
- ccc.* “**Stock**” means the common stock of the Company, as adjusted from time to time in accordance with Section 4.3.
- ddd.* “**Stock Tender Exercise**” means a Stock Tender Exercise as defined in Section 6.3(b)(ii).
- eee.* “**Subsidiary Corporation**” means any present or future “subsidiary corporation” of the Company, as defined in Section 424(f) of the Code.

fff. “**Ten Percent Owner**” means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company (other than an Affiliate) within the meaning of Section 422(b)(6) of the Code.

ggg. “**Trading Compliance Policy**” means the written policy of the Company pertaining to the purchase, sale, transfer or other disposition of the Company’s equity securities by Directors, Officers, Employees or other service providers who may possess material, nonpublic information regarding the Company or its securities.

hhh. “**Vesting Conditions**” mean those conditions established in accordance with the Plan prior to the satisfaction of which an Award or shares subject to an Award remain subject to forfeiture or a repurchase option in favor of the Company exercisable for the Participant’s monetary purchase price, if any, for such shares upon the Participant’s termination of Service or failure of a performance condition to be satisfied.

2.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

3. **Administration.**

3.1 **Administration by the Committee.** The Plan must be administered by the Committee. All questions of interpretation of the Plan, of any Award Agreement or of any other form of agreement or other document employed by the Company in the administration of the Plan or of any Award shall be determined by the Committee, and such determinations shall be final, binding and conclusive upon all persons having an interest in the Plan or such Award, unless fraudulent or made in bad faith. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or Award Agreement or other agreement thereunder (other than determining questions of interpretation pursuant to the preceding sentence) shall be final, binding and conclusive upon all persons having an interest therein. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

3.2 **Authority of Officers.** Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election that is the responsibility of or that is allocated to the Company herein, provided that the Officer has apparent authority with respect to such matter, right, obligation, determination or election.

3.3 **Administration with Respect to Insiders.** With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan must be administered in compliance with the requirements, if any, of Rule 16b-3.

3.4 **Committee Complying with Section 162(m).** If the Company is a “publicly held corporation” within the meaning of Section 162(m), the Board may establish a Committee of “outside directors” within the meaning of Section 162(m) to approve the grant of any Award intended to result in the payment of Performance-Based Compensation.

3.5 **Powers of the Committee.** In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Committee shall have the full and final power and authority, in its discretion:

- a. to determine the persons to whom, and the time(s) at which, Awards are granted and the number of shares of Stock, units or monetary value to be subject to each Award;
- b. to determine the type of Award granted;
- c. to determine whether an Award granted to a Covered Employee is intended to result in Performance-Based Compensation;
- d. to determine the Fair Market Value of Stock or other property;
- e. to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares of Stock pursuant to any Award, (ii) the method of payment for shares of Stock purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with any Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant

thereto, (v) the Performance Measures, Performance Period, Performance Award Formula and Performance Goals applicable to any Award and the extent to which such Performance Goals have been attained, (vi) the time of expiration of any Award, (vii) the effect of any Participant's termination of Service on any of the foregoing, and (viii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;

f. to determine whether an Award will be settled in Stock, cash, other property or in any combination thereof;

g. to approve one or more forms of Award Agreement;

h. to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares of Stock acquired pursuant thereto;

i. to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares of Stock acquired pursuant thereto, including with respect to the period following a Participant's termination of Service;

j. to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, and to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws of, or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose residents may be granted Awards; and

k. to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

3.6 Option or SAR Repricing. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Committee shall not approve a program providing for either (a) the cancellation of outstanding Options or SARs having exercise prices per share greater than the then Fair Market Value of Stock ("*Underwater Awards*") and the grant in substitution therefor of new Options or SARs having a lower exercise price, Full Value Awards or payments in cash, or (b) the amendment of outstanding Underwater Awards to reduce the exercise price thereof. This Section shall not be construed to apply to (i) "issuing or assuming a stock option in a transaction to which Section 424(a) applies," within the meaning of Section 424 of the Code, (ii) adjustments pursuant to the assumption of or substitution for an Option or SAR in a manner that would comply with Section 409A, or (iii) an adjustment pursuant to Section 4.3.

3.7 Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as officers or employees of the Participating Company Group, to the extent permitted by applicable law, members of the Board or the Committee and any officers or employees of the Participating Company Group to whom authority to act for the Board, the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. **Shares Subject to Plan.**

4.1 Maximum Number of Shares Issuable. Subject to adjustment as provided in Sections 4.2 and 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be equal to two million five hundred thousand (2,500,000) shares and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof.

4.2 Share Counting. If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company for an amount not greater than the Participant's purchase price, the shares of Stock allocable to the terminated portion of such Award or such forfeited or repurchased shares of Stock shall again be available for issuance under the Plan. Shares of Stock shall not be deemed to have been issued pursuant to the Plan with respect to any portion of

an Award that is settled in cash. Upon payment in shares of Stock pursuant to the exercise of an SAR, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the SAR is exercised. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant, or by means of a Net Exercise, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the Option is exercised. Shares withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to the exercise or settlement of Options or SARs pursuant to Section 16.2 shall not again be available for issuance under the Plan. Shares withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to the vesting or settlement of Full Value Awards pursuant to Section 16.2 will again become available for issuance under the Plan.

4.3 **Adjustments for Changes in Capital Structure.** Subject to any required action by the stockholders of the Company and the requirements of Sections 409A and 424 of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting regular, periodic cash dividends) that has a material effect on the Fair Market Value of Stock, appropriate and proportionate adjustments will be made in the number and kind of shares of Stock subject to the Plan and to any outstanding Awards, the Award limits set forth in Section 5.3 and Section 5.4, and in the exercise or purchase price per share of Stock under any outstanding Award in order to prevent dilution or enlargement of Participants' rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company will not be treated as "effected without receipt of consideration by the Company." If a majority of the shares which are of the same class as the shares that are subject to outstanding Awards are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the "*New Shares*"), the Committee may unilaterally amend the outstanding Awards to provide that such Awards are for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise or purchase price per share of, the outstanding Awards must be adjusted in a fair and equitable manner as determined by the Committee, in its discretion. Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number and the exercise or purchase price per share shall be rounded up to the nearest whole cent. In no event may the exercise or purchase price, if any, under any Award be decreased to an amount less than the par value, if any, of the Stock subject to such Award. The Committee in its discretion, may also make such adjustments in the terms of any Award to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate, including modification of Performance Goals, Performance Award Formulas and Performance Periods. Any adjustments determined by the Committee pursuant to this Section shall be final, binding and conclusive.

4.4 **Assumption or Substitution of Awards.** The Committee may, without affecting the number of shares of Stock reserved or available hereunder, authorize the issuance or assumption of benefits under this Plan in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate, subject to compliance with Section 409A and any other applicable provisions of the Code.

5. **Eligibility, Participation and Award Limitations.**

5.1 **Persons Eligible for Awards.** Awards may be granted only to Employees, Consultants and Directors.

5.2 **Participation in the Plan.** Awards are granted solely at the discretion of the Committee. Eligible persons may be granted more than one Award. However, eligibility in accordance with this Section shall not entitle any person to be granted an Award, or, having been granted an Award, to be granted an additional Award.

5.3 **Incentive Stock Option Limitations.**

a. **Maximum Number of Shares Issuable Pursuant to Incentive Stock Options.** Subject to adjustment as provided in Section 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to the exercise of Incentive Stock Options shall not exceed 1,500,000 shares. The maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to all Awards other than Incentive Stock Options will be the number of shares determined in accordance with Section 4.1, subject to adjustment as provided in Sections 4.2 and 4.3.

b. **Persons Eligible.** An Incentive Stock Option may be granted only to a person who, on the effective date of grant, is an Employee of the Company, a Parent Corporation or a Subsidiary Corporation (each being an "*ISO-Qualifying Corporation*"). Any person who is not an Employee of an ISO-Qualifying Corporation on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option.

c. **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock plans of the Participating Company Group, including the Plan) become exercisable by a Participant for the first time during any calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portion of such options which exceeds such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of Stock shall be determined as of the time the option with respect to such Stock is granted. If the Code is amended to provide for a limitation different from that set forth in this Section, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Upon exercise of the Option, shares of Stock issued pursuant to each such portion shall be separately identified.

5.4 **Section 162(m) Award Limits.** Subject to adjustment as provided in Section 4.4, no Covered Employee shall be granted within any fiscal year of the Company one or more share-denominated Awards intended to qualify for treatment as Performance-Based Compensation which in the aggregate are for more than 1,250,000 shares or one or more cash-dominated Awards intended to qualify for treatment as Performance-Based Compensation which could result in such Covered Employee receiving more than \$2,000,000 or equivalent value in shares for each full fiscal year of the Company contained in the Performance Period for such Award.

5.5 **Nonemployee Director Award Limit.** Notwithstanding any other provision of the Plan to the contrary, the aggregate grant date fair value (computed as of the date of grant in accordance with generally accepted accounting principles in the United States) of all Awards granted to any Nonemployee Director during any fiscal year of the Company shall not exceed \$500,000.

5.6 **Minimum Vesting.** Except with respect to five percent (5%) of the maximum aggregate number of shares of Stock that may be issued under the Plan, as provided in Section 4, no Award which vests on the basis of the Participant's continued Service shall vest earlier than one year following the date of grant of such Award and no Award which vests on the basis of attainment of performance goals shall provide for a performance period of less than one year; provided, however, that such limitations shall not preclude the acceleration of vesting of such Award upon the death, disability, or in connection with a Change in Control, as determined by the Committee in its discretion.

6. **Stock Options.**

Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee establishes. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and must comply with and will be subject to the following terms and conditions:

6.1 **Exercise Price.** The Committee, in its discretion, shall establish the exercise price for each Option; provided, however, that (a) the exercise price per share will not be less than the Fair Market Value per share of Stock on the effective date of grant of the Option and (b) the exercise price per share for any Incentive Stock Option granted to a Ten Percent Owner, must be no less than one hundred ten percent (110%) of the Fair Market Value per share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price less than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner that would qualify under the provisions of Section 409A or Section 424(a) of the Code.

6.2 **Exercisability and Term of Options.** Subject to the minimum vesting provisions of Section 5.6, Options will be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Option will be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner will be exercisable after the expiration of five (5) years after the effective date of grant of such Option and (c) no Option granted to a Non-Exempt Employee will be first exercisable until at least six (6) months following the date of grant of such Option (except in the event of such Non-Exempt Employee's death, disability or retirement, upon a Change in Control, or as otherwise permitted by the Worker Economic Opportunity Act). Subject to the foregoing, unless otherwise specified by the Committee in the grant of an Option, each Option terminates ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 Payment of Exercise Price.

a. **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option must be made (i) in cash, by check or in cash equivalent; (ii) if permitted by the Committee and subject to the limitations contained in Section 6.3(b), by means of (1) a Cashless Exercise, (2) a Stock Tender Exercise or (3) a Net Exercise; (iii) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (iv) by any combination thereof. The Committee may from time to time grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

b. **Limitations on Forms of Consideration.**

i. **Cashless Exercise.** A “*Cashless Exercise*” means the delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares of Stock being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System). The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise, including with respect to one or more Participants specified by the Company notwithstanding that such program or procedures may be available to other Participants.

ii. **Stock Tender Exercise.** A “*Stock Tender Exercise*” means the delivery of a properly executed exercise notice accompanied by a Participant’s tender to the Company, or attestation to the ownership, in a form acceptable to the Company of whole shares of Stock owned by the Participant having a Fair Market Value that does not exceed the aggregate exercise price for the shares of Stock with respect to which the Option is exercised. A Stock Tender Exercise is not permitted if it would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s Stock. If required by the Company, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for a period of time required by the Company (and not used for another option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

iii. **Net Exercise.** A “*Net Exercise*” means the delivery of a properly executed exercise notice followed by a procedure pursuant to which (1) the Company will reduce the number of shares otherwise issuable to a Participant upon the exercise of an Option by the largest whole number of shares having a Fair Market Value that does not exceed the aggregate exercise price for the shares with respect to which the Option is exercised, and (2) the Participant shall pay to the Company in cash the remaining balance of such aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued.

6.4 Effect of Termination of Service.

a. **Option Exercisability.** Subject to earlier termination of the Option as otherwise provided by this Plan and unless otherwise provided by the Committee, a Participant may exercise an Option after the Participant’s termination of Service to the extent it is then vested only during the applicable time period determined in accordance with this Section and the Option will thereafter terminate.

i. **Disability.** If the Participant’s Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable for vested shares of Stock on the date on which the Participant’s Service terminated, may be exercised by the Participant (or the Participant’s guardian or legal representative) at any time prior to the expiration of twelve (12) months (or such longer or shorter period provided by the Award Agreement) after the date on which the Participant’s Service terminated, but in any event no later than the date of expiration of the Option’s term as set forth in the Award Agreement evidencing such Option (the “*Option Expiration Date*”).

ii. **Death.** If the Participant’s Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable for vested shares of Stock on the date on which the Participant’s Service terminated, may be exercised by the Participant’s legal representative or other person who acquired the right to exercise the Option by reason of the Participant’s death at any time prior to the expiration of twelve (12) months (or such longer or shorter period provided by the Award Agreement) after the date on which the Participant’s Service terminated, but in any event no later than the Option Expiration Date. The Participant’s Service will be deemed to have terminated on account of death if the Participant dies within three (3) months (or such longer or shorter period provided by the Award Agreement) after the Participant’s termination of Service.

iii. **Termination for Cause.** Notwithstanding any other provision of the Plan to the contrary, if the Participant's Service is terminated for Cause or if, following the Participant's termination of Service and during any period in which the Option otherwise would remain exercisable, the Participant engages in any act that would constitute Cause, the Option will terminate in its entirety and cease to be exercisable immediately upon such termination of Service or act.

iv. **Other Termination of Service.** If the Participant's Service terminates for any reason, except Disability, death or Cause, the Option, to the extent unexercised and exercisable for vested shares of Stock on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of three (3) months (or such longer or shorter period provided by the Award Agreement) after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

b. **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, other than termination of Service for Cause, if the exercise of an Option within the applicable time periods set forth in Section 6.4(a) is prevented by the provisions of Section 14 below, the Option shall remain exercisable until the later of (i) thirty (30) days after the date such exercise first would no longer be prevented by such provisions or (ii) the end of the applicable time period under Section 6.4(a), but in any event no later than the Option Expiration Date.

6.5 **Transferability of Options.** During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. An Option is not subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Option, an Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 under the Securities Act or, in the case of an Incentive Stock Option, only as permitted by applicable regulations under Section 421 of the Code in a manner that does not disqualify such Option as an Incentive Stock Option.

7. **Stock Appreciation Rights.**

Stock Appreciation Rights must be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee establishes. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and must comply with and be subject to the following terms and conditions:

7.1 **Types of SARs Authorized.** SARs may be granted in tandem with all or any portion of a related Option (a "**Tandem SAR**") or may be granted independently of any Option (a "**Freestanding SAR**"). A Tandem SAR may only be granted concurrently with the grant of the related Option.

7.2 **Exercise Price.** The exercise price for each SAR will be established in the discretion of the Committee; provided, however, that (a) the exercise price per share subject to a Tandem SAR will be the exercise price per share under the related Option and (b) the exercise price per share subject to a Freestanding SAR may not be less than the Fair Market Value per share of Stock on the effective date of grant of the SAR. Notwithstanding the foregoing, an SAR may be granted with an exercise price lower than the minimum exercise price set forth above if such SAR is granted pursuant to an assumption or substitution for another stock appreciation right in a manner that would qualify under the provisions of Section 409A of the Code.

7.3 **Exercisability and Term of SARs.**

a. **Tandem SARs.** Tandem SARs are exercisable only at the time and to the extent, and only to the extent, that the related Option is exercisable, subject to such provisions as the Committee may specify where the Tandem SAR is granted with respect to less than the full number of shares of Stock subject to the related Option. The Committee may, in its discretion, provide in any Award Agreement evidencing a Tandem SAR that such SAR may not be exercised without the advance approval of the Company and, if such approval is not given, then the Option will nevertheless remain exercisable in accordance with its terms. A Tandem SAR will terminate and cease to be exercisable no later than the date on which the related Option expires or is terminated or canceled. Upon the exercise of a Tandem SAR with respect to some or all of the shares of Stock subject to such SAR, the related Option shall be canceled automatically as to the number of shares with respect to which the Tandem SAR was exercised. Upon the exercise of an Option related to a Tandem SAR as to some or all of the shares subject to such Option, the related Tandem SAR is canceled automatically as to the number of shares with respect to which the related Option was exercised.

b. **Freestanding SARs.** Subject to the minimum vesting provisions of Section 5.6, Freestanding SARs are exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria

and restrictions as determined by the Committee and set forth in the Award Agreement evidencing such SAR; provided, however, that (i) no Freestanding SAR will be exercisable after the expiration of ten (10) years after the effective date of grant of such SAR and (ii) no Freestanding SAR granted to a Non-Exempt Employee will be first exercisable until at least six (6) months following the date of grant of such SAR (except in the event of such Non-Exempt Employee's death, disability or retirement, upon a Change in Control, or as otherwise permitted by the Worker Economic Opportunity Act). Subject to the foregoing, unless otherwise specified by the Committee in the grant of a Freestanding SAR, each Freestanding SAR terminates ten (10) years after the effective date of grant of the SAR, unless earlier terminated in accordance with its provisions.

7.4 Exercise of SARs. Upon the exercise (or deemed exercise pursuant to Section 7.5) of an SAR, the Participant (or the Participant's legal representative or other person who acquired the right to exercise the SAR by reason of the Participant's death) shall be entitled to receive payment of an amount for each share with respect to which the SAR is exercised equal to the excess, if any, of the Fair Market Value per share of Stock on the date of exercise of the SAR over the exercise price. The Company shall pay such amount (a) in the case of a Tandem SAR, solely in shares of Stock in a lump sum upon the date of exercise of the SAR and (b) in the case of a Freestanding SAR, in cash, shares of Stock, or any combination thereof as determined by the Committee, in a lump sum upon the date of exercise of the SAR. When payment is to be made in shares of Stock, the number of shares to be issued will be determined on the basis of the Fair Market Value of Stock on the date of exercise of the SAR. For purposes of Section 7, an SAR is deemed exercised on the date on which the Company receives notice of exercise from the Participant or as otherwise provided in Section 7.5.

7.5 Deemed Exercise of SARs. If, on the date on which an SAR would otherwise terminate or expire, the SAR by its terms remains exercisable immediately prior to such termination or expiration and, if so exercised, would result in a payment to the holder of such SAR, then any portion of such SAR which has not previously been exercised is automatically deemed to be exercised as of such date with respect to such portion.

7.6 Effect of Termination of Service. Subject to earlier termination of the SAR as otherwise provided herein and unless otherwise provided by the Committee, an SAR shall be exercisable after a Participant's termination of Service only to the extent and during the applicable time period determined in accordance with Section 6.4 (treating the SAR as if it were an Option) and thereafter terminates.

7.7 Transferability of SARs. During the lifetime of the Participant, an SAR is only exercisable by the Participant or the Participant's guardian or legal representative. An SAR is not subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Award, a Tandem SAR related to a Nonstatutory Stock Option or a Freestanding SAR is assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 under the Securities Act.

8. Restricted Stock Awards.

Restricted Stock Awards must be evidenced by Award Agreements specifying whether the Award is a Restricted Stock Bonus or a Restricted Stock Purchase Right and the number of shares of Stock subject to the Award, in such form as the Committee establishes. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

8.1 Types of Restricted Stock Awards Authorized. Restricted Stock Awards may be granted in the form of either a Restricted Stock Bonus or a Restricted Stock Purchase Right. Restricted Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If either the grant of or satisfaction of Vesting Conditions applicable to a Restricted Stock Award is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

8.2 Purchase Price. The purchase price for shares of Stock issuable under each Restricted Stock Purchase Right will be established by the Committee in its discretion. No monetary payment (other than applicable tax withholding) is required as a condition of receiving shares of Stock pursuant to a Restricted Stock Bonus, the consideration for which is services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable state corporate law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock subject to a Restricted Stock Award.

8.3 **Purchase Period.** A Restricted Stock Purchase Right is exercisable within the period established by the Committee, which shall in no event exceed thirty (30) days from the effective date of the grant of the Restricted Stock Purchase Right.

8.4 **Payment of Purchase Price.** Except as otherwise provided below, payment of the purchase price for the number of shares of Stock being purchased pursuant to any Restricted Stock Purchase Right shall be made (a) in cash, by check or in cash equivalent, (b) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (c) by any combination thereof.

8.5 **Vesting and Restrictions on Transfer.** Subject to the minimum vesting provisions of Section 5.6, Shares issued pursuant to any Restricted Stock Award may (but need not) be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as established by the Committee and set forth in the Award Agreement evidencing such Award. During any period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than pursuant to an Ownership Change Event or as provided in Section 8.8. The Committee, in its discretion, may provide in any Award Agreement evidencing a Restricted Stock Award that, if the satisfaction of Vesting Conditions with respect to any shares subject to such Restricted Stock Award would otherwise occur on a day on which the sale of such shares would violate the provisions of the Trading Compliance Policy, then satisfaction of the Vesting Conditions automatically shall be determined on the next trading day on which the sale of such shares would not violate the Trading Compliance Policy. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

8.6 **Voting Rights; Dividends and Distributions.** Except as provided in this Section 8.6, Section 8.5 and any Award Agreement, during any period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, the Participant shall have all of the rights of a stockholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares; provided, however, that such dividends and distributions shall be subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant is entitled by reason of the Participant's Restricted Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

8.7 **Effect of Termination of Service.** Unless otherwise provided by the Committee in the Award Agreement evidencing a Restricted Stock Award, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then (a) the Company shall have the option to repurchase for the purchase price paid by the Participant any shares acquired by the Participant pursuant to a Restricted Stock Purchase Right which remain subject to Vesting Conditions as of the date of the Participant's termination of Service and (b) the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Restricted Stock Bonus which remain subject to Vesting Conditions as of the date of the Participant's termination of Service. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company.

8.8 **Nontransferability of Restricted Stock Award Rights.** Rights to acquire shares of Stock pursuant to a Restricted Stock Award are not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or the laws of descent and distribution. All rights with respect to a Restricted Stock Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

9. **Restricted Stock Units.**

Restricted Stock Unit Awards must be evidenced by Award Agreements specifying the number of Restricted Stock Units subject to the Award, in such form as the Committee establishes. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

1.1 **Grant of Restricted Stock Unit Awards.** Restricted Stock Unit Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals

described in Section 10.4. If either the grant of a Restricted Stock Unit Award or the Vesting Conditions with respect to such Award is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

1.2 **Purchase Price.** No monetary payment (other than applicable tax withholding, if any) may be required as a condition of receiving a Restricted Stock Unit Award, the consideration for which shall be services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, if required by applicable state corporate law, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock issued upon settlement of the Restricted Stock Unit Award.

1.3 **Vesting.** Subject to the minimum vesting provisions of Section 5.6, Restricted Stock Unit Awards may (but need not) be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as established by the Committee and set forth in the Award Agreement evidencing such Award.

1.4 **Voting Rights, Dividend Equivalent Rights and Distributions.** Participants have no voting rights with respect to shares of Stock represented by Restricted Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Unit Award that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Stock during the period beginning on the date such Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date the Award is settled or the date on which it is terminated. Dividend Equivalent Rights, if any, will be paid by crediting the Participant with a cash amount or with additional whole Restricted Stock Units as of the date of payment of such cash dividends on Stock, as determined by the Committee. The number of additional Restricted Stock Units (rounded to the nearest whole number), if any, to be credited will be determined by dividing (a) the amount of cash dividends paid on the dividend payment date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the Participant by (b) the Fair Market Value of Stock on such date. Such cash amount or additional Restricted Stock Units are subject to the same terms and conditions and must be settled in the same manner and at the same time as the Restricted Stock Units originally subject to the Restricted Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments will be made in the Participant's Restricted Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award, and all such new, substituted or additional securities or other property are immediately subject to the same Vesting Conditions as are applicable to the Award.

1.5 **Effect of Termination of Service.** Unless otherwise provided by the Committee and set forth in the Award Agreement evidencing a Restricted Stock Unit Award, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any Restricted Stock Units pursuant to the Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service.

1.6 **Settlement of Restricted Stock Unit Awards.** The Company shall issue to a Participant on the date on which Restricted Stock Units subject to the Participant's Restricted Stock Unit Award vest or on such other date determined by the Committee in compliance with Section 409A, if applicable, and set forth in the Award Agreement one (1) share of Stock (and/or any other new, substituted or additional securities or other property pursuant to an adjustment described in Section 9.4) for each Restricted Stock Unit then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes, if any. The Committee, in its discretion, may provide in any Award Agreement evidencing a Restricted Stock Unit Award that if the settlement date with respect to any shares issuable upon vesting of Restricted Stock Units would otherwise occur on a day on which the sale of such shares would violate the provisions of the Trading Compliance Policy, then the settlement date will be deferred until the next trading day on which the sale of such shares would not violate the Trading Compliance Policy but in any event no later than the 15th day of the third calendar month following the year in which such Restricted Stock Units vest. If permitted by the Committee, the Participant may elect, consistent with the requirements of Section 409A, to defer receipt of all or any portion of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section, and such deferred issuance date(s) and amount(s) elected by the Participant must be set forth in the Award Agreement. Notwithstanding the foregoing, the Committee, in its discretion, may provide for settlement of any Restricted Stock Unit Award by payment to the Participant in cash of an amount equal to the Fair Market Value on the payment date of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section.

1.7 **Nontransferability of Restricted Stock Unit Awards.** The right to receive shares pursuant to a Restricted Stock Unit Award is not subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge,

encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Restricted Stock Unit Award granted to a Participant hereunder will be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

10. **Performance Awards.**

Performance Awards must be evidenced by Award Agreements in such form as the Committee establishes. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and must comply with and will be subject to the following terms and conditions:

10.1 **Types of Performance Awards Authorized.** Performance Awards may be granted in the form of either Performance Shares or Performance Units. Each Award Agreement evidencing a Performance Award must specify the number of Performance Shares or Performance Units subject thereto, the Performance Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award.

10.2 **Initial Value of Performance Shares and Performance Units.** Unless otherwise provided by the Committee in granting a Performance Award, each Performance Share has an initial monetary value equal to the Fair Market Value of one (1) share of Stock, subject to adjustment as provided in Section 4.3, on the effective date of grant of the Performance Share, and each Performance Unit has an initial monetary value established by the Committee at the time of grant. The final value payable to the Participant in settlement of a Performance Award determined on the basis of the applicable Performance Award Formula will depend on the extent to which Performance Goals established by the Committee are attained within the applicable Performance Period established by the Committee.

10.3 **Establishment of Performance Period, Performance Goals and Performance Award Formula.** In granting each Performance Award, the Committee shall establish in writing the applicable Performance Period (subject to the minimum vesting provisions of Section 5.6), Performance Award Formula and one or more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Award Formula the final value of the Performance Award to be paid to the Participant. Unless otherwise permitted in compliance with the requirements under Section 162(m) with respect to each Performance Award intended to result in the payment of Performance-Based Compensation, the Committee shall establish the Performance Goal(s) and Performance Award Formula applicable to each Performance Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period or (b) the date on which 25% of the Performance Period has elapsed, and, in any event, at a time when the outcome of the Performance Goals remains substantially uncertain. Once established, the Performance Goals and Performance Award Formula applicable to a Performance Award intended to result in the payment of Performance-Based Compensation to a Covered Employee shall not be changed during the Performance Period. The Company shall notify each Participant granted a Performance Award of the terms of such Award, including the Performance Period, Performance Goal(s) and Performance Award Formula.

10.4 **Measurement of Performance Goals.** Performance Goals must be established by the Committee on the basis of targets to be attained ("**Performance Targets**") with respect to one or more measures of business or financial performance (each, a "**Performance Measure**"), subject to the following:

a. **Performance Measures.** Performance Measures must be calculated in accordance with the Company's financial statements, or, if such measures are not reported in the Company's financial statements, they must be calculated in accordance with generally accepted accounting principles, a method used generally in the Company's industry, or in accordance with a methodology established by the Committee prior to the grant of the Performance Award. As specified by the Committee, Performance Measures may be calculated with respect to the Company and each Subsidiary Corporation consolidated therewith for financial reporting purposes, one or more Subsidiary Corporations or such division or other business unit of any of them selected by the Committee. Unless otherwise determined by the Committee prior to the grant of the Performance Award, the Performance Measures applicable to the Performance Award will be calculated prior to the accrual of expense for any Performance Award for the same Performance Period and excluding the effect (whether positive or negative) on the Performance Measures of any change in accounting standards or any unusual or infrequently occurring event or transaction, as determined by the Committee, occurring after the establishment of the Performance Goals applicable to the Performance Award. Each such adjustment, if any, shall be made solely for the purpose of providing a consistent basis from period to period for the calculation of Performance Measures in order to prevent the dilution or enlargement of the Participant's rights with respect to a Performance Award. Performance Measures may be based upon one or more of the following, as determined by the Committee:

- i. revenue;
- ii. sales;

- iii. expenses;
- iv. operating income;
- v. gross margin;
- vi. operating margin;
- vii. earnings before any one or more of: stock-based compensation expense, interest, taxes, depreciation and amortization;
- viii. pre-tax profit;
- ix. net operating income;
- x. net income;
- xi. economic value added;
- xii. free cash flow;
- xiii. operating cash flow;
- xiv. balance of cash, cash equivalents and marketable securities;
- xv. stock price;
- xvi. earnings per share;
- xvii. return on stockholder equity;
- xviii. return on capital;
- xix. return on assets;
- xx. return on investment;
- xxi. total stockholder return;
- xxii. employee satisfaction;
- xxiii. employee retention;
- xxiv. market share;
- xxv. customer satisfaction;
- xxvi. product development;
- xxvii. research and development expenses;
- xxviii. completion of an identified special project;
- xxix. completion of a joint venture or other corporate transaction; and
- xxx. bookings.

b. ***Performance Targets.*** Performance Targets may include a minimum, maximum, target level and intermediate levels of performance, with the final value of a Performance Award determined under the applicable Performance Award Formula by the Performance Target level attained during the applicable Performance Period. A Performance Target may be stated as an absolute value, an increase or decrease in a value, or as a value determined relative to an index, budget or other standard selected by the Committee.

10.5 Settlement of Performance Awards.

a. **Determination of Final Value.** As soon as practicable following the completion of the Performance Period applicable to a Performance Award, the Committee shall certify in writing the extent to which the applicable Performance Goals have been attained and the resulting final value of the Award earned by the Participant and to be paid upon its settlement in accordance with the applicable Performance Award Formula.

b. **Discretionary Adjustment of Award Formula.** In its discretion, the Committee may, either at the time it grants a Performance Award or at any time thereafter, provide for the positive or negative adjustment of the Performance Award Formula applicable to a Performance Award granted to any Participant who is not a Covered Employee to reflect such Participant's individual performance in his or her position with the Company or such other factors as the Committee may determine. If permitted under a Covered Employee's Award Agreement, the Committee shall have the discretion, on the basis of such criteria as may be established by the Committee, to reduce some or all of the value of the Performance Award that would otherwise be paid to the Covered Employee upon its settlement notwithstanding the attainment of any Performance Goal and the resulting value of the Performance Award determined in accordance with the Performance Award Formula. No such reduction may result in an increase in the amount payable upon settlement of another Participant's Performance Award that is intended to result in Performance-Based Compensation.

c. **Effect of Leaves of Absence.** Unless otherwise required by law or a Participant's Award Agreement, payment of the final value, if any, of a Performance Award held by a Participant who has taken in excess of thirty (30) days in unpaid leaves of absence during a Performance Period will be prorated on the basis of the number of days of the Participant's Service during the Performance Period during which the Participant was not on an unpaid leave of absence.

d. **Notice to Participants.** As soon as practicable following the Committee's determination and certification in accordance with Sections 10.5(a) and (b), the Company shall notify each Participant of the determination of the Committee.

e. **Payment in Settlement of Performance Awards.** As soon as practicable following the Committee's determination and certification in accordance with Sections 10.5(a) and (b), but in any event within the Short-Term Deferral Period described in Section 15.1 (except as otherwise provided below or consistent with the requirements of Section 409A), payment will be made to each eligible Participant (or such Participant's legal representative or other person who acquired the right to receive such payment by reason of the Participant's death) of the final value of the Participant's Performance Award. Payment of such amount will be made in cash, shares of Stock, or a combination thereof as determined by the Committee. Unless otherwise provided in the Award Agreement evidencing a Performance Award, payment will be made in a lump sum. If permitted by the Committee, the Participant may elect, consistent with the requirements of Section 409A, to defer receipt of all or any portion of the payment to be made to the Participant pursuant to this Section, and such deferred payment date(s) elected by the Participant must be set forth in the Award Agreement. If any payment is to be made on a deferred basis, the Committee may, but is not obligated to, provide for the payment during the deferral period of Dividend Equivalent Rights or interest.

f. **Provisions Applicable to Payment in Shares.** If payment is to be made in shares of Stock, the number of such shares of Stock shall be determined by dividing the final value of the Performance Award by the Fair Market Value of Stock determined by the method specified in the Award Agreement. Shares of Stock issued in payment of any Performance Award may be fully vested and freely transferable shares or may be shares of Stock subject to Vesting Conditions as provided in Section 8.5. Any shares subject to Vesting Conditions must be evidenced by an appropriate Award Agreement and will be subject to the provisions of Sections 8.5 through 8.8 above.

10.6 **Voting Rights; Dividend Equivalent Rights and Distributions.** Participants have no voting rights with respect to shares of Stock represented by Performance Share Awards until the date of the issuance of such shares, if any (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Performance Share Award that the Participant will be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Stock during the period beginning on the date the Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date on which the Performance Shares are settled or the date on which they are forfeited. Such Dividend Equivalent Rights, if any, will be credited to the Participant either in cash or in the form of additional whole Performance Shares as of the date of payment of such cash dividends on Stock, as determined by the Committee. The number of additional Performance Shares (rounded to the nearest whole number), if any, to be so credited shall be determined by dividing (a) the amount of cash dividends paid on the dividend payment date with respect to the number of shares of Stock represented by the Performance Shares previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Dividend Equivalent Rights, if any, will be accumulated and paid to the extent that the related Performance Shares become nonforfeitable. Settlement of Dividend Equivalent Rights may be made in cash, shares of

Stock, or a combination thereof as determined by the Committee, and may be paid on the same basis as settlement of the related Performance Share as provided in Section 10.5. Dividend Equivalent Rights will not be paid with respect to Performance Units. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant's Performance Share Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Performance Share Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Performance Goals as are applicable to the Award.

10.7 **Effect of Termination of Service.** Unless otherwise provided by the Committee and set forth in the Award Agreement evidencing a Performance Award, the effect of a Participant's termination of Service on the Performance Award will be as follows:

a. **Death or Disability.** If the Participant's Service terminates because of the death or Disability of the Participant before the completion of the Performance Period applicable to the Performance Award, the final value of the Participant's Performance Award will be determined by the extent to which the applicable Performance Goals have been attained with respect to the entire Performance Period and will be prorated based on the number of months of the Participant's Service during the Performance Period. Payment will be made following the end of the Performance Period in any manner permitted by Section 10.5.

b. **Other Termination of Service.** If the Participant's Service terminates for any reason except death or Disability before the completion of the Performance Period applicable to the Performance Award, such Award is forfeited in its entirety; provided, however, that in the event of an involuntary termination of the Participant's Service, the Committee, in its discretion, may waive the automatic forfeiture of all or any portion of any such Award and determine the final value of the Performance Award in the manner provided by Section 10.7(a). Payment of any amount pursuant to this Section will be made following the end of the Performance Period in any manner permitted by Section 10.5.

10.8 **Nontransferability of Performance Awards.** Prior to settlement in accordance with the provisions of the Plan, no Performance Award is subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Performance Award granted to a Participant hereunder is exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

11. **Cash-Based Awards and Other Stock-Based Awards.**

Cash-Based Awards and Other Stock-Based Awards must be evidenced by Award Agreements in such form as the Committee establishes. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and will comply with and be subject to the following terms and conditions:

11.1 **Grant of Cash-Based Awards.** Subject to the provisions of the Plan, the Committee, at any time and from time to time, may grant Cash-Based Awards to Participants in such amounts and upon such terms and conditions, including the achievement of performance criteria, as the Committee determines.

11.2 **Grant of Other Stock-Based Awards.** The Committee may grant other types of equity-based or equity-related Awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted securities, stock-equivalent units, stock appreciation units, securities or debentures convertible into common stock or other forms determined by the Committee) in such amounts and subject to such terms and conditions as the Committee shall determine. Other Stock-Based Awards may be made available as a form of payment in the settlement of other Awards or as payment in lieu of compensation to which a Participant is otherwise entitled. Other Stock-Based Awards may involve the transfer of actual shares of Stock to Participants, or payment in cash or otherwise of amounts based on the value of Stock and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

11.3 **Value of Cash-Based and Other Stock-Based Awards.** Each Cash-Based Award shall specify a monetary payment amount or payment range as determined by the Committee. Each Other Stock-Based Award must be expressed in terms of shares of Stock or units based on such shares of Stock, as determined by the Committee. Subject to the minimum vesting provisions of Section 5.6, The Committee may require the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as established by the Committee and set forth in the Award Agreement evidencing such Award. If the Committee exercises its discretion to establish performance criteria, the final value of Cash-Based Awards or Other Stock-Based Awards that will be paid to the Participant will

depend on the extent to which the performance criteria are met. The establishment of performance criteria with respect to the grant or vesting of any Cash-Based Award or Other Stock-Based Award intended to result in Performance-Based Compensation shall follow procedures substantially equivalent to those applicable to Performance Awards set forth in Section 10.

11.4 Payment or Settlement of Cash-Based Awards and Other Stock-Based Awards. Payment or settlement, if any, with respect to a Cash-Based Award or Other Stock-Based Award will be made in accordance with the terms of the Award, in cash, shares of Stock or other securities or any combination thereof as the Committee determines. The determination and certification of the final value with respect to any Cash-Based Award or Other Stock-Based Award intended to result in Performance-Based Compensation will comply with the requirements applicable to Performance Awards set forth in Section 10. To the extent applicable, payment or settlement with respect to each Cash-Based Award and Other Stock-Based Award shall be made in compliance with the requirements of Section 409A.

11.5 Voting Rights; Dividend Equivalent Rights and Distributions. Participants have no voting rights with respect to shares of Stock represented by Other Stock-Based Awards until the date of the issuance of such shares of Stock (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), if any, in settlement of such Award. However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Other Stock-Based Award that the Participant shall be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Stock during the period beginning on the date such Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date the Award is settled or the date on which it is terminated. Such Dividend Equivalent Rights, if any, will be paid in accordance with the provisions set forth in Section 9.4. Dividend Equivalent Rights are not granted with respect to Cash-Based Awards. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments will be made in the Participant's Other Stock-Based Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of such Award, and all such new, substituted or additional securities or other property are immediately subject to the same Vesting Conditions and performance criteria, if any, as are applicable to the Award.

11.6 Effect of Termination of Service. Each Award Agreement evidencing a Cash-Based Award or Other Stock-Based Award must set forth the extent to which the Participant shall have the right to retain such Award following termination of the Participant's Service. Such provisions will be determined in the discretion of the Committee, need not be uniform among all Cash-Based Awards or Other Stock-Based Awards, and may reflect distinctions based on the reasons for termination, subject to the requirements of Section 409A, if applicable.

11.7 Nontransferability of Cash-Based Awards and Other Stock-Based Awards. Prior to the payment or settlement of a Cash-Based Award or Other Stock-Based Award, the Award is not subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. The Committee may impose such additional restrictions on any shares of Stock issued in settlement of Cash-Based Awards and Other Stock-Based Awards as it may deem advisable, including, without limitation, minimum holding period requirements, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such shares of Stock are then listed and/or traded, or under any state securities laws or foreign law applicable to such shares of Stock.

12. Standard Forms of Award Agreement.

12.1 Award Agreements. Each Award must comply with and be subject to the terms and conditions set forth in the appropriate form of Award Agreement approved by the Committee and as amended from time to time. No Award or purported Award is a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement, which execution may be evidenced by electronic means.

12.2 Authority to Vary Terms. The Committee has the authority from time to time to vary the terms of any standard form of Award Agreement either in connection with the grant or amendment of an individual Award or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Award Agreement are not inconsistent with the terms of the Plan.

13. Change in Control.

13.1 **Effect of Change in Control on Awards.** In the event of a Change in Control, outstanding Awards will be subject to the definitive agreement entered into by the Company in connection with the Change in Control. Subject to the requirements and limitations of Section 409A, if applicable, the Committee may provide for any one or more of the following:

a. **Accelerated Vesting.** In its discretion, the Committee may provide in the grant of any Award or at any other time may take such action as it deems appropriate to provide for acceleration of the exercisability, vesting and/or settlement in connection with a Change in Control of each or any outstanding Award or portion thereof and shares acquired pursuant thereto upon such conditions, including termination of the Participant's Service prior to, upon, or following the Change in Control, and to such extent as the Committee determines.

b. **Assumption, Continuation or Substitution.** In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "**Acquiror**"), may, without the consent of any Participant, assume or continue the Company's rights and obligations under each or any Award or portion thereof outstanding immediately prior to the Change in Control or substitute for each or any such outstanding Award or portion thereof a substantially equivalent award with respect to the Acquiror's stock, as applicable. For purposes of this Section, if so determined by the Committee in its discretion, an Award denominated in shares of Stock will be deemed assumed if, following the Change in Control, the Award confers the right to receive, subject to the terms and conditions of the Plan and the applicable Award Agreement, for each share of Stock subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock); provided, however, that if such consideration is not solely common stock of the Acquiror, the Committee may, with the consent of the Acquiror, provide for the consideration to be received upon the exercise or settlement of the Award, for each share of Stock subject to the Award, to consist solely of common stock of the Acquiror equal in Fair Market Value to the per share consideration received by holders of Stock pursuant to the Change in Control. Any Award or portion thereof which is neither assumed or continued by the Acquiror in connection with the Change in Control nor exercised or settled as of the time of consummation of the Change in Control will become immediately exercisable and vested in full (a) as of ten (10) days prior to, and subject to, the consummation of the Change in Control or (b) settled effective immediately prior to the time of consummation of the Change in Control, as applicable. Any Award or portion thereof that is immediately exercisable and vested in full pursuant to the preceding sentence to the extent unexercised immediately prior to the consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of the consummation of the Change in Control.

c. **Termination in Connection with a Change in Control.** Notwithstanding any other provision of the Plan to the contrary, if the Participant's Service is terminated without Cause or the Participant voluntarily terminates the Participant's employment after a reduction of the Participant's base salary of fifteen percent (15%) or greater without the Participant's express written consent within eighteen (18) months following the consummation of a Change in Control, such Participant's Awards will become immediately exercisable and vested in full as of the date of such termination. Such immediately exercisable and fully vested Awards will be settled to the extent possible on the date of the Participant's termination pursuant to this subsection (c). Awards requiring the Participant's exercise, may be exercised by the Participant at any time prior to the expiration of three (3) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

d. **Cash-Out of Outstanding Stock-Based Awards.** The Committee may, in its discretion and without the consent of any Participant, determine that, upon the occurrence of a Change in Control, each or any Award denominated in shares of Stock or portion thereof outstanding immediately prior to the Change in Control and not previously exercised or settled shall be canceled in exchange for a payment with respect to each vested share (and each unvested share, if so determined by the Committee) of Stock subject to such canceled Award in (i) cash, (ii) stock of the Company or of a corporation or other business entity a party to the Change in Control, or (iii) other property which, in any such case, will be in an amount having a Fair Market Value equal to the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control, reduced (but not below zero) by the exercise or purchase price per share, if any, under such Award. In the event such determination is made by the Committee, an Award having an exercise or purchase price per share equal to or greater than the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control may be canceled without payment of consideration to the holder thereof. Payment pursuant to this Section (reduced by applicable withholding taxes, if any) will be made to Participants in respect of the vested portions of their canceled Awards as soon as practicable following the date of the Change in Control and in respect of the unvested portions of their canceled Awards in accordance with the vesting schedules applicable to such Awards.

13.2 **Effect of Change in Control on Nonemployee Director Awards.** Subject to the requirements and limitations of Section 409A, if applicable, including as provided by Section 15.4(f), in the event of a Change in Control, each

outstanding Nonemployee Director Award shall become immediately exercisable and vested in full and, except to the extent assumed, continued or substituted for pursuant to Section 13.1(b), will be settled effective immediately prior to the time of consummation of the Change in Control.

13.3 **Federal Excise Tax Under Section 4999 of the Code.**

a. **Excess Parachute Payment.** If any acceleration of vesting pursuant to an Award and any other payment or benefit received or to be received by a Participant would subject the Participant to any excise tax pursuant to Section 4999 of the Code due to the characterization of such acceleration of vesting, payment or benefit as an “excess parachute payment” under Section 280G of the Code, then, provided such election would not subject the Participant to taxation under Section 409A, the Participant may elect to reduce the amount of any acceleration of vesting called for under the Award in order to avoid such characterization.

b. **Determination by Tax Firm.** To aid the Participant in making any election called for under Section 13.3(a), no later than the date of the occurrence of any event that might reasonably be anticipated to result in an “excess parachute payment” to the Participant as described in Section 13.3(a), the Company shall request a determination in writing by the professional firm engaged by the Company for general tax purposes, or, if the tax firm so engaged by the Company is serving as accountant or auditor for the Acquiror, the Company will appoint a nationally recognized tax firm to make the determinations required by this Section (the “**Tax Firm**”). As soon as practicable thereafter, the Tax Firm shall determine and report to the Company and the Participant the amount of such acceleration of vesting, payments and benefits which would produce the greatest after-tax benefit to the Participant. For the purposes of such determination, the Tax Firm may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Participant shall furnish to the Tax Firm such information and documents as the Tax Firm may reasonably request in order to make its required determination. The Company shall bear all fees and expenses the Tax Firm charges in connection with its services contemplated by this Section.

14. **Compliance with Securities Law.**

The grant of Awards and the issuance of shares of Stock pursuant to any Award is subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act is at the time of such exercise or issuance in effect with respect to the shares issuable pursuant to the Award, or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company’s legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan will relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to issuance of any Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

15. **Compliance with Section 409A.**

15.1 **Awards Subject to Section 409A.** The Company intends that Awards granted pursuant to the Plan either be exempt from or comply with Section 409A, and the Plan shall be so construed. The provisions of this Section 15 apply to any Award or portion thereof that constitutes or provides for payment of Section 409A Deferred Compensation. Such Awards may include, without limitation:

a. A Nonstatutory Stock Option or SAR that includes any feature for the deferral of compensation other than the deferral of recognition of income until the later of (i) the exercise or disposition of the Award or (ii) the time the stock acquired pursuant to the exercise of the Award first becomes substantially vested.

b. Any Restricted Stock Unit Award, Performance Award, Cash-Based Award or Other Stock-Based Award that either (i) provides by its terms for settlement of all or any portion of the Award at a time or upon an event that will or may occur later than the end of the Short-Term Deferral Period (as defined below) or (ii) permits the Participant granted the Award to elect one or more dates or events upon which the Award will be settled after the end of the Short-Term Deferral Period.

Subject to the provisions of Section 409A, the term “**Short-Term Deferral Period**” means the 2½ month period ending on the later of (i) the 15th day of the third month following the end of the Participant’s taxable year in which the right to payment under the applicable portion of the Award is no longer subject to a substantial risk of forfeiture or (ii) the 15th day of the third month

following the end of the Company's taxable year in which the right to payment under the applicable portion of the Award is no longer subject to a substantial risk of forfeiture. For this purpose, the term "substantial risk of forfeiture" has the meaning provided by Section 409A.

15.2 Deferral and/or Distribution Elections. Except as otherwise permitted or required by Section 409A, the following rules apply to any compensation deferral and/or payment elections (each, an "**Election**") that may be permitted or required by the Committee pursuant to an Award providing Section 409A Deferred Compensation:

a. Elections must be in writing and specify the amount of the payment in settlement of an Award being deferred, as well as the time and form of payment as permitted by this Plan.

b. Elections must be made by the end of the Participant's taxable year prior to the year in which services commence for which an Award may be granted to the Participant.

c. Elections continue in effect until a written revocation or change in Election is received by the Company, except that a written revocation or change in Election must be received by the Company prior to the last day for making the Election determined in accordance with paragraph (b) above or as permitted by Section 15.3.

15.3 Subsequent Elections. Except as otherwise permitted or required by Section 409A, any Award providing Section 409A Deferred Compensation which permits a subsequent Election to delay the payment or change the form of payment in settlement of such Award must comply with the following requirements:

a. No subsequent Election may take effect until at least twelve (12) months after the date on which the subsequent Election is made.

b. Each subsequent Election related to a payment in settlement of an Award not described in Section 15.4(a)(ii), 15.4(a)(iii) or 15.4(a)(vi) must result in a delay of the payment for a period of not less than five (5) years from the date on which such payment would otherwise have been made.

c. No subsequent Election related to a payment pursuant to Section 15.4(a)(iv) may be made less than twelve (12) months before the date on which such payment would otherwise have been made.

d. Subsequent Elections continue in effect until a written revocation or change in the subsequent Election is received by the Company, except that a written revocation or change in a subsequent Election must be received by the Company prior to the last day for making the subsequent Election determined in accordance with the preceding paragraphs of this Section 15.3.

15.4 Payment of Section 409A Deferred Compensation.

a. **Permissible Payments.** Except as otherwise permitted or required by Section 409A, an Award providing Section 409A Deferred Compensation must provide for payment in settlement of the Award only upon one or more of the following:

i. The Participant's "separation from service" (as defined by Section 409A);

ii. The Participant's becoming "disabled" (as defined by Section 409A);

iii. The Participant's death;

iv. A time or fixed schedule that is either (i) specified by the Committee upon the grant of an Award and set forth in the Award Agreement evidencing such Award or (ii) specified by the Participant in an Election complying with the requirements of Section 15.2 or 15.3, as applicable;

v. A change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company determined in accordance with Section 409A; or

vi. The occurrence of an "unforeseeable emergency" (as defined by Section 409A).

b. **Installment Payments.** It is the intent of this Plan that any right of a Participant to receive installment payments (within the meaning of Section 409A) will, for all purposes of Section 409A, be treated as a right to a series of separate payments.

c. **Required Delay in Payment to Specified Employee Pursuant to Separation from Service.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, except as otherwise permitted by Section 409A, no payment pursuant to Section 15.4(a)(i) in settlement of an Award providing for Section 409A Deferred Compensation may be made to a Participant who is a “specified employee” (as defined by Section 409A) as of the date of the Participant’s separation from service before the date (the “**Delayed Payment Date**”) that is six (6) months after the date of such Participant’s separation from service, or, if earlier, the date of the Participant’s death. All such amounts that would, but for this paragraph, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

d. **Payment Upon Disability.** All distributions of Section 409A Deferred Compensation payable pursuant to Section 15.4(a)(ii) by reason of a Participant becoming disabled will be paid in a lump sum or in periodic installments as established by the Participant’s Election. If the Participant has made no Election with respect to distributions of Section 409A Deferred Compensation upon becoming disabled, all such distributions will be paid in a lump sum upon the determination that the Participant has become disabled.

e. **Payment Upon Death.** If a Participant dies before complete distribution of amounts payable upon settlement of an Award subject to Section 409A, such undistributed amounts will be distributed to his or her beneficiary under the distribution method for death established by the Participant’s Election upon receipt by the Committee of satisfactory notice and confirmation of the Participant’s death. If the Participant has made no Election with respect to distributions of Section 409A Deferred Compensation upon death, all such distributions will be paid in a lump sum upon receipt by the Committee of satisfactory notice and confirmation of the Participant’s death.

f. **Payment Upon Change in Control.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, to the extent that any amount constituting Section 409A Deferred Compensation would become payable under this Plan by reason of a Change in Control, such amount will become payable only if the event constituting a Change in Control would also constitute a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A. Any Award which constitutes Section 409A Deferred Compensation and which would vest and otherwise become payable upon a Change in Control as a result of the failure of the Acquiror to assume, continue or substitute for such Award in accordance with Section 13.1(b) will vest to the extent provided by such Award but will be converted automatically at the effective time of such Change in Control into a right to receive, in cash on the date or dates such award would have been settled in accordance with its then existing settlement schedule (or as required by Section 15.4(c)), an amount or amounts equal in the aggregate to the intrinsic value of the Award at the time of the Change in Control.

g. **Payment Upon Unforeseeable Emergency.** The Committee shall have the authority to provide in the Award Agreement evidencing any Award providing for Section 409A Deferred Compensation for payment pursuant to Section 15.4(a)(vi) in settlement of all or a portion of such Award in the event that a Participant establishes, to the satisfaction of the Committee, the occurrence of an unforeseeable emergency. In such event, the amount(s) distributed with respect to such unforeseeable emergency cannot exceed the amounts reasonably necessary to satisfy the emergency need plus amounts necessary to pay taxes reasonably anticipated as a result of such distribution(s), after taking into account the extent to which such emergency need is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant’s assets (to the extent the liquidation of such assets would not itself cause severe financial hardship) or by cessation of deferrals under the Award. All distributions with respect to an unforeseeable emergency shall be made in a lump sum upon the Committee’s determination that an unforeseeable emergency has occurred. The Committee’s decision with respect to whether an unforeseeable emergency has occurred and the manner in which, if at all, the payment in settlement of an Award will be altered or modified, is final, conclusive, and not subject to approval or appeal.

h. **Prohibition of Acceleration of Payments.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, this Plan does not permit the acceleration of the time or schedule of any payment under an Award providing Section 409A Deferred Compensation, except as permitted by Section 409A.

i. **No Representation Regarding Section 409A Compliance.** Notwithstanding any other provision of the Plan, the Company makes no representation that Awards will be exempt from or comply with Section 409A. No Participating Company is liable for any tax, penalty or interest imposed on a Participant by Section 409A.

16. **Tax Withholding.**

16.1 **Tax Withholding in General.** The Company has the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, to make adequate provision for, the federal, state, local and foreign taxes (including social insurance), if any, required by law to be withheld by any Participating Company with respect to an Award or the shares acquired pursuant thereto. The Company has no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

16.2 **Withholding in or Directed Sale of Shares.** The Company has the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of any Participating Company. The Fair Market Value of Stock withheld or tendered to satisfy any such tax withholding obligations may not exceed the amount determined by the applicable minimum statutory withholding rates. The Company may require a Participant to direct a broker, upon the vesting, exercise or settlement of an Award, to sell a portion of the shares subject to the Award determined by the Company in its discretion to be sufficient to cover the tax withholding obligations of any Participating Company and to remit an amount equal to such tax withholding obligations to such Participating Company in cash.

17. **Amendment, Suspension or Termination of Plan.**

The Committee may amend, suspend or terminate the Plan at any time. However, without the approval of the Company's stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Sections 4.2 and 4.3), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company's stockholders under any applicable law, regulation or rule, including the rules of any stock exchange or quotation system upon which the Stock may then be listed or quoted. No amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Committee. Except as provided by the next sentence, no amendment, suspension or termination of the Plan may have a materially adverse effect on any then outstanding Award without the consent of the Participant. Notwithstanding any other provision of the Plan or any Award Agreement to the contrary, the Committee may, in its sole and absolute discretion and without the consent of any Participant, amend the Plan or any Award Agreement, to take effect retroactively or otherwise, as it deems necessary or advisable for the purpose of conforming the Plan or such Award Agreement to any present or future law, regulation or rule applicable to the Plan, including, but not limited to, Section 409A.

18. **Miscellaneous Provisions.**

18.1 **Repurchase Rights.** Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award is granted. The Company has the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

18.2 **Forfeiture Events.**

a. The Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award will be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but are not be limited to, termination of Service for Cause or any act by a Participant, whether before or after termination of Service, that would constitute Cause for termination of Service, or any accounting restatement due to material noncompliance of the Company with any financial reporting requirements of securities laws as a result of which, and to the extent that, such reduction, cancellation, forfeiture, or recoupment is required by applicable securities laws.

b. If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, any Participant who knowingly or through gross negligence engaged in the misconduct, or who knowingly or through gross negligence failed to prevent the misconduct, and any Participant who is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, shall reimburse the Company for (i) the amount of any payment in settlement of an Award

received by such Participant during the twelve (12) month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document embodying such financial reporting requirement, and (ii) any profits realized by such Participant from the sale of securities of the Company during such twelve (12) month period.

18.3 Provision of Information. Each Participant will be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

18.4 Rights as Employee, Consultant or Director. No person, even though eligible pursuant to Section 5, has a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan confers on any Participant a right to remain an Employee, Consultant or Director or interfere with or limit in any way any right of a Participating Company to terminate the Participant's Service at any time. To the extent that an Employee of a Participating Company other than the Company receives an Award under the Plan, that Award will in no event be understood or interpreted to mean that the Company is the Employee's employer or that the Employee has an employment relationship with the Company.

18.5 Rights as a Stockholder. A Participant has no rights as a stockholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment will be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.3 or another provision of the Plan.

18.6 Delivery of Title to Shares. Subject to any governing rules or regulations, the Company shall issue or cause to be issued the shares of Stock acquired pursuant to an Award and shall deliver such shares to or for the benefit of the Participant by means of one or more of the following: (a) by delivering to the Participant evidence of book entry shares of Stock credited to the account of the Participant, (b) by depositing such shares of Stock for the benefit of the Participant with any broker with which the Participant has an account relationship, or (c) by delivering such shares of Stock to the Participant in certificate form.

18.7 Fractional Shares. The Company is not required to issue fractional shares upon the exercise or settlement of any Award.

18.8 Retirement and Welfare Plans. Neither Awards made under this Plan nor shares of Stock or cash paid pursuant to such Awards may be included as "compensation" for purposes of computing the benefits payable to any Participant under any Participating Company's retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation must be taken into account in computing a Participant's benefit.

18.9 Beneficiary Designation. Subject to local laws and procedures, each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant's death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, will be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation may be subject to the consent of the Participant's spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant's death, the Company will pay any remaining unpaid benefits to the Participant's legal representative.

18.10 Severability. If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision will be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan will not in any way be affected or impaired thereby.

18.11 No Constraint on Corporate Action. Nothing in this Plan will be construed to: (a) limit, impair, or otherwise affect the Company's or another Participating Company's right or power to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets; or (b) limit the right or power of the Company or another Participating Company to take any action which such entity deems to be necessary or appropriate.

18.12 Unfunded Obligation. Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan are considered unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company will be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such

obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account will not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of any Participating Company. Participants have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.

18.13 **Choice of Law.** Except to the extent governed by applicable federal law, the validity, interpretation, construction and performance of the Plan and each Award Agreement shall be governed by the laws of the State of Texas, without regard to its conflict of law rules.

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2017 ANNUAL MEETING OF STOCKHOLDERS MAY 18, 2017

This Proxy Statement Supplement (this “Supplement”) supplements and amends the original definitive proxy statement of PROS Holdings, Inc. (the “Company,” “we,” or “our”), dated April 7, 2017 (the “Proxy Statement”), for our 2017 Annual Meeting of Stockholders (the “Annual Meeting”) to (i) add a new Proposal Five to the Proxy Statement that provides for a non-binding, advisory vote of our stockholders on the frequency with which our stockholders will have the advisory say-on-pay vote on compensation paid to our named executive officers (“Proposal Five”) and (ii) update the Notice of the Annual Meeting to add the new Proposal Five (the “Amended Notice”). This Supplement, along with the accompanying Amended Notice, contains additional information about the Annual Meeting, including any adjournments or postponements thereof. The Annual Meeting is being held Thursday, May 18, 2017, at 8:00 a.m., local time, at 3100 Main Street, 9th Floor, Houston, Texas 77002.

This Supplement relates to the new Proposal Five to be considered by stockholders at the Annual Meeting and does not provide all of the information that is important to your decisions with respect to voting on all of the proposals that are being presented to stockholders for their vote at the Annual Meeting. Additional information is contained in the Proxy Statement, which was previously made available to you or is being mailed to you along with this Supplement. To the extent that the information in this Supplement differs from, updates or conflicts with the information contained in the Proxy Statement, the information in this Supplement shall amend and supersede the information in the Proxy Statement. Except as so amended or superseded, all information set forth in the Proxy Statement remains unchanged and important for you to review. Accordingly, we urge you to read this Supplement carefully and in its entirety together with the Proxy Statement.

This Supplement relates to the solicitation of proxies by our Board of Directors (the “Board”) for use at the Annual Meeting. On or about April 25, 2017, we sent this Supplement, the Amended Notice of Annual Meeting attached hereto as Appendix A, and the enclosed new proxy card to all stockholders entitled to vote at the Annual Meeting.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING TO BE HELD ON MAY 18, 2017.

This Supplement, the Proxy Statement, Proxy Card, as revised, and our Annual Report on Form 10-K are available at <http://www.proxyvote.com> and at the “Investor Relations” section of our corporate website at <http://www.pros.com/about-pros/investor-relations>.

Additionally, you can find a copy of our Annual Report on Form 10-K on the website of the Securities and Exchange Commission (“SEC”) at www.sec.gov.

PROPOSALS TO BE VOTED UPON BY STOCKHOLDERS

Information contained in this Supplement relates to Proposal Five that will be presented to stockholders at the Annual Meeting. Information regarding Proposals One, Two, Three and Four that will be presented to stockholders at the Annual Meeting can be found in the Proxy Statement as originally filed with the SEC on April 4, 2017, and as was previously made available to you or was mailed to you along with this Supplement.

Please note that if you have already voted your shares by one of the methods described in the Proxy Statement, we strongly encourage you to read this Supplement and to also vote on Proposal Five.

Effect of Abstentions and Broker Non-Votes

Shares of common stock present at the Annual Meeting but that abstain from voting on Proposal Five are not treated as votes cast. Therefore, such abstentions will have no effect on the outcome of the vote on Proposal Five. These abstentions, however, are counted toward establishing a quorum for the Annual Meeting. Broker non-votes (shares held by brokers, banks and other intermediaries that do not have discretionary authority to vote on any of the proposals on a matter and have not received voting instructions from their customers) will have no effect on the outcome of the vote, although they are counted toward establishing a quorum for the Annual Meeting. If you are a beneficial holder of our common stock and do not provide specific voting instructions to your broker, bank or other intermediary, the organization that holds your shares will not be authorized to vote on Proposal Five or the other proposals, except for Proposal Four (the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017). Accordingly, we encourage you to vote promptly, even if you plan to attend the Annual Meeting.

Revocation of Proxies/Voting of Shares

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.

If you have previously submitted voting instructions with respect to Proposals One, Two, Three and/or Four, (i) submitting the enclosed proxy card with voting instructions that differ will serve to revoke those prior voting instructions in favor of the more recent instructions; (ii) submitting the enclosed proxy card with no voting instructions with respect to Proposals One, Two, Three and Four will result in the shares being voted on those matters as provided in the paragraph directly below; and (iii) submitting the enclosed proxy card with voting instructions consistent with prior instructions received will have no impact on those prior instructions.

For stockholders of record, all shares represented by the proxies mailed to stockholders will be voted at the Annual Meeting in accordance with instructions given by the stockholders. Where proxies are returned without instructions, the shares will be voted (1) **“FOR”** the election of each of the three (3) Class I director nominees as a director of the Company; (2) **“FOR”** the approval of our 2017 Equity Incentive Plan (including, without limitation, certain material terms of the 2017 Plan for purposes of Section 162(m) of the Internal Revenue Code, as amended); (3) **“FOR”** the approval, on a non-binding advisory basis, of the compensation of the Company’s named executive officers; (4) **“FOR”** the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017; (5) for a frequency of **“ONE YEAR”** for future non-binding, advisory stockholder votes on the compensation paid to our named executive officers (except that shares will not be voted where the last proxy card received by the Company did not include this proposal); and (6) in the discretion of the proxy holders upon such other business as may properly come before the Annual Meeting.

PROPOSAL FIVE

NON-BINDING, ADVISORY VOTE REGARDING THE FREQUENCY OF VOTING ON THE COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS

As required by Section 14A of the Exchange Act, we are providing stockholders with the opportunity to vote, on an advisory or non-binding basis, on the frequency with which the Company's stockholders shall have the advisory, non-binding "say-on-pay" vote on compensation paid to our named executive officers provided for in Proposal Three, as set forth in the Proxy Statement.

Our stockholders voted on a similar proposal at our annual meeting of stockholders in 2011, with a majority of the votes cast voting to hold the say-on-pay vote every year. Since 2011, we have held the say-on-pay vote at every annual meeting, including this Annual Meeting.

The Board believes that an annual stockholder vote on the compensation paid to our named executive officers represents a best practice in corporate governance and will provide the Board with current information on stockholder sentiment about our executive compensation program and enable the Board to respond timely, when deemed appropriate, to stockholder concerns about the program.

The Company is presenting this Proposal Five, which gives you as a stockholder the opportunity to inform the Company as to how often you wish us to include a proposal, similar to Proposal Three above, in our proxy statement. In particular, we are asking whether the advisory vote should occur every one, two or three years. The Company asks that you support a frequency period of every year for future non-binding, advisory stockholder votes on the compensation paid to our named executive officers. Stockholders are being asked to vote on the following non-binding advisory resolution:

RESOLVED, that the frequency of once every one, two or three years that receives the highest number of votes cast for this non-binding advisory resolution will be considered to be the preferred frequency of the stockholders with which the Company is to hold future non-binding stockholder advisory votes on the compensation paid to our named executive officers set forth in the Company's proxy statement.

Vote Required

As with your vote on Proposal Three, your vote on this Proposal Five is an advisory vote and therefore not binding. However, our Board and the Compensation Committee of our Board value the opinions of our stockholders, and to the extent there is any significant vote in favor of one frequency over the other options, we will consider our stockholders' sentiment, and our Board will evaluate any appropriate next steps.

Stockholders may vote for one, two or three years or may abstain. If there is no designation on any proxy as to how the shares represented should be voted, the proxy will be voted for a frequency of every "one year." The advisory vote on frequency will be determined based on the number of years that receives the most votes cast. Shares of common stock that are present at the Annual Meeting but abstain from voting on such proposal are not treated as votes cast and will have no effect on the outcome of the vote on this proposal. Also, broker non-votes will have no effect on the outcome of the vote on this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR A RESOLUTION THAT PROVIDES FOR A FREQUENCY OF "ONE YEAR" FOR FUTURE NON-BINDING, ADVISORY STOCKHOLDER VOTES ON THE COMPENSATION PAID TO OUR NAMED EXECUTIVE OFFICERS.

Appendix A

Updated Notice of Annual Meeting

**PROS Holdings, Inc.
3100 Main Street, 9th Floor
Houston, Texas 77002**

UPDATED NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS

DATE Thursday, May 18, 2017

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

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

AGENDA The following agenda items, which now include a new Proposal Five, are more fully described in the proxy statement (the "Proxy Statement") and the supplement to the Proxy Statement:

1. Election of three (3) Class I directors named in the Proxy Statement to the Board of Directors each to serve a three-year term until our Annual Meeting to be held in the year 2020;
2. Approval of our 2017 Equity Incentive Plan (including, without limitation, certain material terms of the 2017 Plan for purposes of Section 162(m) of the Internal Revenue Code, as amended);
3. Advisory vote on named executive officer compensation;
4. Ratification of appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2017;
5. Advisory vote on frequency of voting on named executive officer compensation; and
6. Transaction of such other business as may properly come before the Annual Meeting.

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 recommends that you vote "FOR" each of the Class I director nominees proposed by the Board, that you vote "FOR" Proposals Two, Three and Four and for a frequency of "ONE YEAR" under Proposal Five. The background of each of the Class I director nominees and a description of the other proposals are described in detail in the accompanying Proxy Statement.

RECORD DATE

Only stockholders of record at the close of business on March 28, 2017, will be entitled to receive notice of, and to vote at the Annual Meeting.

MATERIALS TO REVIEW

We mailed to our stockholders a Notice of Internet Availability of Proxy Materials (Notice), instead of a paper copy of the Proxy Statement and our Annual Report to Stockholders for the Year Ended December 31, 2016 (2016 Annual Report), beginning on or about April 7, 2017. 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 the Proxy Statement, our 2016 Annual Report and a form of proxy card or voting instruction card.

In addition, on or about April 25, 2017, we mailed a supplement to our proxy statement (the “Proxy Statement Supplement”), which included a paper copy of this updated notice of the Annual Meeting, a revised proxy card and/or voter information form, proxy statement, and annual report, in order to provide for stockholders to vote at the Annual Meeting on Proposal Five, which relates to an advisory vote on the frequency of the say-on-pay vote on the compensation paid to our named executive officers.

The Proxy Statement Supplement contains additional information related to the new Proposal Five to be considered by stockholders at the Annual Meeting. However, the Proxy Statement Supplement does not include all of the information provided in connection with the Annual Meeting. Accordingly, we urge you to read the Proxy Statement Supplement carefully and in its entirety together with the Proxy Statement.

Please note that if you have already voted your shares, we strongly encourage you to also vote on Proposal Five, which has been added for stockholders to consider and vote on at the Annual Meeting.

Please vote your shares promptly to ensure the presence of a quorum at the meeting. Voting your shares now via the Internet, by telephone, or by signing, dating, and returning the accompanying proxy card or voting instruction form will save the expenses and extra work of additional solicitation. If you wish to vote by mail, we enclosed with the Proxy Statement an addressed envelope, postage prepaid if mailed in the United States. Submitting your proxy now will not prevent you from voting your shares at the meeting, as your proxy is revocable at your option.

By Order of the Board of Directors,

/s/ Damian Olthoff

Damian Olthoff

General Counsel and Secretary

April 21, 2017

**Important Notice Regarding Availability of Proxy Materials
for the 2017 Annual Meeting of Stockholders to Be Held on May 18, 2017**

Our Proxy Statement, Proxy Statement Supplement, 2016 Annual Report, which includes our annual report on Form 10-K for the fiscal year ended December 31, 2016, and Proxy Card, as revised, are available on the Internet at <http://www.proxyvote.com> and at the “Investor Relations” section of our corporate website at <http://www.pros.com/about-pros/investor-relations>.

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 17, 2017. 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 17, 2017. 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</p> <p>Nominees</p> <p>01 Greg B. Peterson 02 Timothy V. Williams 03 Mariette M. Woestemeyer</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, 3 and 4.</p> <p>2 To approve the 2017 Equity Incentive Plan (including, without limitation, certain material terms of the 2017 Plan for purposes of Section 162(m) of the Internal Revenue Code, as amended).</p> <p>3 To conduct an advisory vote on executive compensation.</p> <p>4 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, 2017.</p>	<p>For</p> <p><input type="checkbox"/></p>	<p>Against</p> <p><input type="checkbox"/></p>	<p>Abstain</p> <p><input type="checkbox"/></p>	<p>The Board of Directors recommends you vote 1 YEAR on the following proposal:</p> <p>5 Advisory vote on the frequency of the advisory votes on executive compensation.</p> <p>1 year 2 years 3 years Abstain</p> <p><input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/></p> <p><small>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 2017 Equity Incentive Plan, IN FAVOR OF the advisory vote on executive compensation and IN FAVOR OF the appointment of PricewaterhouseCoopers LLP. 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 2017 Equity Incentive Plan, IN FAVOR OF advisory vote on executive compensation, IN FAVOR OF the appointment of PricewaterhouseCoopers LLP and for a frequency of ONE YEAR for advisory votes on executive compensation.</small></p>
<p>For address change/comments, mark here. (see reverse for instructions)</p> <p>Please indicate if you plan to attend this meeting</p>	<p>Yes</p> <p><input type="checkbox"/></p>	<p>No</p> <p><input type="checkbox"/></p>	<p><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>Yes No</p> <p><input type="checkbox"/> <input type="checkbox"/></p>
<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.</p>				
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 are available at www.proxyvote.com

PROS HOLDINGS, INC.
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
ANNUAL MEETING OF STOCKHOLDERS
May 18, 2017

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 18, 2017, 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 2017 Equity Incentive Plan, **IN FAVOR OF** the advisory vote on executive compensation and **IN FAVOR OF** the appointment of PricewaterhouseCoopers LLP. 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 2017 Equity Incentive Plan, **IN FAVOR OF** the advisory vote on executive compensation, **IN FAVOR OF** the appointment of PricewaterhouseCoopers LLP and for a frequency of **ONE YEAR** for advisory votes 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

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, 2016

OR

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

For the transition period from _____ **to** _____
Commission File Number 001-33554



PROS HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(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	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

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

Yes No

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	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/> (do not check if a smaller reporting company)	Smaller Reporting Company	<input type="checkbox"/>

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 \$357.7 million as of June 30, 2016 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 9, 2017, there were outstanding 30,877,466 shares of common stock, par value \$0.001, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2016 Annual Stockholders Meeting, to be filed within 120 days of the end of the fiscal year ended December 31, 2016, are incorporated by reference into Part III of this Annual Report on Form 10-K.

PROS Holdings, Inc.
Annual Report on Form 10-K
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For the Year Ended December 31, 2016

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SIGNIFICANT RELATIONSHIPS REFERENCED IN THIS ANNUAL REPORT

The terms "PROS," "we," "us," and "our" refer 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 is a revenue and profit realization company that helps customers realize their potential through the blend of simplicity and data science. PROS offers solutions to help accelerate sales, formulate winning pricing strategies and align product, demand and availability. PROS revenue and profit realization solutions are designed to allow customers to experience meaningful revenue growth, sustained profitability and modernized business processes. We also provide professional services to implement our software solutions. We have completed over 900 implementations of our solutions in more than 55 countries and our customers benefit from 30 years of accumulated knowledge and data science infused into our purpose-built industry solutions.

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. 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. 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. Intense global competition, market volatility and rising costs put pressure on companies to simultaneously drive top-line and bottom-line results. In response to these pressures, we believe companies are increasingly focused on software solutions that leverage prescriptive analytics to accelerate the process of converting prospects to customers using data science-based decision-making technology. We also believe that market forces, including increasingly complex business models, uncertain demand for products and services, volatile costs, and exponentially increasing enterprise and market data, will accelerate the demand for software solutions that align critical sales, pricing and revenue management processes to help increase visibility, business agility and customer engagement. We believe the market for solutions that address the needs for companies to improve top-line and bottom-line financial results simultaneously is a large and growing opportunity that spans most major industries.

Our Solutions

PROS revenue and profit realization solutions offer what we believe is a holistic approach to improving revenue and profit performance. Our selling and pricing solutions leverage prescriptive analytics designed to accelerate the process of converting prospects to customers, using data science-based decision-making technology. Our solutions are designed to enable companies to move pricing and revenue management strategies to leveraging scaled data-driven pricing strategies that are formulated to help increase profit margins by driving profit expansion and protecting against profit erosion. These data-driven insights help identify which customers and prospects of a company are most likely to buy, and what offers and price points are most likely to result in a closed deal. These insights leverage data science based on a company's historic customer transactions, market and other data to uncover customer buying patterns and preferences. This 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 increase visibility, business agility and customer engagement by aligning critical sales, pricing and revenue management processes. As a result, 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 faster.

We primarily offer our solutions as Software-as-a-Service ("SaaS"). Our subscription services enable our customers to implement, access and use our software on the PROS cloud via an internet connection. We believe our cloud solutions allow our customers to reduce their initial investment in third-party software, hardware, and administration requirements over traditional enterprise software, and also allow smaller customers to cost-effectively leverage our enterprise class infrastructure, infrastructure management, security and other best practices. In addition, as we manage all product updates and upgrades of software deployed on the PROS cloud on behalf of our customers, we are able to provide our customers with our latest product innovations in a more uniform way. Over time, we expect that this model will require us to support fewer old versions of our software solutions, which would allow our product development team to focus more effort on creating innovative enhancements to our existing products and developing new products. We offer both single-tenant and multi-tenant solutions under our SaaS model generally via three year subscriptions with pricing generally based on the number of users, data volume and revenue managed by our software.

Before 2016, we primarily offered perpetual license solutions to our customers. For perpetual licenses, our customers received 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 purchased software maintenance and support, generally for an initial period of two years, then annual renewals thereafter. Software maintenance and support 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.

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 large, complex and demanding information technology environments.

PROS revenue and profit realization software solutions enable companies across the many industries that we service to improve top-line and bottom-line financial results simultaneously by aligning sales, pricing, product, demand and availability. Our cloud solutions for revenue and profit realization include SellingPRO, PricingPRO and RevenuePRO.



Solutions for Selling

Our SellingPRO solutions are comprised of a broad set of configuration, quoting and eCommerce capabilities with data science-driven, actionable insights to deliver sales proposals through prescriptive selling actions, pricing and offer guidance designed to convert more of the right deals at the right price, and with greater speed, accuracy, scale and consistency across all of the customers sales channels. SellingPRO includes the following editions:

- SellingPRO Deal Desk edition provides deal analytics to a customer's sales team to quickly analyze a large volume of complex opportunities and instantly create proposals with prescriptive products, services, terms and pricing. SellingPRO Deal Desk edition also simplifies deal approval processes and accelerates responsiveness by automating quote generation and approval workflows.
- SellingPRO Smart CPQ edition integrates PROS data science-driven price guidance with a customer's existing CRM solution to enable sales teams to quickly create accurate and highly-customized offers for each customer.
- SellingPRO eCommerce edition provides offer and pricing guidance through a personalized and consistent customer experience across sales channels including but not limited to customer partner internet portals and eCommerce websites. SellingPRO eCommerce edition also enables companies to efficiently reach new sales markets and add new sales channels from a single product and configuration repository.

Solutions for Pricing

Our PricingPRO solution delivers insight into pricing practices, enhances control over pricing execution and provides prescriptive pricing recommendations to the sales team. PricingPRO includes the following editions:

- PricingPRO Control edition helps companies centralize all pricing strategies and execution to create a single source of pricing information, manage and enforce pricing policies, quickly change pricing strategies and eliminate pricing errors.
- PricingPRO Guidance edition provides data science-driven, market-based pricing and offer guidance to help sales teams confidently negotiate pricing on each deal.

Solutions for Revenue Management

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, designed to drive revenue and profit-maximizing business strategies through the application of advanced forecasting, optimization technologies and decision-support capabilities. 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

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pricing and revenue management performance; and increase customer loyalty by providing the right products and services to the right customer at the right time. Our RevenuePRO suite of products include the following solutions:

- 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 PAV provides real-time availability and pricing to distribution channels, and keeps rules, fares and other data synchronized and deployable across multiple data centers.
- PROS Group Sales Optimizer manages the Airline Group booking process by determining optimal Group availability and pricing.
- PROS Analytics for Airlines identifies hidden revenue opportunities.
- PROS Network Revenue Planning delivers network-oriented fare class segmentation.
- PROS Cruise Pricing and Revenue Management allows customers to understand their consumers price sensitivities, track competitor behavior, and quickly set prices and availability.
- PROS Hotel Revenue Management helps customers simplify, accelerate and improve pricing decision making.

Technology

Software Architecture. Our software architecture is based on open standards such as Java, HTML5, JavaScript, 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.

Micro-services 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 initiative to bring our solutions to the enterprise software and devices 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 maintain configurations allowing our customers to use the latest version of our solutions.

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 in conjunction with third-party vendors.

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 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 capabilities for multiple mobile devices, tablet, CRM systems, and client applications.

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Cloud Infrastructure. Our SaaS solutions are fully architected, scaled and managed by PROS to meet enterprise-class data demands. We currently deliver our solutions from enterprise cloud computing platform providers, including Microsoft Azure, as well as from secure co-location data centers operated by third parties. Our infrastructure is designed to achieve high levels of security, scalability, performance and availability. We provide a highly secure computing environment as well as high application availability.

Professional Services

We 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 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.

Strategic Services

Our strategic 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 strategic 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 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 45%, 38%, and 29% of our total revenue in 2016, 2015 and 2014, respectively. We expect our maintenance revenue growth will decrease as a result of customers licensing less of our software as we shift to a cloud strategy.

Subscription Services

Our subscription services generally provide customers access to our software within a cloud-based IT environment that we manage and offer to customers on a subscription basis and allow our customers to benefit from our latest cloud solutions, reduce infrastructure, installation, and ongoing administration requirements. We historically also offered cloud-based services to allow existing customers who previously 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 and ongoing administration requirements as an

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alternative to their on-premise deployment of our software. We generally offer these services via three-year contracts with pricing based on the data volumes and service levels requested.

Customers

We sell our software solutions to customers across many industries, including manufacturing, distribution, services and travel industries, including automotive and industrial, cargo, chemicals and energy, consumer goods, insurance, food and beverage, healthcare and high tech. Our customers are generally large global enterprises, although we also have customers that are much smaller in scope of operations. In each of 2016, 2015 and 2014, we had no single customer that accounted for 10% or more of revenue.

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 the manufacturing, distribution, services and travel industries, including automotive and industrial, cargo, chemicals and energy, consumer goods, insurance, food and beverage, healthcare and high tech. Our sales force is responsible for the worldwide sale of our solutions to new and existing customers, and 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 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, 2016, we also have offices in London, England; Dublin, Ireland; Paris, France; Toulouse, France; Munich, Germany; Frankfurt, Germany; Sydney, Australia; San Francisco, California; Skokie, Illinois; and Austin, Texas. We conduct development activities predominantly in France and the U.S., and also utilize third-party contractors in Bolivia, Colombia and India. We plan to continue to expand our operations in international locations to meet the strategic objectives of our business.

Approximately 63%, 62%, and 56% of our total revenue came from customers outside the U.S. for the years ended December 31, 2016, 2015 and 2014, 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

Historically, we have experienced 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. However, our transition to cloud strategy has moderated, and may continue to moderate our historical seasonality trends.

Competition

The market for solutions that provide automation, analytics and intelligence to drive sales and profitability is competitive, fragmented and rapidly evolving. For example, we have seen consolidation in the quoting software market with large CRM vendors acquiring smaller quoting companies as they attempt to provide end-to-end solutions to drive sales and profit. Today, we are increasingly competing in sales ecosystem with competitors that all aim to drive effectiveness and efficiency in selling. Our competition has increased in recent years as we 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;

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- 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. 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 the pricing portion of our revenue and profit realization solutions. Others, such as Apptus, Oracle (through its acquisition of Big Machines), and Salesforce.com (through its acquisition of SteelBrick) compete against the quoting portion of our revenue and profit realization solutions. Yet others, such as Sabre Airline Solutions, Amadeus and AirRM compete against a portion of our revenue management solutions 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 science-driven pricing, quoting and revenue management. In the past, some of these vendors have competed on price and by bundling their pricing and revenue management applications with other enterprise applications, and this may continue into the future. 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 current limitations 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 for us 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 the foundation of our business and accordingly have made substantial investments in research and development for the enhancement of existing products and services and the development of new products and services. 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 2016, 2015 and 2014, we incurred expenses of \$52.8 million, \$46.8 million and \$43.2 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 U.S. 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,

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product development, sales, marketing, and professional services staff to help keep our science efforts relevant to real-world demands.

Employees

As of December 31, 2016, we had 1,018 full-time personnel, which included 847 employees and 171 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*. No information on our website is incorporated by reference herein. We make available, free of charge through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, including exhibits thereto, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the reports are electronically filed with or furnished to the SEC. Our reports that are filed with, or furnished to, the SEC are also available at the SEC's website at *www.sec.gov*. You may also 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 20, 2016.

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

Our cloud strategy and new offerings bring new business and operational risks.

We shifted to a cloud strategy in 2015. This focus includes continuing to introduce new products and technology initiatives in the area of cloud computing, including our subscription services. Our subscription services provide our customers with existing and new software management through a hosted service as opposed to traditional software deployments. Our SaaS revenue may not be significant in the future despite our investment, and our internal development and customer support teams may find it difficult or costly to support both traditional software installed by customers and software delivered as a service. Our existing customers may have invested substantial personnel and financial resources in legacy software, and may be reluctant or unwilling to use a cloud-based solution. In addition, since our SaaS customers use our service for important aspects of their business, any errors, defects, disruptions in service or other performance problems could hurt our reputation and may damage our customers' businesses. As a result, customers could elect to not renew, delay or withhold payment to us, we could lose future sales, or customers may make other claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation.

We are experiencing reduced revenues and corresponding cash flow without a corresponding decrease in expenses as a result of our cloud strategy, which may continue for longer than we expect.

We expect our expenses to substantially exceed our revenues and cash flow in the near term as we continue to make investments as part of our cloud strategy, particularly in new product development, security and cloud operations. In addition, we expect our cloud strategy to impact our historical revenue model as our shift from providing our software predominantly via licenses to subscriptions has impacted, and may continue to impact, our near-term revenue and cash flows. Our cloud strategy may also give rise to other risks that could harm our business, including:

- although we intend to continue to support our perpetual license customers, our emphasis on a cloud strategy may raise concerns among our installed perpetual license customer base and lead to the loss of customers;
- new or existing customers may be reluctant to migrate to a cloud-based solution due to the cost, security or privacy concerns associated with our solutions or cloud applications;
- we may incur costs at a higher than forecasted rate as we expand our cloud operations;
- if we experience a security incident, disruption in delivery, or other problems related to our SaaS and cloud-based solutions, we could lose customers, be found liable for damages, and incur other losses;
- the enterprise cloud computing market is less mature as the market for on-premise enterprise software, and may not be as broadly accepted as on-premise software in the enterprise market; and
- our sales cycles may be delayed if we need to educate customers about the benefits of our cloud solutions, including security and privacy.

Our ability to return to profitability depends on our ability to: drive more subscription sales, develop enhancements to our existing products and develop new products, successfully execute our marketing and sales strategies, appropriately manage our expenses, build our sales and marketing and product development organizations, enter into and maintain beneficial channel relationships, and identify or acquire companies or assets at attractive valuations. If we are not able to execute on these actions and grow our revenue and corresponding cash flows to offset these expected costs, our business may not grow as we anticipate, our operating results could be adversely affected, we may continue to incur net losses, on a GAAP basis, in the future. Additionally, operating margins on our cloud-only products may be lower than those we have achieved on our more mature products, and our new initiatives may not generate sufficient revenue and cash flows 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.

If our security measures are breached and unauthorized access is obtained to a customer's data, 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.

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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 and third-party security attestations, 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. In addition, the costs to prevent, eliminate or alleviate security vulnerabilities, computer viruses, malicious software programs, and other attacks by third parties are significant. Our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers. We cannot predict the extent, frequency or impact of these problems on us. 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 indemnity obligations, legal liability and other costs.

We depend on third-party data centers and other unrelated service providers and any disruption in these operations could impair the delivery of our service and negatively affect the market for our cloud solutions.

Our cloud products are dependent upon third-party hardware, software and cloud hosting vendors, including Microsoft Azure, all of which must inter-operate for end users to achieve their computing goals. We utilize third-party data center hosting facilities, cloud platform providers, and other service providers to host and deliver our subscription services as well as for our own business operations. While we control and generally have exclusive access to our servers and all of the components of our network that are located in our external data centers, we do not control the operation of these facilities and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to security incidents, break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite our failover capabilities, standard protocols and other precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service.

In addition, these providers have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, or if one of our data center operators is acquired, we may be required to transfer our servers and other infrastructure to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so. Any interruptions or delays in these hosted services, or security or privacy breaches, could damage our reputation, negatively impact our future sales, disrupt our business, and lead to legal liability and other costs.

Furthermore, certain of our applications are essential to our customers' ability to price their products or services. Any interruption in our service may affect the availability, accuracy or timeliness of pricing information and as a result could damage our reputation, cause our customers to terminate their use of our solutions, require us to issue service credits to our customers, require us to indemnify our customers against certain losses, and prevent us from gaining additional business from current or future customers.

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 continue 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 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;

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- 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 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 solutions for selling, pricing and revenue management, implementation services and ongoing customer support. The sales and pricing market is evolving rapidly, and it is uncertain whether this software will achieve and sustain high levels of demand and market acceptance. Our success would depend on the willingness of businesses to use sales and pricing software in the manufacturing, distribution, services industries, including automotive and industrial, B2B services, cargo, chemicals and energy, consumer goods, insurance, food and beverage, healthcare, high tech, and travel.

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.

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.

While our sales cycle times improved in 2016 relative to our historical average, 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 or bookings 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.

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

Maintenance and support agreements are typically for a term of two years, and subscription agreements are typically for a term of three years. Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, and some customers elect not to renew. Historically, maintenance and support revenue has represented a significant portion of our total revenue, including approximately 45%, 38% and 29% of our total revenue for the years ended December 31, 2016, 2015 and 2014, respectively. Subscription revenue has represented approximately 25%, 17% and 13% of our total revenue for the years ended December 31, 2016, 2015 and 2014, respectively.

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We cannot provide assurance that we will be able to accurately predict future customer renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our services, our ability to continue to regularly add functionality, the reliability (including uptime) of our subscription services, the prices of our services, the actual or perceived information security of our systems and services, mergers and acquisitions affecting our customer base, reductions in our customers' spending levels, or declines in customer activity as a result of economic downturns or uncertainty in financial markets. 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. Our opportunity for future growth is also affected by our ability to sell additional features and services to our current customers, which depends on a number of factors, including our customers' satisfaction with our products and services, the prices of our solutions and general economic conditions. If our efforts to cross-sell and upsell to our customers are unsuccessful, the rate at which our business grows might decline.

Competition from vendors of sales, pricing, revenue management and configure-price-quote solutions 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; as well as 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. 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.

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.

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 our goodwill or amortizable intangible assets become impaired, then we could be required to record a significant charge to earnings.

Under GAAP, we review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. GAAP requires us to test for goodwill impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include declines in stock price, market capitalization or cash flows and slower growth rates in our industry. We could be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets were determined, negatively impacting our results of operations.

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, including automotive and industrial, B2B services, cargo, chemicals and energy, consumer goods, insurance, food and beverage, healthcare, high tech and travel. 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, and the commitment of customers' resources and personnel to the projects. We may not be able to correct or compensate for weaknesses or problems in 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.

If we cannot maintain our corporate culture, we could lose the innovation, teamwork and passion that we believe contribute to our success, and our business may be harmed.

If we cannot maintain our corporate culture, we could lose the innovation, teamwork and passion that we believe contributes to our success, and our business may be harmed. We invest substantial time and resources in building and maintaining our culture. Any failure to preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to effectively pursue our strategic objectives.

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. In addition, the weak and uncertain U.S. and global economic conditions could impair our customers' ability to pay for our products or services. 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 may result in our customers or prospects reducing or postponing spending on the solutions we offer, and could result in substantial defaults or slowing of payments by our customers on our accounts receivable.

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, increased negotiation of price, deciding to purchase one solution rather than multiple solutions or purchasing solutions for portions of their business. Customers could also delay their implementations or non-renew their SaaS, cloud, or maintenance contracts. Change in contract 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, or our customers' unwillingness or inability to otherwise make payments in a timely matter could have a material adverse effect on the collectability of our accounts receivable, liquidity, business and 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 to 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.

Our projects accounted for on a percentage-of-completion method as well as fixed-fee arrangements are based on our use of estimates, which if inaccurate, could reduce our revenue and profitability.

Timing of our 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, the effort required to complete our implementation may be difficult to estimate, as the length of the implementation depends on the number of software solutions purchased and the scope and complexity of the customer's deployment requirements. Similarly, we may price implementation arrangements on a fixed-fee basis. 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 are unable to accurately estimate the overall total man-days required to implement our software solutions, such inaccuracies could have a material effect on the timing of our revenue recognition, could adversely impact our quarterly or annual operating results.

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 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 GAAP and those that are required to follow International Financial Reporting Standards ("IFRS"). These projects may result in different accounting principles under 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

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May 2014 – Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" – that supersedes nearly all existing 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 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 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.

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 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.

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 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 advisors 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 U.S. 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 licensors generally do not provide warranties or controls on origin of the software. In addition, open source license terms may be ambiguous and many of the risks associated with usage of open source cannot be eliminated, and could, if not properly addressed, negatively affect our business. If we were found to have inappropriately used open source software, we may be required to seek licenses from third parties in order to continue offering our software, to re-engineer our solutions, to discontinue the sale of our solutions in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business, operating results and financial condition.

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 U.S. We may not be able to maintain or increase international market demand for our solutions. For the years ended December 31, 2016, 2015 and 2014, approximately 63%, 62% and 56% of our total revenue, respectively, was derived from outside the U.S. We have customers in over 55 countries, and have operations in the United Kingdom, France, Germany and Australia (through wholly-owned subsidiaries). The financial impact of our international operations to our overall business has been insignificant to date, but we expect our international operations to continue to grow.

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. Consequently, our results of operations and financial condition, including our revenue and operating margins, are subject to losses from fluctuations in foreign currency exchange rates.

Managing overseas growth could also 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;
- differing labor and employment regulations, especially in the European Union, where labor laws are generally more advantageous to employees as compared to the U.S., including hourly wage and overtime regulations and employee termination restrictions or related costs;
- more stringent regulations relating to data privacy and the unauthorized use of, or access to, and retention of commercial and personal information, particularly in the EU, where the regulatory framework for privacy is actively evolving and is likely to remain uncertain for the foreseeable future;
- 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; 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. For example, any inability to adequately address privacy concerns, even if unfounded, or to comply with more complex and numerous privacy or data protection laws, regulations and privacy standards, could result in additional cost and liability to us, damage our reputation, inhibit sales of our

solutions and harm our business. 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.

Catastrophic events may disrupt our operations.

Our headquarters are located in Houston, Texas, from which we base our operations, and we conduct business in other domestic and international locations. We also rely on our network and third-party infrastructure and enterprise applications for our sales, marketing, development, operational support, and hosted services. Although we have contingency and business continuity plans in effect for natural disasters or other catastrophic events (including terrorist attacks, power loss, telecommunications failure, cyber-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. Any natural disaster or other catastrophic event could create a negative perception in the marketplace, delay our product innovations, or lead to lengthy interruptions in our services, breaches of data security, and losses of critical data, all of which could have an adverse effect on our operating results.

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;

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- 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.

Historically, shares of our common stock have been relatively illiquid and trading of our shares could adversely affect the market price of our common stock.

Our common stock has historically been 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.

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

Our directors and executive officers collectively control approximately 16% of our issued and outstanding common shares, and together with certain significant stockholders, including investment funds associated with Brown Capital Management, Riverbridge Partners, Champlain Investment Partners, Morgan Stanley, BlackRock, D.F. Dent & Company, and Cadian Capital Management, control approximately 67% 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.

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 Senior 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.

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, 2016, we also lease smaller regional offices in London, England; Dublin, Ireland; Paris, France; Toulouse, France; Munich, Germany; Frankfurt, Germany; Sydney, Australia; 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
Year ended December 31, 2016		
First Quarter	\$ 9.28	\$ 22.20
Second Quarter	\$ 10.74	\$ 17.53
Third Quarter	\$ 17.06	\$ 22.79
Fourth Quarter	\$ 20.76	\$ 25.55
Year ended December 31, 2015		
First Quarter	\$ 23.01	\$ 27.12
Second Quarter	\$ 18.03	\$ 27.15
Third Quarter	\$ 20.46	\$ 24.58
Fourth Quarter	\$ 20.60	\$ 25.11

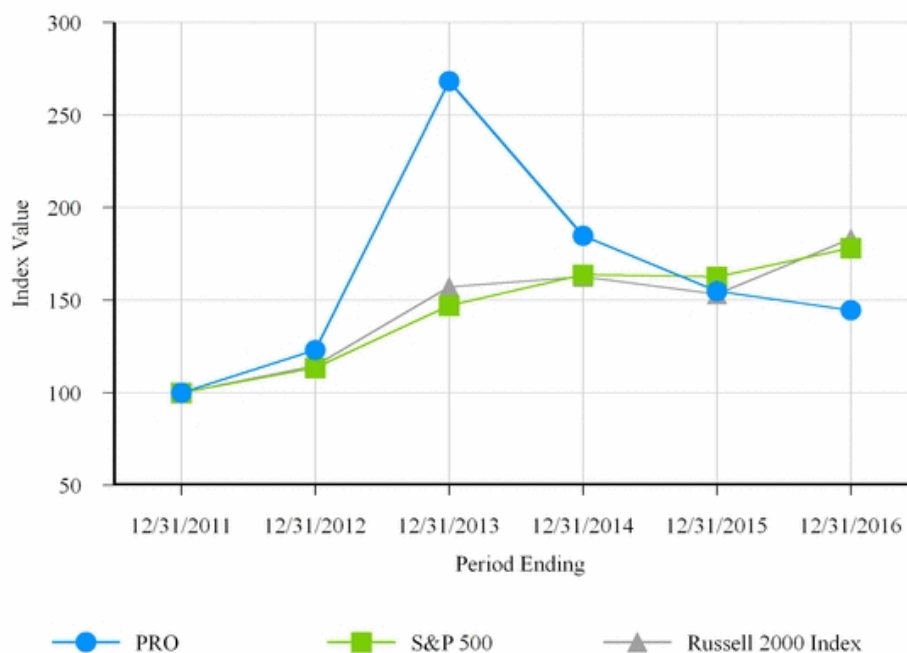
On February 9, 2017 there were 59 stockholders of record of our common stock. Since 2007, we have not declared or paid any dividends on our common stock. We currently expect to retain all remaining available funds and any future earnings for use in the operation and development of our business. Accordingly, we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future.

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 Russell 2000 Index for the period commencing on December 31, 2011, and ending December 31, 2016. 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, 2011, in our common stock, the S&P 500 and the Russell 2000 Index and further assumes all dividends were reinvested. No cash dividends have been paid on our common stock for the periods presented above.

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
PRO	\$ 122.92	\$ 268.15	\$ 184.68	\$ 154.84	\$ 144.62
S&P 500	\$ 113.41	\$ 146.98	\$ 163.72	\$ 162.53	\$ 178.02
Russell 2000 Index	\$ 114.63	\$ 157.05	\$ 162.60	\$ 153.31	\$ 183.17

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 2016, we did not make any purchases of our common stock under this program. As of December 31, 2016, \$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, 2016.

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" 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,				
	2016	2015	2014	2013	2012
Selected consolidated statement of operations data:					
Total revenue	\$ 153,276	\$ 168,246	\$ 185,829	\$ 144,837	\$ 117,791
Gross profit	89,923	106,836	127,743	101,702	84,006
(Loss) Income from operations	(65,398)	(55,497)	(22,407)	3,538	8,180
Net (loss) income	(75,225)	(65,811)	(37,551)	3,446	4,966
Net (loss) income attributable to common stockholders	\$ (75,225)	\$ (65,811)	\$ (36,644)	\$ 3,446	\$ 4,966
Net (loss) income attributable to common stockholders per share:					
Basic	(2.47)	(2.23)	(1.27)	0.12	0.18
Diluted	(2.47)	(2.23)	(1.27)	0.11	0.17
Weighted average number of shares:					
Basic	30,395	29,578	28,915	28,004	27,366
Diluted	30,395	29,578	28,915	30,114	28,420
Selected consolidated balance sheet data:					
Cash and cash equivalents, unrestricted	\$ 118,039	\$ 161,770	\$ 161,019	\$ 44,688	\$ 83,558
Working capital	76,936	124,571	151,903	72,127	72,950
Total assets	227,654	263,211	300,125	179,828	146,479
Long-term obligations	134,327	121,443	112,740	3,523	3,334
Total stockholders' equity	\$ (3,394)	\$ 55,414	\$ 98,999	\$ 111,303	\$ 88,669

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

PROS is a revenue and profit realization company that helps customers realize their potential through the blend of simplicity and data science. PROS offers solutions to help accelerate sales, formulate winning pricing strategies and align product, demand and availability. PROS revenue and profit realization solutions are designed to allow customers to experience meaningful revenue growth, sustained profitability and modernized business processes.

2016 Executive Summary

In 2016, we reached several key milestones in our cloud transformation efforts while continuing to enable our customers to leverage our data science driven solutions to help them compete in modern commerce. In the second quarter of 2015, we began the shift from primarily offering perpetual licenses of our solutions to a subscription based solutions and made substantial progress in 2016, including the following notable items:

- subscription revenue increased 31% in 2016 over 2015;
- our recurring revenue, which consists of maintenance and subscription revenue, grew by 15% over 2015;
- annualized Recurring Revenue of \$122.2 million as of December 31, 2016, up 24% year-over-year;
- we expanded our global data center footprint from four to eleven, including the first Microsoft Azure deployment of PROS Real-Time Dynamic Pricing™ solution for airlines; and
- we introduced new features and innovations such as data science driven cross-sell recommendations, opportunity detection, offer personalization, and cloud analytics.

Annualized Recurring Revenue ("ARR") is one of our key performance metrics to assess the health and trajectory of our overall business. ARR should be viewed independently of revenue, deferred revenue and any other GAAP measure as ARR is a performance metric and is not intended to be combined with any of these items. ARR is defined as the annualized contracted recurring revenue from subscription and maintenance contracts. Contracted revenue from perpetual licenses, term licenses and service agreements are not included within our ARR metric. Total ARR as of December 31, 2016 was \$122.2 million, up from \$98.2 million as of December 31, 2015, an increase of 24%.

Cash used in operating activities was \$14.3 million for the year ended December 31, 2016, as compared to \$15.5 million of cash provided by operating activities for the year ended December 31, 2015, primarily due to our recent transition to a cloud strategy as on-premise software sales were replaced with annual subscription services. We expect our operating activities to provide cash in future years as we accumulate more annual subscription accounts.

Free cash flow is another key metric to assess the strength of our business. Free cash flow is a non-GAAP financial measure which is defined as net cash provided or used by operating activities, less additions to property, plant and equipment, purchases of other (non-acquisition-related) intangible assets and capitalized internal-use software development costs. We believe free cash flow may be useful to investors and other users of our financial information in evaluating the amount of cash generated by our business operations. Free cash flow use for the year ended December 31, 2016 was \$24.3 million, compared to free cash flow provided of \$8.5 million for the year ended December 31, 2015. The change year over year was principally due to our cloud transition. The following is a reconciliation of free cash flow to the most comparable GAAP measure, net cash (used in) provided by operating activities:

	Year Ended December 31,	
	2016	2015
Net cash (used in) provided by operating activities	\$ (14,345)	\$ 15,532
Purchase of property and equipment	(7,241)	(6,794)
Purchase of intangible asset	(1,625)	—
Capitalized internal-use software development costs	(1,048)	(233)
Free Cash Flow	<u>\$ (24,259)</u>	<u>\$ 8,505</u>

Financial Performance Summary

Total revenue for the year ended December 31, 2016, decreased approximately \$15.0 million to \$153.3 million from \$168.2 million for the year ended December 31, 2015, representing a 9% decrease. This decrease in total revenue was primarily attributable to a decrease in license revenue, which was expected as we transitioned our business toward our subscription services.

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Total recurring revenue, which is comprised of our subscription and maintenance revenue, was \$106.7 million for the year ended December 31, 2016 as compared to \$92.7 million for the year ended December 31, 2015, an increase of approximately \$14.1 million, or 15%, as a result of our transition toward our subscription services.

Total deferred revenue was \$79.7 million as of December 31, 2016, as compared to \$65.3 million as of December 31, 2015, an increase of \$14.4 million, or 22%, primarily due to an increase in our subscription deferred revenue. Recurring deferred revenue, which includes both subscription and maintenance deferred revenue, was \$61.7 million as of December 31, 2016 and increased 31% as compared to December 31, 2015.

Revenue by geography

The following geographic information is presented for the years ended December 31, 2016, 2015 and 2014. PROS categorizes geographic revenues based on the location of our customer's headquarters.

	Year Ended December 31,					
	2016		2015		2014	
	Revenue	Percent	Revenue	Percent	Revenue	Percent
United States of America	\$ 56,774	37%	\$ 63,754	38%	\$ 82,086	44%
Europe	44,655	29%	47,514	28%	45,987	25%
The rest of the world	51,847	34%	56,978	34%	57,756	31%
Total revenue	\$ 153,276	100%	\$ 168,246	100%	\$ 185,829	100%

Acquisitions

Acquisitions are an element of our long-term corporate strategy. We believe future acquisitions could strengthen our competitive position, enhance the products and services that we can offer to customers, expand our customer base, grow our revenues and increase our overall value.

In October 2013, we entered into a tender offer agreement with Cameleon Software SA (now PROS France SAS, or "PROS France", but referred to in this paragraph as "Cameleon"). 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.

Financing activities

In December 2014, we issued \$143.8 million in 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.

Backlog

As a result of our cloud strategy we primarily sign multiple-year subscription contracts for our applications. The timing of our invoices to each customer is a negotiated term and varies among our subscription contracts. For multiple-year agreements, it is common to invoice an initial amount at contract signing followed by subsequent annual invoices. At any point in the contract term, there can be amounts that we have not yet been contractually able to invoice. Until such time as these amounts are invoiced, they are not recorded in revenues, unearned revenue or elsewhere in our consolidated financial statements. To the extent future invoicing is determined to be certain, we consider those future subscription invoices to be non-cancellable 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 is based on significant estimates and judgments that we make regarding total contract values, as well as maintenance renewals and changes to existing maintenance and support agreements. Backlog includes committed maintenance, amounts under maintenance and support agreements that we reasonably expect to renew, as well as deferred revenue.

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. Backlog can vary significantly from period to period depending on a number of factors including the timing of our sales and the nature of the agreements we enter into with our

customers. 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. 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. Furthermore, as we continue our migration to a SaaS provider, our historical definition of backlog and the relevance to our future revenues may change.

We had backlog of approximately \$251 million as of December 31, 2016 as compared to backlog of approximately \$209 million as of December 31, 2015. The portion of our backlog as of December 31, 2016 not reasonably expected to be recognized as revenue within the next twelve months is estimated to be approximately \$116 million.

Opportunities, trends and uncertainties

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

- We intend to continue investing for long-term growth. We have invested, and expect to continue to invest, in product development to enhance our existing technologies and develop new applications and technologies. In addition, we plan to continue to expand our ability to sell our subscription offerings globally through future investments in sales and marketing and cloud support and infrastructure. These investments will increase our costs on an absolute basis in the near-term.
- In 2016, we sold more subscription-based solutions such as SaaS and subscription cloud-based solutions, and a lower percentage of perpetual licenses. We expect this trend to continue as part of our cloud strategy. Following our cloud strategy announced in 2015, the increase in the sales of subscription-based solutions has resulted in an increase in our subscription revenue and deferred more of our revenue recognition to later periods than we have experienced historically.
- In 2016, we experienced less variability in customer demand from quarter to quarter. By comparison, we historically experienced the strongest customer demand in fourth and second quarters of each year. The size and timing of orders for our products and services vary considerably, which can cause significant fluctuations in our bookings from quarter to quarter. Due to our large average deal sizes, our bookings in any particular quarter have in the past, and may continue in the future, to be dependent on a relatively small number of contracts. The timing of our bookings also varies based on a number of factors over which we may have little or no control, including the complexity of the transaction, our customers' internal budgeting and approval processes, our customers' purchasing behaviors and the level of competition.
- In June 2016, voters in the United Kingdom approved a referendum to exit the European Union, and in November 2016, voters in the U.S. elected a new president. Each of these events created uncertainty regarding the economic, regulatory and social implications for the U.S., the United Kingdom, the European Union and the world in general. In addition, during 2016, the global economic environment continued to show signs of uncertainty regarding future domestic and global economic growth, and the global financial system experienced numerous ongoing geopolitical issues around the globe. During times of uncertain economic conditions, we generally experience longer sales cycles, increased scrutiny on purchasing decisions and overall cautiousness by customers. Certain foreign countries continue to face significant economic, political and social 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 2017, particularly in the U.S. and Europe. These changes, and other effects we cannot anticipate, may negatively impact our business, business operations, results of operations, financial condition and cash flows. We believe that our expanded offerings of industry-specific solutions and innovative technology will enable us to stay competitive in a challenging economic environment 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.
- Our income tax rates vary from the federal and state statutory rates due to the valuation allowances on our deferred tax assets and foreign withholding taxes; 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; differences in accounting and tax treatment of our equity-based compensation and the tax effects of purchase accounting for acquisitions. We expect this fluctuation in income tax rates to continue as well as its potential impact on our results of operations.

Description of Key Components of our Operating Results

Revenue

We derive our revenues primarily from the sale of subscription services, professional services, perpetual licenses of our software products and the associated software maintenance and support services. In 2016, we focused our sales and marketing efforts towards the sale of subscription services that do not require customers to host our solutions in their own data centers.

Subscription services. Subscription services fees are generally recognized ratably as revenue over the customer contract term. Our subscription contracts typically have a term of three to five years and are non-cancellable. We generally invoice our customers in advance, in annual installments. Amounts that have been invoiced are initially recorded as unearned revenue. Amounts that have not yet been invoiced represent backlog and are not reflected in our consolidated financial statements.

For our subscription services that include professional services, we evaluate the nature and scope to determine if the professional services have stand-alone value. If we determine the professional services have standalone value, the subscription services are accounted for separately from the professional services and the subscription services revenue recognition commences when the customer has access to the application. If we determine the professional services do not have standalone value, we treat the transaction as a single element, the subscription services and professional services revenue is deferred until the customer commences use of the subscription services, and recognized over the remaining term of the arrangement.

Maintenance and support. Maintenance and support revenue includes post-implementation customer support provided to our customers who purchased perpetual software licenses and the right to unspecified software updates and enhancements on a when-and-if-available basis. We recognize revenue from maintenance and support arrangements ratably over the period in which the services are provided.

License. We derive our license revenue from the sale of perpetual licenses. License revenue is recognized either upon software delivery or together with the professional services over time using the percentage-of-completion method or completed contract method.

Professional services. Professional services revenues are generally recognized as the services are rendered for time and material contracts, or on a proportional performance basis for fixed price contracts. The majority of our professional services contracts are on a time and materials basis.

For our subscription services that include professional services, we evaluate the nature and scope to determine whether the professional services have standalone value. Professional services deemed to have standalone value are accounted for separately from subscription services and typically recognized as the services are performed. If we determine the professional services do not have standalone value, we treat the transaction as a single element, the professional services revenue is deferred until the customer commences use of the subscription services, and the professional services revenue is recognized over the remaining term of the arrangement.

For software license arrangements that include professional services, we determine whether the professional services are considered essential to the functionality of the software. For professional services considered essential to the functionality of the software, the license revenue is recognized together with the professional services revenue using the percentage-of-completion method or completed contract method.

Cost of revenue

Cost of subscription. Cost of subscription includes those costs related to supporting our subscription services, principally (a) personnel costs, which include our employees, third-party contractors and noncash share-based compensation expense, (b) expenses related to operating our cloud infrastructure, (c) amortization of capitalized software for internal use, and (d) an allocation of depreciation, amortization of intangibles, facilities and IT support costs, including data center costs, and other costs incurred in providing subscription 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.

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

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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, third-party contractors and noncash share-based compensation expense, (b) billable and non-billable travel, lodging and other out-of-pocket expenses, and (c) 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 implement and configure our solutions.

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, sales commissions related to selling and marketing personnel and noncash share-based compensation expense (b) 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, (c) travel and other out-of-pocket expenses, (d) amortization expenses associated with acquired intangible assets, and (e) 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, IT and human resources support functions. General and administrative expenses principally consist of (a) personnel costs, which include our employees and employee benefits, third-party contractors and noncash share-based compensation expense, (b) travel and other out-of-pocket expenses, (c) accounting, legal and other professional fees, and (d) 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 and noncash share-based compensation expense and (b) an allocation of depreciation, facilities and IT support costs and other costs.

Results of operations

Comparison of year ended December 31, 2016 with year ended December 31, 2015

Revenue:

(Dollars in thousands)	For the Year Ended December 31,					
	2016		2015		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
License	\$ 11,814	8%	\$ 32,716	19%	\$ (20,902)	(64)%
Services	34,739	23%	42,875	25%	(8,136)	(19)%
Subscription	38,158	25%	28,989	17%	9,169	32 %
Total license, services and subscription	84,711	55%	104,580	62%	(19,869)	(19)%
Maintenance and support	68,565	45%	63,666	38%	4,899	8 %
Total revenue	\$ 153,276	100%	\$ 168,246	100%	\$ (14,970)	(9)%

License revenue. Our license revenue depends on the amount of perpetual licenses sold in the period, as well as the timing of revenue recognition. As a result of our cloud strategy, we sold fewer perpetual licenses and experienced a corresponding decrease in license revenue, which included a decrease of \$13.2 million in license revenue recognized on a percentage of completion basis, and \$7.7 million in license revenue recognized upon software delivery. As a result of our transition to a cloud strategy, we expect to sell a lower percentage of perpetual licenses and sell more subscription services, resulting in lower future license revenue and higher subscription services revenue.

Services revenue. Services revenue declined primarily as a result of several customer implementations that were completed in 2015 or early 2016 with significant professional services, lower levels of professional services required for our new subscription sales, and professional services revenue on certain subscription contracts which is deferred until the customer commences use of the subscription services because the professional services were deemed not to have standalone value. Services revenue can vary from period to period depending on different factors, including the level of professional services required to implement our

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solutions, the timing of services revenue recognition on certain subscription service contracts and any additional professional services requested from our customers during a particular period.

Subscription revenue. Subscription revenue increased primarily due to an increase in the number of customers purchasing our subscription services and add-on revenue from existing customers. The total number of customers generating subscription revenue increased 16% for the year ended December 31, 2016. We expect our subscription revenue will continue to increase as we focus on the sale of our subscription services over our perpetual license offerings.

Maintenance and support. The increase in maintenance and support revenue was principally a result of an increase in maintenance from our existing customers. As a result of our cloud strategy, we expect that maintenance revenue will decline in the future.

Cost of revenue and gross profit.

(Dollars in thousands)	For the Year Ended December 31,					
	2016		2015		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Cost of license	\$ 246	—%	\$ 304	—%	\$ (58)	(19)%
Cost of services	32,047	21%	36,147	21%	(4,100)	(11)%
Cost of subscription	17,379	11%	12,786	8%	4,593	36%
Total cost of license, services and subscription	49,672	32%	49,237	29%	435	1%
Cost of maintenance and support	13,681	9%	12,173	7%	1,508	12%
Total cost of revenue	\$ 63,353	41%	\$ 61,410	37%	\$ 1,943	3%
Gross profit	\$ 89,923	59%	\$ 106,836	63%	\$ (16,913)	(16)%

Cost of license. Cost of license consists of third-party fees for licensed software and remained relatively consistent year over year. License gross profit percentages for the years ended December 31, 2016 and 2015, were 98% and 99%, respectively.

Cost of services. Cost of services decreased primarily due to a decrease in personnel costs used in our software implementations of \$4.0 million and a decrease in other overhead expenses of \$0.1 million. Services gross profit percentages for the years ended December 31, 2016 and 2015, were 8% and 16%, respectively. Services gross profit percentages can vary from period to period depending on different factors, including the level of professional services required to implement our solutions, our effective man-day rates and the utilization of our professional services personnel.

Cost of subscription. Cost of subscription increased primarily as a result of a \$4.1 million increase in infrastructure costs and a \$0.5 million increase in personnel costs to support our current and anticipated future subscription customer base. Our subscription gross profit percentage for the years ended December 31, 2016 and 2015, was 54% and 56%, respectively.

Cost of maintenance and support. The increase in cost of maintenance and support was attributable to an increase in personnel cost to support our current customer base. Maintenance and support gross margins for the years ended December 31, 2016 and 2015 were 80% and 81%, respectively.

Gross profit. The decrease in overall gross profit for the year ended December 31, 2016 was principally attributable to a decrease of 9% in total revenue and an increase of 3% in total cost of revenue as compared to the same period in 2015.

Operating expenses:

(Dollars in thousands)	For the Year Ended December 31,					
	2016		2015		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Selling and marketing	\$ 63,980	42%	\$ 74,146	44%	\$ (10,166)	(14)%
General and administrative	38,537	25%	38,517	23%	20	—%
Research and development	52,804	34%	46,780	28%	6,024	13%
Impairment charges	—	—%	2,890	2%	(2,890)	(100)%
Total operating expenses	\$ 155,321	101%	\$ 162,333	96%	\$ (7,012)	(4)%

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Selling and marketing. The decrease in selling and marketing expenses was primarily attributable to a decrease of \$4.7 million in noncash share-based compensation expense primarily related to the change in employment status of our former Chief Operating Officer, a \$2.8 million decrease in sales commissions as a result of capitalizing more sales commissions, a \$1.5 million decrease in marketing event costs, a \$1.3 million decrease in intangible amortization expense, a \$1.2 million decrease in travel expenses and a \$0.3 million decrease in other overhead expenses. The decrease was partially offset by a \$1.6 million increase in personnel costs.

General and administrative expenses. The general and administrative expenses remained overall unchanged for the year ended December 31, 2016 as compared to the same period in 2015 as a result of our specific efforts to control the growth and scale the capacity of our corporate overhead functions.

Research and development expenses. The increase in research and development expense was attributable to an increase of \$5.3 million in personnel costs due to higher headcount to support our current and future product development and an increase of \$0.7 million of non-personnel cost and related overhead expenses associated with our higher personnel cost.

Impairment charges. During the year ended December 31, 2015 we recorded \$2.9 million of impairment charges related to internally developed software. The full impairment in 2015 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 changes in future product launches and support. We did not record an impairment charge in 2016.

Other expense, net:

(Dollars in thousands)	For the Year Ended December 31,					
	2016		2015		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Convertible debt interest and amortization	\$ (9,319)	(6)%	\$ (8,914)	(5)%	\$ (405)	5 %
Other expense, net	\$ (38)	— %	\$ (661)	— %	\$ 623	(94)%

Convertible debt interest and amortization. The convertible debt interest and amortization expense for each of the years ended December 31, 2016 and 2015 related to coupon interest and amortization of debt discount and issuance costs attributable to our Senior Notes issued in December 2014 and mature in December 2019.

Other expense, net. Other expense, net decreased by \$0.6 million during the year ended December 31, 2016, primarily due to the reduced impact of movements in foreign currency exchange rates during the period.

Income tax provision:

(Dollars in thousands)	For the Year Ended December 31,				Variance \$	Variance %
	2016	2015	2016	2015		
Effective tax rate		(1)%	(1)%		n/a	— %
Income tax provision	\$ 470	\$ 739	\$ 470	\$ 739	\$ (269)	(36)%

Our tax provision for the year ended December 31, 2016 primarily consisted of foreign taxes and state taxes not based on loss before income tax provision.

Our 2016 and 2015 effective tax rates had an unusual relationship to pretax loss from operations as a result of the presence of a valuation allowance on our net deferred tax assets. Our income tax provisions in 2016 and 2015 only included foreign taxes and state taxes not based on pre-tax income, resulting in an effective tax rate of (1)% in both periods. The difference between the effective tax rates and the federal statutory rate of 34% for the years ended December 31, 2016 and 2015 was primarily due to the increase in our valuation allowance of \$26.6 million and \$20.9 million, respectively.

As of December 31, 2016 and 2015, we had a valuation allowance on our net deferred tax assets of \$69.0 million and \$44.3 million, respectively. The increase was principally attributed to an additional valuation allowance recorded on our current year's tax loss and increases in our noncash share-based compensation.

Comparison of year ended December 31, 2015 with year ended December 31, 2014

Revenue:

(Dollars in thousands)	For the Year Ended December 31,					
	2015		2014		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
License	\$ 32,716	19%	\$ 58,515	31%	\$ (25,799)	(44)%
Services	42,875	25%	49,225	26%	(6,350)	(13)%
Subscription	28,989	17%	23,468	13%	5,521	24 %
Total license, services and subscription	104,580	62%	131,208	71%	(26,628)	(20)%
Maintenance and support	63,666	38%	54,621	29%	9,045	17 %
Total revenue	\$ 168,246	100%	\$ 185,829	100%	\$ (17,583)	(9)%

License revenue. As a result of our shift to a cloud strategy, we experienced a decrease in the sale of perpetual licenses and a corresponding decrease in license revenue, which included a decrease of \$18.2 million in license revenue recognized upon software delivery. We recognized \$9.0 million and \$27.2 million of license revenue upon software delivery for the years ended December 31, 2015 and 2014, respectively.

Services revenue. The decrease in services revenue was primarily attributable to several customer implementations that were completed in 2014 with significant professional services and to a lesser extent certain pre-packaged offerings requiring less professional services.

Subscription revenue. The increase in subscription revenue was primarily attributable to an increase in the number of customers subscribing to our subscription services.

Maintenance and support. The increase in maintenance and support revenue was principally a result of an increase in the number of customers purchasing maintenance and support services related to the licensing of our software products.

Cost of revenue and gross profit:

(Dollars in thousands)	For the Year Ended December 31,					
	2015		2014		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Cost of license	\$ 304	—%	\$ 243	—%	\$ 61	25 %
Cost of services	36,147	21%	39,955	22%	(3,808)	(10)%
Cost of subscription	12,786	8%	7,334	4%	5,452	74 %
Total cost of license, services and subscription	49,237	29%	47,532	26%	1,705	4 %
Cost of maintenance and support	12,173	7%	10,554	6%	1,619	15 %
Total cost of revenue	\$ 61,410	37%	\$ 58,086	31%	\$ 3,324	6 %
Gross profit	\$ 106,836	63%	\$ 127,743	69%	\$ (20,907)	(16)%

Cost of license. Cost of license was \$0.3 million for the year ended December 31, 2015, compared to \$0.2 million for the year ended December 31, 2014. License gross profit percentages for the years ended December 31, 2015 and 2014 remained relatively unchanged as a result of limited third-party fees for licensed software incurred over both periods.

Cost of services. The decrease in cost of services was primarily attributable to a \$2.6 million decrease in personnel costs used in our software implementations and a decrease in other overhead expenses of \$1.2 million. Services gross profit percentages for the years ended December 31, 2015 and 2014, were 16% and 19%, respectively. The decrease in services gross profit was primarily driven by the completion of several implementations in 2014 with higher professional services man-day rates.

Cost of subscription. The increase in cost of subscription was primarily attributable to a \$2.6 million increase in personnel costs and a \$2.9 million increase in infrastructure costs to support our current and anticipated future subscription customer base. Our subscription gross profit percentage for the years ended December 31, 2015 and 2014, was 56% and 69%, respectively.

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Cost of maintenance and support. The increase in cost of maintenance and support was attributable to an increase in personnel costs associated with the continued growth in our customer maintenance and support function commensurate with our maintenance and support revenue growth. Maintenance and support gross margins were 81% for each of the years ended December 31, 2015 and 2014.

Gross profit. The decrease in overall gross profit for the year ended December 2015 was principally attributable to the decrease of license revenue as compared to the same period in 2014.

Operating expenses:

(Dollars in thousands)	For the Year Ended December 31,					
	2015		2014		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Selling and marketing	\$ 74,146	44%	\$ 64,528	35%	\$ 9,618	15 %
General and administrative	38,517	23%	35,389	19%	3,128	9 %
Research and development	46,780	28%	43,174	23%	3,606	8 %
Acquisition-related	—	—%	3,019	2%	(3,019)	(100)%
Impairment charges	2,890	2%	4,040	2%	(1,150)	(28)%
Total operating expenses	\$ 162,333	96%	\$ 150,150	81%	\$ 12,183	8 %

Selling and marketing expenses. The increase in selling and marketing expenses was attributable to an increase of \$5.5 million in personnel costs, which included an increase of \$2.0 million of noncash share-based compensation and a \$1.0 million increase in severance expense. The remaining increase of \$4.1 million related to non-personnel costs included an increase of \$2.1 million in sales and marketing events, \$1.4 million in travel expenses, \$0.6 million increase in amortization expense on certain intangible assets that became fully amortized, \$0.4 million in facility and other overhead expenses partially offset by a decrease of \$0.4 million in recruiting expenses.

General and administrative expenses. The increase in general and administrative expenses was attributable to an increase of \$3.7 million of personnel costs, primarily related to \$2.3 million increase in noncash share-based compensation expense, which included an acceleration of noncash share-based compensation expense of \$1.1 million in the first quarter of 2015 due to the change in employment status for our former Chief Financial Officer. The increase in personnel cost was partially offset by a decrease in non-personnel costs of \$0.6 million, which primarily included a \$0.2 million decrease in professional fees, \$0.2 million decrease in bad debt expense and a \$0.2 million decrease in facility and other overhead expenses.

Research and development expenses. The increase in research and development expenses was attributable to an increase of \$2.4 million in personnel costs which was due primarily to an increase in noncash share-based compensation of \$0.6 million and an increase of \$0.4 million of severance expenses. The remaining increase of \$1.2 million was primarily attributable to an increase in facility and other overhead expenses.

Acquisition-related expense. Acquisition-related expenses were \$3.0 million for the year ended December 31, 2014, consisting primarily of retention bonuses, advisory and legal fees, accounting and other professional fees related to the acquisition and integration of PROS France and SignalDemand, Inc. There were no acquisition-related expenses in 2015.

Impairment charges. During the years ended December 31, 2015 and 2014, we recorded \$2.9 million and \$4.0 million, respectively, 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. These reductions reflect 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,					
	2015		2014		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Convertible debt interest and amortization	\$ (8,914)	(5)%	\$ (492)	— %	\$ (8,422)	nm
Other expense, net	\$ (661)	— %	\$ (2,159)	(1)%	\$ 1,498	(69)%

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Convertible debt interest and amortization. The convertible debt expense for the years ended December 31, 2015 and 2014 related to coupon interest and amortization of debt discount and issuance costs attributable to our Senior Notes issued in December 2014. The increase was attributed to a full year of convertible debt interest and amortization for the year ended December 31, 2015 as compared to a partial year for the year ended December 31, 2014.

Other expense, net. Other expense, net decreased by \$1.5 million during the year ended December 31, 2015, primarily due to the reduced impact of movements in foreign currency exchange rates during the period, including foreign currency losses on the restricted cash used for the acquisition of PROS France that was recognized in 2014.

Income tax provision:

(Dollars in thousands)	For the Year Ended December 31,		Variance \$	Variance %
	2015	2014		
Effective tax rate	(1)%	(50)%	n/a	49 %
Income tax (benefit) provision	\$ 739	\$ 12,493	\$ (11,754)	(94)%

Income tax (benefit) provision. Our tax provision for the year ended December 31, 2015 primarily consisted of foreign taxes and state taxes not based on pre-tax income.

Our 2015 and 2014 effective tax rates had an unusual relationship to pretax loss from operations as a result of the presence of a valuation allowance on our net deferred tax assets. Due to a \$20.9 million increase in our valuation allowance on our net deferred tax assets, our income tax provision in 2015 only includes foreign taxes and state taxes not based on pre-tax income, resulting in an effective tax rate of (1)%. The difference between the effective tax rate and the federal statutory rate of 34% for the year ended December 31, 2015 was primarily due to the increase in our valuation allowance on our net deferred tax assets. Our effective tax rate for 2014 included a \$19.5 million net valuation allowance, which was initially established and recorded in the fourth quarter of 2014. The difference between the effective tax rate and the federal statutory rate of 34% for the year ended December 31, 2014 was due primarily to the increase in our valuation allowance and the tax benefit from the reinstatement of the U.S. R&E tax credit of approximately \$1.8 million.

As of December 31, 2015 and 2014, we had a valuation allowance on our net deferred tax assets of \$44.3 million and \$24.0 million, respectively. The increase was principally attributed to an additional valuation allowance recorded on our current year's tax loss and increases in our noncash share-based compensation.

Liquidity and capital resources

At December 31, 2016, we had \$118.0 million of cash and cash equivalents and \$76.9 million of working capital as compared to \$161.8 million of cash and cash equivalents and \$124.6 million of working capital at December 31, 2015. In addition, we had \$16.0 million and \$2.5 million of short-term investments as of December 31, 2016 and 2015, respectively.

Our principal sources of liquidity are our cash and cash equivalents, short-term investments, cash flows generated from operations and potential borrowings under our secured Credit Agreement (the "Revolver") with the lenders party thereto and Wells Fargo Bank, National Association as agent for the lenders party thereto. In December 2014, we issued the Senior Notes to supplement our overall liquidity position. Our material drivers or variants of operating cash flow are net income, noncash expenses (principally share-based compensation, intangible amortization and amortization of debt discount and issuance costs) and the timing of periodic invoicing and cash collections related to licenses, subscriptions and support for 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, cash equivalents and short-term investments 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, potential growth of our subscription services, future acquisitions we might undertake, and expansion into complementary businesses. If such need arises, we may raise additional funds through equity or debt financings.

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The following table presents key components of our Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014:

(Dollars in thousands)	For the Year Ended December 31,		
	2016	2015	2014
Net cash (used in) provided by operating activities	\$ (14,345)	\$ 15,532	\$ 1,754
Net cash (used in) provided by investing activities	(25,404)	(9,424)	7,866
Net cash (used in) provided by financing activities	(3,684)	(5,554)	106,305
Cash and cash equivalents (beginning of period)	161,770	161,019	44,688
Cash and cash equivalents (end of period)	\$ 118,039	\$ 161,770	\$ 161,019

Net cash (used in) provided by operating activities

Cash used in operating activities in 2016 was \$14.3 million, compared with cash provided by operating activities of \$15.5 million and \$1.8 million in 2015 and 2014, respectively. For 2016, the \$29.9 million decrease in net cash from operations compared to 2015 was primarily due to our recent transition to a cloud strategy as on-premise software sales were replaced with annual subscription services and the net impact of working capital changes, mainly driven by reduced cash generated from accounts receivable, partially offset by an increase in cash associated with deferred revenue.

For 2015, net cash provided by operating activities was primarily comprised of cash provided from net changes in working capital, including a \$32.3 million decrease in accounts receivable due to higher collections, partially offset by our \$65.8 million net loss and the net effect of non-cash items. The \$13.8 million increase in net cash from December 31, 2014 was primarily due to the net impact of working capital changes, mainly driven by the decrease in accounts receivable.

For 2014, net cash provided by operating activities comprised of our net loss of \$37.6 million, non-cash items including \$22.7 million of share-based compensation, \$10.4 million of depreciation and amortization, \$12.6 million of deferred taxes and \$4.0 million impairment associated with internal-use software, partially offset by a \$10.5 million use of cash from changes in our working capital. The use of cash from changes in our working capital was principally due to a \$14.0 million increase in accounts receivable as a result of higher revenue levels.

Net cash (used in) provided by investing activities

Cash used in investing activities for 2016 and 2015 was \$25.4 million and \$9.4 million, respectively, compared with cash provided by investing activities in 2014 of \$7.9 million, which was primarily the result of the timing of purchases and maturities of short-term investments and capital expenditures of \$7.2 million, \$6.8 million and \$7.5 million, respectively. During 2016, we paid \$2.0 million for a cost method investment, paid \$1.6 million for an intangible (non-acquisition) asset and incurred capitalized internal-use software development costs on our subscription service solutions of \$1.0 million. During 2014, \$22.0 million was used in acquiring PROS France and we incurred capitalized internal-use software development costs on our subscription service solutions of \$2.3 million.

Net cash (used in) provided by financing activities

Cash used in financing activities for 2016 and 2015 was \$3.7 million and \$5.6 million, respectively, compared to cash provided by financing activities in 2014 was \$106.3 million. The 2016 and 2015 results were primarily the result of tax withholdings on vesting of employee share-based awards of \$5.5 million and \$5.1 million, respectively. During 2016 and 2015, we had proceeds from employee stock plans and the exercises of stock options of \$2.0 million and \$1.5 million, respectively.

For 2015, we paid \$1.3 million of contingent consideration related to the PROS France acquisition.

For 2014, we received \$138.6 million of proceeds from the issuance of convertible debt, \$17.1 million from issuance of warrants, \$1.4 million from proceeds on employee stock plans, partially offset by a \$29.4 million purchase of a convertible note hedge and \$13.1 million for tax withholdings on vesting of employee share-based awards. We also paid \$2.2 million of contingent consideration related to the PROS France acquisition.

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, 2016, 2015 and 2014, respectively. At December 31, 2016, \$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

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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, 2016:

(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	\$ 152,375	\$ 2,875	\$ 5,750	\$ 143,750	\$ —
Operating leases	9,938	3,833	4,951	1,080	74
Purchase commitments	1,414	1,147	267	—	—
Total contractual obligations	<u>\$ 163,727</u>	<u>\$ 7,855</u>	<u>\$ 10,968</u>	<u>\$ 144,830</u>	<u>\$ 74</u>

Operating Leases

Our headquarters are located in Houston, Texas, where we lease approximately 98,000 square feet of office space. In June 2016, we entered into a fifth amendment to our corporate office lease which, among other things, provided for a three year extension, until October 31, 2019. In addition, we lease approximately 14,380 square feet of office space in Toulouse, France (which expires February 24, 2018), 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), approximately 6,600 square feet in San Francisco, California (which expires December 2020, with an option to terminate in 2018), approximately 3,300 square feet in Austin, Texas (which expires in September 2018), and approximately 3,100 square feet in London, United Kingdom (which expires August 2022, with an option to terminate in August 2017).

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 (as of December 31, 2016). In connection with the issuance of the Senior Notes, PROS, Inc. amended the Revolver in December 2014 to, among other things, allow for our 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 (as of December 31, 2016) or upon the occurrence of an event of default. As of December 31, 2016, we are in compliance with all financial covenants under the Revolver.

Debt interest expense of \$0.2 million was incurred during each of the years ended December 31, 2016, 2015 and 2014, respectively.

There were no outstanding borrowings under the Revolver as of December 31, 2016.

Note 21 contains a description of certain updates made to the Revolver in January 2017.

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.

Critical accounting policies and estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. 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

We derive our revenues primarily from subscription services fees, professional services, the perpetual licensing of our software products and the associated software maintenance and support services. We have historically derived the majority of our revenue from the licensing of our software products, the related implementation and associated software maintenance and support. More recently, we have emphasized our offers of subscription services that do not require customers to host our solutions in their data centers.

We commence revenue recognition when all of the following criteria are met:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the customer;
- collection of the fee is reasonably assured; and
- the amount of fees to be paid by the customer is fixed and determinable.

Subscription services revenue

Subscription services revenue is generally recognized ratably over the contractual term of the arrangement beginning on the date that our service is made available to the customer, assuming all other revenue recognition criteria have been met. Our subscription contracts do not provide customers with the right to take possession of the software supporting the applications and, as a result, are accounted for as service contracts. Any revenue related to up-front activation or set-up fees are deferred and recognized ratably over the estimated period that the customer benefits from the related services. Direct and incremental costs related to up-front activation or set-up activities are capitalized until the date our service is made available and then expensed ratably over the estimated period that the customer benefits from the related services.

Maintenance and support revenue

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. We recognize revenue from maintenance arrangements ratably over the period in which the services are provided.

License revenue

We derive 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 licenses revenues upon software delivery, assuming all other revenue recognition criteria have been 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 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. We believe

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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 of the loss is recorded when the loss is determinable.

We also license software solutions under term license agreements that typically include maintenance during the license term. When maintenance is included for the entire term of the term license, there is no renewal rate and we have 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.

Professional services revenue

Professional services revenues are generally recognized as the services are rendered for time and material contracts, or on a proportional performance basis for fixed price contracts. The majority of our professional services contracts are on a time and materials basis. Training revenues are recognized as the services are rendered.

For our subscription services that include professional services, we evaluate the nature and scope to determine whether the professional services have standalone value. Professional services deemed to have standalone value are accounted for separately from subscription services and typically recognized as the services are performed. If we determine the professional services do not have standalone value, we treat the transaction as a single element, the professional services revenue is deferred until the customer commences use of the subscription services, and the professional services revenue is recognized over the remaining term of the arrangement.

For software license arrangements that include professional services, we determine 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. For professional services considered essential to the functionality of the software, 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.

Multiple element arrangements

For arrangements with multiple deliverables, we evaluate whether the individual deliverables qualify as separate units of accounting. In order to treat deliverables in a multiple deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, we account for each deliverable separately and revenue is recognized for the respective deliverables as they are delivered.

When multiple deliverables included in an arrangement are separable into different units of accounting, the arrangement consideration is allocated to the identified separate units of accounting based on their relative selling price. Multiple deliverable arrangement accounting guidance provides a hierarchy when determining the relative selling price for each unit of accounting. VSOE of selling price, based on the price at which the item is regularly sold by the vendor on a standalone basis, should be used if it exists. If VSOE of selling price is not available, third-party evidence ("TPE") of selling price is used to establish the selling price if it exists. If neither VSOE nor TPE exist for a deliverable, arrangements with multiple deliverables can be separated into discrete units of accounting based on our best estimate of selling price ("BESP"). The amount of arrangement fee allocated is limited by contingent revenues, if any.

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 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 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 standalone 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 us to establish VSOE of fair value to allocate arrangement consideration to multiple deliverables.

For multiple-element arrangements that contain software and nonsoftware elements such as our subscription services, we allocate revenue between the software and software related elements as a group and any nonsoftware elements based on a

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relative fair value allocation. We determine fair value for each deliverable using the selling price hierarchy described above and utilize VSOE of fair value if it exists.

We apply the residual method to recognize revenue for the delivered elements in standalone software transactions. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration, less the aggregate fair value of any undelivered elements, typically maintenance, provided that VSOE of fair value exists for all undelivered elements. VSOE of fair value is based on the price charged when the element is sold separately or, in the case of maintenance, substantive renewal rates for maintenance.

Revenue that has been recognized, but for which we have 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.

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.

Deferred commissions

Sales commissions earned by our sales force are considered to be direct sales commissions when they are associated specifically with a non-cancellable subscription contract. Direct sales commissions are deferred when earned and amortized over the same period that revenues are recognized for the related non-cancellable subscription contract. During the year ended December 31, 2016, we deferred \$4.3 million of commissions and we amortized \$1.9 million to sales and marketing expenses in the accompanying consolidated statements of operations. During the year ended December 31, 2015, we deferred \$2.6 million of commissions and we amortized \$2.9 million to sales and marketing expenses. Total deferred commissions on our consolidated balance sheets were \$4.8 million and \$2.5 million as of December 31, 2016 and 2015, respectively.

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 and expires in March 2017. We may provide noncash share-based compensation through the grant of: (i) restricted stock awards; (ii) restricted stock unit awards - time, performance and market-based ("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 former Chief Operating Officer and RSUs granted to certain new employees in connection with our acquisitions of PROS France and SignalDemand, Inc.

As of December 31, 2016, we have granted stock options, stock appreciation rights, restricted stock units and market stock units. RSUs granted include time-based; performances-based 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 PROS France acquisition; and market-based in which the number of shares that vest are based upon attainment of target average per share closing price over a requisite trading period.

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 (time-based and performance-based) is based on the closing price of our stock on the date of grant. The fair value and the derived service period of the market-based RSUs is estimated on the date of grant using a Monte Carlo simulation model. The model requires the use of a number of assumptions including the expected volatility of our stock, our risk-free interest rate and expected dividends. Our expected volatility at the date of grant is based on our historical volatility over the performance period.

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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, December 31, 2017, March 2, 2018 and February 28, 2019 ("Performance Period"), respectively. The MSUs vest on January 1, 2016, January 1, 2017, January 1, 2018, March 3, 2018 and March 1, 2019, 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, 2016, we had \$33.8 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 2.2 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 U.S. 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, 2016, 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. We continually perform an analysis related to the realizability of our deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, we determine that it is more likely than not that our net deferred tax assets will not be realized. During 2016, there was not sufficient positive evidence to outweigh the

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current and historic negative evidence to determine that it was more likely than not that our net deferred tax assets would not be realized. Therefore, we continue to have a valuation allowance against net deferred tax assets as of December 31, 2016.

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,

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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

See "Note 2 - Summary of Significant Accounting Policies" to the Consolidated Financial Statements included in this report, regarding the impact of certain recent accounting pronouncements on our Consolidated Financial Statements.

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, 2016, would have resulted in a \$0.2 million loss. We are also exposed to foreign currency risk due to our French subsidiary, PROS France. A hypothetical 10% adverse change in the value of the U.S. dollar in relation to the Euro, which is our single most significant foreign currency exposure, would have changed revenue for the year ended December 31, 2016 by approximately \$1.0 million. In addition, as of December 31, 2016, we had operating subsidiaries in Australia, 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, 2016, we had no borrowings under the Revolver.

Our investment portfolio mainly consists of short-term interest-bearing obligations, including government and investment grade debt securities and money market funds. These securities are classified as available-for-sale and, consequently, are recorded in the unaudited condensed consolidated balance sheets at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax. Our investment strategy is focused on the preservation of capital and supporting our working capital requirements. We do not enter into investments for trading or speculative purposes. We believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates due to the short term nature of our cash equivalents.

As of December 31, 2016, 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 due to Senior Notes.

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. Changes 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

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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

There have been no changes in our internal control over financial reporting that occurred during the 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.

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, 2016, 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, 2016 based upon the COSO criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2016 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 2016 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, 2016.

Item 11. *Executive compensation*

The information required by this item is incorporated by reference from our proxy statement in connection with our 2016 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, 2016.

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 2016 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, 2016.

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 2016 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, 2016.

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 2016 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, 2016.

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-34.

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>.

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 index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of PROS Holdings, Inc. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 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 index appearing under Item 15(a)(2), 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, 2016, 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.

/s/ PricewaterhouseCoopers LLP

San Jose, California
February 15, 2017

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

	December 31,	
	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	\$ 118,039	\$ 161,770
Short-term investments	15,996	2,500
Accounts and unbilled receivables, net of allowance of \$760 and \$586, respectively	33,285	39,115
Prepaid and other current assets	6,337	7,540
Total current assets	173,657	210,925
Property and equipment, net	15,238	15,777
Intangibles, net	12,650	14,191
Goodwill	20,096	20,445
Other long-term assets	6,013	1,873
Total assets	\$ 227,654	\$ 263,211
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable and other liabilities	\$ 2,744	\$ 8,273
Accrued liabilities	7,279	4,333
Accrued payroll and other employee benefits	18,349	13,084
Deferred revenue	68,349	60,664
Total current liabilities	96,721	86,354
Long-term deferred revenue	11,389	4,665
Convertible debt, net	122,299	115,860
Other long-term liabilities	639	918
Total liabilities	231,048	207,797
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; 35,001,236 and 34,156,561 shares issued, respectively; 30,583,651 and 29,738,976 shares outstanding, respectively	35	34
Additional paid-in capital	175,678	158,674
Treasury stock, 4,417,585 common shares, at cost	(13,938)	(13,938)
Accumulated deficit	(160,259)	(85,034)
Accumulated other comprehensive loss	(4,910)	(4,322)
Total stockholders' equity	(3,394)	55,414
Total liabilities and stockholders' equity	\$ 227,654	\$ 263,211

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

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

	For the Year Ended December 31,		
	2016	2015	2014
Revenue:			
License	\$ 11,814	\$ 32,716	\$ 58,515
Services	34,739	42,875	49,225
Subscription	38,158	28,989	23,468
Total license, services and subscription	84,711	104,580	131,208
Maintenance and support	68,565	63,666	54,621
Total revenue	153,276	168,246	185,829
Cost of revenue:			
License	246	304	243
Services	32,047	36,147	39,955
Subscription	17,379	12,786	7,334
Total license, services and subscription	49,672	49,237	47,532
Maintenance and support	13,681	12,173	10,554
Total cost of revenue	63,353	61,410	58,086
Gross profit	89,923	106,836	127,743
Operating expenses:			
Selling and marketing	63,980	74,146	64,528
General and administrative	38,537	38,517	35,389
Research and development	52,804	46,780	43,174
Acquisition-related	—	—	3,019
Impairment of internal-use software	—	2,890	4,040
Loss from operations	(65,398)	(55,497)	(22,407)
Convertible debt interest and amortization	(9,319)	(8,914)	(492)
Other expense, net	(38)	(661)	(2,159)
Loss before income tax provision	(74,755)	(65,072)	(25,058)
Income tax provision	470	739	12,493
Net loss	(75,225)	(65,811)	(37,551)
Net loss attributable to non-controlling interest	—	—	(907)
Net loss attributable to PROS Holdings, Inc.	\$ (75,225)	\$ (65,811)	\$ (36,644)
Net loss per share attributable to PROS Holdings, Inc.:			
Basic	(2.47)	(2.23)	(1.27)
Diluted	(2.47)	(2.23)	(1.27)
Weighted average number of shares:			
Basic	30,395	29,578	28,915
Diluted	30,395	29,578	28,915
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustment	(594)	(2,076)	(2,249)
Unrealized gain on short-term investments	6	3	—
Other comprehensive loss, net of tax	(588)	(2,073)	(2,249)
Comprehensive (loss) income	(75,813)	(67,884)	(39,800)
Comprehensive loss attributable to non-controlling interest	—	—	(922)
Comprehensive (loss) income attributable to PROS Holdings, Inc.	\$ (75,813)	\$ (67,884)	\$ (38,878)

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,		
	2016	2015	2014
Operating activities:			
Net loss	\$ (75,225)	\$ (65,811)	\$ (37,551)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,507	10,395	10,443
Amortization of debt discount and issuance costs	6,439	6,039	329
Share-based compensation	20,466	27,864	22,665
Tax shortfall from share-based compensation	—	—	(110)
Deferred income tax, net	40	165	12,638
Provision for doubtful accounts	174	(282)	(192)
Loss on disposal of assets	19	167	—
Impairment of internal-use software	—	2,890	4,040
Changes in operating assets and liabilities:			
Accounts and unbilled receivables	5,671	32,274	(14,026)
Prepaid expenses and other assets	(915)	229	(3,383)
Accounts payable and other liabilities	(2,905)	(4,049)	(3,104)
Accrued liabilities	2,801	800	(1,080)
Accrued payroll and other employee benefits	5,195	(2,048)	3,289
Deferred revenue	14,388	6,899	7,796
Net cash (used in) provided by operating activities	(14,345)	15,532	1,754
Investing activities:			
Purchase of property and equipment	(7,241)	(6,794)	(7,499)
Purchase of equity securities	(2,000)	—	—
Acquisition of PROS France, net of cash acquired	—	—	(22,048)
Capitalized internal-use software development costs	(1,048)	(233)	(2,305)
Purchase of intangible asset	(1,625)	—	—
Change in restricted cash	—	100	39,718
Purchases in short-term investment	(154,990)	(57,697)	—
Proceeds from maturities of short-term investments	141,500	55,200	—
Net cash (used in) provided by investing activities	(25,404)	(9,424)	7,866
Financing activities:			
Exercise of stock options	889	706	1,105
Proceeds from employee stock plans	1,090	839	335
Tax withholding related to net share settlement of stock awards	(5,467)	(5,124)	(13,089)
Increase in PROS' ownership in PROS France	—	—	(6,147)
Payment of contingent consideration for PROS France	—	(1,304)	(2,225)
Payments of notes payable	(196)	(263)	—
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 convertible debt	—	(408)	—
Net cash (used in) provided by financing activities	(3,684)	(5,554)	106,305
Effect of foreign currency rates on cash	(298)	197	406

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

Net (decrease) increase in cash and cash equivalents	(43,731)	751	116,331
Cash and cash equivalents:			
Beginning of period	161,770	161,019	44,688
End of period	\$ 118,039	\$ 161,770	\$ 161,019
Supplemental disclosure of cash flow information:			
Cash (paid) refund during period for:			
Taxes	\$ 968	\$ (3)	\$ (233)
Interest	\$ (3,182)	\$ (2,932)	\$ (243)
Noncash investing activities:			
Purchase of property and equipment accrued but not paid	\$ 378	\$ 2,722	\$ 1,140

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, 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
Exercise of stock options	220,031	—	706	—	—	—	—	706
Restricted and market stock net settlement	421,115	—	(5,124)	—	—	—	—	(5,124)
Proceeds from employee stock plans	37,605	—	839	—	—	—	—	839
Noncash share based compensation	—	—	27,878	—	—	—	—	27,878
Other comprehensive loss	—	—	—	—	—	—	(2,073)	(2,073)
Net loss	—	—	—	—	—	(65,811)	—	(65,811)
Balance at December 31, 2015	29,738,976	\$ 34	\$ 158,674	4,417,585	\$ (13,938)	\$ (85,034)	\$ (4,322)	\$ 55,414
Exercise of stock options	96,870	—	889	—	—	—	—	889
Restricted and market stock net settlement	682,112	1	(5,467)	—	—	—	—	(5,466)
Proceeds from employee stock plans	65,693	—	1,090	—	—	—	—	1,090
Noncash share based compensation	—	—	20,492	—	—	—	—	20,492
Other comprehensive loss	—	—	—	—	—	—	(588)	(588)
Net loss	—	—	—	—	—	(75,225)	—	(75,225)
Balance at December 31, 2016	30,583,651	\$ 35	\$ 175,678	4,417,585	\$ (13,938)	\$ (160,259)	\$ (4,910)	\$ (3,394)

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 (collectively, the "Company"), provides solutions to help accelerate sales, formulate winning pricing strategies and align product, demand and availability. PROS revenue and profit realization solutions are designed to allow customers to experience meaningful revenue growth, sustained profitability and modernized business processes. The Company provides its solutions to enterprises across the manufacturing, distribution, services, and travel industries, including automotive and industrial, business-to-business ("B2B") services, cargo, chemicals and energy, consumer goods, insurance, food and beverage, healthcare, high tech, and travel. The Company offers its solutions via a SaaS delivery model as well as on a perpetual or term license basis. 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 through which they receive unspecified upgrades, maintenance releases and bug fixes during the term of the support period on a when-and-if-available basis.

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").

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 the ability to be settled in cash within a period of three months, to be cash equivalents, except for commercial paper which is classified as short-term investments. The Company has a cash management program that provides for the investment of excess cash balances, primarily in short-term money market instruments.

Short-term investments

The Company's investments are available-for-sale commercial paper and certificates of deposit that are recorded at fair value in the Consolidated Balance Sheets. The Company classifies all commercial paper regardless of original maturity at purchase price as investments. Unrealized gains and losses on available-for-sale securities are recorded, net of tax, as a component of accumulated other comprehensive income (loss), unless impairment is considered to be other-than-temporary. Other-than-temporary unrealized losses on available-for-sale securities are generally recorded in gain (loss) on investments, net, in the Consolidated Statements of Comprehensive Income (Loss) unless certain criteria are met. The primary factors considered when determining if a charge must be recorded because a decline in the fair value of an investment is other-than-temporary include whether: (i) the fair value of the investment is significantly below the Company's cost basis; (ii) the financial condition of the issuer of the security has deteriorated; (iii) if a debt security, it is probable that the Company will be unable to collect all amounts

due according to the contractual terms of the security; (iv) the decline in fair value has existed for an extended period of time; (v) if a debt security, such security has been downgraded by a rating agency; and (vi) the Company has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Investments with remaining maturities of twelve months or less are classified as short-term investments. Investments with remaining maturities of more than twelve months are classified as long-term investments. All of the Company's investments had contractual maturities of less than twelve months as of December 31, 2016.

Cost method investment

Investments in equity securities of privately held companies without readily determinable fair value, where the Company does not exercise significant influence over the investee, are recorded using the cost method of accounting, carrying the investment at historical cost. If there are no identified events or changes in circumstances that might have an adverse effect on the cost method investments, the Company does not estimate the investments' fair value. For all investments, if a decline in the fair value of an investment below the carrying value is determined to be other-than-temporary, such investment is written down to its estimated fair value with a charge to current earnings.

Financial instruments

The carrying amount of the Company's financial instruments, which include cash equivalents, short-term investments, receivables and accounts payable, and cost method investment approximates their fair values at December 31, 2016 and 2015. For additional information on the Company's fair value measurements, see Note 9 to the Consolidated Financial Statements.

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts which reflects the Company's best estimate of potentially uncollectible receivables. The Company regularly reviews the receivables allowances by considering such factors as historical experience, credit-worthiness, the age of the receivable balances and current economic conditions that may affect a customer's ability to pay and the Company specifically reserves for those deemed uncollectible.

Prepaid expenses and other assets

Prepaid expenses and other assets consist primarily of 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. Capitalization of such costs begins when the preliminary project stage is complete and ceases at the point in which the project is substantially complete and is ready for its intended purpose. Capitalized internal-use software is included in property and equipment, net in the Consolidated Balance Sheets.

Deferred commissions

Sales commissions earned by the Company's sales force are considered to be direct sales commissions when they are associated specifically with a non-cancellable subscription contract. Direct sales commissions are deferred when earned and amortized over the same period that revenues are recognized for the related non-cancellable subscription contract.

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. The Company recorded no impairment charges in the year ended December 31, 2016. During the years ended December 31, 2015 and 2014, the Company recorded a full impairment of \$2.9 million and \$4.0 million, respectively, related to capitalized internal-use software associated with the expected future cash flows.

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 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, 2016, 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 are 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.

Software development costs

Capitalization of software development costs for software to be sold, leased, or otherwise marketed begins upon the establishment of technological feasibility, which is generally the completion of a working prototype that has been certified as having no critical bugs and is a release candidate. Amortization begins once the software is ready for its intended use, generally based on the pattern in which the economic benefits will be consumed. To date, software development costs incurred between completion of a working prototype and general availability of the related product have not been material.

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, 2016, 2015 and 2014.

Revenue recognition

The Company derives its revenues primarily from subscription services fees, professional services, the perpetual licensing of its software products and the associated software maintenance and support services. The Company has historically derived the majority of its revenue from the licensing of its software products, the related implementation and associated software maintenance

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and support. More recently, it has emphasized its offers of subscription services that do not require customers to host its solutions in their data centers.

The Company commences revenue recognition when all of the following criteria are met:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the customer;
- collection of the fee is reasonably assured; and
- the amount of fees to be paid by the customer is fixed and determinable.

Subscription services revenue

Subscription services revenue is generally recognized ratably over the contractual term of the arrangement beginning on the date that the Company's service is made available to the customer, assuming all other revenue recognition criteria have been met. The Company's subscription contracts do not provide customers with the right to take possession of the software supporting the applications and, as a result, are accounted for as service contracts. Any revenue related to up-front activation or set-up fees are deferred and recognized ratably over the estimated period that the customer benefits from the related services. Direct and incremental costs related to up-front activation or set-up activities are capitalized until the date the Company's service is made available and then expensed ratably over the estimated period that the customer benefits from the related services.

For the Company's subscription services that include professional services, the Company determines whether the professional services have standalone value. Professional services deemed to have standalone value are accounted for separately from subscription services and the subscription services revenue recognition commences on the date that the Company's service is made available to the customer. If determined that the professional services do not have standalone value, the transaction is treated as a single element and the subscription services and professional services revenue is deferred until the customer commences use of the subscription services, and the subscription services revenue is recognized over the remaining term of the arrangement.

Maintenance and support revenue

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.

License revenue

The Company derives the majority of its license revenue from the sale of perpetual licenses. For software license arrangements that do not require significant modification or customization of the underlying software, the Company recognizes software licenses revenues upon software delivery, assuming all other revenue recognition criteria have been met.

The Company evaluates the nature and scope of professional services for each arrangement, and if it determines 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 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 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 the Company's fixed-fee arrangements, should a loss be anticipated on a contract, the full amount of the loss 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 term 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.

Professional services revenue

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Professional services revenues are generally recognized as the services are rendered for time and material contracts, or on a proportional performance basis for fixed price contracts. The majority of the Company's professional services contracts are on a time and materials basis. Training revenues are recognized as the services are rendered.

For the Company's subscription services that include professional services, the Company determines whether the professional services have standalone value. Professional services deemed to have standalone value are accounted for separately from subscription services and typically recognized as the services are performed. If determined that the professional services do not have standalone value, the transaction is treated as a single element, the professional services revenue is deferred until the customer commences use of the subscription services, and the professional services revenue is recognized over the remaining term of the arrangement.

For software license arrangements that include professional services, the Company determines 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. For professional services considered essential to the functionality of the software, 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.

Multiple element arrangements

For arrangements with multiple deliverables, the Company evaluates whether the individual deliverables qualify as separate units of accounting. In order to treat deliverables in a multiple deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, the Company accounts for each deliverable separately and revenue is recognized for the respective deliverables as they are delivered.

When multiple deliverables included in an arrangement are separable into different units of accounting, the arrangement consideration is allocated to the identified separate units of accounting based on their relative selling price. Multiple deliverable arrangement accounting guidance provides a hierarchy when determining the relative selling price for each unit of accounting. VSOE of selling price, based on the price at which the item is regularly sold by the vendor on a standalone basis, should be used if it exists. If VSOE of selling price is not available, third-party evidence ("TPE") of selling price is used to establish the selling price if it exists. If neither VSOE nor TPE exist for a deliverable, arrangements with multiple deliverables can be separated into discrete units of accounting based on the Company's best estimate of selling price ("BESP"). The amount of arrangement fee allocated is limited by contingent revenues, if any.

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, the Company 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 standalone 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.

For multiple-element arrangements that contain software and nonsoftware elements such as its subscription services, 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 the selling price hierarchy described above and utilize VSOE of fair value if it exists.

The Company applies the residual method to recognize revenue for the delivered elements in standalone software transactions. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration, less the aggregate fair value of any undelivered elements, typically maintenance, provided that VSOE of fair value exists for all undelivered elements. VSOE of fair value is based on the price charged when the element is sold separately or, in the case of maintenance, substantive renewal rates for maintenance.

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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 (Loss).

The functional currency of PROS France SAS ("PROS France") is the Euro. 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 - time, performance and market-based ("RSUs"); (iii) stock options; (iv) stock appreciation rights ("SARs"); (v) phantom stock; and (vi) 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 market stock units ("MSUs") granted to the Company's former Chief Operating Officer and RSUs granted to certain new employees in connection with the acquisitions of PROS France and SignalDemand Inc.

To date, the Company has granted stock options, stock appreciation rights, restricted stock units, time-based, performance-based and market-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, 2016 and 2015 (in thousands):

Award type	Year Ended December 31,	
	2016	2015
Stock options	734	829
Restricted stock units (time-based)	2,237	1,915
Restricted stock units (performance-based)	—	24
Restricted stock units (market-based)	460	—
Stock appreciation rights	515	522
Market stock units	342	563

Stock options. The Company did not grant stock options during 2016 and 2015. 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 RSUs (time-based and performance-based) is based on the closing price of the Company's stock on the date of grant and is amortized over the vesting period. RSUs include (i) time-based awards, (ii) performance-based awards in which the number of shares that vest are based upon satisfying certain conditions from binding customer agreements for the provision of configure, price, and quote ("CPQ") solutions, and (iii) market-based awards in which the number of shares that vest are based upon attainment of target average per share closing price over a requisite trading period. Market-based RSUs vest if the average trailing closing price of the Company's Common Stock meets certain minimum performance hurdles for at least 105 calendar days prior to September 9, 2020, with 25% vesting at \$27, an additional 25% vesting at \$33, and the remaining 50% vesting at \$41. The Company estimates the fair value and the derived service period of the market-based RSUs on the date of grant using a Monte Carlo simulation model. The model requires the use of a number of assumptions including the expected volatility of the Company's stock, its risk-free interest rate and expected dividends. The Company's expected volatility at the date of grant is based on the historical volatility of the Company over the performance period.

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Stock appreciation rights. SARs will be settled in stock at the time of exercise and vest over four years from the date of 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 the Company's expectation of paying no dividends.

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, December 31, 2017, March 2, 2018 and February 28, 2019 ("Performance Period"), respectively. The MSUs vest on January 1, 2016, January 1, 2017, January 1, 2018, March 3, 2018 and March 1, 2019, respectively. The maximum number of shares issuable upon vesting is 200% of the MSUs initially granted based on the average price of the Company's 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 its 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, 2016, there were an estimated \$33.8 million of total unrecognized compensation costs related to noncash share-based compensation arrangements. These costs will be recognized over a weighted average period of 2.2 years. For further discussion of the Company's noncash share-based compensation plans, see Note 11 to the Consolidated Financial Statements.

Product warranties

For software-as-a-service application subscriptions, the Company generally issues a product warranty for the subscription term, depending on the contract. For on-premise software licenses, the Company generally issues a product warranty for 90 days following the first use of the software in a production environment, depending on the contract. 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, restricted stock units and market 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.

Recently adopted accounting pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, "Simplifying the Presentations of Debt Issuance Costs" which requires debt issuance cost to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. In August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" which provides clarification regarding costs to secure revolving lines of credit, which are, at the outset, not associated with an outstanding borrowing. ASU 2015-15 provides commentary that the SEC staff would not object to an entity deferring and presenting costs associated with line-of-credit arrangements as an asset and subsequently amortizing them ratably over the term of the revolving debt arrangement. These new standards are effective for interim and annual periods beginning on January 1, 2016, and are required to be retrospectively adopted. The Company adopted these standards on January 1, 2016. As of December 31, 2015, \$0.1 million and \$0.4 million of unamortized debt issuance costs related to the Company's convertible Senior Notes were reclassified in the condensed consolidated balance sheet from prepaid and other current assets and other long-term assets, respectively, to convertible debt, net. The Company will continue to defer and present the debt issuance cost related to its revolving credit facility in other long-term assets and amortize it ratably over the term of the agreement.

In April 2015, the FASB issued ASU 2015-05, "Intangibles - Goodwill and Other Internal-Use Software." The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license, and if so, how the software license element of the arrangement should be accounted for by the customer. The new standard will be effective for annual period beginning after December 15, 2015, and all reporting periods thereafter. The Company adopted this standard on January 1, 2016, and there was no impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern", which provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and sets rules for how this information should be disclosed in the financial statements. The new standard is effective for annual periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. The Company adopted this standard for the annual period ended December 31, 2016 and there was no impact on the Company's consolidated financial statements.

Recent accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes nearly all existing revenue recognition guidance under GAAP and permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date" which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations" which clarifies the implementation of guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligation and Licensing" which clarifies the implementation of guidance on identifying performance obligations and licensing. In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients", which clarifies the disclosure requirements for an entity that retrospectively applies the guidance in Topic 606. These standards are effective for the Company in the first quarter of fiscal 2018. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

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The Company continues to assess all potential impacts of the new standard, and currently believe the most significant impact relates to its accounting for arrangements that include term-based software licenses bundled with maintenance and support and additional disclosures. Under current GAAP, the revenue attributable to these term-based software licenses is recognized ratably over the term of the arrangement because VSOE does not exist for the undelivered maintenance and support element as it is not sold separately. The requirement to have VSOE for undelivered elements to enable the separation of revenue for the delivered software licenses is eliminated under the new standard. Accordingly, under the new standard, the Company will be required to recognize as revenue a portion of the arrangement fee upon delivery of the software license. While the Company currently expects revenue related to professional services and subscription services to remain substantially unchanged, it is still in the process of evaluating the impact of the new standard on these types of customer arrangements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which requires the lessee to recognize most leases on the balance sheet thereby resulting in the recognition of lease assets and liabilities for those leases currently classified as operating leases. Lessor accounting remains largely unchanged from current guidance, however, ASU 2016-02 provides improvements that are intended to align lessor accounting with the lessee model and with updated revenue recognition guidance. This standard is effective for interim and annual reporting periods beginning after December 15, 2018. The Company is currently assessing the impact of ASU 2016-02 on its condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" which is intended to simplify several aspects of the accounting for share-based payment transactions. The amendments require entities to record all tax effects related to share-based payments at settlement or expiration through the income statement and the windfall tax benefit to be recorded when it arises, subject to normal valuation allowance considerations. This standard is effective for interim and annual reporting periods beginning after December 15, 2016. The Company is currently assessing the impact of ASU 2016-09 on its condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" which is intended to reduce the diversity in practice on classification of certain transactions in the statement of cash flows. This standard is effective for interim and annual reporting periods beginning after December 15, 2017; early adoption is permitted. The Company is currently assessing the impact of ASU 2016-15 on its condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flow (Topic 230): Restricted Cash" which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. The standard is effective for interim and annual reporting periods beginning after December 15, 2018 using a retrospective transition method to each period presented. The Company is currently assessing the impact of ASU 2016-18 on its condensed consolidated financial statements.

With the exception of the new standards discussed above, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the year ended December 31, 2016, that are of significance or potential significance to the Company.

3. Business Combination

Cameleon Software SA

In October 2013, the Company entered into a tender offer agreement with Cameleon Software SA (now PROS France, and referred to in this subsection 3 as "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 now controls 100% of Cameleon's common stock. 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.

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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 receivable		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):

Trade Name	Amount	Useful Life
		(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 and ultimately 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 which was settled in September 2015 for \$1.3 million.

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. Intangibles and goodwill of \$5.8 million are expected to be currently deductible for tax purposes. In accordance with GAAP, goodwill is not

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amortized but instead is 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.

Pro Forma Financial Information

The unaudited financial information in the table below summarizes the combined results of operations of the Company and Cameleon, on a pro forma basis, as though the Company had acquired Cameleon on January 1, 2013. 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	
Total revenue	\$	186,081
Net loss attributable to PROS Holdings, Inc.		(36,776)
Earnings per share - basic and diluted	\$	(1.27)

4. Non-controlling interest

The following table presents a rollforward of the non-controlling interest from the date of acquisition of PROS France 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	\$	—

The Company controlled 100% of PROS France as of December 31, 2014 and there were no activities or outstanding balance related to non-controlling interest for the years ended December 31, 2015 and 2016.

5. Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the years ended December 31, 2016 and 2015, was as follows (in thousands):

Balance as of December 31, 2014	\$	21,563
Foreign currency translation adjustments		(1,118)
Balance as of December 31, 2015		20,445
Foreign currency translation adjustments		(349)
Balance as of December 31, 2016	\$	20,096

The goodwill balance related to PROS France is denominated in local currency.

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

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	Weighted average useful life (years)	December 31, 2016		
		Gross Carrying Amount	Accumulated Amortization*	Net Carrying Amount
Developed technology	7	\$ 13,223	\$ 5,671	\$ 7,552
Internally developed technology and other	2	1,106	1,106	—
Maintenance Relationship	8	3,346	1,755	1,591
Customer relationships	7	4,736	2,854	1,882
Trade name	2	829	829	—
Acquired technology	4	1,625	—	1,625
Total		\$ 24,865	\$ 12,215	\$ 12,650

*Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, decreased total intangible assets by approximately \$0.2 million as of December 31, 2016.

	Weighted average useful life (years)	December 31, 2015		
		Gross Carrying Amount	Accumulated Amortization*	Net Carrying Amount
Developed technology	7	\$ 14,567	\$ 4,897	\$ 9,670
Internally developed technology and other	2	1,254	1,245	9
Maintenance Relationship	8	3,591	1,527	2,064
Customer relationships	7	4,853	2,405	2,448
Trade name	2	952	952	—
Total		\$ 25,217	\$ 11,026	\$ 14,191

*Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, decreased total intangible assets by approximately \$1.2 million as of December 31, 2015.

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

In the third quarter of 2015, the Company determined that the original strategy for the trade name of 'Cameleon Software SA' had changed which caused a change in estimate related to the useful life of the asset and the amortization related to this intangible asset was accelerated and fully recognized at that time.

In December 2016, the Company purchased a technology-based intangible asset in connection with the equity securities investment made during the same period. The Company estimates that the intangible will be amortized approximately over 4 year period.

Intangible asset amortization expense for the years ended December 31, 2016, 2015 and 2014 was \$3.0 million, \$4.8 million and \$5.2 million, respectively. As of December 31, 2016, 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
2017	\$ 2,780
2018	3,155
2019	3,045
2020	3,015
2021	648
2022 and thereafter	7
Total amortization expense	\$ 12,650

6. Accounts receivable and contracts in progress

Accounts receivable at December 31, 2016 and 2015, consists of the following (in thousands):

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	December 31,	
	2016	2015
Accounts receivable	\$ 31,722	\$ 36,539
Unbilled receivables	2,323	3,162
Total receivables	34,045	39,701
Less: Allowance for doubtful accounts	(760)	(586)
Accounts receivable, net	<u>\$ 33,285</u>	<u>\$ 39,115</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, 2016, 2015 and 2014, totaled approximately \$0.2 million, \$(0.3) million and \$(0.1) million, respectively.

Activity related to contracts in progress at December 31, 2016 and 2015, is summarized as follows (in thousands):

	December 31,	
	2016	2015
Costs and estimated earnings recognized to date	\$ 470,239	\$ 415,172
Progress billings to date	(547,654)	(477,339)
Total	<u>\$ (77,415)</u>	<u>\$ (62,167)</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, 2016 and 2015, as follows (in thousands):

	December 31,	
	2016	2015
Unbilled receivables	\$ 2,323	\$ 3,162
Deferred revenue	(79,738)	(65,329)
Total	<u>\$ (77,415)</u>	<u>\$ (62,167)</u>

At December 31, 2016 and 2015, the Company had approximately \$25.1 million and \$23.1 million, respectively, in deferred maintenance and support revenue, and \$36.6 million and \$18.9 million, respectively in deferred subscription revenue both of which are 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,		
	2016	2015	2014
Numerator:			
Net loss attributable to PROS Holdings, Inc.	\$ (75,225)	\$ (65,811)	\$ (36,644)
Denominator:			
Weighted average shares (basic)	30,395	29,578	28,915
Dilutive effect of stock options, restricted stock units and stock appreciation rights	—	—	—
Weighted average shares (diluted)	30,395	29,578	28,915
Basic earnings per share	\$ (2.47)	\$ (2.23)	\$ (1.27)
Diluted earnings per share	\$ (2.47)	\$ (2.23)	\$ (1.27)

Dilutive potential common shares consist of shares issuable upon the exercise of stock options, settlement of SARs, and the vesting of RSUs and MSUs. Potential common shares determined to be antidilutive and excluded from diluted weighted average

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shares outstanding were approximately 1.8 million, 2.2 million and 2.0 million for the years ended December 31, 2016, 2015 and 2014, respectively. Basic shares were used to calculate loss per share for the years ended December 31, 2016, 2015 and 2014.

Since the Company intends to settle the principal amount of its Senior Notes (see Note 13) in cash, the treasury stock method is expected to be 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, 2016 and 2015 consists of the following:

	Estimated useful life	December 31,	
		2016	2015
Furniture and fixtures	5-10 years	\$ 2,934	\$ 2,869
Computers and equipment	3-5 years	20,321	19,069
Software	3-6 years	5,907	5,238
Capitalized internal-use software development costs	3 years	1,078	—
Leasehold improvements	Shorter of lease term or useful life	5,601	5,613
Construction in progress		98	55
Property and equipment, gross		35,939	32,844
Less: Accumulated depreciation and amortization		(20,701)	(17,067)
Property and equipment, net		\$ 15,238	\$ 15,777

Depreciation and amortization was approximately \$6.4 million, \$5.5 million and \$5.0 million for the years ended December 31, 2016, 2015 and 2014, respectively. During the years ended December 31, 2016, 2015 and 2014, the Company disposed of approximately \$2.3 million, \$4.4 million and zero, respectively, of fully depreciated assets. During the years ended December 31, 2016 and 2015, the Company recognized an immaterial amount and \$0.2 million of loss on disposal of certain non-fully depreciated assets, respectively. No gain or loss on disposal of assets was recognized for the year ended December 31, 2014. As of December 31, 2016 and 2015, the Company had approximately \$9.3 million and \$4.1 million, respectively, of fully depreciated assets in use.

During the years ended December 31, 2016 and 2015, the Company capitalized internal-use software development costs of approximately \$1.1 million and \$0.3 million, respectively, related to its subscription solutions. As of December 31, 2016 and 2015, no capitalized internal-use software development costs were subject to amortization and no capitalized internal-use software development costs was included in accumulated depreciation and amortization for the years ended December 31, 2016 and 2015.

No impairment was recorded for the year ended December 31, 2016. During the years ended December 31, 2015 and 2014, the Company recorded \$2.9 million and \$4.0 million of impairment charges related to internally developed software. The impairments resulted from a reduction of projected cash flows for product groups based on revisions to the Company's projections during the year and were recorded to reduce the carrying value to fair value. The impairment in 2015 was triggered by a change in product strategy which resulted in a reduction in projected cash flows. The impairment in 2014 was triggered by the integration of the products acquired from the Company's acquisitions, which resulted in a reduction in projected cash flows.

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;

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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 commercial papers and certificate of deposit. The Company does not enter into investments for trading or speculative purposes.

At December 31, 2016 and 2015, the Company had approximately \$106.3 million and \$127.2 million invested in treasury money market funds. The fair value of the treasury money market funds is determined based on quoted market prices, which represents level 1 in the fair value hierarchy as defined by Accounting Standard Codification ("ASC") 820, "*Fair Value Measurement and Disclosure*."

The Company's short-term investments that are measured at fair value are comprised of \$10.0 million and \$2.5 million invested in available-for-sale commercial paper as of December 31, 2016 and 2015, respectively, and \$6.0 million and zero invested in certificate of deposit at December 31, 2016 and 2015, respectively. The fair value of these accounts is determined based on quoted market prices for similar assets in active markets, which represents level 2 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 Company recorded an immaterial amount of unrealized gain related to the short-term investments for the years ended December 31, 2016 and 2015. Reclassification adjustments for realized gain (loss) on available-for-sale securities in net income were immaterial for the years ended December 31, 2016 and 2015.

The fair value of the Company's Senior Notes is classified in the level 2 hierarchy. See Note 13 for further detail regarding the Senior Notes.

In December 2016, the Company purchased \$2.0 million equity securities in a privately held company. This investment is accounted for under the cost method and the Company measures it at fair value on a nonrecurring basis when it is deemed to be other-than-temporarily impaired. The Company estimates fair value of its cost method investment considering available information such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data, which represents level 3 in the fair value hierarchy. An impairment charge to current earnings is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary. As of December 31, 2016, the Company determined there were no other-than-temporary impairments on its cost method investment.

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, 2016 and 2015. The remaining amount available to purchase common stock under this plan was \$10.0 million as of December 31, 2016.

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.

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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 no issued and outstanding stock options to purchase shares of the Company's common stock under the 1999 Stock Plan as of December 31, 2016. All outstanding options were exercised during the year ended December 31, 2015 and there were no outstanding options remaining as of December 31, 2016.

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 (vi) performance awards.

In January 2016, 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 of shares reserved for issuance to 9,968,000. As of December 31, 2016, the Company had outstanding equity awards to acquire 4,280,965 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 734,289 of stock options, 2,689,860 RSUs, 514,716 SARs and 342,100 MSUs held by the Company's employees, directors and consultants. As of December 31, 2016, 774,967 shares remain available for grant under the 2007 Stock Plan. As of December 31, 2016, 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 the Company's former Chief Operating Officer and RSUs granted to certain new employees in connection with the acquisitions of PROS France and SignalDemand, Inc. As of December 31, 2016, the Company had outstanding equity inducement awards to acquire 7,500 shares of its common stock held by the Company's employees and officers, all of which were time-based RSUs.

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, 2016, 2015 and 2014 (in thousands).

	For the Year Ended December 31,		
	2016	2015	2014
Share-based compensation:			
Cost of revenue	\$ 2,267	\$ 3,719	\$ 3,469
Operating expenses:			
Selling and marketing	3,824	8,536	6,514
General and administrative	9,040	10,293	8,003
Research and development	5,335	5,316	4,679
Total included in operating expenses	18,199	24,145	19,196
Total share-based compensation expense	\$ 20,466	\$ 27,864	\$ 22,665

At December 31, 2016, there was an estimated \$33.8 million of total unrecognized compensation costs related to noncash share-based compensation arrangements. These costs will be recognized over a weighted average period of 2.2 years.

Stock options

The following table summarizes the Company's stock option activity for the year ended December 31, 2016 (number of shares and intrinsic value in thousands):

	Number of shares under option	Weighted average exercise price	Weighted average remaining contractual term (year)	Aggregate intrinsic value (1)
Outstanding, December 31, 2015	829	\$ 12.06		
Granted	—	—		
Exercised	(95)	9.55		
Forfeited	—	—		
Expired	—	—		
Outstanding, December 31, 2016	734	\$ 12.38	0.86	\$ 6,712
Vested and exercisable at December 31, 2016	734	\$ 12.38	0.86	\$ 6,712

(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, 2016 of \$21.52 and the grant date fair value.

For the years ended December 31, 2016 and 2015, respectively, the Company did not grant any stock options. The total intrinsic value of stock options exercised for the years ended December 31, 2016, 2015 and 2014 was \$1.0 million, \$1.6 million and \$4.5 million, respectively.

RSUs (time-based and performance based)

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.

The following table summarizes the Company's unvested time and performance-based RSUs as of December 31, 2016, and changes during the year then ended (number of shares and intrinsic value in thousands):

	Number of shares	Weighted average grant date fair value	Weighted average remaining contractual term (year)	Aggregate intrinsic value (1)
Unvested at December 31, 2015	1,939	\$ 26.75		
Granted	1,353	11.69		
Vested	(884)	26.62		
Forfeited	(171)	20.21		
Unvested at December 31, 2016	2,237	\$ 18.05	2.41	\$ 48,148
Expected to vest at December 31, 2016	2,162	\$ 18.18	2.39	\$ 46,516

(1) The aggregate intrinsic value was calculated based on the fair value of the Company's common stock on December 31, 2016 of \$21.52.

The weighted average grant-date fair value of the time and performance-based RSUs granted during the years ended December 31, 2016, 2015 and 2014 was \$11.69, \$25.29 and \$33.46, respectively.

RSUs (market-based)

During the year ended December 31, 2016, the Company granted 460,000 RSUs with a market-based vesting condition to certain executive employees. These market-based RSUs will vest if the average trailing closing price of the Company's Common Stock meets certain minimum performance hurdles for at least 105 calendar days prior to September 9, 2020, with 25% vesting at \$27, an additional 25% vesting at \$33, and the remaining 50% vesting at \$41.

The following table summarizes the Company's unvested market-based RSUs as of December 31, 2016, and changes during the year then ended (number of shares and intrinsic value in thousands):

	Number of shares	Weighted average grant date fair value	Weighted average remaining contractual term (year)	Aggregate intrinsic value (1)
Unvested at December 31, 2015	—	\$ —		
Granted	460	11.92		
Vested	—	—		
Forfeited	—	—		
Unvested at December 31, 2016	460	\$ 11.92	3.69	\$ 9,899
Expected to vest at December 31, 2016	430	\$ 11.92	3.69	\$ 9,245

(1) The aggregate intrinsic value was calculated based on the fair value of the Company's common stock on December 31, 2016 of \$21.52.

The Company estimates the fair value and the derived service period of the market-based RSUs on the date of grant using a Monte Carlo simulation model. The model requires the use of a number of assumptions including the expected volatility of the Company's stock, its risk-free interest rate and expected dividends. The Company's expected volatility at the date of grant was based on the historical volatility of the Company over the performance period.

The assumptions used to value the market-based RSUs granted during the year ended December 31, 2016 were as follows:

	December 31, 2016
Volatility	44.98%
Risk-free interest rate	1.08%
Dividend yield	—

The fair value of the market-based RSUs is expensed over the derived service period for each separate vesting tranche. The derived service period for the vesting tranches of the market-based RSUs ranges between 1.01 and 1.98 years.

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, 2016 (number of shares and intrinsic value in thousands):

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	Stock appreciation rights	Weighted average exercise price	Weighted average remaining contractual term (year)	Aggregate intrinsic value (1)
Outstanding, December 31, 2015	522	\$ 10.87		
Granted	—	—		
Exercised	(7)	11.42		
Forfeited	—	—		
Expired	—	—		
Outstanding, December 31, 2016	515	\$ 10.86	3.85	\$ 5,487
Exercisable at December 31, 2016	515	\$ 10.86	3.85	\$ 5,487
Vested and expected to vest at December 31, 2016	515	\$ 10.86	3.85	\$ 5,487

(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, 2016 of \$21.52 and the exercise price of the underlying SARs.

The Company did not grant SARs in 2016, 2015 and 2014.

MSUs

In 2016, 2015 and 2014, 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 the three year Performance Period. The MSUs vest on January 1, 2016, January 1, 2017, January 1, 2018, March 3, 2018 and March 1, 2019, respectively. The MSUs maximum number of shares issuable upon vesting is 200% of the MSUs initially granted.

The following table summarizes the Company's MSUs activity for the year ended December 31, 2016 (number of shares and intrinsic value in thousands):

	Number of unvested awards	Weighted average grant date fair value	Weighted average remaining contractual term (year)	Aggregate intrinsic value (1)
Unvested at December 31, 2015	563	\$ 41.55		
Granted	153	14.29		
Exercised	(252)	40.58		
Forfeited	(122)	44.47		
Expired	—	—		
Unvested at December 31, 2016	342	\$ 29.06	1.23	\$ 7,362

(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, 2016 of \$21.52 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 the years ended December 31, 2016, 2015 and 2014 are as follows:

	For the Year Ended December 31,		
	2016	2015	2014
Volatility	44.06%	42.06%	50.86%
Risk-free interest rate	1.04%	0.89%	0.68%
Expected option life in years	2.93	2.95	2.88
Dividend yield	—	—	—

The assumptions related to fiscal years 2015 and 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 the Company's 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 the Company's 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. In November 2015, the Board of Directors amended the ESPP plan to increase the discount to 15% of the fair market value of the Company's common stock effective January 1, 2016. The amendment did not change the accounting treatment of the ESPP plan. During the year ended December 31, 2016, the Company issued 65,693 shares under the ESPP. As of December 31, 2016, 383,310 shares remain authorized and available for issuance under the ESPP. As of December 31, 2016, the Company held approximately \$0.8 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, 2016, 2015 and 2014 (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	\$ 19	\$ (51)	\$ (935)
State and Foreign	402	621	790
	421	570	(145)
Deferred:			
Federal	51	159	12,334
State	(2)	10	304
Income tax provision	\$ 470	\$ 739	\$ 12,493

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, 2016, 2015 and 2014, respectively, were as follows (in thousands):

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	Year Ended December 31,		
	2016	2015	2014
Provision at the U.S. federal statutory rate	\$ (25,338)	\$ (22,124)	\$ (8,520)
Increase (decrease) resulting from:			
State income taxes, net of federal taxes	3	74	49
Nondeductible expenses	457	1,195	653
Acquisition-related expense	(4)	(4)	434
Statutory to GAAP income adjustment	(274)	119	990
Foreign Tax Expense	2	350	837
Nondeductible noncash share based compensation	604	2,201	1,784
Incremental benefits for tax credits	(1,663)	(1,947)	(3,259)
Change in tax rate/income subject to lower tax rates and other	49	(15)	19
Change in valuation allowance	26,634	20,890	19,506
Income tax provision	\$ 470	\$ 739	\$ 12,493

The Company's effective tax rate was a provision of 1%, 1% and 50% for the years ended December 31, 2016, 2015 and 2014, respectively. During the year ended December 31, 2016, the Company's effective tax rate was impacted primarily by a valuation allowance, nondeductible officer's compensation, foreign taxes, and other nondeductible expenses, partially offset by the R&E credit.

As of December 31, 2016 and 2015, the Company had an income tax receivable of approximately zero and \$1.0 million, respectively, which is classified as prepaid and other current assets in the accompanying Consolidated Balance Sheets.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows (in thousands):

	Year Ended December 31,	
	2016	2015
Noncurrent deferred tax liability:		
Property and equipment	\$ (2,114)	\$ (2,417)
Noncash share based compensation	8,053	10,378
State deferred	242	249
Capitalized software	(1,591)	(1,538)
Amortization	(2,187)	(2,289)
R&E tax credit carryforwards	6,852	5,696
Deferred revenue	2,265	923
Federal Net Operating Losses ("NOLs")	40,671	20,889
State NOLs	1,517	714
State Credits	1,348	1,348
Foreign NOLs	10,663	8,457
Foreign tax credit carryforward	1,795	1,257
Other	1,317	487
Total noncurrent deferred tax assets	68,831	44,154
Less: valuation allowance	(69,049)	(44,321)
Total noncurrent deferred tax liability	(218)	(167)
Total net deferred tax liability	\$ (218)	\$ (167)

The net deferred tax liability is classified as other noncurrent liabilities in the accompanying Consolidated Balance Sheets.

The Company has federal and state net operating loss carryforwards related to past acquisitions and current year losses. Internal Revenue Code Section 382 ("Section 382") places certain limitations on the annual amount of U.S. net operating

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loss carryforwards that can be utilized when a change of ownership occurs. The Company believes the past acquisitions were changes in ownership pursuant to Section 382, subjecting federal acquired net operating losses to limitations. According to French law the net operating loss carryforwards are not subject to ownership change limitations.

The federal and foreign net operating loss and R&E tax credit carryforward amount available to be used in future periods, taking into account the 382 annual limitation and current year losses, is approximately \$170.0 million and \$9.4 million, respectively. The Company's net operating losses will begin to expire in 2024, R&E credits will begin to expire in 2031, and foreign tax credits will begin to expire in 2022. Also included in net operating losses are \$29.0 million of French carryforwards which have no expiration.

The Company has elected the "with-and-without approach" regarding ordering of windfall tax benefits to determine whether the windfall tax benefit reduced taxes payable in the current year. Under this approach, the windfall tax benefits would be recognized in additional paid-in capital only if an incremental tax benefit is realized after considering all other tax benefits presently available to the Company. The Company's \$52.9 million deferred tax asset related to NOL carryforwards is net of \$4.2 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 would be unable to fully utilize the majority of its U.S. and state deferred tax assets. As a result, the Company had recorded a valuation allowance against those assets to the extent that they cannot be realized through net operating loss carrybacks to prior years. This valuation allowance is 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. In performing the analysis throughout 2016, the Company determined that there was no sufficient positive evidence to outweigh the current and historic negative evidence to determine that it was more likely than not that the deferred assets would not be realized. Therefore, the Company continues to have a valuation allowance against net deferred tax assets as of December 31, 2016 and 2015.

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 immaterial for the years ended December 31, 2016 and 2015. The determination of the related 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, North America, and Australia. The Company is funding the working capital needs of its foreign operations through its U.S. operations. In the future, the Company plans to 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, 2016, 2015 and 2014, the Company had \$0.2 million, \$0.2 million and \$0.4 million, respectively, of net unrecognized tax benefits which, if recognized, would impact the Company's effective tax rate. The Company recorded immaterial amounts for interest and penalties as of December 31, 2016, 2015 and 2014, respectively. The Company believes that it is reasonably possible that there will be no change in the unrecognized tax benefits within the next twelve months.

The Company is not aware of any significant income tax examinations in progress at this time. The Company files tax returns in the United States and various state and foreign jurisdictions. The Company is subject to U.S. federal income tax examination for the calendar tax years 2013, 2014 and 2015 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, 2016, 2015 and 2014 (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Beginning balance	\$ 192	\$ 395	\$ 349
Changes based on tax positions related to prior year	—	21	46
Changes due to settlement	—	(224)	—
Ending balance	\$ 192	\$ 192	\$ 395

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 the Company's 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, 2016, 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):

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	December 31, 2016	December 31, 2015
Liability component:		
Principal	\$ 143,750	\$ 143,750
Less: debt discount, net of amortization	(21,451)	(27,890)
Net carrying amount	\$ 122,299	\$ 115,860
Equity component (1)	\$ 28,714	\$ 28,714

(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):

	Year Ended December 31, 2016	Year Ended December 31, 2015
2.0% coupon	\$ 2,880	\$ 2,875
Amortization of debt issuance costs	831	795
Amortization of debt discount	5,608	5,244
Total	\$ 9,319	\$ 8,914

As of December 31, 2016 and 2015, the fair value of the Senior Notes was \$120.0 million and \$114.1 million, respectively. 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 the Company's 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. The Note Hedge is a separate transaction, entered into by the Company and is not part of the Senior Notes or the Warrant, and has been accounted for as part of additional paid-in capital.

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 the lenders party thereto and Wells Fargo Bank, National Association as agent for the lenders party thereto. 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 expiring in July 2017 (see Note 21), 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.

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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 (see Note 21) or upon the occurrence of an event of default. As of December 31, 2016, the Company was in compliance with all financial covenants in the Revolver.

As of December 31, 2016 and 2015, less than \$0.1 million of unamortized debt issuance costs related to the Revolver is included in prepaid and other current assets and other long-term assets in the consolidated balance sheets, respectively. For the years ended December 31, 2016 and 2015, the Company recorded an immaterial amount of amortization of debt issuance cost which is included in Other Expense, net in the Consolidated Statements of Comprehensive Income (Loss).

As of December 31, 2016, 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 non-cancellable operating leases that expire at various dates. The Company incurred approximately \$4.1 million, \$3.5 million and \$3.3 million of total rent expense for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, the future minimum lease commitments related to lease agreements were as follows:

Year Ending December 31,	Amount
2017	\$ 3,833
2018	2,688
2019	2,263
2020	783
2021	297
2022 and thereafter	74
Total minimum lease payments	\$ 9,938

The Company's headquarters are located in Houston, Texas, where it leases approximately 98,000 square feet of office space. In June 2016, the Company entered into a fifth amendment to this corporate office lease (the "Fifth Lease Amendment"). The Fifth Lease Amendment, among other things, provides for a three year extension, until October 31, 2019, unless earlier terminated or extended pursuant to the terms of the lease.

The Company also has smaller regional offices in London, England; Dublin, Ireland; Paris, France; Toulouse, France; Munich, Germany; Frankfurt, Germany; Sydney, Australia; San Francisco, California; Skokie, Illinois; and Austin, Texas.

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 2017.

In June 2011, the Company entered into a five year lease for approximately 3,300 square feet of office space in Austin, Texas. In August 2016, the Company signed a second amendment to renew its Austin office lease through September 2018.

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As part of the SignalDemand, Inc. acquisition, the Company assumed a lease for approximately 6,600 square feet of office in San Francisco, California. This lease was renewed through December 2020.

As part of the PROS France 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 PROS France 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.

In January 2016, the Company entered into a nine year lease for approximately 5,000 square feet of office space in Paris, France. The lease provides an option to terminate the lease in March 2022.

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, 2016 and 2015.

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 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, 2016, 2015 and 2014, amounted to approximately \$96.5 million, \$104.5 million and \$103.7 million, respectively, representing 63%, 62% and 56%, respectively, of annual revenue.

The following geographic information is presented for the years ended December 31, 2016, 2015 and 2014. The Company categorizes geographic revenues based on the location of the customer's headquarters.

	Year Ended December 31,					
	2016		2015		2014	
	Revenue	Percent	Revenue	Percent	Revenue	Percent
The Americas:						
United States of America	\$ 56,774	37%	\$ 63,754	38%	\$ 82,086	44%
Other	9,335	6%	10,680	6%	15,365	8%
Subtotal	66,109	43%	74,434	44%	97,451	52%
Europe	44,655	29%	47,514	28%	45,987	25%
Asia Pacific	30,457	20%	30,110	18%	34,170	18%
The Middle East	10,567	7%	14,198	8%	6,239	3%
Africa	1,488	1%	1,990	1%	1,982	1%
Total revenue	\$ 153,276	100%	\$ 168,246	100%	\$ 185,829	100%

17. Concentrations of credit risk

For the years ended December 31, 2016, 2015 and 2014, no customer accounted for 10% or more of revenue. For the year ended December 31, 2016, no customer accounted for 10% or more of accounts receivables, net and unbilled.

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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 twelve to eighteen months 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 2016, 2015 and 2014 totaled approximately \$1.9 million, \$1.8 million and \$1.4 million, respectively.

20. Quarterly results (Unaudited)

The following table presents certain unaudited quarterly financial data for the years ended December 31, 2016 and 2015. 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, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Total revenue	\$ 39,926	\$ 38,384	\$ 37,038	\$ 37,928
Gross profit	\$ 23,974	\$ 22,742	\$ 20,990	\$ 22,217
Loss from operations	\$ (16,258)	\$ (13,116)	\$ (18,050)	\$ (17,974)
Net loss attributable to PROS Holdings, Inc.	\$ (18,513)	\$ (15,708)	\$ (20,527)	\$ (20,477)
Net loss attributable to common stockholders per share:				
Basic	\$ (0.61)	\$ (0.52)	\$ (0.68)	\$ (0.68)
Diluted	\$ (0.61)	\$ (0.52)	\$ (0.68)	\$ (0.68)

	Quarter Ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Total revenue	\$ 42,012	\$ 40,866	\$ 41,689	\$ 43,679
Gross profit	\$ 26,599	\$ 25,600	\$ 25,959	\$ 28,678
Loss from operations	\$ (15,040)	\$ (15,866)	\$ (12,868)	\$ (11,723)
Net loss attributable to PROS Holdings, Inc.	\$ (17,731)	\$ (18,182)	\$ (15,668)	\$ (14,230)
Net loss attributable to common stockholders per share:				
Basic	\$ (0.60)	\$ (0.61)	\$ (0.53)	\$ (0.48)
Diluted	\$ (0.60)	\$ (0.61)	\$ (0.53)	\$ (0.48)

21. Subsequent Events

On January 27, 2017, the Company, through its wholly owned subsidiary PROS, Inc., entered into a Seventh Amendment (the "Seventh Amendment") to the Revolver (see Note 14). The Seventh Amendment provides for, among other things, an extension of the maturity date of the Revolver to July 2, 2022, and additional financial covenants with which the Company must comply if the Company's liquidity falls below an amended amount of \$50 million or upon the occurrence of an event of default. The remaining material terms of the Revolver remain unchanged, and are summarized in Note 14.

Schedule II
Valuation and Qualifying Accounts

	Balance at beginning of period	Additions charged to costs and expenses	Deductions (1)	Other (2)	Balance at end of period
Allowance for doubtful accounts					
2016	\$ 586	\$ 887	\$ (713)	\$ —	\$ 760
2015	\$ 868	\$ 319	\$ (601)	\$ —	\$ 586
2014	\$ 1,060	\$ 8	\$ (200)	\$ —	\$ 868
Valuation allowance					
2016	\$ 44,321	\$ 26,634	\$ —	\$ (1,906)	\$ 69,049
2015	\$ 24,027	\$ 20,890	\$ —	\$ (596)	\$ 44,321
2014	\$ 1,357	\$ 19,506	\$ —	\$ 3,164	\$ 24,027

(1) Deductions column represents the reversal of additions previously charged to costs and expenses and uncollectible accounts written off, net of recoveries.

(2) Other column represents valuation allowance adjustments recorded as part of the purchase accounting allocation related to the PROS France and SignalDemand, Inc. acquisitions as well as cumulative translation adjustment.

Item 16. Form 10-K summary

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. Registrant has elected not to include such summary information.

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 15, 2017.

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 Stefan Schulz, 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> Andres Reiner	President, Chief Executive Officer, and Director (Principal Executive Officer)	February 15, 2017
<u>/s/ Stefan Schulz</u> Stefan Schulz	Executive Vice President and Chief Financial Officer (Principal Accounting Officer)	February 15, 2017
<u>/s/ William Russell</u> William Russell	Chairman of the Board	February 15, 2017
<u>/s/ Ellen Keszler</u> Ellen Keszler	Director	February 15, 2017
<u>/s/ Greg B. Petersen</u> Greg B. Petersen	Director	February 15, 2017
<u>/s/ Leslie J. Rechan</u> Leslie J. Rechan	Director	February 15, 2017
<u>/s/ Timothy V. Williams</u> Timothy V. Williams	Director	February 15, 2017
<u>/s/ Mariette M. Woestemeyer</u> Mariette M. Woestemeyer	Director	February 15, 2017
<u>/s/ Ronald F. Woestemeyer</u> Ronald Woestemeyer	Director	February 15, 2017

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Exhibit Index

Exhibit No.	Description	Provided Herewith	Incorporated by Reference	
			Form	Filing Date
3.1	Amended and Restated Certificate of Incorporation.		S-1/A	6/15/2007
3.2	Amended and Restated Bylaws.		8-K	8/21/2013
4.1	Specimen certificate for shares of common stock.		S-1/A	6/11/2007
4.2	Indenture, dated December 10, 2014, between Registrant and Wilmington Trust, National Association, as trustee.		8-K	12/10/2014
4.3	Global Note, dated December 10, 2014, between Registrant and Wilmington Trust, National Association, as trustee.		8-K	12/10/2014
10.1+	1999 Equity Incentive Plan, as amended to date, and form of stock option agreement.		S-1	4/7/2007
10.2+	2007 Equity Incentive Plan.		S-1/A	6/11/2007
10.3+	Form of Non-Qualified Stock Option Agreement under the 2007 Equity Incentive Plan.		10-K	2/22/2013
10.4+	Form of Stock Appreciation Rights Agreement under the 2007 Equity Incentive Plan.		10-K	2/22/2013
10.5+	Form of Restricted Stock Units Agreement under the 2007 Equity Incentive Plan.		10-K	2/22/2013
10.6+	Form of Non-Plan Restricted Stock Units Agreement.		S-8	2/24/2014
10.7+	Form of Non-Plan Restricted Stock Units Agreement (France).		S-8	2/24/2014
10.8+	Form of Non-Plan Restricted Stock Units Agreement (Performance France).		S-8	2/24/2014
10.9+	Form of Performance Restricted Stock Unit Agreement.		8-K	9/9/2016
10.10+	Form of Market Stock Units Agreement under the 2007 Equity Incentive Plan.		10-Q	5/2/2013
10.11+	Form of Market Stock Units Agreement under the 2007 Equity Incentive Plan.	X		
10.12+	Form of Non-Plan Market Stock Units Agreement.		S-8	2/24/2014
10.13+	2013 Employee Stock Purchase Plan.		8-K	6/7/2013
10.14+	Stock Purchase and Stockholders Agreement, dated June 8, 1998, by and among Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and certain stockholders.		S-1	4/7/2007
10.14.1+	Amendment to Stock Purchase and Stockholders Agreement, dated March 26, 2007, by and among Registrant and certain stockholders.		S-1	4/7/2007
10.15+	Registration Rights Agreement, dated June 8, 2007, by and among Registrant, Mariette M. Woestemeyer and Ronald F. Woestemeyer.		S-1/A	6/11/2007
10.16	Office Lease, dated January 31, 2001, by and between PROS Revenue Management L.P. and Houston Community College System.		S-1	4/7/2007
10.16.1	First Amendment to Office Lease, dated March 31, 2006, by and between PROS Revenue Management L.P. and Houston Community College System.		S-1	4/7/2007
10.16.2	Second Amendment to Office Lease, dated March 1, 2007, by and between PROS Revenue Management, L.P. and Houston Community College System.		10-K	2/22/2013
10.16.3	Third Amendment to Office Lease, dated July 29, 2011, by and between PROS Revenue Management, L.P. and Houston Community College System.		8-K	8/3/2011
10.16.4	Fourth Amendment to Office Lease, dated June 27, 2012, by and between PROS Revenue Management, L.P. and Houston Community College System.		10-K	2/22/2013
10.16.5	Fifth Amendment to Office Lease, dated June 9, 2016, by and between PROS, Inc., and Houston Community College System.		8-K	6/14/2016
10.17+	Amended and Restated Employment Agreement, dated May 2, 2013, by and between PROS, Inc., Registrant and Andres Reiner.		10-Q	5/2/2013
10.18+	Employment Agreement, dated as of February 10, 2014, by and between PROS, Inc., PROS Holdings, Inc. and D. Blair Crump.		8-K	2/10/2014

10.19+	Market Stock Units Grant Notice and Market Stock Units Award Agreement, dated as of February 24, 2014, by and between PROS Holdings, Inc. and D. Blair Crump.		S-8	2/24/2014
10.20+	General Release, dated as of August 1, 2016, by and between PROS, Inc. and D. Blair Crump.		8-K	8/1/2016
10.21+	Offer Letter, dated as of January 15, 2015, by and between PROS, Inc. and Stefan Schulz.		8-K	1/20/2015
10.22+	Employment Agreement, dated March 3, 2015, by and between PROS, Inc., PROS Holdings, Inc., and Stefan B. Schulz.		8-K	3/5/2015
10.23+	Form of Indemnity Agreement entered into among Registrant, its affiliates and its directors and officers.		8-K	8/21/2013
10.24+	Form of Indemnification Agreement to be entered into among Registrant, its affiliates and its directors and officers.	X		
10.25	Tender Offer Agreement, dated October 24, 2013, by and between Registrant and Cameleon Software.		8-K	10/24/2013
10.26	Agreement and Plan of Merger, dated December 16, 2013, by and among PROS, Inc., Pandora Merger Sub Corporation, SignalDemand, Inc. and Fortis Advisors LLC.		8-K	12/16/2013
10.27	Credit Agreement, dated July 2, 2012, by and among PROS, Inc., Wells Fargo Bank, National Association, as administrative agent, and the Lenders party thereto.		8-K	7/9/2012
10.27.1	Third Amendment to Credit Agreement, dated December 3, 2014, by and among PROS, Inc., Wells Fargo Bank, National Association, as administrative agent, and the Lenders party thereto.		8-K	12/5/2014
10.27.2	Seventh Amendment to Credit Agreement, dated January 27, 2017, by and among PROS, Inc., Wells Fargo Bank, National Association, as administrative agent, and the Lenders party thereto.		8-K	2/2/2017
10.28	Purchase Agreement, dated December 4, 2014 by and among Registrant, Goldman, Sachs & Co. and Deutsche Bank Securities Inc., as representatives of the several initial purchasers named therein.		8-K	12/10/2014
10.29	Base Bond Hedge Confirmation, dated December 4, 2014 by and between Registrant and Goldman, Sachs & Co.		8-K	12/10/2014
10.30	Base Bond Hedge Confirmation, dated December 4, 2014 by and between Registrant and Deutsche Bank AG, London Branch.		8-K	12/10/2014
10.31	Additional Bond Hedge Confirmation, dated December 5, 2014 by and between Registrant and Goldman, Sachs & Co.		8-K	12/10/2014
10.32	Additional Bond Hedge Confirmation, dated December 5, 2014 by and between Registrant and Deutsche Bank AG, London Branch.		8-K	12/10/2014
10.33	Base Warrant Confirmation, dated December 4, 2014 by and between Registrant and Goldman, Sachs & Co.		8-K	12/10/2014
10.34	Base Warrant Confirmation, dated December 4, 2014 by and between Registrant and Deutsche Bank AG, London Branch.		8-K	12/10/2014
10.35	Additional Warrant Confirmation, dated December 5, 2014 by and between Registrant and Goldman, Sachs & Co.		8-K	12/10/2014
10.36	Additional Warrant Confirmation, dated December 5, 2014 by and between Registrant and Deutsche Bank AG, London Branch.		8-K	12/10/2014
21.1	List of Subsidiaries.	X		
23.1	Consent of PricewaterhouseCoopers LLP.	X		
24.1*	Power of Attorney.	X		
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).	X		
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/ 15d-14(a).	X		
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.	X		

Exhibit No.	Description
101.INS	XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB XBRL Taxonomy Extension Label Linkbase Document.
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

* Reference is made to page 52 of this Annual Report on Form 10-K.

** This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Act of 1934, or otherwise subject to the liability of that Section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

+ Indicates a management contract or compensatory plan or arrangement.

PROS HOLDINGS, INC.
NOTICE OF AWARD OF MARKET STOCK UNITS

PROS Holdings, Inc., a Delaware corporation (the “*Company*”), pursuant to its 2007 Equity Incentive Plan (the “*Plan*”), hereby grants to the holder listed below (the “*Participant*”), an award (the “*Award*”) of Market Stock Units (the “*Units*”), each of which is a right to receive the value of one (1) share of Stock, on the terms and conditions set forth herein and in the Market Stock Units Award Agreement attached hereto (the “*Award Agreement*”) and the Plan, which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Award Agreement.

Participant: _____

Grant Date: January 20, 2017

Target Number of Units: _____, subject to adjustment as provided by the Award Agreement.

Maximum Number of Units: _____, which is % of the Target Number of Units, subject to adjustment as provided by the Award Agreement.

Performance Period: Beginning March 1, 2017 and ending February 28, 2020, subject to Sections 9.1 and 9.2 of the Award Agreement.

Performance Measure: The difference, measured in percentage points, for the Performance Period between the Company Total Stockholder Return and the Benchmark Index Total Return, both determined in accordance with Section 2 of the Award Agreement.

Benchmark Index: The Russell 2000 Index (Bloomberg Symbol RTY)

Earned Units: The number of Earned Units, if any (not to exceed the Maximum Number of Units), shall equal the product of (i) the Target Number of Units and (ii) the Relative Return Factor, as illustrated by Appendix A.

Relative Return Factor: A percentage (rounded to the nearest 1/10th of 1% and not greater than 200% or less than 0%) equal to the sum of 100% plus the product of 2.5 multiplied by the difference (whether positive or negative) equal to (i) the Company Total Stockholder Return minus (ii) the Benchmark Index Total Return, as illustrated by Appendix A.

Vesting Date: March 1, 2020, except as otherwise provided by the Award Agreement.

Vested Units: Provided that the Participant’s Service has not terminated prior to the Vesting Date (except as otherwise provided by the Award Agreement), the Earned Units, if any, shall become Vested Units on the Vesting Date.

Settlement Date: For each Vested Unit, except as otherwise provided by the Award Agreement, a date occurring no later than the 30th day following the Vesting Date.

By his or her signature below or by electronic acceptance or authentication in a form authorized by the Company, the Participant agrees to be bound by the terms and conditions of the Plan, the Award Agreement and this Grant Notice. The Participant has reviewed the Award Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Award Agreement and the Plan. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan or relating to the Units.

PROS HOLDINGS, INC.

By:

Name:

Title:

Address: 3100 Main Street, Ste 900
Houston, TX 77002

PARTICIPANT

By:

Print Name:

Address:

ATTACHMENTS:

PROS Holdings, Inc. 2007 Equity Incentive Plan, as amended to the Date of the Award; Market Stock Units Agreement. The prospectus for the Plan prepared in connection with the registration with the Securities and Exchange Commission of the shares issuable pursuant to the Award is available on the Securities and Exchange website at www.sec.gov.

APPENDIX A

ILLUSTRATION OF RELATIVE RETURN FACTOR AND RESULTING NUMBER OF EARNED UNITS

Percentage Point Difference of Company TSR Over/Under Benchmark Index Total Return	Relative Return Factor	Earned Units (Per 1,000 Target Units)
100	200.0%	2,000
95	200.0%	2,000
90	200.0%	2,000
85	200.0%	2,000
80	200.0%	2,000
75	200.0%	2,000
70	200.0%	2,000
65	200.0%	2,000
60	200.0%	2,000
55	200.0%	2,000
50	200.0%	2,000
45	200.0%	2,000
40	200.0%	2,000
35	187.5%	1,875
30	175.0%	1,750
25	162.5%	1,625
20	150.0%	1,500
15	137.5%	1,375
10	125.0%	1,250
5	112.5%	1,125
4	110.0%	1,100
3	107.5%	1,075
2	105.0%	1,050
1	102.5%	1,025
0	100.0%	1,000
-1	97.5%	975
-2	95.0%	950
-3	92.5%	925
-4	90.0%	900
-5	87.5%	875
-10	75.0%	750
-15	62.5%	625
-20	50.0%	500
-25	37.5%	375
-30	25.0%	250
-35	12.5%	125
-40	0.0%	0
-45	0.0%	0
-50	0.0%	0
-55	0.0%	0
-60	0.0%	0
-65	0.0%	0
-70	0.0%	0
-75	0.0%	0
-80	0.0%	0
-85	0.0%	0
-90	0.0%	0
-95	0.0%	0
-100	0.0%	0

APPENDIX A (CONTINUED)

**ILLUSTRATIONS OF CALCULATION OF EARNED UNITS
PER 1,000 TARGET UNITS**

Company Total Stockholder Return Exceeds Benchmark Index Total Return

Assumptions:		
PRO:		
Average Per Share Closing Price (beginning)		\$15.50
Average Per Share Closing Price (ending)		\$20.50
Russell 2000 Index:		
Average Closing Index Value (beginning)		718.26
Average Closing Index Value (ending)		900.00
Computations:		
Company Total Stockholder Return	$((20.50 / 15.50) - 1) \times 100$	32.26%
Benchmark Index Total Return	$((900.00 / 718.26) - 1) \times 100$	25.30%
Relative Return Factor	$100 + (2.5 \times (32.26 - 25.30))$	117.4%
Earned Units	$1,000 \times 117.40\%$	1,174

Company Total Stockholder Return Is Less Than Benchmark Index Total Return

Assumptions:		
PRO:		
Average Per Share Closing Price (beginning)		\$15.50
Average Per Share Closing Price (ending)		\$18.76
Russell 2000 Index:		
Average Closing Index Value (beginning)		718.26
Average Closing Index Value (ending)		900.00
Computations:		
Company Total Stockholder Return	$((18.76 / 15.50) - 1) \times 100$	21.03%
Benchmark Index Total Return	$((900.00 / 718.26) - 1) \times 100$	25.30%
Relative Return Factor	$100 + (2.5 \times (21.03 - 25.30))$	89.3%
Earned Units	$1,000 \times 89.3\%$	893

APPENDIX B

ILLUSTRATION OF ADJUSTMENT TO AVERAGE PER SHARE CLOSING PRICE TO REFLECT ASSUMED REINVESTMENT OF CASH DIVIDENDS AND DISTRIBUTIONS

1. **Assumptions:**

- For the purposes of this illustration only, the averaging periods for determination of the Average Per Share Closing Price and the Average Closing Index Value are assumed to be the 10-day periods ending on the first day of the Performance Period and the last day of the Performance Period.
- The Company declares and pays a quarterly cash dividend of \$0.20 per share throughout all periods relevant to this illustration, with ex-dividend dates occurring each year on or about March 28, June 28, September 28 and December 28.
- On the ex-dividend date, the dividend paid is reinvested to purchase an additional fractional share.
- The Performance Period begins on January 1, 2XX1 and ends on December 31, 2XX2.

2. **Calculate Average Per Share Closing Price at the beginning of the Performance Period.**

On the ex-dividend date occurring on December 28, 2XX0, assume that the dividend of \$0.20 paid on one share is reinvested. Compute an adjusted Average Per Share Closing Price for the five trading days during the 10-day period ending 01/01/2XX1.

Trading Day	Closing Price	Dividend Paid	Shares Purchased	Accumulated Shares	Total Accumulated Value
12/23/2XX0	\$15.34			1.000	\$15.34
12/27/2XX0	\$15.41			1.000	\$15.41
12/28/2XX0	\$14.80	\$0.20	0.0135	1.0135	\$15.00
12/29/2XX0	\$15.13			1.0135	\$15.33
12/30/2XX0	\$14.88			1.0135	\$15.08
Average Per Share Closing Price with Dividends Reinvested					\$15.23

3. **Calculate Accumulated Shares During the Performance Period.**

On each ex-dividend date during the Performance Period, assume that the dividend of \$0.20 paid on one share is reinvested, and the fractional share is added to the 1.0135 accumulated shares determined during the initial averaging period.

Ex-Dividend Date	Closing Price	Dividend Paid	Shares Purchased	Accumulated Shares
03/28/2XX1	\$15.97	\$0.20	0.0125	1.0260
06/28/2XX1	\$16.13	\$0.20	0.0124	1.0384
09/28/2XX1	\$16.69	\$0.20	0.0120	1.0504
12/28/2XX1	\$16.36	\$0.20	0.0122	1.0626
03/28/2XX2	\$17.20	\$0.20	0.0116	1.0742
06/28/2XX2	\$19.43	\$0.20	0.0103	1.0845
09/27/2XX2	\$18.85	\$0.20	0.0106	1.0951
12/27/2XX2	\$19.20	\$0.20	0.0104	1.1055

4. **Calculate Average Per Share Closing Price at the end of the Performance Period.**

On the ex-dividend date occurring on December 28, 2XX2, assume that the dividend of \$0.20 paid on one share is reinvested, and the fractional share is added to the 1.0951 accumulated shares determined through the last ex-dividend date prior to the final averaging period. Compute an adjusted Average Per Share Closing Price for the six trading days during the 10-day period ending 12/31/2XX2.

Trading Day	Closing Price	Dividend Paid	Shares Purchased	Accumulated Shares	Total Accumulated Value
12/23/2XX2	\$19.01			1.0951	\$20.82
12/24/2XX2	\$18.94			1.0951	\$20.74
12/26/2XX2	\$19.12			1.0951	\$20.94
12/27/2XX2	\$19.20	\$0.20	0.0104	1.1055	\$21.23
12/30//2XX2	\$19.17			1.1055	\$21.19
12/31/2XX2	\$19.22			1.1055	\$21.25
Average Per Share Closing Price with Dividends Reinvested					\$21.03

PROS HOLDINGS, INC.
MARKET STOCK UNITS AWARD AGREEMENT
(U.S. PARTICIPANTS)

PROS Holdings, Inc. (the “*Company*”) has granted to the Participant named in the Market Stock Units Grant Notice (the “*Grant Notice*”) to which this Market Stock Units Award Agreement (this “*Award Agreement*”) is attached an Award consisting of Market Stock Units (the “*Units*”) subject to the terms and conditions set forth in the Grant Notice and this Award Agreement. The Award has been granted pursuant to the PROS Holdings, Inc. 2007 Equity Incentive Plan (the “*Plan*”), as amended to the Grant Date, the provisions of which are incorporated herein by reference.

Unless otherwise defined herein or in the Grant Notice, capitalized terms shall have the meanings assigned under the Plan.

1. **The Award.**

The Company hereby awards to the Participant the Target Number of Units set forth in the Grant Notice, which, depending on the extent to which a Performance Goal (as described by Plan) is attained during the Performance Period, may result in the Participant earning as little as zero (0) Units or as many as the Maximum Number of Units. Subject to the terms of this Award Agreement and the Plan, each Unit, to the extent it is earned and becomes a Vested Unit, represents a right to receive on the Settlement Date one (1) share of Stock or, at the discretion of the Committee, the Fair Market Value thereof in cash. Unless and until a Unit has been determined to be an Earned Unit and has vested and become a Vested Unit as set forth in the Grant Notice, the Participant will have no right to settlement of such Units. Prior to settlement of any earned and vested Units, such Units will represent an unfunded and unsecured obligation of the Company.

2. **Measurement of Performance Measure.**

The components of Performance Measure shall be determined for the Performance Period in accordance with the following:

2.1 “*Company Total Stockholder Return*” means the percentage point increase or decrease in (a) the Average Per Share Closing Price for the 15 calendar day period ending on the last day of the Performance Period over (b) the Average Per Share Closing Price for the 15 calendar day period ending on the first day of the Performance Period.

2.2 “*Average Per Share Closing Price*” means the average of the daily closing prices per share of Stock as reported on the New York Stock Exchange for all trading days falling within an applicable 15 calendar day periods described in Section 2.1. The Average Per Share Closing Price shall be adjusted in each case to reflect an assumed reinvestment, as of the applicable ex-dividend date, of all cash dividends and other cash distributions (excluding cash distributions resulting from share repurchases or redemptions by the Company) paid to stockholders, as applicable, during the 15 calendar day period ending on the first day of the Performance Period and during the Performance Period. The method of adjustment of the Average Per Share Closing Price to reflect the assumed reinvestment of cash dividends and other cash distributions to stockholders is illustrated in Appendix B to the Grant Notice.

2.3 “*Benchmark Index Total Return*” means the percentage point increase or decrease in (a) the Average Closing Index Value for the 15 calendar day period ending on the last day of the Performance Period over (b) the Average Closing Index Value for the 15 calendar day period ending on the first day of the Performance Period.

2.4 “*Average Closing Index Value*” means the average of the daily closing index values of the Benchmark Index for all trading days falling within an applicable 15 calendar day period described in Section 2.3.

3. **Committee Certification of Earned Units.**

3.1 **Level of Performance Measure Attained.** As soon as practicable following completion of the Performance Period, but in any event no later than the Settlement Date, the Committee shall certify in writing the level of attainment of the Performance Measure during the Performance Period, the resulting Relative Return Factor and the number of Units which have become Earned Units.

3.2 **Adjustment for Leave of Absence or Part-Time Work.** Unless otherwise required by law or Company policy, if the Participant takes one or more unpaid leaves of absence in excess of thirty (30) days in the aggregate during the Performance Period, the number of Units which would otherwise become Earned Units shall be prorated on the basis of the number of days of the Participant's Service during the Performance Period during which the Participant was not on an unpaid leave of absence. Unless otherwise required by law or Company policy, if the Participant commences working on a part-time basis during the Performance Period, the Committee may, in its discretion, reduce on a pro rata basis (reflecting the portion of the Performance Period worked by the Participant on a full-time equivalent basis) the number of Units which would otherwise become Earned Units, or provide that the number of Units which would otherwise become Earned Units shall be reduced as provided by the terms of an agreement between the Participant and the Company pertaining to the Participant's part-time schedule.

4. **Vesting of Earned Units.**

4.1 **Normal Vesting.** Except as otherwise provided by this Award Agreement, Earned Units shall vest and become Vested Units as provided in the Grant Notice.

4.2 **Vesting Upon a Change in Control.** In the event of a Change in Control, the vesting of Earned Units shall be determined in accordance with Section 9.1.

4.3 **Vesting.** Upon Involuntary Termination in Anticipation of a Change in Control. In the event that Participant's Service is terminated by the Company other than for Cause, excluding as a result of the Participant's death or Disability (an "*Involuntary Termination*"), and such Involuntary termination either (a) occurred within the one hundred twenty (120) day period prior to the effective date of a Change in Control or (b) is demonstrated by the Participant to the reasonable satisfaction of the Committee to have been at the request of a third party who is a party to such Change in Control (in either case, an "*Involuntary Termination in Anticipation of a Change in Control*"), then the vesting of Earned Units shall be determined in accordance with Section 9.2.

4.4 **Vesting Upon Involuntary Termination Following a Change in Control.** In the event that upon or within twelve (12) months following the effective date of a Change in Control, the Participant's Service terminates due to Involuntary Termination, then the vesting of Earned Units shall be determined in accordance with Section 9.3.

5. **Termination of Service.**

Unless otherwise specified in an employment agreement or other written agreement between the Company and the Participant which is applicable to this Award, in the event that the Participant's Service terminates for any reason, with or without cause, other than as described in Section 4.3 or 4.4, the Participant shall forfeit and the Company shall automatically reacquire all Units which are not, as of the time of such termination, Vested Units, and the Participant shall not be entitled to any payment therefor.

6. **Settlement of the Award.**

6.1 **Issuance of Shares of Common Stock or Cash Equivalent.** Subject to the provisions of Section 6.3 and Section 7 below, the Company shall issue to the Participant on the Settlement Date with respect to each Vested Unit to be settled on such date one (1) share of Stock. Shares issued in settlement of Vested Units shall not be subject to any restriction on transfer other than any such restriction as may be required

pursuant to Section 6.3. At the discretion of the Committee, payment with respect to all or any portion of the Vested Units may be made in a lump sum cash payment in an amount equal to the Fair Market Value, determined as of the Settlement Date, of the shares of Stock or other securities or property otherwise issuable in settlement of such Vested Units.

6.2 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with a Company-designated brokerage firm or, at the Company's discretion, any other broker with which the Participant has an account relationship of which the Company has notice any or all shares acquired by the Participant pursuant to the settlement of the Award. Except as provided by the preceding sentence, a certificate for the shares as to which the Award is settled shall be registered in the name of the Participant, or, if applicable, in the names of the Participant's Heirs.

6.3 **Restrictions on Grant of the Award and Issuance of Shares.** The grant of the Award and issuance of shares of Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of U.S. federal, state or foreign law with respect to such securities. No shares may be issued hereunder if the issuance of such shares would constitute a violation of any applicable U.S. federal, state or foreign securities laws or other laws or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance of any shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company. Further, regardless of whether the transfer or issuance of the shares to be issued pursuant to the Units has been registered under the Securities Act or has been registered or qualified under the securities laws of any State, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the shares (including the placement of appropriate legends on stock certificates and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any State, or any other law.

6.4 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the settlement of the Award.

7. **Tax Withholding and Advice.**

7.1 **In General.** Subject to Section 7.2, at the time the Grant Notice is executed, or at any time thereafter as requested by the Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for, any sums required to satisfy the U.S. federal, state, and local taxes and (if applicable) taxes imposed by jurisdictions outside of the United States (including income tax, social insurance contributions, payment on account and any other taxes) and required by law to be withheld with respect to any taxable event arising as a result of the Participant's participation in the Plan (referred to herein as "***Tax-Related Items***").

7.2 **Withholding of Taxes.** The Company or any other Participating Company, as appropriate, shall have the authority and the right to deduct or withhold, or require the Participant to remit to the applicable Participating Company, an amount sufficient to satisfy applicable Tax-Related Items or to take such other action as may be necessary in the opinion of the applicable Participating Company to satisfy such Tax-Related Items (including hypothetical withholding tax amounts if the Participant is covered under a Company tax equalization policy). In this regard, the Participant authorizes the applicable Participating Company or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following:

- a. withholding from the Participant's wages or other cash compensation paid to the Participant by the applicable Participating Company; or
- b. withholding from proceeds of the sale of shares acquired upon vesting and settlement of the Units, either through a voluntary sale or through a mandatory sale arranged by the Company (on the Participant's behalf pursuant to this authorization); or
- c. withholding in shares to be issued upon vesting and settlement of the Units; or
- d. direct payment from the Participant.

To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the Participant is covered by a Company tax equalization policy, the Participant agrees to pay to the Company any additional hypothetical tax obligation calculated and paid under the terms and conditions of such tax equalization policy. Finally, the Participant shall pay to the applicable Participating Company any amount of Tax-Related Items that the Participating Company may be required to withhold as a result of his or her participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the shares that may be issued in connection with the settlement of the Units if the Participant fails to comply with his or her Tax-Related Items obligations.

7.3 **Tax Advice.** The Participant represents, warrants and acknowledges that the Company has made no warranties or representations to the Participant with respect to the income tax consequences of the transactions contemplated by this Award Agreement, and the Participant is in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. **THE PARTICIPANT UNDERSTANDS THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE PARTICIPANT SHOULD CONSULT HIS OR HER OWN TAX ADVISOR REGARDING THE UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.**

8. Authorization to Release Necessary Personal Information.

The Participant hereby authorizes and directs the Participant's employer to collect, use and transfer in electronic or other form, any personal information (the "**Data**") regarding the Participant's Service, the nature and amount of the Participant's compensation and the fact and conditions of the Participant's participation in the Plan (including, but not limited to, the Participant's name, home address, telephone number, date of birth, social security number (or any other social or national identification number), salary, nationality, job title, number of shares held and the details of all Units or any other entitlement to shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that the Data may be transferred to the Company or any other Participating Company, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a brokerage firm or other third party assisting with administration of the Award or with whom shares acquired upon settlement of this Award or cash from the sale of such shares may be deposited. The Participant acknowledges that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of the Participant's residence. Furthermore, the Participant acknowledges and understands that the transfer of the Data to the Company or any of other Participating Company, or to any third parties is necessary for Participant's participation in the Plan. The Participant may at any time withdraw the consents herein, by contacting the Company's stock administration department in writing. The Participant further acknowledges that withdrawal of consent may affect the Participant's ability to realize benefits from the Award, and the Participant's ability to participate in the Plan.

9. **Change in Control.**

In the event of a Change in Control, this Section 9 shall determine the treatment of the Units which have not otherwise become Vested Units, except as otherwise determined in accordance with an employment agreement or other agreement between the Company and the Participant which is applicable to this Award.

9.1 **Effect of Change in Control on Award.** In the event of a Change in Control, the Performance Period shall end on the day immediately preceding the Change in Control (the “*Adjusted Performance Period*”). The number of Earned Units and the vesting of those Units shall be determined for the Adjusted Performance Period in accordance with the following:

a. **Earned Units.** In the Committee’s determination of the number of Earned Units for the Adjusted Performance Period, the following modifications shall be made to the components of the Relative Return Factor:

i. The Company Total Stockholder Return shall be determined as provided by Section 2.1, except that the Average Per Share Closing Price for the 15 calendar day period ending on the last day of the Adjusted Performance Period shall be replaced with the price per share of Stock to be paid to the holder thereof in accordance with the definitive agreement governing the transaction constituting the Change in Control (or, in the absence of such agreement, the closing price per share of Stock as reported on the New York Stock Exchange for the last trading day of the Adjusted Performance Period), adjusted to reflect an assumed reinvestment, as of the applicable ex-dividend date, of all cash dividends and other cash distributions (excluding cash distributions resulting from share repurchases or redemptions by the Company) paid to stockholders during the Adjusted Performance Period, as illustrated in Section 2.2.

ii. The Benchmark Index Total Return shall be determined as provided by Section 2.3, except that for the purposes of clause (a) thereof, the Average Closing Index Value shall be determined for the 15 calendar day period ending on the last day of the Adjusted Performance Period.

b. **Vested Units.** Except as provided in Section 9.2, as of the last day of the Adjusted Performance Period and provided that the Participant’s Service has not terminated prior to such date, a portion of the Earned Units determined in accordance with Section 9.1(a) shall become Vested Units (the “*Accelerated Units*”), with such portion determined by multiplying the total number of Earned Units by a fraction, the numerator of which equals the number of days contained in the Adjusted Performance Period and the denominator of which equals the number of days contained in the original Performance Period determined without regard to this Section. The Accelerated Units shall be settled in accordance Section 6 immediately prior to the consummation of the Change in Control. Except as otherwise provided by Section 9.3, that portion of the Earned Units determined in accordance with Section 9.1(a) in excess of the number of Accelerated Units shall become Vested Units on the Vesting Date of the original Performance Period determined without regard to this Section, provided that the Participant’s Service has not terminated prior to such Vesting Date. Such Vested Units shall be settled on the Settlement Date in accordance with Section 6, provided that payment for each Vested Unit shall be made in the amount and in the form of the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock).

9.2 **Involuntary Termination in Anticipation of a Change in Control.** In the event that Participant’s Service terminates due to Involuntary Termination in Anticipation of a Change in Control, the number of Earned Units shall be determined in the manner specified by Section 9.1 as of the day immediately preceding the Change in Control, with respect to an Adjusted Performance Period ending on such day. The number of Earned Units so determined shall vest in full and become Vested Units, and such Vested Units shall be settled in accordance Section 6 immediately prior to the consummation of the Change in Control.

9.3 **Involuntary Termination Following Change in Control.** In the event that upon or within twelve (12) months following the effective date of the Change in Control, the Participant’s Service

terminates due to Involuntary Termination, the vesting of the Earned Units determined in accordance with Section 9.1(a) in excess of the number of Accelerated Units shall be deemed Vested Units effective as of the date of the Participant's Involuntary Termination and shall be settled in accordance with Section 6, treating the date of the Participant's termination of Service as the Vesting Date, and provided that payment for each Vested Unit shall be made in the amount and in the form of the consideration (whether stock, cash, other securities or property or a combination thereof) to which a holder of a share of Stock on the effective date of the Change in Control was entitled (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock).

10. **Adjustments for Changes in Capital Structure.**

The number of Units awarded pursuant to this Award Agreement is subject to adjustment as provided in Section 4.4 of the Plan. Upon the occurrence of an event described in Section 4.4 of the Plan, any and all new, substituted or additional securities or other property to which a holder of a share issuable in settlement of the Award would be entitled shall be immediately subject to the Award Agreement and included within the meaning of the terms "shares" and "Stock" for all purposes of the Award. The Participant shall be notified of such adjustments and such adjustments shall be binding upon the Company and the Participant.

11. **No Entitlement or claims for compensation.**

11.1 The Participant's rights, if any, in respect of or in connection with the Units are derived solely from the discretionary decision of the Company to permit the Participant to participate in the Plan and to benefit from a discretionary Award. By accepting the Units, the Participant expressly acknowledges that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Units or other Awards to the Participant. The Units are not intended to be compensation of a continuing or recurring nature, or part of the Participant's normal or expected compensation, and in no way represents any portion of the Participant's salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

11.2 Neither the Plan nor the Units shall be deemed to give the Participant a right to remain an Employee, Director or Consultant of the Company or any other Participating Company. The Participating Company Group reserves the right to terminate the Service of the Participant at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Certificate of Incorporation and Bylaws and a written employment agreement (if any), and the Participant shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, the Units or any other outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

12. **Rights as a Stockholder.**

The Participant shall have no rights as a stockholder with respect to any shares which may be issued in settlement of this Award until the date of the issuance of a certificate for such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, dividend equivalents, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 10.

13. **Miscellaneous Provisions.**

13.1 **Amendment.** The Committee may amend this Award Agreement at any time; provided, however, that no such amendment may adversely affect the Participant's rights under this Award Agreement without the consent of the Participant, except to the extent such amendment is necessary to comply with applicable law, including, but not limited to, Code Section 409A. No amendment or addition to this Award Agreement shall be effective unless in writing.

13.2 **Nontransferability of the Award.** Prior to the issuance of shares on the applicable Settlement Date, no right or interest of the Participant in the Award nor any shares issuable on settlement of the Award shall be in any manner pledged, encumbered, or hypothecated to or in favor of any party other than the Company or shall become subject to any lien, obligation, or liability of such Participant to any other party other than the Company. Except as otherwise provided by the Committee, no Award shall be assigned, transferred or otherwise disposed of other than by will or the laws of descent and distribution. All rights with respect to the Award shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

13.3 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Award Agreement.

13.4 **Binding Effect.** This Award Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer set forth herein, be binding upon the Participant and the Participant's heirs, executors, administrators, successors and assigns.

13.5 **Notices.** Any notice required to be given or delivered to the Company under the terms of this Award Agreement shall be in writing and addressed to the Company at its principal corporate offices. Any notice required to be given or delivered to the Participant shall be in writing and addressed to the Participant at the address maintained for the Participant in the Company's records or at the address of the local office of the Company or of any other Participating Company at which the Participant works.

13.6 **Construction of Award Agreement.** The Grant Notice, this Award Agreement, and the Units evidenced hereby (i) are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan, and (ii) constitute the entire agreement between the Participant and the Company on the subject matter hereof and supersede all proposals, written or oral, and all other communications between the parties related to the subject matter. All decisions of the Committee with respect to any question or issue arising under the Grant Notice, this Award Agreement or the Plan shall be conclusive and binding on all persons having an interest in the Units.

13.7 **Governing Law.** The interpretation, performance and enforcement of this Award Agreement shall be governed by the laws of the State of Texas, U.S.A. without regard to the conflict-of-laws rules thereof or of any other jurisdiction.

13.8 **Section 409A.**

a. **Compliance with Code Section 409A.** Notwithstanding any other provision of the Plan, this Award Agreement or the Grant Notice, the Plan, this Agreement and the Grant Notice shall be interpreted in accordance with, and incorporate the terms and conditions required by, Code Section 409A (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof). The vesting and settlement of Units awarded pursuant to this Award Agreement are intended to qualify for the "short-term deferral" exemption from Code Section 409A. The Company reserves the right, to the extent the Company deems necessary or advisable in its sole discretion, to unilaterally amend or modify the Plan and/or this Award Agreement to ensure that the Units qualify for exemption from or comply with Code Section 409A; *provided, however,* that the Company makes no representations that the Units will be exempt from Code Section 409A and makes no undertaking to preclude Code Section 409A from applying to the Units.

b. **Separation from Service; Required Delay in Payment to Specified Employee.** Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Participant's termination of Service which constitutes a "deferral of compensation" within the meaning of Code Section 409A shall be paid unless and until the Participant has incurred a "separation from service" within the meaning of Code Section 409A. Furthermore, to the extent that the Participant is a "specified employee" within the meaning of Code Section 409A as of the date of the Participant's separation from service, no amount that constitutes a deferral of compensation which is payable on account of the

Participant's separation from service shall be paid to the Participant before the date (the "**Delayed Payment Date**") which is the first day of the seventh month after the date of the Participant's separation from service or, if earlier, the date of the Participant's death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

13.9 **Administration.** The Committee shall have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Award Agreement or the Units.

13.10 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

13.11 **Severability.** If any provision of this Award Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the extent possible. In any event, all other provisions of this Award Agreement shall be deemed valid and enforceable to the full extent possible.

13.12 **Relocation Outside the United States.** If the Participant relocates to a country outside the United States, the Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the Units and on any shares acquired under the Plan, to the extent the Company determines necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

INDEMNIFICATION AGREEMENT

This Indemnification Agreement ("*Agreement*") dated _____, 20__, is made between PROS Holdings, Inc., a Delaware corporation (the "*Company*"), and _____ (the "*Indemnitee*").

RECITALS

A. The Company desires to attract and retain the services of talented and experienced individuals, such as Indemnitee, to serve as directors and officers of the Company and its subsidiaries and wishes to indemnify its directors and officers to the maximum extent permitted by law;

B. The Company and Indemnitee recognize that corporate litigation in general has subjected directors and officers to expensive litigation risks;

C. Section 145 of the General Corporation Law of Delaware, under which the Company is organized ("*Section 145*"), empowers the Company to indemnify its directors and officers by agreement and to indemnify persons who serve, at the request of the Company, as the directors and officers of other corporations or enterprises, and expressly provides that the indemnification provided by Section 145 is not exclusive;

D. Section 145(g) allows for the purchase of management liability ("*D&O*") insurance by the Company, which in theory can cover asserted liabilities without regard to whether they are indemnifiable by the Company or not;

E. Individuals considering service or presently serving expect to be extended market terms of indemnification commensurate with their position, and that entities such as Company will endeavor to maintain appropriate D&O insurance; and

F. In order to induce Indemnitee to serve or continue to serve as a director or officer of the Company and/or one or more subsidiaries of the Company, or otherwise serve the Company in an indemnifiable capacity as set forth below, the Company and Indemnitee enter into this Agreement.

AGREEMENT

NOW, THEREFORE, Indemnitee and the Company hereby agree as follows:

1. Definitions. As used in this Agreement:

(a) "*Agent*" means any person who is or was a director, officer, employee or other agent of the Company or a subsidiary of the Company; or is or was serving at the request of, for the convenience of, or to represent the interests of the Company or a subsidiary of the Company as a director, officer, employee or agent of another foreign or domestic corporation, limited liability company, employee benefit plan, nonprofit entity, partnership, joint venture, trust or other enterprise; or was a director, officer, employee or agent of a foreign or domestic corporation which was a predecessor corporation of the Company or a subsidiary of the Company, or was a director, officer,

employee or agent of another enterprise at the request of, for the convenience of, or to represent the interests of such predecessor corporation.

(b) **“Board”** means the Board of Directors of the Company.

(c) A **“Change in Control”** shall be deemed to have occurred if (i) any “person,” as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the **“Exchange Act”**), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 40% or a majority of the total voting power represented by the Company’s then outstanding voting securities, (ii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board, together with any new directors whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination was previously so approved, cease for any reason to constitute a majority of the Board, (iii) the stockholders of the Company approve a merger or consolidation or a sale of all or substantially all of the Company’s assets with or to another entity, other than a merger, consolidation or asset sale that would result in the holders of the Company’s outstanding voting securities immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least a majority of the total voting power represented by the voting securities of the Company or such surviving or successor entity outstanding immediately thereafter, or (iv) the stockholders of the Company approve a plan of complete liquidation of the Company.

(d) **“Expenses”** shall include all out-of-pocket costs of any type or nature whatsoever (including, without limitation, all attorneys’ fees and related disbursements), actually and reasonably incurred by or on behalf of Indemnitee in connection with either the investigation, defense, or appeal of a Proceeding, or establishing or enforcing a right to indemnification under this Agreement, or Section 145 or otherwise; provided, however, that “Expenses” shall not include any judgments, fines, ERISA excise taxes or penalties, or amounts paid in settlement of a Proceeding.

(e) **“Independent Counsel”** means a law firm, or a partner (or, if applicable, member) of such a law firm, that is experienced in relevant matters of corporation law and neither currently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party or (ii) any other party to or witness in the Proceeding giving rise to a claim for indemnification hereunder. But “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement. Where required by this Agreement, Independent Counsel shall be retained at the Company’s sole expense.

(f) **“Proceeding”** means any threatened, pending, or completed action, claim, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing, or any other proceeding whether formal or informal, civil, criminal, administrative, or investigative,

including any such investigation or proceeding instituted by or on behalf of the Corporation or its Board of Directors, in which Indemnitee is or reasonably may be involved as a party or target, that is associated with Indemnitee's being an Agent of the Corporation.

(g) **“Subsidiary”** means any corporation of which more than 50% of the outstanding voting securities is owned directly or indirectly by the Company, by the Company and/or one or more other subsidiaries.

2. **Agreement to Serve.** Indemnitee agrees to serve and/or continue to serve as an Agent of the Company, at its will (or under separate agreement, if such agreement exists), in the capacity Indemnitee currently serves as an Agent of the Company, so long as Indemnitee is duly appointed or elected and qualified in accordance with the applicable provisions of the Bylaws of the Company or any subsidiary of the Company or until such time as Indemnitee tenders his or her resignation in writing; provided, however, that nothing contained in this Agreement is intended to create any right to continued employment or other service by Indemnitee.

3. **Liability Insurance.**

(a) **Maintenance of D&O Insurance.** The Company hereby covenants and agrees that, so long as Indemnitee shall continue to serve as an Agent of the Company and thereafter so long as Indemnitee shall be subject to any possible Proceeding by reason of the fact that Indemnitee was an Agent of the Company, the Company, subject to Section 3(c), shall promptly obtain and maintain in full force and effect directors' and officers' liability insurance (**“D&O Insurance”**) in reasonable amounts from established and reputable insurers of a minimum A.M. Best rating of A- VII, and as more fully described below. In the event of a Change in Control, the Company shall, as set forth in Section (c) below, either: i) maintain such D&O Insurance for six years; or ii) purchase a six year tail for such D&O Insurance. Should a tail policy be purchased, reasonable efforts shall be made to try to obtain the coverage through Company's D&O insurance broker at that time, and under the same or better terms and limits in place at that time.

(b) **Rights and Benefits.** In all policies of D&O Insurance, Indemnitee shall qualify as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's Agents of the same standing as Indemnitee.

(c) **Limitation on Required Maintenance of D&O Insurance.** Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain D&O Insurance at all, or of any type, terms, or amount, if the Company determines in good faith and after using commercially reasonable efforts that: such insurance is not reasonably available; the premium costs for such insurance are disproportionate to the amount of coverage provided; the coverage provided by such insurance is limited so as to provide an insufficient or unreasonable benefit; Indemnitee is covered by similar insurance maintained by a subsidiary of the Company; the Company is to be acquired and a tail policy of reasonable terms and duration can be purchased for pre-closing acts or omissions by the Indemnitee; or the Company is to be acquired and D&O Insurance will be maintained by the acquirer that covers pre-closing acts and omissions by the Indemnitee.

4. Mandatory Indemnification. Subject to the terms of this Agreement:

(a) Third Party Actions. If Indemnitee is a person who was or is a party or is threatened to be made a party to any Proceeding (other than an action by or in the right of the Company) by reason of the fact that Indemnitee is or was an Agent of the Company, or by reason of anything done or not done by Indemnitee in any such capacity, the Company shall indemnify Indemnitee against all Expenses and liabilities of any type whatsoever (including, but not limited to, judgments, fines, ERISA excise taxes and penalties, and amounts paid in settlement) actually and reasonably incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of such Proceeding, provided Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or Proceeding, had no reasonable cause to believe his or her conduct was unlawful.

(b) Derivative Actions. If Indemnitee is a person who was or is a party or is threatened to be made a party to any Proceeding by or in the right of the Company by reason of the fact that Indemnitee is or was an Agent of the Company, or by reason of anything done or not done by Indemnitee in any such capacity, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of such Proceeding, provided Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; except that no indemnification under this Section 4(b) shall be made in respect to any claim, issue or matter as to which Indemnitee shall have been finally adjudged to be liable to the Company by a court of competent jurisdiction unless and only to the extent that the Delaware Court of Chancery or the court in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such amounts which the Delaware Court of Chancery or such other court shall deem proper.

(c) Actions where Indemnitee is Deceased. If Indemnitee is a person who was or is a party or is threatened to be made a party to any Proceeding by reason of the fact that Indemnitee is or was an Agent of the Company, or by reason of anything done or not done by Indemnitee in any such capacity, and if, prior to, during the pendency of or after completion of such Proceeding Indemnitee is deceased, the Company shall indemnify Indemnitee's heirs, executors and administrators against all Expenses and liabilities of any type whatsoever to the extent Indemnitee would have been entitled to indemnification pursuant to this Agreement were Indemnitee still alive.

(d) Certain Terminations. The termination of any Proceeding or of any claim, issue, or matter therein by judgment, order, settlement, or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal action or Proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(e) Limitations. Notwithstanding the foregoing provisions of Sections 4(a), 4(b), 4(c) and 4(d) hereof, the Company shall not be obligated to indemnify the Indemnitee for Expenses or liabilities of any type whatsoever for which payment (and the Company's indemnification obligations under this Agreement shall be reduced by such payment) is actually made to or on behalf of Indemnitee, by the Company or otherwise, under a corporate insurance policy, or under a valid and enforceable indemnity clause, right, by-law, or agreement; and, in the event the Company has previously made a payment to Indemnitee for an Expense or liability of any type whatsoever for which payment is actually made to or on behalf of the Indemnitee from any such source, Indemnitee shall return to the Company the amounts subsequently received by the Indemnitee that source.

(f) Witness. In the event that Indemnitee is not a party or threatened to be made a party to a Proceeding, but is subpoenaed (or given a written request to be interviewed by or provide documents or information to a government authority) in such a Proceeding by reason of the fact that the Indemnitee is or was an Agent of the Company, or by reason of anything witnessed or allegedly witnessed by the Indemnitee in that capacity, the Company shall indemnify the Indemnitee against all actually and reasonably incurred out of pocket costs (including without limitation legal fees) incurred by the Indemnitee in responding to such subpoena or written request for an interview. As a condition to this right, Indemnitee must provide notice of such subpoena or request to the Company within five business days, otherwise the Company's obligation to pay such costs shall only attach for costs incurred from the date of notice.

5. Indemnification for Expenses in a Proceeding in Which Indemnitee is Wholly or Partly Successful.

(a) Successful Defense. Notwithstanding any other provisions of this Agreement, to the extent Indemnitee has been successful, on the merits or otherwise, in defense of any Proceeding (including, without limitation, an action by or in the right of the Company) in which Indemnitee was a party by reason of the fact that Indemnitee is or was an Agent of the Company at any time, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by or on behalf of Indemnitee in connection with the investigation, defense or appeal of such Proceeding.

(b) Partially Successful Defense. Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee is a party to any Proceeding (including, without limitation, an action by or in the right of the Company) in which Indemnitee was a party by reason of the fact that Indemnitee is or was an Agent of the Company at any time and is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by or on behalf of Indemnitee in connection with each successfully resolved claim, issue or matter.

(c) Dismissal. For purposes of this section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

(d) Contribution. If the indemnification provided in this Agreement is unavailable and may not be paid to Indemnitee, then to the extent allowed by law, in respect of any Proceeding

in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), the Company shall contribute to the amount of Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and Indemnitee on the other hand from the transaction from which such Proceeding arose, and (ii) the relative fault of Company on the one hand and of Indemnitee on the other in connection with the events which resulted in such Expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of Indemnitee on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information, active or passive conduct, and opportunity to correct or prevent the circumstances resulting in such Expenses, judgments, fines or settlement amounts. The Company agrees that it would not be just and equitable if contribution pursuant to this section were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

6. Mandatory Advancement of Expenses.

(a) Subject to the terms of this Agreement and following notice pursuant to Section 7(a) below, the Company shall advance, interest free, all Expenses reasonably incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any Proceeding to which Indemnitee is a party or is threatened to be made a party by reason of the fact that Indemnitee is or was an Agent of the Company (unless there has been a final determination such that Indemnitee is not entitled to indemnification for such Expenses) upon receipt satisfactory documentation supporting such Expenses. Such advances are intended to be an obligation of the Company to Indemnitee hereunder and shall in no event be deemed to be a personal loan. Such advancement of Expenses shall otherwise be unsecured and without regard to Indemnitee's ability to repay. The advances to be made hereunder shall be paid by the Company to Indemnitee within thirty (30) days following delivery of a written request therefore by Indemnitee to the Company, along with such documentation and information as is reasonably available to the Indemnitee and is reasonably necessary to determine whether and to what extent the claimant is entitled to advancement (which shall include without limitation reasonably detailed invoices for legal services, but with disclosure of confidential work product not required). The Company shall discharge its advancement duty by, at its option, (a) paying such Expenses on behalf of Indemnitee, (b) advancing to Indemnitee funds in an amount sufficient to pay such Expenses, or (c) reimbursing Indemnitee for Expenses already paid by Indemnitee. In the event that the Company fails to pay Expenses as incurred by Indemnitee as required by this paragraph, Indemnitee may seek mandatory injunctive relief (including without limitation specific performance) from any court having jurisdiction to require the Company to pay Expenses as set forth in this paragraph. If Indemnitee seeks mandatory injunctive relief pursuant to this paragraph, it shall not be a defense to enforcement of the Company's obligations set forth in this paragraph that Indemnitee has an adequate remedy at law for damages.

(b) Undertakings. Indemnitee shall qualify for advances upon the execution and delivery to the Company of this Agreement, which constitutes an undertaking whereby Indemnitee promises to repay any amounts advanced if and to the extent that it shall ultimately be determined that Indemnitee is not entitled to indemnification by the Company.

7. Notice and Other Indemnification Procedures.

(a) Notice by Indemnatee. Promptly after receipt by Indemnatee of notice of the commencement of or the threat of commencement of any Proceeding, Indemnatee shall, if Indemnatee believes that indemnification with respect thereto may be sought from the Company under this Agreement, notify the Company in writing of the commencement or threat of commencement thereof *provided, however*, that a delay in giving such notice will not deprive Indemnatee of any right to be indemnified under this Agreement unless, and then only to the extent that, the Company did not otherwise learn of the Proceeding and such delay is materially prejudicial to the Company.

(b) Insurance. If the Company receives notice pursuant to Section 7(a) hereof of the commencement of a Proceeding that may be covered under D&O Insurance then in effect, the Company shall give prompt notice of the commencement of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies.

(c) Defense. In the event the Company shall be obligated to pay the Expenses of any Proceeding against Indemnatee, the Company shall be entitled to assume the defense of such Proceeding, with counsel selected by the Company and approved by Indemnatee (which approval shall not be unreasonably withheld), upon the delivery to Indemnatee of written notice of the Company's election so to do. After delivery of such notice, and the retention of such counsel by the Company, the Company will not be liable to Indemnatee under this Agreement for any fees of counsel subsequently incurred by Indemnatee with respect to the same Proceeding, provided that (i) Indemnatee shall have the right to employ his or her own counsel in any such Proceeding at Indemnatee's expense; and (ii) Indemnatee shall have the right to employ his or her own counsel in any such Proceeding at the Company's expense if (A) the Company has authorized the employment of counsel by Indemnatee at the expense of the Company; (B) Indemnatee shall have reasonably concluded based on the written advice of Indemnatee's legal counsel that there may be a conflict of interest between the Company and Indemnatee in the conduct of any such defense; or (C) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding. In addition to all the requirements above, if the Company has D&O Insurance, or other insurance, with a panel counsel requirement that may cover the matter for which indemnity is claimed by Indemnatee, then Indemnatee shall use such panel counsel or other counsel approved by the insurers, unless there is an actual conflict of interest posed by representation by all such counsel, or unless and to the extent Company waives such requirement in writing. Indemnatee and Indemnatee's counsel shall provide reasonable cooperation with such insurer on request of the Company.

8. Right to Indemnification.

(a) Right to Indemnification. In the event that Section 5(a) is inapplicable, the Company shall indemnify Indemnatee pursuant to this Agreement unless, and except to the extent that, it shall have been determined by one of the methods listed in Section 8(b) that Indemnatee has not met the applicable standard of conduct required to entitle Indemnatee to such indemnification.

(b) Determination of Right to Indemnification. A determination of Indemnatee's right to indemnification under this Section 8 shall be made at the election of the Board by (i) a

majority vote of directors who are not parties to the Proceeding for which indemnification is being sought, even though less than a quorum, or by a committee consisting of directors who are not parties to the Proceeding for which indemnification is being sought, who, even though less than a quorum, have been designated by a majority vote of the disinterested directors, or (ii) if there are no such disinterested directors or if the disinterested directors so direct, by Independent Counsel chosen by the Company in a written opinion to the Board, a copy of which shall be delivered to Indemnitee. However, in the event there has been a Change in Control, then the determination shall, at Indemnitee's sole option, be made by Independent Counsel as in (b)(ii), above, with Indemnitee choosing the Independent Counsel subject to Company's consent, such consent not to be unreasonably withheld.

(c) Submission for Decision. As soon as practicable, and in no event later than 30 days after Indemnitee's written request for indemnification, the Board shall select the method for determining Indemnitee's right to indemnification. Indemnitee shall cooperate with the person or persons or entity making such determination with respect to Indemnitee's right to indemnification, including providing to such person, persons or entity, upon reasonable advance request, any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Independent Counsel or member of the Board shall act reasonably and in good faith in making a determination regarding Indemnitee's entitlement to indemnification under this Agreement.

(d) Application to Court. If (i) a claim for indemnification or advancement of Expenses is denied, in whole or in part, (ii) no disposition of such claim is made by the Company within 60 days after the request therefore, (iii) the advancement of Expenses is not timely made pursuant to Section 6 of this Agreement or (iv) payment of indemnification is not made pursuant to Section 5 of this Agreement, Indemnitee shall have the right at Indemnitee's option to apply to the Delaware Court, the court in which the Proceeding is or was pending, or any other court of competent jurisdiction, for the purpose of enforcing Indemnitee's right to indemnification (including the advancement of Expenses) pursuant to this Agreement. Upon written request by Indemnitee, the Company shall consent to service of process.

(e) Expenses Related to the Enforcement or Interpretation of this Agreement. The Company shall indemnify Indemnitee against all reasonable Expenses incurred by Indemnitee in connection with any hearing or proceeding under this Section 8 involving Indemnitee, and against all reasonable Expenses incurred by Indemnitee in connection with any other proceeding between the Company and Indemnitee to the extent involving the interpretation or enforcement of the rights of Indemnitee under this Agreement, if and to the extent Indemnitee is successful.

(f) In no event shall Indemnitee's right to indemnification (apart from advancement of Expenses) be determined prior to a final adjudication in a Proceeding at issue if the Proceeding is both ongoing, and of the nature to have a final adjudication.

(g) In any proceeding to determine Indemnitee's right to indemnification or advancement, Indemnitee shall be presumed to be entitled to indemnification or advancement, with the burden of proof on the Company to prove, by a preponderance of the evidence (or higher standard if required by relevant law) that Indemnitee is not so entitled.

(h) Indemnitee shall be fully indemnified for those matters where, in the performance of Indemnitee's duties for the Company, Indemnitee relied in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by any of the Company's officers or employees, or committees of the Board, or by any other person as to matters Indemnitee reasonably believed were within such other person's professional or expert competence and who was selected with reasonable care by or on behalf of the Company.

9. Exceptions. Any other provision herein to the contrary notwithstanding, the Company shall not be obligated:

(a) Claims Initiated by Indemnitee. To indemnify or advance Expenses to Indemnitee with respect to Proceedings or claims initiated or brought voluntarily by Indemnitee (including cross actions), with a reasonable allocation where appropriate, unless (i) such indemnification is expressly required to be made by law, (ii) the Proceeding was authorized by the Board, (iii) such indemnification is provided by the Company, in its sole discretion, pursuant to the powers vested in the Company under the General Corporation Law of Delaware or (iv) the Proceeding is brought pursuant to Section 8 specifically to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under Section 145 in advance of a final determination, in which case Section 8(e)'s fees-on-fees provision shall control.

(b) Fees on Fees. To indemnify Indemnitee for any Expenses incurred by Indemnitee with respect to any Proceeding instituted by Indemnitee to enforce or interpret this Agreement, to the extent Indemnitee is not successful in such a Proceeding.

(c) Unauthorized Settlements. To indemnify Indemnitee under this Agreement for any amounts paid in settlement of a Proceeding unless the Company consents to such settlement, which consent shall not be unreasonably withheld.

(d) Claims Under Section 16(b). To indemnify Indemnitee for Expenses associated with any Proceeding related to, or the payment of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of state statutory law or common law (provided, however, that the Company must advance Expenses for such matters as otherwise permissible under this Agreement).

(e) Payments Contrary to Law. To indemnify or advance Expenses to Indemnitee for which payment is prohibited by applicable law.

10. Non-Exclusivity. The provisions for indemnification and advancement of Expenses set forth in this Agreement shall not be deemed exclusive of any other rights which Indemnitee may have under any provision of law, the Company's Certificate of Incorporation or Bylaws, the vote of the Company's stockholders or disinterested directors, other agreements, or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while occupying Indemnitee's position as an Agent of the Company. Indemnitee's rights hereunder shall continue

after Indemnitee has ceased acting as an Agent of the Company and shall inure to the benefit of the heirs, executors and administrators of Indemnitee.

11. Permitted Defenses. It shall be a defense to any action for which a claim for indemnification is made under this Agreement (other than an action brought to enforce a claim for Expenses pursuant to Section 6 hereof, provided that the required documents have been tendered to the Company) that Indemnitee is not entitled to indemnification because of the limitations set forth in Sections 4 and 9 hereof. Neither the failure of the Company or an Independent Counsel to have made a determination prior to the commencement of such enforcement action that indemnification of Indemnitee is proper in the circumstances, nor an actual determination by the Company or an Independent Counsel that such indemnification is improper, shall be a defense to the action or create a presumption that Indemnitee is not entitled to indemnification under this Agreement or otherwise.

12. Subrogation. In the event the Company is obligated to make a payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents reasonably required and take all action that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights (provided that the Company pays Indemnitee's costs and expenses of doing so), including without limitation by assigning all such rights to the Company or its designee to the extent of such indemnification or advancement of Expenses. The Company's obligation to indemnify or advance Expenses under this Agreement shall be reduced by any amount Indemnitee has collected from such other source, and in the event that Company has fully paid such indemnity or Expenses, Indemnitee shall return to the Company any amounts subsequently received from such other source of indemnification.

13. Information Sharing. If Indemnitee is the subject of or is implicated in any investigation, whether formal or informal, by a government or regulatory entity or agency, the Company shall, upon written request, provide to Indemnitee any factual written information provided to the investigating entity concerning the investigation; provided, that by executing this Agreement, Indemnitee agrees to use such information solely in connection with the defense of such investigation and, if Indemnitee is not then serving the Company as an officer or director, shall execute a confidentiality agreement. This Section 13 shall not apply if either: a) a majority vote of the body set forth in Section 8(b) or, if a Change in Control then Independent Counsel, shall conclude that it is detrimental to the Company's interests in that investigation or any related actual or threatened Proceeding for the Company to share such information; or b) such information sharing is prohibited or limited by law or court order.

14. Broadest Interpretation. In the event of any change after the date of this Agreement in law, statute, or rule which expands the right Company to indemnify Indemnitee, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits afforded by such change. In the event of any change in law, statute, or rule which narrows the right of Company to indemnify Indemnitee, such change, to the extent allowed by law, shall only apply to matters that relate to alleged acts, errors, or omissions of Indemnitee that postdate such change.

15. Survival of Rights.

(a) All agreements and obligations of the Company contained herein shall continue during the period Indemnitee is an Agent of the Company and shall continue thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or completed Proceeding by reason of the fact that Indemnitee was serving in the capacity referred to herein.

(b) All of the terms and provisions of this Agreement shall be binding upon, shall inure to the benefit of and shall be enforceable by the parties hereto and their respective successors, assigns, heirs, executors, administrators and legal representatives. The Company shall require any successor to the Company (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

16. Interpretation of Agreement. It is understood that the parties hereto intend this Agreement to be interpreted and enforced so as to provide indemnification to Indemnitee to the fullest extent permitted by law, including those circumstances in which indemnification would otherwise be discretionary.

17. Entire Agreement. This Agreement and the documents expressly referred to herein constitute the entire agreement between the parties hereto with respect to the matters covered hereby, and any other prior or contemporaneous oral or written understandings or agreements with respect to the matters covered hereby (including without limitation any prior indemnification agreement between the Indemnitee and the Company or its predecessors) are expressly superceded by this Agreement.

18. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (i) the validity, legality and enforceability of the remaining provisions of the Agreement (including, without limitation, all portions of any paragraphs of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal, or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, all portions of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal, or unenforceable.

19. Modification and Waiver. No supplement, modification, or amendment of this Agreement shall be binding unless it is in a writing signed by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions (even if similar) nor shall such waiver constitute a continuing waiver.

20. Notice. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (a) upon delivery if delivered by hand to the party to whom such notice or other communication shall have been directed,

(b) if mailed by certified or registered mail with postage prepaid, return receipt requested, on the third business day after the date on which it is so mailed, (c) one business day after the business day of deposit with a nationally recognized overnight delivery service, specifying next day delivery, with written verification of receipt, or (d) on the same day as delivered by confirmed facsimile transmission if delivered during business hours or on the next successive business day if delivered by confirmed facsimile transmission after business hours. Addresses for notice to either party shall be as shown on the signature page of this Agreement, or to such other address as may have been furnished by either party in the manner set forth above.

21. Governing Law and Forum. This Agreement shall be governed exclusively by and construed according to the laws of the State of Delaware as applied to contracts between Delaware residents entered into and to be performed entirely within Delaware. This Agreement is intended to be an agreement of the type contemplated by Section 145(f) of the General Corporation Law of Delaware. The Company and Indemnitee hereby irrevocably and unconditionally: (a) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court and not in any other state or federal court in the United States, (b) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement, and (c) waive, and agree not to plead or make, any claim that the Delaware Court lacks venue or that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

22. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement, and electronically transmitted signatures shall be valid.

The parties hereto have entered into this Agreement, including the undertaking contained herein, effective as of the date first above written.

Indemnitee:

Company:

PROS Holdings, Inc.
a Delaware corporation

Address: _____

By: _____

Name: _____

Title: _____

PROS Holdings, Inc.
List of Subsidiaries as of December 31, 2016

<u>Name of Entity</u>	<u>State/Country of Incorporation/Organization</u>
PROS Canada Operations, Ltd.	Canada
PROS CPQ, Inc.	Illinois
PROS Europe Limited	England and Wales
PROS France SAS	France
PROS Germany GmbH	Germany
PROS, Inc.	Delaware
PROS International Technology Limited	Ireland
PROS Technology Australia Pty. Ltd.	Australia

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos.333-215623, 333-209067, 333-201412, 333-194105, 333-193867, 333-186857, 333-179721, 333-172516, 333-165362, 333-157555, 333-149359, and 333-145237) of PROS Holdings, Inc. of our report dated February 15, 2017 relating to the consolidated financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California

February 15, 2017

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Andres Reiner, certify that:

1. I have reviewed this annual report on Form 10-K of PROS Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 15, 2017

/s/ Andres Reiner

Andres Reiner

President and Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stefan Schulz, certify that:

1. I have reviewed this annual report on Form 10-K of PROS Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 15, 2017

/s/ Stefan Schulz

Stefan Schulz

Executive Vice President and Chief Financial Officer

**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, 2016 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 15, 2017

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

I, Stefan Schulz, 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, 2016 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 15, 2017

/s/ Stefan Schulz
Stefan Schulz
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.

CORPORATE INFORMATION



Executive Officers

Andres D. Reiner

President, Chief Executive Officer
and Director

Stefan B. Schulz

Executive Vice President
and Chief Financial Officer

For additional listing of PROS senior management, visit <http://www.PROS.com/company/>

Board of Directors

William Russell (2) (3)

Non-Executive Chairman

Andres D. Reiner

President, Chief Executive Officer and Director

Ellen Keszler (1) (3)

Director

Greg B. Petersen (1) (2)

Director

Timothy V. Williams (1) (3)

Director

Leslie Rechan (2) (3)

Director

Ronald F. Woestemeyer

Non-Independent Director

Mariette M. Woestemeyer

Non-Independent Director

1 *Audit Committee*

2 *Compensation Committee*

3 *Nominating and Corporate Governance Committee*

STOCKHOLDER INFORMATION



Corporate Offices

PROS Holdings, Inc.

3100 Main Street, Suite 900
Houston, TX 77002
713.335.5151
www.PROS.com

Independent Registered Public Accounting Firm

Pricewaterhouse Coopers, LLP

488 Almaden Boulevard, Suite 1800
San Jose, CA 95110
408.817.3700
www.pwc.com

Common Stock Listing

Our Common Stock is traded on the New York Stock Exchange under the symbol "PRO".

Annual Meeting

Our 2017 annual stockholders meeting will be held at 8:00 a.m. Central Daylight Time on Thursday, May 18, 2017 at our corporate offices in Houston, Texas. Only stockholders of record at the close of business on March 28, 2017 will be entitled to vote at the annual meeting.

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

Contacts

Investor Relations

713.335.5151
IR@PROS.com

Corporate Communications

713.335.5151
CorpComm@PROS.com



About PROS

PROS Holdings, Inc. (NYSE: PRO) is a revenue and profit realization company that helps B2B and B2C customers realize their potential through the blend of simplicity and data science. PROS offers cloud solutions to help accelerate sales, formulate winning pricing strategies and align product, demand and availability. PROS revenue and profit realization solutions are designed to allow customers to experience meaningful revenue growth, sustained profitability and modernized business processes.

To learn more, visit PROS.com.

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