INTRUSION INC
Form 8-K
October 27, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to

Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 27, 2003

INTRUSION INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**000-20191**	**75-1911917**
(State of Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1101 East Arapaho Road, Richardson, Texas	**75081**
(Address of Principal Executive Offices)	(Zip Code)

(972) 234-6400
(Registrant s Telephone Number, Including Area Code)

NOT APPLICABLE
(Former Name or Former Address, if Changed Since Last Report)

ITEM 5. OTHER EVENTS

On October 27, 2003, Intrusion Inc. issued a press release announcing that Intrusion has elected James F. Gero to its Board of Directors. A copy of such press release is attached hereto as Exhibit 99.1.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

99.1-- Text of press release of the registrant, dated October 27, 2003, announcing the election of James F. Gero to its Board of Directors.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: October 27, 2003

INTRUSION INC.

By: /s/ Michael L. Paxton
Michael L. Paxton

Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
99.1	Text of press release of the registrant, dated October 27, 2003, announcing the election of James F. Gero to its Board of Directors.

Net earnings attributable to common stockholders per share:

Basic	$0.03	$0.09	$0.17	$0.27
Diluted	$0.03	$0.09	$0.16	$0.27

Weighted average number of shares:

Basic	25,718,342	26,186,582	25,702,736	26,187,677
Diluted	26,397,958	26,339,721	26,395,131	26,513,549

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

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

	For the Nine Months Ended September 30, 2009	2008
Operating activities:		
Net income	$ 4,324	$ 7,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	952	967
Stock based compensation	4,022	2,937
Deferred income taxes	89	(158)
Provision for doubtful accounts	36	350
Changes in operating assets and liabilities:		
Accounts receivable	(1,398)	(5,573)
Unbilled receivables	(1,789)	(1,802)
Prepaid expenses and other	(1,416)	353
Accounts payable, accrued liabilities and accrued payroll	(1,042)	(329)
Deferred revenue	892	3,419
Net cash provided by operating activities	4,670	7,336
Investing activities:		
Purchases of property and equipment	(782)	(1,131)
Net cash used in investing activities	(782)	(1,131)
Financing activities:		
Proceeds from the exercise of stock options	70	279
Secondary offering costs		(110)
Purchase of treasury stock		(2,700)
Net cash provided by (used in) financing activities	70	(2,531)
Net increase in cash and cash equivalents	3,958	3,674
Cash and cash equivalents:		
Beginning of period	51,979	44,378
End of period	$ 55,937	$ 48,052

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

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PROS Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(unaudited)

1. Summary of business and basis of presentation

Nature of operations

PROS Holdings, Inc., a Delaware corporation and its wholly-owned subsidiaries (the Company), is a provider of pricing and margin optimization software products, an emerging category of enterprise applications designed to allow companies to improve financial performance by implementing pricing excellence best practices. Customers use the Company s software products to gain insight into their pricing strategies, identify detrimental pricing activities, optimize their pricing decision-making and improve their business processes and financial performance. The Company s software products incorporate advanced pricing science, which includes operations research, forecasting and statistics. These innovative science-based software products analyze, execute and optimize pricing strategies using data elements determined using advanced pricing science, including the pocket price, pocket margin, customer willingness-to-pay, customer cost-to-serve, win-loss ratios, market price, stretch price and other relevant information as well as data from traditional enterprise applications, often augmenting it with real-time and historical data and external market data sources. The Company also provides a range of services that include analyzing a company s current pricing processes and implementing its software products to improve pricing performance. The Company provides its software products to enterprises across a range of industries, including manufacturing, distribution, services, hotel and cruise, and airline.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and applicable quarterly reporting regulations of the Securities and Exchange Commission (SEC). In management s opinion, the accompanying interim unaudited condensed consolidated financial statements includes all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position of the Company as of September 30, 2009, the results of operations for the three and nine months ended September 30, 2009 and cash flows for the nine months ended September 30, 2009. Certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with GAAP have been omitted from these interim condensed consolidated financial statements pursuant to the rules and regulations of the SEC. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the fiscal year ended December 31, 2008, which are included in the Company s 2008 Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2008 was derived from the Company s audited consolidated financial statements and does not include all disclosures required by GAAP. The Company has revised the December 31, 2008 balance sheet to reflect an increase in accrued liabilities and accounts receivable of $0.4 million. Such increase represents an accrual of legal fees, and the corresponding receivable balance for reimbursement of those legal fees by the Company s insurance carrier, associated with ongoing litigation. This revision had no impact to the Company s consolidated financial statements as of or for the year ended December 31, 2008.

Basis of consolidation

The unaudited condensed consolidated financial statements include the accounts of PROS Holdings, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Dollar amounts

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

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Use of estimates

The Company s management makes estimates and assumptions in the preparation of its unaudited condensed consolidated financial statements in conformity with GAAP. These estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and 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, income taxes and deferred tax asset valuation, valuation of stock options, other current liabilities and accrued liabilities.

Deferred revenue and unbilled receivables

Software license and implementation services that have been performed, but for which the Company has not invoiced the customer, are recorded as unbilled receivables, and invoices that have been issued before the software license and implementation services have been performed are recorded as deferred revenue in the accompanying unaudited condensed consolidated balance sheets. The Company generally invoices for maintenance and support services on a monthly, quarterly or on an annual basis through the maintenance and support period.

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 included in license and implementation cost of revenue in the accompanying unaudited condensed consolidated statements of operations.

Income taxes

The Company s federal effective tax rate historically has been lower than the statutory rate of 35% largely due to the application of general business tax credits. In October 2008, Congress reinstated the research and experimentation (R&E) tax credit until December 2009. As a result of the reinstatement, the Company recorded the full benefit of the R&E tax credit for 2008 in the fourth quarter of 2008. As of September 30, 2009, the Company did not have any unrecognized tax benefits.

Recent accounting pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. This authoritative guidance is effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted). The Company is currently assessing the impact on its consolidated financial position and results of operations.

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2. Earnings per share

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

	For the Three Months Ended September 30, 2009	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Numerator:				
Net income	$ 798	$ 2,359	$ 4,324	$ 7,172
Denominator:				
Weighted average shares (basic)	25,718	26,187	25,703	26,188
Dilutive effect of stock options, and restricted stock units	680	153	692	326
Weighted average shares (diluted)	26,398	26,340	26,395	26,514
Basic earnings per share	$ 0.03	$ 0.09	$ 0.17	$ 0.27
Diluted earnings per share	$ 0.03	$ 0.09	$ 0.16	$ 0.27

The Company has excluded 2,270,725 and 2,190,499 of shares of common stock issuable upon exercise of options from the computation of the dilutive earning per share for the three months ended September 30, 2009 and 2008, respectively, and 2,270,725 and 227,500 of shares of common stock issuable upon exercise of options from the computation of the dilutive earning per share for the nine months ended September 30, 2009 and 2008, respectively, because the inclusion of such would have been antidilutive.

3. Stock-based compensation

The Company maintains incentive stock-based plans to provide long-term incentives to its key employees, officers, directors and consultants. The Company issues or has issued two types of stock-based awards under its incentive stock-based plans: stock options and restricted stock units. The discretionary issuance of stock-based awards generally contains vesting provisions ranging from one to four years.

In February 2009, the Company increased the number of shares available for issuance by 898,000 to 3,668,000 under an evergreen provision in the Company s 2007 equity incentive plan. As of September 30, 2009, 146,569 shares remained available for issuance under this plan. At September 30, 2009, 2,382,074 stock options were outstanding with a weighted average exercise price of $10.31 and 1,216,500 restricted stock units were outstanding with a weighted average grant date fair value of $5.00. The Company did not grant any stock options or restricted stock units during the three months ended September 30, 2009. For the nine months ended September 30, 2009, the Company granted 870,500 restricted stock units with a weighted average grant date fair value of $4.80. The Company has not granted any stock options for the nine months ended September 30, 2009. At September 30, 2009, there were an estimated $11.9 million of total unrecognized compensation costs related to stock-based compensation arrangements. These costs will be recognized over a weighted average period of 2.0 years.

4. 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 Company periodically assesses its liabilities and contingencies in connection with these matters, based upon the latest information available. Should it be probable that the Company has incurred a loss and the loss, or range of loss, can be reasonably estimated, the Company will record reserves in the consolidated financial statements. In other instances, because of the uncertainties related to the probable outcome and/or amount or range of loss, the Company is unable to make a reasonable estimate of a liability, and therefore no reserve will be recorded. As additional information becomes available, the Company will adjust its assessment and estimates of such liabilities accordingly. It is possible that the ultimate resolution of the Company s liabilities and contingencies could be at amounts that are different from any recorded reserves and that such differences could be material.

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In April 2008, a customer brought suit against the Company alleging that the Company failed to deliver contracted-for software. The customer s claims, as amended, include breach of contract, fraud and negligent misrepresentation. In May 2008, the Company filed an answer and has brought counterclaims for breach of contract and violation of the duty of good faith and fair dealing. In the third quarter of 2009, the Company amended its claims to include breach of confidentiality and misappropriation of trade secrets. The Company believes the customer s attempted termination of the contract is wrongful, and the Company is vigorously defending this matter and seeking payment of remaining amounts owed under the contract. Certain management and key personnel in the Company are devoting significant time to this matter. Given the inherent uncertainties in any litigation, the Company is unable to make any predictions as to the ultimate outcome and no provision for loss or other costs has been recorded. The Company had $1.1 million of capitalized implementation costs included in other assets, $0.2 million in accounts receivable and $6.1 million of long-term deferred revenue related to this customer s contract as of March 31, 2008. In April 2008, these amounts were netted and $4.9 million was classified as other current liabilities. This amount has not changed since April 2008 and will continue to be presented in the accompanying unaudited condensed consolidated balance sheet as other current liabilities until the matter is resolved. Unless the matter is resolved earlier, the trial date is currently scheduled for the third quarter of 2010.

Based on the Company s review of the latest information available, it does not believe any liability, in connection with current contracts and other negotiations or pending or threatened legal proceedings, claims and litigation would have a material adverse effect on the Company s unaudited condensed consolidated financial statements.

5. Fair value measurements

The Company accounts for fair value measurements in accordance with the requirements for fair value measurement and disclosures under GAAP. At September 30, 2009, the Company had $40.8 million invested in diversified money market funds and $14.5 million invested in treasury money market funds and are recorded at fair value. At December 31, 2008, the Company had $27.8 million invested in diversified money market funds and $22.6 million invested in treasury money market funds and are recorded at fair value. These investments are required to be measured at fair value on a recurring basis. The Company has determined that the diversified money market funds and treasury money market funds investments are defined as Level 1 in the fair value hierarchy.

6. Subsequent events

The Company accounts for subsequent events in accordance with the requirements under GAAP which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued and requires the disclosure of the date through which a company has evaluated subsequent events. The Company has evaluated subsequent events through November 9, 2009, the date on which this Quarterly Report on Form 10-Q was filed with the SEC. The Company does not believe there are any material subsequent events that require disclosure.

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

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

Cautionary statement

The following discussion should be read along with the unaudited condensed consolidated financial statements and unaudited notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and notes to consolidated financial statements and management s discussion and analysis of financial condition and results of operations for the year ended December 31, 2008 set forth in our Annual Report on Form 10-K and filed with the Securities and Exchange Commission (SEC). This management s discussion and analysis of financial condition and results of operations contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts and projections, and the beliefs and assumptions of our management including, without limitation, our expectations regarding the following: the sales of our software products and services; the impact of our revenue recognition policies; our belief that our current assets, including cash, cash equivalents, and expected cash flows from operating activities, will be sufficient to fund our operations; our anticipated additions to property, plant and equipment; our belief that our facilities are suitable and adequate to meet our current operating needs; our belief that that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates**.** Words such as we expect, anticipate, target, project, believe, goals, estimate, po predict, may, might, could, intend, and variations of these types of words and similar expressions are intended to identify these forward-looking statements. Readers are cautioned that these forward-looking statements are predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements.

Overview

We are a leading provider of pricing and margin optimization software, an emerging category of enterprise applications designed to allow companies to improve financial performance by implementing pricing excellence best practices through the use of our software products. By using our software products, our customers gain insight into their pricing strategies, identify detrimental pricing practices, optimize their pricing decision-making and improve their business processes and financial performance. Our software products incorporate advanced pricing science, which includes operations research, forecasting and statistics. Our innovative science-based software products analyze, execute and optimize pricing strategies using data from traditional enterprise applications, often augmenting it with real-time and historical data. Our software also uses data elements that are determined using advanced pricing science and are stored in our database. Our high performance software architecture supports real-time high volume transaction processing and allows us to handle the processing and database requirements of the most sophisticated and largest customers, including customers with hundreds of simultaneous users and sub-second electronic transactions. We provide professional services to configure our software products to meet the specific pricing needs of each customer. We do not write custom code for each implementation. We provide our software products to enterprises across a range of industries, including manufacturing, distribution, services, hotel and cruise, and airline.

Many of our customers process large volumes of individually priced business-to-consumer and business-to-business transactions every day. Our high-performance, real-time, transaction pricing products differ from fixed list retail pricing products by delivering the relevant pricing information at the time the price is quoted, the deal is negotiated and the sale transaction is made. Our software products are also used to provide optimized price lists and goal-driven price guidance. While companies in our target industries differ in the wide range of business-to-business and business-to-customer products and services that they provide, many are similar in their need to optimally and dynamically price each individual transaction. We have installed over 200 solutions for over 100 customers across a range of industries in more than 40 countries.

Trends and uncertainties

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

Difficult Economic Conditions. We believe the market for pricing and margin optimization software is underpenetrated and in the early innovator stage of adoption. Market interest for our software has increased over the past several years. However, the world economies are in a recession and as a result we have experienced longer sales times, increased scrutiny on purchasing decisions and overall cautiousness taken by customers. As a result, there has been a negative impact on the sales of our products and service and license and implementation revenue; however, we are beginning to see our sales stabilize. We believe our solutions provide value to our customers during periods of growth as well as in recessions, but it is uncertain the extent to which a continued economic recession will further affect our business.

Variability in revenue among industries and geography. We sell our products to customers in the manufacturing, distribution, services, hotel and cruise and airline industries. From a geographical standpoint, approximately 61% and 56% of our consolidated revenues were derived from customers outside the United States for the three months ended September 30, 2009 and 2008, respectively and approximately 59% and 55% of our consolidated revenues were derived from customers outside the United States for the nine months ended September 30, 2009 and 2008, respectively. The current economic environment could change our trends of revenue within industries and across geographies if certain industries or geographies are more impacted than others.

Critical accounting policies and estimates

We prepare our unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). We make estimates and assumptions in the preparation of our unaudited condensed consolidated financial statements, and our estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The complexity and judgment of our estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the percentage-of-completion method of accounting affect the amounts of revenue, expenses, unbilled receivables and deferred revenue. Estimates are also used for, but not limited to, receivables, allowance for doubtful accounts, useful lives of assets, depreciation, income taxes and deferred tax asset valuation, valuation of stock options, other current liabilities and accrued liabilities. Numerous internal and external factors can affect estimates. The critical accounting policies related to the estimates and judgments are discussed in our Annual Report on Form 10-K for the year ended December 31, 2008 under management s discussion and analysis of financial condition and results of operations. There have been no changes to our critical accounting policies during 2009.

Our revenue recognition policy provides visibility into a significant portion of our revenue in the near-term quarters, although the actual timing of recognition of revenue will vary based on the nature and requirements of our contracts. Generally, we do not recognize license and implementation revenue upon signing a new contract with a customer. Our revenue recognition only begins when efforts are expended toward implementation, which alleviates pressure to enter into license agreements by the end of any particular quarter as we would not be able to recognize the corresponding revenue during the period in which the agreement is signed except to the extent we provide implementation services during the period.

Generally, we recognize the majority of our license and implementation revenue on a percentage-of-completion basis because we consider implementation services to be essential to our customers usability of our licensed software. Under this recognition policy, the revenue we recognize during a reporting period is based on the total man-days expended on an implementation of our software products during the reporting period as a percentage of the total man-days estimated to be necessary to complete the implementation of our software products. As a result of our revenue recognition policy, revenue from license arrangements is recognized over the implementation period, which typically ranges from six months to several years. We account for revenue recognition on contracts for which an independent contractor provides implementation and maintenance services in accordance with the requirements under

GAAP.

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Results of operations

Comparison of three months ended September 30, 2009 with three months ended September 30, 2008

Revenue:

	For the Three Months Ended September 30,					
	2009		2008			
(Dollars in thousands)	Amount	As a percentage of total revenue	Amount	As a percentage of total revenue	Variance $	Variance %
License and implementation	$ 10,276	62%	$ 13,699	71%	$ (3,423)	(25)%
Maintenance and support	6,234	38%	5,592	29%	642	11%
Total	$ 16,510	100%	$ 19,291	100%	$ (2,781)	(14)%

License and implementation. License and implementation revenue decreased $3.4 million to $10.3 million for the three months ended September 30, 2009 from $13.7 million for the three months ended September 30, 2008, representing a 25% decrease. Generally, revenue is recognized using the percentage-of-completion method over the implementation period, which typically ranges from six months to several years. For the three months ended September 30, 2009, the number of implementations for which services were provided during the period increased 9%. Implementation periods can vary depending on numerous factors including, but not limited to, the number of licensed software products and the scope and complexity of the implementation requirements in relation to the number of man-days estimated to be necessary to complete the implementation. The decrease in license and implementation revenue was attributed to a decrease of 17% in license and implementation revenue recognized per man-day as a result of several projects during 2009 in which the value of the contracts was lower in relationship to the number of man-days needed to implement than in 2008 and a 10% decrease in the number of man-days that generated revenue primarily as a result of a decrease in amortized personnel costs related to subscription contracts.

Maintenance and support. Maintenance and support revenue increased $0.6 million to $6.2 million for the three months ended September 30, 2009 from $5.6 million for the three months ended September 30, 2008, representing an 11% increase. The increase in maintenance and support revenue is primarily the result of the completion of a number of implementations of our software products following which we recognize maintenance and support revenue partially offset by $0.2 million of temporary reductions.

Cost of revenue and gross profit:

	For the Three Months Ended September 30,					
	2009		2008			
(Dollars in thousands)	Amount	As a percentage of related revenue	Amount	As a percentage of related revenue	Variance $	Variance %
Cost of license and implementation	$ 3,065	30%	$ 3,813	28%	$ (748)	(20)%
Cost of maintenance and support	1,226	20%	1,056	19%	170	16%
Total cost of revenue	$ 4,291	26%	$ 4,869	25%	$ (578)	(12)%
Gross profit	$ 12,219	74%	$ 14,422	75%	$ (2,203)	(15)%

Cost of license and implementation. Cost of license and implementation decreased $0.7 million to $3.1 million for the three months ended September 30, 2009 from $3.8 million for the three months ended September 30, 2008, representing a 20% decrease. The decrease in cost of license and implementation is primarily attributable to a $0.4 million beneficial change in foreign currency exchange and a $0.4 million decrease in personnel and other costs. These decreases were partially offset by a $0.1 million increase in stock-based compensation expense. License and implementation gross margins were 70% for the three months ended September 30, 2009 as compared to 72% for the three months ended September 30, 2008. The reduction in license and implementation gross margins was primarily due to a decrease in license and implementation revenue of $3.4 million partially offset by a $0.7 million reduction of license and implementation costs for the three months ended September 30, 2009. License and implementation gross margins vary from period to period depending on the amount of implementation services required to deploy our products relative to the total value of contracts for which implementation services were provided during the quarter.

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Cost of maintenance and support. Cost of maintenance and support increased $0.2 million to $1.2 million for the three months ended September 30, 2009, representing a 16% increase. The increase in cost of maintenance and support is primarily attributable to the increased levels of effort required to support our higher installed customer base. Maintenance and support gross margins were 80% for the three months ended September 30, 2009 compared to 81% for the three months ended September 30, 2008.

Gross profit. Gross profit decreased $2.2 million to $12.2 million for the three months ended September 30, 2009 from $14.4 million for the three months ended September 30, 2008, representing a 15% decrease. The decrease in gross profit was primarily attributed to the 25% decrease in license and implementation revenues.

Operating expenses:

	For the Three Months Ended September 30,					
	2009		2008			
(Dollars in thousands)	Amount	As a percentage of total revenue	Amount	As a percentage of total revenue	Variance $	Variance %
Selling, general and administrative	$ 5,954	36%	$ 5,787	30%	$ 167	3%
Research and development	5,177	31%	5,242	27%	(65)	(1)%
Total operating expenses	$ 11,131	67%	$ 11,029	57%	$ 102	1%

Selling, general and administrative expenses. Selling, general and administrative expenses increased by $0.2 million to $6.0 million for the three months ended September 30, 2009 from $5.8 million for the three months ended September 30, 2008, representing a 3% increase. The increase was attributed to an increase in sales personnel expenses of $0.3 million over 2008, an increase of $0.2 million of stock-based compensation expense and an increase of $0.1 million of travel expense associated with sales activities. These increases were partially offset by decreases of $0.3 million in bad debt expense as a result of an increase in our allowance for doubtful accounts during the third quarter of 2008 and $0.1 million of other expenses.

Research and development expenses. Research and development expenses decreased by $0.1 million for the three months ended September 30, 2009 as compared to the same period in 2008, representing a 1% decrease. The modest decrease of $0.1 million was attributed to a decrease of $0.2 million of other expenses, partially offset by an increase of $0.1 million of stock-based compensation expense.

Other income:

	For the Three Months Ended September 30,			
(Dollars in thousands)	2009	2008	Variance $	Variance %
Interest income	$ 30	$ 261	$ (231)	(89)%
Other income	$ 30	$ 261	$ (231)	(89)%

Interest income. Interest income decreased $0.2 million to $30,000 for the three months ended September 30, 2009 from $0.3 million for the three months ended September 30, 2008, representing an 89% decrease. The decrease is the result of a decrease in interest rates earned on higher invested cash and short-term investments. Interest income is generated from the investment of cash balances in short term interest bearing obligations with original maturities less than 90 days.

Income tax provision:

	For the Three Months Ended September 30,			
(Dollars in thousands)	**2009**	**2008**	**Variance $**	**Variance %**
Effective tax rate	29%	35%	n/a	(6)%
Income tax provision	$320	$1,295	$(975)	(75)%

Income tax provision. Our income tax provision decreased $1.0 million to $0.3 million for the three months ended September 30, 2009 from $1.3 million for the three months ended September 30, 2008, representing a 75% decrease. The decrease in the effective tax rate from 35% to 29% in 2009 is primarily due to the utilization of Research and Experimentation

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(R&E) tax credits during 2009 as a result of the reinstatement of the R&E tax credit by Congress in October 2008, with the 2008 full year effect applied in the fourth quarter of 2008.

Our federal effective tax rate historically has been lower than the statutory federal tax rate of 35% largely due to the application of general business tax credits. In October 2008, Congress passed the Emergency Economic Stabilization Act of 2008 which included, among other items, the reinstatement of the R&E tax credit in the fourth quarter of 2008 that was applied retroactively to the beginning of 2008 with the full year effect applied in the fourth quarter of 2008. The R&E credit is scheduled to expire at the end of 2009. However, since its enactment in 1981, when the credit has expired, Congress has historically reinstated the credit.

Comparison of nine months ended September 30, 2009 with nine months ended September 30, 2008

Revenue:

	For the Nine Months Ended September 30,					
	2009		2008			
(Dollars in thousands)	Amount	As a percentage of total revenue	Amount	As a percentage of total revenue	Variance $	Variance %
License and implementation	$ 33,404	64%	$ 39,880	71%	$ (6,476)	(16)%
Maintenance and support	18,458	36%	15,943	29%	2,515	16%
Total	$ 51,862	100%	$ 55,823	100%	$ (3,961)	(7)%

<u>License and implementation.</u> License and implementation revenue decreased $6.5 million to $33.4 million for the nine months ended September 30, 2009 from $39.9 million for the nine months ended September 30, 2008, representing a 16% decrease. Generally, revenue is recognized using the percentage-of-completion method over the implementation period, which typically ranges from six months to several years. For the nine months ended September 30, 2009, the number of implementations for which services were provided during the period remained unchanged. Implementation periods can vary depending on numerous factors including, but not limited to, the number of licensed software products and the scope and complexity of the implementation requirements in relation to the number of man-days estimated to be necessary to complete the implementation. The decrease in license and implementation revenue was attributed to a 15% decrease in license and implementation revenue recognized per man-day as a result of several projects during 2009 in which the value of the contracts was lower in relationship to the number of man-days needed to implement than in 2008 while the number of man-days that generated revenue remained unchanged.

<u>Maintenance and support.</u> Maintenance and support revenue increased $2.5 million to $18.5 million for the nine months ended September 30, 2009 from $15.9 million for the nine months ended September 30, 2008, representing a 16% increase. The increase in maintenance and support revenue is primarily the result of the completion of a number of implementations of our software products following which we recognize maintenance and support revenue partially offset by $0.5 million of temporary reductions.

Cost of revenue and gross profit:

	For the Nine Months Ended September 30,					
	2009		2008			
(Dollars in thousands)	Amount	As a percentage of related revenue	Amount	As a percentage of related revenue	Variance $	Variance %
Cost of license and implementation	$ 10,422	31%	$ 10,822	27%	$ (400)	(4)%

Cost of maintenance and support	3,606	20%	3,295	21%	311	9%
Total cost of revenue	$ 14,028	27%	$ 14,117	25%	$ (89)	(1)%
Gross profit	$ 37,834	73%	$ 41,706	75%	$ (3,872)	(9)%

Cost of license and implementation. Cost of license and implementation decreased $0.4 million to $10.4 million for the nine months ended September 30, 2009 from $10.8 million for the nine months ended September 30, 2008, representing a 4% decrease. The decrease in cost of license and implementation is primarily attributable to a $0.4 million decrease in amortized costs related to subscription contracts, a $0.3 million beneficial change in foreign currency exchange and a decrease of $0.2

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million in travel and other expenses. These decreases were partially offset by an increase of $0.2 million in personnel costs, a $0.2 million increase in stock-based compensation expenses and an increase of $0.1 million of third party software deployment costs incurred in connection with certain implementations. Due primarily to lower license and implementation revenue of $6.5 million partially offset by a $0.4 million reduction of license and implementation costs for the nine months ended September 30, 2009, license and implementation gross margins were 69% for the nine months ended September 30, 2009 as compared to 73% for the nine months ended September 30, 2008. License and implementation gross margins vary from period to period depending on the amount of implementation services required to deploy our products relative to the total value of contracts for which implementation services were provided during the period.

Cost of maintenance and support. Cost of maintenance and support increased $0.3 million to $3.6 million for the nine months ended September 30, 2009 from $3.3 million for the nine months ended September 30, 2008, representing a 9% increase. The increase in cost of maintenance and support is primarily attributable to the increased levels of effort required to support our higher installed customer base. Maintenance and support gross margins were 80% for the nine months ended September 30, 2009 compared to 79% for the nine months ended September 30, 2008.

Gross profit. Gross profit decreased $3.9 million to $37.8 million for the nine months ended September 30, 2009 from $41.7 million for the nine months ended September 30, 2008, representing a 9% decrease. The decrease in gross profit was primarily attributed to a decrease in license and implementation revenues.

Operating expenses:

	For the Nine Months Ended September 30,					
	2009		2008			
(Dollars in thousands)	**Amount**	**As a percentage of total revenue**	**Amount**	**As a percentage of total revenue**	**Variance $**	**Variance %**
Selling, general and administrative	$ 17,019	33%	$ 16,505	30%	$ 514	3%
Research and development	14,999	29%	15,073	27%	(74)	0%
Total operating expenses	$ 32,018	62%	$ 31,578	57%	$ 440	1%

Selling, general and administrative expenses. Selling, general and administrative expenses increased $0.5 million to $17.0 million for the nine months ended September 30, 2009 from $16.5 million for the nine months ended September 30, 2008, representing a 3% increase. The increase was attributed to an increase in sales personnel expenses of $0.8 million and an increase of $0.6 million of stock-based compensation expense. These increases were partially offset by decreases of $0.3 million in bad debt expense as a result of an increase in our allowance for doubtful accounts during the third quarter of 2008, $0.3 million in general and administrative expenses related to professional fees and $0.3 million in marketing expenses related to lower conference expenses.

Research and development expenses. Research and development expenses decreased by $0.1 million for the nine months ended September 30, 2009 as compared to the same period in 2008. The modest decrease of $0.1 million was attributed to a decrease of $0.6 million of travel and other expenses, partially offset by an increase of $0.3 million of stock-based compensation expense and an increase of $0.2 million of research and development personnel expenses.

Other income:

For the Nine Months Ended September 30,

(Dollars in thousands)	2009	2008	Variance $	Variance %
Interest income	$ 177	$ 985	$ (808)	(82)%
Other income	$ 177	$ 985	$ (808)	(82)%

Interest income. Interest income decreased $0.8 million to $0.2 million for the nine months ended September 30, 2009 from $1.0 million for the nine months ended September 30, 2008, representing an 82% decrease. The decrease is the result of a decrease in interest rates earned on higher invested cash and short-term investments. Interest income is generated from the investment of cash balances in short term interest bearing obligations with original maturities less than 90 days.

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Income tax provision:

(Dollars in thousands)	For the Nine Months Ended September 30, 2009	2008	Variance $	Variance %
Effective tax rate	28%	35%	n/a	(7)%
Income tax provision	$1,669	$3,941	$(2,272)	(58)%

Income tax provision. Our income tax provision decreased $2.3 million to $1.7 million for the nine months ended September 30, 2009 from $3.9 million for the nine months ended September 30, 2008, representing a 58% decrease. The decrease in the effective tax rate from 35% to 28% is primarily due to utilization of R&E tax credits during 2009 as a result of the reinstatement of the R&E tax credit by Congress in October 2008, with the 2008 full year effect applied in the fourth quarter of 2008.

Our federal effective tax rate historically has been lower than the statutory federal tax rate of 35% largely due to the application of general business tax credits. In October 2008, Congress passed the Emergency Economic Stabilization Act of 2008 which included, among other items, the reinstatement of the R&E tax credit in the forth quarter of 2008 that was applied retroactively to the beginning of 2008 with the full year effect applied in the fourth quarter of 2008. The R&E credit is scheduled to expire at the end of 2009. However, since its enactment in 1981, when the credit has expired, Congress has historically reinstated the credit.

Liquidity and capital resources

At September 30, 2009 we had $55.9 million of cash and cash equivalents and $49.7 million of working capital as compared to $52.0 million of cash and cash equivalents and $41.7 million of working capital at December 31, 2008. Our principal source of liquidity is our net cash flows provided by operating activities. Our material drivers or variants of operating cash flow are net income, non-cash expenses (principally stock-based compensation) and the timing of periodic billings and collections related to the sales of our software and related services.

Our working capital was $49.7 million at September 30, 2009 compared to $41.7 million at December 31, 2008, an increase of $8.0 million, or 19%. The increase in working capital was principally attributable to an increase in our cash balances of $4.0 million, an increase of $3.5 million in accounts receivable balances and an increase of $1.4 million in other current assets. The increase in current assets was partially offset by an increase in deferred revenue of $1.3 million.

Based on existing cash and cash equivalents balances, our current estimates of revenues and expenses and the anticipated cash flows provided by operating activities, we believe that we will have adequate liquidity and capital resources to meet our operational requirements and anticipated capital expenditures for the next twelve months. However, at some future date we may need to seek additional sources of capital to meet our requirements. If such need arises, we may be required to raise additional funds through equity or debt financing. We do not currently have a bank line of credit. We can provide no assurance that bank lines of credit or other financing will be available on terms acceptable to us. If available, such financing may result in dilution to our shareholders or higher interest expense.

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The following table presents key components of our unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2009 and 2008.

	For the Nine Months Ended September 30,	
(Dollars in thousands)	**2009**	**2008**
Net cash provided by operating activities	$ 4,670	$ 7,336
Net cash used in investing activities	(782)	(1,131)
Net cash provided by (used in) financing activities	70	(2,531)
Cash and cash equivalents (end of period)	$55,937	$48,052

Cash flow analysis:

Net cash provided by operating activities for the nine months ended September 30, 2009 was $4.7 million, a decrease of $2.7 million when compared to the same period last year. Throughout both periods, our cash flows from operations were derived principally from our earnings from on-going operations including non-cash expenses such as depreciation and amortization, deferred income taxes and stock-based compensation and changes in our working capital. The decrease in net cash provided by operating activities for the nine months ended September 30, 2009 as compared to the same period in 2008 is primarily the result of a decrease in net earnings before non-cash expense of $1.8 million offset by normal recurring changes in working capital.

For the nine months ended September 30, 2009, net cash used in investing activities consisted of $0.8 million of property and equipment. Net cash provided by financing activities consisted of $0.1 million of proceeds from the exercise of options.

Contractual obligations

There have been no significant changes to our operating leases since those reported in our Annual Report on Form 10-K for the year ended December 31, 2008.

Off-balance sheet arrangements

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

Available information

Our internet website address is http://www.prospricing.com. Our Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the investor relations page of our internet website free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our internet website and the information contained therein or connected thereto are not intended to be incorporated into this Quarterly Report on Form 10-Q.

Recent accounting pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. This authoritative guidance is effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted). We are currently assessing the impact on its consolidated financial position and results of operations.

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Item 3. Quantitative and qualitative disclosures about market risk

Foreign currency risk

We have contracts denominated in foreign currencies and therefore a portion of our revenue is subject to foreign currency risks. Our cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The effect of an immediate 10% adverse change in exchange rates on foreign denominated receivables as of September 30, 2009 would have resulted in a $0.2 million loss. To date, we have not entered into any hedging contracts although we may do so in the future. Fluctuations in currency exchange rates could harm our business in the future.

Item 4. Controls and procedures

Evaluation of disclosure controls and procedures

Our management evaluated, with the participation of our chief executive officers and our chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our chief executive officer and our chief financial officer have concluded that our disclosure control and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities and Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure. During the quarter we received comments from the SEC on our prior periodic filings. As a result of these comments, we amended certain of our previously filed reports to amend the form of certification and make other technical changes. None of these changes affected the financial statements for any reported or future periods. The review process related to these technical deficiencies has been remediated.

Changes in internal controls over financial reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal proceedings

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

In April 2008, a customer brought suit against the Company alleging that the Company failed to deliver contracted-for software. The customer s claims, as amended, include breach of contract, fraud and negligent misrepresentation. In May 2008, the Company filed an answer and has brought counterclaims for breach of contract and violation of the duty of good faith and fair dealing. In the third quarter of 2009, the Company amended its claim to include breach of confidentiality and misappropriation of trade secrets. The Company believes the customer s attempted termination of the contract is wrongful, and the Company is vigorously defending this matter and seeking payment of remaining amounts owed under the contract. Certain management and key personnel in the Company are devoting significant time to this matter. Given the inherent uncertainties in any litigation, the Company is unable to make any predictions as to the ultimate outcome and no provision for loss or other costs has been recorded. The Company had $1.1 million of capitalized implementation costs included in other assets, $0.2 million in accounts receivable and $6.1 million of long-term deferred revenue related to this customer s contract as of March 31, 2008. In April 2008, these amounts were netted and $4.9 million was classified as other current liabilities. This amount has not changed since April 2008 and will continue to be presented in the accompanying unaudited condensed consolidated balance sheet as other current liabilities until the matter is resolved. Unless the matter is resolved earlier, the trial date is currently scheduled for the third quarter of 2010.

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

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; these are not necessarily listed in terms of their importance or level of risk.

Risks relating to our business and industry:

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

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

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

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

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

There are a number of factors, other than our performance, that could affect the size, frequency and renewal rates of our customer contracts. For instance, if economic conditions weaken in any industry in which we focus, our customers may reduce or postpone their spending significantly which may, in turn, lower the demand for our products and negatively affect our revenue and profitability. As a way of dealing with a challenging economic environment, customers may change their purchasing strategy, including increased negotiation of price or deciding to license one product rather than multiple products. Customers could also terminate or delay their implementations or maintenance contracts. The loss of, or any significant decline in business

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from, one or more of our customers likely would lead to a significant decline in our revenue and operating margins, particularly if we are unable to make corresponding reductions in our expenses in the event of any such loss or decline. Moreover, a significant change in the liquidity or financial position of any of these customers could have a material adverse effect on the collectability of our accounts receivable, liquidity, customers ability to complete implementation and future operating results.

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

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

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

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

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

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

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

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

- the possibility that it may be more difficult than we currently anticipate to implement our software products in our target industries;
- the possibility that it may be more difficult than we currently anticipate to increase our customer base in our target industries;
- the possibility that it may take more time to train our personnel in the implementation of our software products in our target industries; and

our limited experience implementing our software products in certain of our target industries.

Our revenue growth has been derived principally from customers in the manufacturing, distribution, services and hotel and cruise industries, where our products have recently begun to achieve market acceptance. Our revenue growth is highly dependent upon continued growth of market acceptance in all of these industries, and there is no assurance our products will achieve or sustain widespread acceptance among these potential customers. Failure to expand market acceptance of our products in the manufacturing, distribution, services and hotel and cruise industries or to maintain sales in the airline industry would adversely affect our operating results and financial condition.

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

The implementation of our software products can involve complex, large-scale projects that require substantial support operations, significant resources and reliance on certain factors that may not be under our control. For example, the success of our implementation projects is heavily dependent upon the quality of data used by our software products, the commitment of customers resources and personnel to the projects and the stability, functionality and scalability of the customer s information technology infrastructure. If weaknesses or problems in infrastructure or data or our customers commitment and investment in personnel and resources exist, we may not be able to correct or compensate for such weaknesses. In addition, implementation of our software products can be highly complex and require substantial efforts and cooperation on the part of our customers and us. If we are unable to successfully manage the implementation of our software products such that those products do not meet customer needs or expectations, we may become involved in disputes with our customers and our business, reputation and financial performance may be significantly harmed. 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. If an implementation project for a large customer or a number of customers is substantially delayed or cancelled, our ability to recognize the associated revenue and our operating results would be adversely affected.

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

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

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

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

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

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

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

Our sales cycle may take several months to over a year. To sell our products successfully and obtain an executed contract, we generally have to educate our potential customers about the use and benefits of our products, which can require significant time, expense and capital without the ability to realize any revenue. During this sales cycle, we may expend substantial resources with no assurance that a sale will ultimately result. The length of a customer s sales cycle depends on a number of factors, many of which we may not be able to control. These factors include the customer s product and technical requirements and the level of competition we face for that customer s business. Any unexpected lengthening of the sales cycle would negatively affect the timing of our revenue, and hinder our revenue growth. Furthermore, a delay in our ability to obtain a signed agreement or other persuasive evidence of an arrangement or to complete certain contract requirements in a particular quarter could reduce our revenue in that quarter. Overall, any significant failure to generate revenue or delays in recognizing revenue after incurring costs related to our sales or services process could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Maintenance and support agreements are typically for a term of one to two years. Historically, maintenance and support revenue has represented a significant portion of our total revenue, including approximately 29%, 30% and 36% of our total revenue for the years ended December 31, 2008, 2007 and 2006, respectively. If our customers choose not to renew their maintenance and support agreements with us on favorable terms or at all, our business, operating results and financial condition could be harmed.

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

We sell our software products to both new customers and existing customers. Many of our existing customers initially purchase our software products for a specific business segment or a specific geographic location within their organization and later purchase additional software products 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 products or to expand their

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existing software products to other business segments. In addition, as we deploy new applications and features for our software products or introduce new software products, our current customers could choose not to purchase these new offerings. If we fail to generate additional business from our existing customers, our revenue could grow at a slower rate or even decrease.

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

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

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

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

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

The pricing and revenue optimization software market is characterized by:

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

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

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

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

Our pricing and revenue optimization software products are complex and may contain undetected defects or errors. Several of our products have recently been developed and may therefore be more likely to contain undetected defects or errors. In addition, we frequently develop enhancements to our software products that may contain defects. We have not suffered significant harm from any defects or errors to date, but we have found defects in our software products from time to time. We

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may discover additional defects in the future, and such defects could be material. We may not be able to detect and correct defects or errors before the final implementation of our software products. Consequently, we or our customers may discover defects or errors after our software products have been implemented. We have in the past issued, and may in the future need to issue, corrective releases of our products to correct defects or errors. The occurrence of any defects or errors could result in:

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

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

If we fail to retain our key personnel or if we fail to attract additional qualified personnel, our operating results could be adversely affected.

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

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

Our industry is characterized by the existence of a large number of patents, trademarks and copyrights, and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. A third party may assert that our technology violates its intellectual property rights, or we may become the subject of a material intellectual property dispute. Pricing and revenue optimization solutions may become increasingly subject to infringement claims as the number of commercially available pricing and revenue optimization solutions increases and the functionality of these solutions overlaps. Future litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own potential patents may therefore provide little or no deterrence. Regardless of the merit of any particular claim that our technology violates the intellectual property rights of others, responding to such claims may require us to:

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

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

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

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

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

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

As of the date of this filing, we have 3 issued U.S. patents and 6 pending U.S. patent applications. We have not pursued patent protection in any foreign countries. Our pending patent applications may not result in issued patents. The patent position of technology-oriented companies, including ours, is generally uncertain and involves complex legal and factual considerations. The standards that the United States Patent and Trademark Office use to grant patents are not always applied predictably or uniformly and can change. Accordingly, we do not know the degree of future protection for our proprietary rights or the breadth of claims allowed in any patents that may be issued to us or to others. If any of our patent applications issue, they may not contain claims sufficiently broad to protect us against third parties with similar technologies or products, or provide us with any competitive advantage. Moreover, once they have been issued, our patents and any patent for which we have licensed or may license rights may be challenged, narrowed, invalidated or circumvented. If our patents are invalidated or otherwise limited, other companies will be better able to develop products that compete with ours, which could adversely affect our competitive business position, business prospects and financial condition.

Patent applications in the U.S. are typically not published until, 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 make the inventions claimed in our pending patent applications or that we were the first to file for patent protection. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. As a result, we may not be able to obtain adequate patent protection.

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

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

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

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

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

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

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

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

Over the last several years, we derived a significant portion of our revenue from customers outside the United States. For the years ended December 31, 2008, 2007, and 2006, approximately 54%, 63% and 63% of our total revenue, respectively, was derived from outside the United States. We may not be able to maintain or increase international market demand for our products. Managing overseas growth could require significant resources and management attention and may subject us to new or larger levels of regulatory, economic, foreign currency exchange, tax and political risks. Among the risks we believe are most likely to affect us with respect to our international sales and operations are:

- economic conditions in various parts of the world;
- unexpected changes in regulatory requirements;
- less protection for intellectual property rights in some countries;
- new and different sources of competition;
- multiple, conflicting and changing tax laws and regulations that may affect both our international and domestic tax liabilities and result in increased complexity and costs;
- if we were to establish international offices, the difficulty of managing and staffing such international offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- difficulties in enforcing contracts and collecting accounts receivable, especially in developing countries;
- if more contracts become denominated in local currency, fluctuations in exchange rates; and
- tariffs and trade barriers, import/export controls and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets.

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

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

We currently do not have any agreements with respect to any acquisitions, but in the future we may pursue acquisitions of businesses, technologies and products that we intend to complement our existing business, products and technologies. We cannot assure you that any acquisition we make in the future will provide us with the benefits we anticipated in entering into the transaction. Acquisitions are typically accompanied by a number of risks, including:

- difficulties in integrating the operations and personnel of the acquired companies;
- difficulties in maintaining acceptable standards, controls, procedures and policies;
- potential disruption of ongoing business and distraction of management;
- inability to maintain relationships with customers of the acquired business;
- impairment of relationships with employees and customers as a result of any integration of new management and other personnel;
- difficulties in incorporating acquired technology and rights into our products and services;

unexpected expenses resulting from the acquisition; and

potential unknown liabilities associated with acquired businesses.

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

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

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

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

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

We believe that our existing cash and cash equivalents and our cash flow from future operating activities will be sufficient to meet our anticipated cash needs for the foreseeable future. The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on numerous factors, including the other risk factors described in this Quarterly Report on Form 10-Q. In addition, we may require additional financing to fund the purchase price of future acquisitions. Additional financing may not be available on terms favorable to us, or at all. Any additional capital raised through the sale of equity or convertible debt securities may dilute your percentage ownership of our common stock. Furthermore, any new debt or equity securities we issue could have rights, preferences and privileges superior to our common stock. Capital raised through debt financings could require us to make periodic interest payments and could impose potentially restrictive covenants on the conduct of our business.

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

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

In addition, we are required to maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we are required to perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on, and our independent registered public accounting firm to report on, the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies or material weaknesses in our internal controls over financial reporting. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We may need to hire additional accounting and financial staff or a third

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party firm with appropriate public company experience and technical accounting knowledge. If we or our independent registered public accounting firm identifies deficiencies or material weaknesses in our internal controls over financial reporting, the market price of our stock could decline and we could be subject to sanctions or investigations by the NYSE, SEC or other regulatory authorities, which would require additional financial and management resources.

Risks relating to ownership of our common stock:

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

The market price for our common stock has been and is likely to continue to be volatile, in part because our shares have been traded publicly since June 2007. 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 products or product enhancements, acquisitions, distribution partnerships, joint ventures or capital commitments;
- departure of key personnel;
- changes in governmental regulations and standards affecting the software industry and our products;
- sales of common stock or other securities by us in the future;
- damages, settlements, legal fees and other costs related to litigation, claims and other contingencies;
- deterioration of the general U. S. and global economic condition; and
- other risks described elsewhere in this section.

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

Shares of our common stock are relatively illiquid

Our common stock is thinly traded and we have a relatively small public float. Our common stock may be less liquid than the stock of companies with a broader public ownership. In addition, trading of a large volume of our common stock may also have a significant impact on its trading price.

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

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

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

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

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

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

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

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

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

In August 2008, we announced that the Board of Directors of the Company 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 2009, we did not make any purchases of our common stock under this program. As of September 30, 2009, $10.0 million remains available under the stock repurchase program.

Item 3. Defaults upon senior securities.

None.

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

None.

Item 5. Other information.

None.

Item 6. Exhibits.

Index to Exhibits

3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1.1 of the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.3 of the Registrant s Form 8-K filed with the Securities and Exchange Commission on August 27, 2008).
4.1	Specimen certificate for shares of common stock (incorporated by reference to the exhibit of the same number to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.1	1999 Equity Incentive Plan, as amended to date, and form of stock option agreement (incorporated by reference to the exhibit 10.2 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.2	2007 Equity Incentive Plan and form of stock option agreement (incorporated by reference to the exhibit 10.3 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.3	Stock Purchase and Stockholders Agreement, dated June 8, 1998, by and among Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and certain stockholders (incorporated by reference to the exhibit 10.4 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.3.1	Amendment to Stock Purchase and Stockholders Agreement dated March 26, 2007 by and among Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and certain stockholders. (incorporated by reference to the exhibit 10.4.1 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.5	Registration Rights Agreement, dated May 25, 1999, by and between Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and David Samuel Coats (incorporated by reference to the exhibit 10.6 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.6	Registration Rights Agreement, dated April 13, 2000, by and between Registrant (as successor in interest to PROS Strategic Solutions, Inc.) and Robert Salter (incorporated by reference to the exhibit 10.7 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).

10.7	Registration Rights Agreement, dated June 8, 2007, by and among Registrant, Mariette M. Woestemeyer and Ronald F. Woestemeyer (incorporated by reference to the exhibit 10.8 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.8	Office Lease, dated January 31, 2001, by and between PROS Revenue Management L.P. and Houston Community College System (incorporated by reference to the exhibit 10.10 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.8.1	First Amendment to Office Lease, dated May 31, 2006, by and between PROS Revenue Management L.P. and Houston Community College System (incorporated by reference to the exhibit 10.10.1 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).

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10.9*	Employment Agreement, dated September 30, 2005, by and between PROS Revenue Management L.P. and Albert Winemiller (incorporated by reference to the exhibit 10.11 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.9.1*	Immediately Exercisable Stock Option Grant, dated April 2, 2007, by and between Registrant and Albert Winemiller (incorporated by reference to the exhibit 10.11.1 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.9.2*	Amendment No.1 to Employment Agreement, dated April 2, 2007, by and between Registrant and Albert Winemiller (incorporated by reference to the exhibit 10.11.2 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.9.3*	Amendment No. 2 to Employment Agreement, dated March 24, 2009, by and between PROS Revenue Management L.P. and Albert E. Winemiller. (incorporated by reference to the exhibit 10.4 to the Registrant s Form 8-K filed the Securities and Exchange Commission on March 26, 2009).
10.10*	Employment Agreement, dated September 30, 2005, by and between PROS Revenue Management L.P. and Charles Murphy (incorporated by reference to the exhibit 10.12 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.10.1*	Immediately Exercisable Incentive Stock Option Grant, dated September 30, 2005, by and between Registrant and Charles Murphy (incorporated by reference to the exhibit 10.12.1 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.10.2*	Immediately Exercisable Stock Option Grant, dated April 2, 2007, by and between Registrant and Charles Murphy (incorporated by reference to the exhibit 10.12.2 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.10.3*	Amendment No.1 to Employment Agreement, dated April 2, 2007, by and between Registrant and Charles Murphy (incorporated by reference to the exhibit 10.12.3 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.10.4*	Amendment No. 2 to Employment Agreement, dated March 24, 2009, by and between PROS Revenue Management L.P. and Charles H. Murphy. (incorporated by reference to the exhibit 10.4 to the Registrant s Form 8-K filed the Securities and Exchange Commission on March 26, 2009).
10.11*	Employment Agreement, dated January 15, 1999, by and between PROS Revenue Management L.P. and Ronald Woestemeyer (incorporated by reference to the exhibit 10.12 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).

10.11.1*	Amendment No. 1 to Employment Agreement, dated February 2, 2004, by and between PROS Revenue Management L.P. and Ronald Woestemeyer (incorporated by reference to the exhibit 10.13.1 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.12*	Form of Indemnification Agreement entered into among Registrant, its affiliates and its directors and officers (incorporated by reference to the exhibit number 10.16 to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).
10.13*	Employment Agreement, dated April 24, 2008, by and between PROS Revenue Management L.P. and Andres Reiner Senior Vice-President Product Development. (incorporated by reference to the exhibit 10.17 to the Registrant s Form 10-Q filed the Securities and Exchange Commission on August 7, 2008).
10.13.1*	Amendment No. 1 to Employment Agreement, dated March 24, 2009, by and between PROS Revenue Management L.P. and Andres Reiner Senior Vice-President Product Development. (incorporated by reference to the exhibit 10.1 to the Registrant s Form 8-K filed the Securities and Exchange Commission on March 26, 2009).
21.1	List of Subsidiaries (incorporated by reference to the exhibit of the same number to the Registrant s Form S-1 Registration Statement (Registration No. 333-141884), declared effective by the Securities and Exchange Commission on June 27, 2007).

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31.1#	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2#	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1#	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Constitutes management contracts or compensatory arrangements

\# Filed with this report

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SIGNATURES

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

PROS HOLDINGS, INC.

Date: November 9, 2009	By: /s/ Albert E. Winemiller Albert E. Winemiller President and Chief Executive Officer
Date: November 9, 2009	By: /s/ Charles H. Murphy Charles H. Murphy Executive Vice President and Chief Financial Officer (Principal Accounting Officer)

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