

PROS Holdings, Inc.
Form 10-Q
August 08, 2014
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to .

Commission File Number: 001-33554

PROS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

76-0168604

(State or Other Jurisdiction of
Incorporation or Organization)

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

3100 Main Street, Suite 900 Houston TX
(Address of Principal Executive Offices)

77002
(Zip Code)

(713) 335-5151

(Registrant's telephone number, including area code)

(Former Name, Former Address and Former Fiscal Year, if changed Since Last Report)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Table of Contents

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

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

The number of shares outstanding of the Registrant's Common Stock, \$0.001 par value, was 28,983,698 as of August 5, 2014.

Table of Contents

PROS Holdings, Inc.
Form 10-Q
For the Quarterly Period Ended June 30, 2014

Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>27</u>
<u>Item 4. Controls and Procedures</u>	<u>27</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>28</u>
<u>Item 1A. Risk Factors</u>	<u>28</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>28</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>28</u>
<u>Item 4. Mine Safety Disclosure</u>	<u>28</u>
<u>Item 5. Other Information</u>	<u>28</u>
<u>Item 6. Exhibits</u>	<u>28</u>
<u>Signatures</u>	<u>30</u>

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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. Forward-looking statements relate to future events or our future financial performance. 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 belief that we will successfully integrate our acquisitions; our anticipated additions to property, plant and equipment; our belief that our facilities are suitable and adequate to meet our current operating needs; and our belief 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, but not limited to, “we expect,” “anticipate,” “target,” “project,” “believe,” “goals,” “estimate,” “potential,” “prudent,” “may,” “might,” “could,” “would,” “intend,” and variations of these types of words and similar expressions are intended to identify these forward-looking statements.

Table of Contents

PART I. Financial Information

ITEM 1. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROS Holdings, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share amounts)

(Unaudited)

	June 30, 2014	December 31, 2013
Assets:		
Current assets:		
Cash and cash equivalents	\$ 30,034	\$ 44,688
Accounts and unbilled receivables, net of allowance of \$816 and \$1,060, respectively	62,047	46,566
Prepaid and other current assets	10,866	6,157
Restricted cash - current	2,501	39,718
Total current assets	105,448	137,129
Restricted cash - noncurrent	100	100
Property and equipment, net	16,761	15,587
Intangibles, net	24,227	8,232
Goodwill	23,352	7,024
Deferred tax assets - noncurrent, net of valuation allowance	10,505	10,505
Other long term assets	1,334	1,251
Total assets	\$ 181,727	\$ 179,828
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable and other liabilities	\$ 12,249	\$ 7,839
Accrued liabilities	8,653	5,210
Accrued payroll and other employee benefits	10,398	9,679
Deferred revenue	46,347	42,274
Total current liabilities	77,647	65,002
Long-term deferred revenue	3,437	2,977
Other long-term liabilities	3,316	546
Total liabilities	84,400	68,525
Commitments and contingencies (Note 7)		
PROS Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized none issued	—	—
Common stock, \$0.001 par value, 75,000,000 shares authorized; 33,385,511 and 32,606,228 shares issued, respectively; 28,967,926 and 28,188,643 shares outstanding, respectively	34	33
Additional paid-in capital	106,044	106,880
Treasury stock, 4,417,585 common shares, at cost	(13,938	) (13,938
Retained earnings	2,879	18,328
Accumulated other comprehensive loss	157	—
Non-controlling interest	2,151	—
Total stockholders' equity	97,327	111,303
Total liabilities and stockholders' equity	\$ 181,727	\$ 179,828

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

Table of Contents

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenue:				
License	\$12,332	\$9,725	\$24,195	\$19,114
Services	13,079	12,509	25,195	23,744
Subscription	5,813	1,936	10,126	3,904
Total license, services and subscription	31,224	24,170	59,516	46,762
Maintenance and support	13,144	11,357	25,765	22,391
Total revenue	44,368	35,527	85,281	69,153
Cost of revenue:				
License	51	192	106	233
Services	10,167	8,227	20,620	16,160
Subscription	1,592	389	2,517	885
Total license, services and subscription	11,810	8,808	23,243	17,278
Maintenance and support	2,361	1,978	4,937	4,061
Total cost of revenue	14,171	10,786	28,180	21,339
Gross profit	30,197	24,741	57,101	47,814
Operating expenses:				
Selling, marketing, general and administrative	24,267	15,935	46,722	30,223
Research and development	11,092	8,026	22,651	16,121
Acquisition-related	579	—	1,969	—
Impairment charge	2,130	—	2,130	—
(Loss) income from operations	(7,871)	) 780	(16,371)	) 1,470
Other expense, net	(571)	) (129)	) (1,543)	) (234)
(Loss) income before income tax provision	(8,442)	) 651	(17,914)	) 1,236
Income tax (benefit) provision	(1,240)	) 71	(1,800)	) (1,078)
Net (loss) income	(7,202)	) 580	(16,114)	) 2,314
Net loss attributable to non-controlling interest	(206)	) —	(663)) —
Net (loss) income attributable to PROS Holdings, Inc.	(6,996)	) 580	(15,451)	) 2,314
Net (loss) earnings per share attributable to PROS Holdings, Inc.:				
Basic	\$(0.24)	) \$0.02	\$(0.54)	) \$0.08
Diluted	\$(0.24)	) \$0.02	\$(0.54)	) \$0.08
Weighted average number of shares:				
Basic	28,958,233	28,006,517	28,813,008	27,881,957
Diluted	28,958,233	29,958,580	28,813,008	29,710,202
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	203	—	177	—
Other comprehensive income, net of tax	203	—	177	2,314
Comprehensive (loss) income	(6,999)	) 580	(15,937)	) 2,314
Comprehensive loss attributable to non-controlling interest	(186)	) —	(643)) —
Comprehensive (loss) income attributable to	\$(6,813)	) \$580	\$(15,294)	) \$2,314

PROS Holdings, Inc.

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

5

Table of Contents

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

	For the Six Months Ended June 30,	
	2014	2013
Operating activities:		
Net (loss) income	\$(16,114	) \$2,314
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,416	1,999
Share-based compensation	10,396	7,559
Tax shortfall from share-based compensation	—	(10
Provision for doubtful accounts	(244	) (70
Impairment charge	2,130	—
Changes in operating assets and liabilities:		
Accounts and unbilled receivables	(4,771	) 1,317
Prepaid expenses and other assets	(3,780	) (821
Accounts payable and other liabilities	122	715
Accrued liabilities	371	391
Accrued payroll and other employee benefits	(1,753	) (2,841
Deferred revenue	(859	) (2,619
Net cash (used in) provided by operating activities	(9,086	) 7,934
Investing activities:		
Purchases of property and equipment	(4,520	) (2,172
Acquisition of Cameleon Software, net of cash acquired	(22,048) —
Capitalized internal-use software development costs	(1,623	) (1,534
Decrease in restricted cash	37,218	—
Net cash provided by (used) in investing activities	9,027	(3,706
Financing activities:		
Exercise of stock options	1,091	2,771
Tax withholding related to net share settlement of restricted stock units	(12,319	) (2,330
Increase in Parent's ownership in Cameleon Software	(3,410) —
Net cash (used in) provided by financing activities	(14,638	) 441
Effect of foreign currency rates on cash	43	—
Net change in cash and cash equivalents	(14,654	) 4,669
Cash and cash equivalents:		
Beginning of period	44,688	83,558
End of period	\$30,034	\$88,227

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

Table of Contents

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

1. Organization and Nature of Operations

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

In December 2013, the Company acquired SignalDemand, Inc. ("SignalDemand"), an optimization software company headquartered in San Francisco, California, with approximately 40 professionals, for total cash consideration of \$13.5 million. This acquisition broadened the Company's offerings to companies in resource-based and commodity-driven industries, with products designed to help our clients better serve their customers in volatile markets with greater confidence and agility. Through SignalDemand's SaaS-based solutions and PROS big data software applications, PROS processes thousands of variables to deliver real-time recommendations, helping companies make price and mix decisions across products, customers and channels.

On January 8, 2014, the Company acquired approximately 81.7% of the common stock of Cameleon Software SA ("Cameleon"), a publicly traded French société anonyme headquartered in Toulouse, France, in an all-cash tender offer for approximately \$29.1 million. The Company has continued to purchase shares of Cameleon in the open market. Since the initial tender offer the Company has acquired an additional 9.8% of Cameleon's common stock in the market for approximately \$3.4 million. As of June 30, 2014, the Company owned 91.5% of the common stock of Cameleon.

2. Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements reflect the application of significant accounting policies as described below and elsewhere in these notes to the condensed consolidated financial statements.

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 include all adjustments necessary for a fair statement of the financial position of the Company as of June 30, 2014, the results of operations for the three and six months ended June 30, 2014 and cash flows for the six months ended June 30, 2014.

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 unaudited 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 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 ("Annual Report") filed with the SEC. The condensed consolidated balance sheet as of December 31, 2013 was derived from the Company's audited consolidated financial statements but does not include all disclosures required by GAAP.

Certain prior year amounts have been reclassified to conform to the current period financial statement presentation. These changes and reclassifications did not impact net or comprehensive income.

Basis of consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Table of Contents

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.

Use of estimates