PROS Holdings, Inc.
Form S-1/A
November 27, 2007

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PROS Holdings, Inc. Index to consolidated financial statements

As filed with the Securities and Exchange Commission on November 27, 2007

Registration No. 333-147398

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to
Form S-1

REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

PROS Holdings, Inc.

(Exact name of Registrant as Specified in its Charter)

Delaware	**7371**	**76-0168604**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

3100 Main Street, Suite 900
Houston, TX 77002
Telephone: (713) 335-5151
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Albert E. Winemiller
Chief Executive Officer and President
3100 Main Street, Suite 900
Houston, TX 77002
Telephone: (713) 335-5151
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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

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

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

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

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

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

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

Subject to completion, dated November 27, 2007

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

Prospectus

5,000,000 shares

Common stock

PROS Holdings, Inc. is offering 65,000 shares of common stock and the selling stockholders included in this prospectus are offering an additional 4,935,000 shares of common stock. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

Our common stock is traded on the New York Stock Exchange under the symbol PRO. The last reported sale price of our common stock on the New York Stock Exchange on November 23, 2007 was $16.68 per share.

	Per share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us before expenses	$	$
Proceeds to selling stockholders before expenses	$	$

The selling stockholders identified in this prospectus have granted the underwriters an option for 30 days from the date of this prospectus to purchase up to 750,000 additional shares of common stock on the same terms and conditions set forth above to cover over-allotments, if any.

Investing in our common stock involves a high degree of risk. See "Risk factors" beginning on page 7.

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

JPMorgan **Deutsche Bank Securities**

Jefferies & Company **Thomas Weisel Partners LLC**

Needham & Company, LLC

The underwriters expect to deliver the shares of common stock to purchasers on , 2007.

, 2007

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

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

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Prospectus summary

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

Overview

We are a leading provider of pricing and revenue optimization software, an emerging category of enterprise applications designed to allow companies to improve financial performance by enabling better pricing. By using our software products, 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. We provide professional services to configure our software products to meet the specific pricing needs of each customer.

We had 96 customers in the manufacturing, distribution, services, hotel and cruise, and airlines industries in 43 countries with over 200 implementations of our software products as of September 30, 2007. 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, dynamic pricing products differ from static 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 recorded revenue of $35.1 million, $46.0 million and $44.3 million in 2005, 2006, and the nine months ended September 30, 2007, respectively, and have achieved eight consecutive years of profitability. Approximately 60%, 63% and 65% of our total revenue came from customers outside the United States in 2005, 2006 and the nine months ended September 30, 2007, respectively. In 2005, 2006 and the nine months ended September 30, 2007, 56%, 66% and 66%, respectively, of our license and implementation revenue was derived from companies in the manufacturing, distribution, services and hotel and cruise industries and the remainder was derived from companies in the airline industry.

Industry background

Pricing is an important component of an enterprise's business processes and financial performance. Companies in the manufacturing, distribution, services, hotel and cruise, and airline industries can face a variety of pricing problems such as unnecessary discounting and quoting prices below breakeven. We believe that improving pricing is one of the most strategic and powerful ways for companies to improve their business and financial performance. According to a 2006 Gartner

Research report, on average, a 1% improvement in price translated to an 11% increase in profitability. In contrast, according to the same report, a 1% improvement in fixed costs or variable costs only increases profitability by 3% and 7%, respectively.

A variety of trends are accelerating the need for better pricing. They include increasingly complex markets and business models, greater sophistication of purchasers, proliferation of pricing entities and competitive alternatives, growing quantities of enterprise data and diminishing returns from traditional enterprise applications. One element contributing to pricing problems is the limited visibility into effective prices and margins after accounting for discounts, promotions, rebates and allowances. In addition, a lack of uniform pricing and goals, an unscientific, ad-hoc approach to pricing and a lack of complete, relevant and timely data further add to the pricing problems that we believe most companies in our target industries face. We believe most companies in our target industries have yet to develop or systematically implement pricing technology solutions that can best meet business goals and generate optimal prices.

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

Our solution

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

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

Our strategy

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

- continue to penetrate our five vertical markets;
- continue to sell additional products to existing customers;
- extend our pricing thought leadership through scientific innovations; and
- extend our technology leadership through product innovations.

Company information

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

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

The offering

Common stock offered by PROS Holdings, Inc.:	65,000 shares
Common stock offered by the selling stockholders:	4,935,000 shares
Common stock to be outstanding after this offering:	26,069,063 shares
Over-allotment option:	The selling stockholders have granted the underwriters an option for a period of 30 days to purchase up to an additional 750,000 shares of common stock.
Use of proceeds:	We intend to use the proceeds of the offering to pay the expenses related to this offering and for other general corporate purposes. See "Use of proceeds."
New York Stock Exchange symbol:	PRO

The number of shares of common stock to be outstanding after this offering is based on the number of shares outstanding as of November 1, 2007. This information excludes:

- 1,703,181 shares of common stock issuable upon the exercise of outstanding options with a weighted average exercise price of $5.70 per share; and

- 492,500 shares reserved for future issuance under our 2007 equity incentive plan.

Unless otherwise indicated, the information in this prospectus assumes that the underwriters will not exercise the over-allotment option.

Summary consolidated financial data

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

	Year ended December 31			Nine months ended September 30	
(In thousands, except per share amounts)	**2004**	**2005**	**2006**	**2006**	**2007**
Statement of income data:					
Revenue:					
License and implementation	$ 20,015	$ 20,190	$ 29,604	$ 20,639	$ 30,578
Maintenance and support	12,431	14,940	16,423	12,179	13,719
Total revenue	32,446	35,130	46,027	32,818	44,297
Cost of Revenue:					
License and implementation	10,639	10,071	12,079	8,549	9,683
Maintenance and support	2,750	3,310	3,526	2,713	3,459
Total cost of revenue	13,389	13,381	15,605	11,262	13,142
Gross profit	19,057	21,749	30,422	21,556	31,155
Gross margin	58.7%	61.9%	66.1%	65.7%	70.3%
Operating expenses:					
Selling, general and administrative	8,969	12,010	13,261	10,047	11,530
Research and development	6,262	6,399	10,332	7,075	12,394
Total operating expenses	15,231	18,409	23,593	17,122	23,924
Income from operations	3,826	3,340	6,829	4,434	7,231
Interest income, net	366	1,074	1,921	1,405	232
Income before income tax provision	4,192	4,414	8,750	5,839	7,463
Income tax provision	536	975	1,725	1,151	398
Net income	3,656	3,439	7,025	4,688	7,065
Accretion of preferred stock	(1,256)	(852)	(460)	(372)	(82)
Net earnings attributable to common stockholders	$ 2,400	$ 2,587	$ 6,565	$ 4,316	$ 6,983
Net earnings attributable to common stockholders per share:					
Basic	$ 0.24	$ 0.19	$ 0.33	$ 0.22	$ 0.32
Diluted	$ 0.19	$ 0.16	$ 0.32	$ 0.21	$ 0.31
Weighted average number of shares:					
Basic	9,822	13,891	19,649	19,623	22,038
Diluted	19,618	20,012	20,604	20,757	22,509

The "As adjusted" column in the table below reflects the net proceeds from the sale by us of 65,000 shares of common stock in this offering at an assumed offering price of $16.68 per share, the closing price of our common stock on November 23, 2007, after the deduction of the estimated underwriting discounts and commissions and estimated offering expenses.

	At September 30, 2007	
(Dollars in thousands)	**Actual**	**As adjusted**
Balance sheet data:		
Cash and cash equivalents	$ 40,012	$ 40,487
Working capital	28,148	28,623
Total assets	64,418	64,893
Total stockholders' equity	$ 28,519	$ 28,994

The above information as of September 30, 2007 excludes:

1,708,060 shares of common stock issuable upon the exercise of outstanding options with a weighted average exercise price of $5.70 per share;

492,500 shares of common stock reserved for future issuance under our 2007 equity incentive plan; and

200,000 shares of common stock issuable upon the exercise of warrants at an exercise price of $2.05 per share.

Risk factors

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

Risks relating to our business and industry

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

We derive, and expect to continue to derive, all of our revenue from providing pricing and revenue optimization software products, implementation services and ongoing customer support. The pricing and revenue optimization software market is relatively new and still evolving, and it is uncertain whether this software will achieve and sustain high levels of demand and market acceptance. Our success will depend on the willingness of businesses 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 perceive the benefits of pricing and revenue optimization software, the pricing and revenue optimization software market may not continue to develop or may develop more slowly than we expect, either of which would significantly and adversely affect our revenue and operating results. Because the pricing and revenue optimization software market is developing and the manner of its development is difficult to predict, we may make errors in predicting and reacting to relevant business trends, which could harm our operating results.

Any downturn in 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.

Revenue from customers in the airline industry accounted for 52%, 44% and 42% of our total revenue in 2005, 2006 and the nine months ended September 30, 2007, respectively. 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 and the stability, functionality and scalability of the customer's information technology infrastructure. If weaknesses or problems in infrastructure or data exist, we may not be able to correct or compensate for such weaknesses. In addition, implementation of our software products can be highly complex and require substantial efforts and cooperation on the part of our customers and us. If we are unable to successfully manage the implementation of our software products such that those products do not meet customer needs or expectations, our business, reputation and financial performance may be significantly harmed. We recognize our license and implementation revenues as implementation services are performed. Any delays in an implementation project would delay the corresponding revenue recognition and could adversely affect our operating results.

In 2006 and the nine months ended September 30, 2007, approximately 51% and 61%, respectively, of our license and implementation revenue was earned from 10 customers. If an implementation project for a large customer is substantially delayed or cancelled, our ability to recognize the associated revenue and our operating results would be adversely affected.

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

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

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. Over the past three years, customers have renewed an average of 96% of the maintenance and support revenue that was up for renewal. Historically, maintenance and support revenue has represented a significant portion of our total revenue, including approximately 36% and 31% of our total revenue in 2006 and the nine months ended September 30, 2007, 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 be able to manage our future growth efficiently or profitably.

We experienced significant growth in 2006 and the nine months ended September 30, 2007 and are planning for this growth trend to continue. In response to such growth, we will likely need to expand the size of our sales and marketing, research and development and general and administrative staffs, grow our related operations and strengthen our financial and accounting controls. There is no assurance that our infrastructure will be sufficiently scalable to manage our growth. For example, our anticipated growth may result in a significant increase in demand for our implementation personnel to implement our solutions. If we are unable to address these additional demands on our resources, our operating results and growth might suffer. Even if we are able to hire additional personnel, there is no guarantee such personnel will be as highly qualified as our existing personnel. As a result, certain implementations of our solution may not meet our customers' expectations and our reputation could be harmed and our business and operating results adversely affected. Also, if we continue to expand our operations, management might not be effective in expanding our physical facilities and our systems, procedures or controls might not be adequate to support such expansion. Further, to the extent we invest in additional resources to support further growth and growth in our revenue does not ensue, our operating results would be adversely affected. Our inability to manage our growth could harm our business.

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 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.

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

Our sales cycle may take several months to over a year. During this sales cycle, we may expend substantial resources with no assurance that a sale will ultimately result. The length of a customer's sales cycle depends on a number of factors, many of which we may not be able to control. These factors include the customer's product and technical requirements and the level of competition we face for that customer's business. Any lengthening of the sales cycle could delay our recognition of revenue and could cause us to expend more resources than anticipated. If we are unsuccessful in closing sales or if we experience delays, it could have an adverse effect on our operating results.

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

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

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

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

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

Our results of operations benefit from the tax credit incentives under the U.S. research and experimentation tax credit extended to taxpayers engaged in qualified research and experimental activities while carrying on a trade or business. This tax credit is designed to stimulate qualifying company research and development over time by reducing after-tax costs. By qualifying for the tax credit, we have been able to use general business tax credits to reduce our federal income tax liability. Our operating activities may disqualify us in the future from the benefits of the tax credit. In addition, the tax credit may not be renewed, or if renewed, it may be renewed on terms significantly less favorable than current tax incentives or on terms resulting in our disqualification from the benefits of the tax credit. The elimination or significant reduction in the tax credit would increase our effective tax rate and would adversely affect our results of operations.

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. Securities and Exchange Commission, or SEC, and the New York Stock Exchange rules and regulations impose heightened requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel 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 will be required to perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on, and our independent registered public accounting firm to report on, the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies or material weaknesses in our internal controls over financial reporting. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. We may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies or material weaknesses in our internal controls over financial reporting, the market price of our stock could decline and we could be subject to sanctions or investigations by the New York Stock Exchange, SEC or other regulatory authorities, which would require additional financial and management resources.

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

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

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

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

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

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

If we fail to develop or acquire new pricing and revenue optimization functionality to enhance our existing software products, we will not be able to achieve our anticipated level of growth.

The pricing and revenue optimization software market is characterized by:

- rapid technological developments;
- newly emerging and changing customer requirements; and
- frequent 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 they may develop and market new solutions that will compete with, and may reduce the demand for, our software products. We cannot assure you that we will be successful in developing or otherwise acquiring, marketing and licensing new functionality, or delivering updates and upgrades that meet changing industry standards and customer demands. In addition, we may experience difficulties that could delay or prevent the successful development, marketing and licensing of such functionality. If we are unable to develop or acquire new functionality, enhance our existing software products or adapt to changing industry requirements to meet market demand, we may not be able to achieve our anticipated level of growth and our revenue and operating results would be adversely affected.

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

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

Our pricing and revenue optimization software products are complex and may contain undetected defects or errors. Several of our products have recently been developed and may therefore be more likely to contain undetected defects or errors. In addition, we frequently develop enhancements to our software products that may contain defects. We have not suffered significant harm from any defects or errors to date, but we have found defects in our software products from time to time. We may discover additional defects in the future, and such defects could be material. We may not be able to detect and correct defects or errors before the final implementation of our software products. Consequently, we or our customers may discover defects or errors after our software products have been implemented. We have in the past issued, and may in the future need to issue, corrective releases of our products to correct defects or errors. The occurrence of any defects or errors could result in:

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

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, we will not be able to achieve our anticipated level of growth and our operating results could be adversely affected.

Our future success depends upon the continued service of our executive officers and other key sales, development, science and professional services staff. The loss of the services of our executive officers and other key personnel would harm our operations. In addition, our future success will depend in large part on our ability to attract a sufficient number of highly qualified personnel, and there can be no assurance that we will be able to do so. In particular, given the highly sophisticated pricing science included in our products, the pool of scientists and software developers qualified to work on our products is limited. In addition, the implementation of our software products requires highly-qualified personnel, and hiring and retaining such personnel to support our growth may be challenging. Competition for such qualified personnel is intense, and we compete for these individuals with other companies that have greater financial, technical, marketing, service and other resources than we do. If we fail to retain our key personnel and attract new personnel, we will not be able to achieve our anticipated level of growth and our operating results could be adversely affected.

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

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

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

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

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

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

Patent applications in the U.S. are typically not published until 18 months after filing, or in some cases not at all, and publications of discoveries in industry-related literature lag behind actual discoveries. We cannot be certain that we were the first to make the inventions claimed in our pending patent applications or that we were the first to file for patent protection. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. As a result, we may not be able to obtain adequate patent protection.

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

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.

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

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

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

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the 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.

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

Over the last several years, we derived a significant portion of our revenue from customers outside the United States. In 2005, 2006 and the nine months ended September 30, 2007, approximately 60%, 63% and 65% of our total revenue, respectively, was derived from outside the United States. We may not be able to maintain or increase international market demand for our products. Managing overseas growth could require significant resources and management attention and may subject us to new or larger levels of regulatory, economic, tax and political risks. Among the risks we believe are most likely to affect us with respect to our international sales and operations are:

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

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

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

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

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

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

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

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

Risks relating to this offering and ownership of our common stock

Our common stock is thinly traded and its trading price is volatile, and you may not be able to resell your shares at or above the offering price.

Our common stock has only been publicly traded since June 28, 2007 and is thinly traded, which could make it difficult to trade shares of our common stock at predictable prices or at all. Trading of a large volume of our common stock may also have a significant impact on its trading price. 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; 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.

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 rely 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.

Future sales of our common stock by existing stockholders could cause our stock price to decline.

After this offering, we will have 26,069,063 shares of common stock outstanding. All shares sold in this offering and our initial public offering, or a total of 12,848,750 shares, will be freely tradable without restriction or further registration under federal securities laws unless purchased and held by our affiliates. The remaining 13,220,313 shares of common stock outstanding after this offering will be available for sale in the public market as follows:

Number of shares	Date of availability for sale
1,806,351	

	On December 25, 2007 (unless otherwise extended pursuant to the terms of outstanding lock-up agreements)
11,413,962	90 days after the date of this prospectus

In addition, sales of shares issuable upon the exercise of stock options may be available for sale from time to time in the future. The above table assumes the effectiveness of the lock-up agreements under which holders of substantially all of our common stock have agreed not to sell or otherwise dispose of their shares of common stock. J.P. Morgan Securities Inc. and Deutsche Bank Securities Inc. may, at their discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements. If our common stockholders sell substantial amounts of common stock in the public market, or if the market perceives that these sales may occur, the market price of our common stock may decline.

Our directors and executive officers will continue to have substantial control over us after this offering and could limit the ability of stockholders to influence the outcome of key transactions, including changes of control.

We anticipate that our executive officers and directors and entities affiliated with them will, in the aggregate, beneficially own 44% of our outstanding common stock following the completion of this offering, assuming the underwriters do not exercise their over-allotment option. Our executive officers, directors and affiliated entities, if acting together, would be able to effectively control or influence significantly all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other significant corporate transactions. These stockholders may have interests that differ from yours, and they may vote in a way with which you disagree and that may be adverse to your interests. The concentration of ownership of our common stock may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and may affect the market price of our common stock.

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.

Special note regarding forward-looking statements

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and the Private Securities Litigation Reform Act of 1995. Forward looking statements are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in "Prospectus summary," "Risk factors," "Management's discussion and analysis of financial condition and results of operations" and "Business". In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "could," "should," "expect," "intend," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative or plural of these words and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, include, among other things, our anticipated strategies and anticipated trends in our business and the markets in which we operate. These statements are only predictions based on our current expectations and projections about future events. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. You should specifically consider the numerous risks outlined under "Risk factors."

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement on Form S-1, of which this prospectus is a part, that we have filed with the Securities and Exchange Commission, completely and with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future. We qualify all of our forward-looking statements by these cautionary statements.

This prospectus contains estimates and other statistical data, research or viewpoints based on information from independent parties, including Gartner, Inc., or Gartner Research, relating to market size and growth and other industry data. These Gartner Research reports represent data, research opinion or viewpoints published, as part of a syndicated subscription service available only to clients by Gartner Research and are not representations of fact. The Gartner Research reports do not constitute a specific guide to action and the reader of this prospectus assumes sole responsibility for his or her selection of, or reliance on, the Gartner Research reports, or any excerpts thereof, in making any decision, including any investment decision. Each Gartner Research report speaks as of its original publication date and not as of the date of this prospectus and the opinions expressed in the Gartner Research reports are subject to change without notice. Gartner Research is not responsible, nor shall it have any liability, to us or to any reader of this prospectus for errors, omissions or inadequacies in, or for any interpretations of, or for any calculations based upon data contained in, the Gartner Research reports or any excerpts thereof.

Use of proceeds

We estimate that the net proceeds we will receive from this offering will be approximately $475,000, based on an assumed offering price of $16.68 per share, the closing price of our common stock on November 23, 2007, after deducting the estimated underwriting discounts and commissions and estimated offering expenses. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

We intend to use the estimated net proceeds to us from this offering for general corporate purposes. Pending use of the net proceeds from this offering, we intend to invest the net proceeds in short- and intermediate-term interest bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

Dividend policy

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock may receive dividends out of assets legally available and in the amounts that our board of directors may determine from time to time.

In August 2006, we redeemed 1,294,030 shares of our redeemable preferred stock for $8.4 million, including accrued dividends of $2.7 million on such shares. In March 2007, we redeemed the remaining 2,627,282 outstanding shares of our redeemable preferred stock for $17.4 million, including accrued dividends of $5.6 million on such shares. Based on our cash position, our belief in our ability to generate future cash flows from operations to support and grow our business and the fact that a substantial portion of our common stock had been held for over eight years without liquidity, we paid in March 2007 a one-time cash dividend in a total amount of $41.3 million to our common stockholders.

We currently expect to retain all remaining available funds and any future earnings for use in the operation and development of our business. Accordingly, we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future.

Market price of common stock

Our common stock has been listed on the New York Stock Exchange under the symbol "PRO" since June 28, 2007. Prior to that date, there was no public trading market for our common stock. The initial public offering price of our common stock was $11.00 per share, and the initial public offering closed on July 3, 2007. The following table sets forth for the periods indicated the high and low sale prices per share of our common stock as reported by the New York Stock Exchange:

	Low	High
Fiscal Year 2007		
Second quarter (commencing June 28)	$ 11.32	$ 13.64
Third quarter	10.40	14.69
Fourth quarter (through November 23)	12.05	19.45

On November 23, 2007, the closing price of our common stock, as reported on the New York Stock Exchange, was $16.68 per share and we had approximately 162 stockholders of record.

Capitalization

The following table sets forth our capitalization as of September 30, 2007 on:

- an actual basis; and

- on an as adjusted basis to give effect to our sale of 65,000 shares of common stock in this offering at an assumed offering price of $16.68 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

You should read the following table in conjunction with "Management's discussion and analysis of financial condition and results of operations" and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

(unaudited) (In thousands, except share and per share data)	September 30, 2007 Actual	 As adjusted
Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 authorized, no shares designated, issued or outstanding, actual and as adjusted	$	$
Common stock, $0.001 par value, 75,000,000 authorized, actual and as adjusted; 29,646,224 issued and 25,799,184 outstanding, actual; 29,711,224 issued and 25,864,184 outstanding, as adjusted	30	30
Additional paid-in-capital	51,419	51,894
Common stock warrants	226	226
Treasury stock	(8,938)	(8,938)
Accumulated deficit	(14,218)	(14,218)
Total stockholders' equity	28,519	28,994
Total capitalization	$ 28,519	$ 28,994

Selected consolidated financial data

The selected consolidated financial data set forth below should be read in conjunction with the consolidated financial statements and related notes and "Management's discussion and analysis of financial condition and results of operations" and other financial information appearing elsewhere in this prospectus. The consolidated statements of income data for the years ended December 31, 2004, 2005 and 2006 and the consolidated balance sheet data as of December 31, 2005 and 2006 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The consolidated statements of income data for the years ended December 31, 2002 and 2003 and the consolidated balance sheet data as of December 31, 2002, 2003 and 2004 are derived from our audited consolidated financial statements not included in this prospectus. The consolidated statements of income data as of the nine months ended September 30, 2006 and 2007 and the consolidated balance sheet data as of September 30, 2007 are derived from our unaudited financial statements included in this prospectus. The unaudited interim consolidated financial data reflects all adjustments, including usual recurring adjustments, which in the opinion of management, are necessary for the fair representation of that information as of and for the periods presented. The results for the interim periods are not necessarily indicative of the results that you should expect for the full year or in the future.

	Year ended December 31					Nine months ended September 30	
(In thousands, except per share amounts)	**2002**	**2003**	**2004**	**2005**	**2006**	**2006**	**2007**
Consolidated statements of income data:							
Revenue:							
License and implementation	$ 25,563	$ 19,758	$ 20,015	$ 20,190	$ 29,604	$ 20,639	$ 30,578
Maintenance and support	8,479	10,700	12,431	14,940	16,423	12,179	13,719
Total revenue	34,042	30,458	32,446	35,130	46,027	32,818	44,297
Cost of revenue:							
License and implementation	13,747	10,668	10,639	10,071	12,079	8,549	9,683
Maintenance and support	1,933	3,054	2,750	3,310	3,526	2,713	3,459
Total cost of revenue	15,680	13,722	13,389	13,381	15,605	11,262	13,142
Gross profit	18,362	16,736	19,057	21,749	30,422	21,556	31,155
Gross margin	53.9%	54.9%	58.7%	61.9%	66.1%	65.7%	70.3%
Operating expenses:							
Selling, general and administrative	8,668	7,672	8,969	12,010	13,261	10,047	11,530
Research and development	7,847	7,181	6,262	6,399	10,332	7,075	12,394
Total operating expenses	16,515	14,853	15,231	18,409	23,593	17,122	23,924
Income from operations	1,847	1,883	3,826	3,340	6,829	4,434	7,231
Interest income, net	622	227	366	1,074	1,921	1,405	232
Income before income tax provision	2,469	2,110	4,192	4,414	8,750	5,839	7,463
Income tax provision	287	430	536	975	1,725	1,151	398
Net income	2,182	1,680	3,656	3,439	7,025	4,688	7,065
Accretion of preferred stock	(1,301)	(1,278)	(1,256)	(852)	(460)	(372)	(82)

Net earnings attributable to common stockholders	$ 881	$ 402	$ 2,400	$ 2,587	$ 6,565	$ 4,316	$ 6,983
Net earnings attributable to common stockholders per share:							
Basic	$ 0.10	$ 0.05	$ 0.24	$ 0.19	$ 0.33	$ 0.22	$ 0.32
Diluted	$ 0.10	$ 0.05	$ 0.19	$ 0.16	$ 0.32	$ 0.21	$ 0.31
Weighted average number of shares:							
Basic	9,159	8,165	9,822	13,891	19,649	19,623	22,038
Diluted	19,052	17,979	19,618	20,012	20,604	20,757	22,509

	December 31					September 30
(Dollars in thousands)	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Consolidated balance sheet data:						
Cash and cash equivalents	$ 19,035	$ 26,846	$ 32,314	$ 38,490	$ 42,540	$ 40,012
Working capital	15,991	18,465	22,218	27,079	27,575	28,148
Total assets	31,009	34,112	45,373	50,290	63,046	64,418
Redeemable preferred stock				25,269	17,283	
Series A convertible redeemable preferred stock	29,379	30,656	31,913			
Total stockholders' equity (deficit)	$ (9,097)	$ (8,462)	$ (6,057)	$ 4,044	$ 10,677	$ 28,519

Management's discussion and analysis of financial condition and results of operations

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes and the other financial information appearing elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risk, uncertainties and assumptions. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including those discussed in "Risk factors" and elsewhere in this prospectus.

Overview

We are a leading provider of pricing and revenue optimization software, an emerging category of enterprise applications designed to allow companies to improve financial performance by enabling better pricing. By using our software products, 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. We provide professional services to configure our software products to meet the specific pricing needs of each customer.

We had 96 customers in the manufacturing, distribution, services, hotel and cruise, and airlines industries in 43 countries with over 200 implementations of our software products as of September 30, 2007. 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, dynamic pricing products differ from static 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 recorded revenue of $35.1 million, $46.0 million and $44.3 million in 2005, 2006, and the nine months ended September 30, 2007, respectively, and have achieved eight consecutive years of profitability. Approximately 60%, 63% and 65% of our total revenue came from customers outside the United States in 2005, 2006 and the nine months ended September 30, 2007, respectively. In 2005, 2006 and the nine months ended September 30, 2007, 56%, 66% and 66%, respectively, of our license and implementation revenue was derived from companies in the manufacturing, distribution, services and hotel and cruise industries and the remainder was derived from companies in the airline industry.

We recognize the substantial 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 are recognized over the implementation period, which typically ranges from six months to several years.

Our revenue recognition policy provides visibility into a significant portion our future revenue, although the actual timing of recognition of revenue will vary based on the nature and requirements of our contracts. We do not recognize a material portion of our license revenue, if any, upon our signing a new license agreement 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 because 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.

We maintain our corporate headquarters in Houston, Texas. As of September 30, 2007, we had 319 employees and 18 independent contractors.

Background

We were founded in 1985 and initially focused our efforts on providing complex, science-based revenue management solutions to the global airline industry. In 1998, we raised $25.0 million by issuing convertible preferred stock to individual investors and to funds affiliated with TA Associates and JMI Equity. Mr. Albert E. Winemiller, our President and Chief Executive Officer, joined us in 1999, and Mr. Charles H. Murphy, our Executive Vice President and Chief Financial Officer, joined us in 1998.

In 1999, we began to consider ways to diversify our product offering to include a broader suite of pricing and revenue optimization functionality. We expanded our focus beyond the airline industry to include other industries that we believed to have a need for advanced pricing solutions. Our efforts toward diversification of products and customers intensified following September 11, 2001 as a result of the ensuing challenges faced by many airlines following those events. Despite the events of September 11, 2001 and the resulting decline in our revenue, we remained profitable as we sought additional ways to grow our business, and we have had eight consecutive years of profitability.

In 2005, we began to experience increased demand for our pricing and revenue optimization software products. In December 2005, Yankee Group published the results of a survey conducted in July 2005 of 389 respondents in the distribution industry and the high-technology, industrial and chemical manufacturing industries, 98% of which had annual revenue over $500 million. Of the respondents, 77% stated that they did not have a price management or profit optimization software solution but planned to purchase one and had developed a business case to do so.

As of September 30, 2007, we had 96 customers in the manufacturing, distribution, services, hotel and cruise, and airline industries in 43 countries with over 200 implementations of our software products. Our total revenue was $35.1 million, $46.0 million and $44.3 million in 2005, 2006 and the nine months ended September 30, 2007, respectively. Our net income was $3.4 million, $7.0 million and $7.1 million in 2005, 2006 and the nine months ended September 30, 2007, respectively.

Our future revenue growth and profitability will depend on the continued acceptance of our pricing and revenue optimization software products, further penetration of our target industries and the increased adoption of pricing and revenue optimization software generally.

Trends

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

Growth in our market. We believe the market demand for pricing and revenue optimization software is increasing and therefore, if we are able to capitalize on this growing market, our revenues will increase. An August 2006 AMR Research report estimated that the price management applications market will be $348 million in 2007 and will grow to approximately $1.1 billion in 2010, a compound annual growth rate of 46%. We believe that the overall pricing and revenue optimization software market includes additional elements not considered in the AMR Research report. If the market for pricing and revenue optimization software does not develop as we expect, our revenue and operating results would be adversely affected.

Growth in revenues from non-airline industries. Historically, a substantial portion of our revenue has come from the airline industry. However, as we began to diversify our product offering, we saw our revenue growth driven by increases in sales to non-airline industry customers. We expect the percentage of our revenue from the airline industry to continue to decrease over time although revenue from the airline industry may remain flat or grow in absolute dollars. We continue to expand our product offerings in the manufacturing, distribution, services and hotel and cruise industries, which we believe have the need for advanced pricing and revenue optimization software. In 2005, 2006 and the nine months ended September 30, 2007, 56%, 66% and 66%, respectively, of our license and implementation revenue was derived from customers in these non-airline industries. We believe that, in the future, a proportionately larger share of our revenue will come from these industries compared to our revenues from the airline industry.

Discussion of consolidated financial information

Revenue

We derive our revenue from license fees, implementation services and maintenance and support services. Our arrangements with customers typically include: (a) license fees paid for the use of our products either in perpetuity or over a specified term and implementation fees for configuration, implementation and training services and (b) maintenance and support fees related to technical support and software updates. We consider our implementation services essential to our customers' usability of our licensed software products, and therefore we recognize revenue from perpetual software license and implementation services together as the services are performed. For certain of our arrangements, we engage an independent contractor to assist in the implementation. We recognize revenue from these engagements net of the fees owed to the independent contractor.

License and implementation revenue. We derive the substantial majority of our license and implementation revenue from the sale of perpetual licenses for our software products and related implementation services. Revenue from our perpetual licenses and implementation services are generally recognized as implementation services are performed on a percentage-of-completion basis.

We also recognize revenue from the sale of a limited number of fixed-term licenses, which have terms ranging from three months to five years, and related implementation services. In 2006, license and implementation revenue from fixed-term licenses represented approximately 7.2% of our total revenue. Revenue from fixed-term licenses, which includes maintenance and support during the license period, are recognized ratably over the license term.

Prior to 2002, we sold the substantial majority of our solutions on a time-and-materials basis. Beginning in 2002, we began selling our solutions on a fixed-fee basis to induce customers in different industries to purchase our solutions. Currently, substantially all of our license and implementation arrangements are priced on a fixed-fee basis. In 2006, we began marketing our solutions on a time-and-materials basis again as we believe we have established a track record of successful implementations across multiple industries. We do not expect that our transition back to time-and-materials arrangements from fixed-fee arrangements, to the extent it occurs, will affect our revenue recognition.

Maintenance and support revenue. We generate maintenance and support revenue from the sale of maintenance and support services for our software products. Our maintenance and support arrangements are sold with terms generally ranging from one to two years. Maintenance and support fees are invoiced to our customers either monthly, quarterly or on an annual basis. Maintenance and support revenue includes post-contract customer support and the right to unspecified software updates and enhancements on a when and if available basis. Over the past three years, customers have renewed an average of 96% of the maintenance and support revenue that was up for renewal.

Revenue distribution

Our revenue is geographically dispersed because we sell our solutions to a global customer base. We do not believe there are significant trends or uncertainties among our customers based on geography, and the percentages of revenue among geographic areas fluctuate from year to year. The substantial majority of our customer arrangements are denominated in U.S. dollars. In 2006, 37% of our revenue was from the United States. We believe that we have diversified, both geographically and across industries. In 2005, 2006 and the nine months ended September 30, 2007, 56%, 66% and 66%, respectively, of our license and implementation revenue was derived from companies in the manufacturing, distribution, services and hotel and cruise industries and the remainder was derived from companies in the airline industry.

Cost of revenue

Cost of license and implementation revenue. Cost of license and implementation revenue includes those costs related to the implementation of our solutions. Cost of license and implementation revenue consists of (a) compensation and benefits related to personnel providing professional services, (b) billable and non-billable travel, lodging and other out-of-pocket expenses and (c) facilities and other overhead costs. Since 2003, we have seen improvement in our license and implementation gross margin as a result of improvements in our implementation processes and the standardization of our software products. License and implementation cost may vary from period to period depending on a number of factors, including the amount of implementation services required to deploy our products.

Cost of maintenance and support revenue. Cost of maintenance and support revenue includes those costs related to post-contract support on our deployed solutions. Cost of maintenance and support revenue consists of (a) compensation and benefits related to personnel providing customer support and (b) facilities and other overhead costs. Maintenance and support gross margin decreased during 2007 as a result of an increased investment in our infrastructure to support our growing installed customer base.

Operating expenses

Selling, general and administrative. Selling, general and administrative expenses consist of (a) compensation and benefits related to selling, general and administrative activities; (b) travel, lodging and other out-of-pocket expenses; (c) marketing programs such as our conferences and participating in industry trade shows; (d) accounting, legal and other professional fees and (e) facilities and other related overhead. We expect absolute dollar increases in selling, general and administrative expenses as we incur additional expenses related to being a publicly-traded company, increase our general marketing activities, increase the number of our sales and marketing professionals and invest in infrastructure to support continued growth.

Research and development. Research and development expenses consist of (a) compensation and benefits of software developers, scientists and product managers working on the development of our new products, enhancements of existing products, scientific research, quality assurance and testing and (b) facilities and other related overhead. We expense all of our research and development costs as incurred, and we expect to continue to do so in the foreseeable future. We expect research and development expense to increase in absolute dollars for the foreseeable future as we continue to invest in the development of our software products.

Income taxes

We are subject to income taxes in the United States and abroad, and we use estimates in determining our provision for income taxes. We estimate separately our deferred tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities. At December 31, 2006, our deferred tax assets consisted primarily of federal general business tax credit carryforwards of $675,000 remaining from historical research and development activities and temporary differences in the timing of deductions for federal income tax and financial reporting purposes. We assess the likelihood that deferred tax assets will be realized and we recognize a valuation allowance if it is more likely than not that some portion of the deferred tax assets will not be realized. This assessment requires judgment as to the likelihood and amounts of future taxable income. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment that is subject to audit by tax authorities in the ordinary course of business. As a result of this assessment, we recorded a full valuation allowance for the $675,000 general business tax credit carryforward at December 31, 2006.

Our effective tax rates in 2004, 2005, 2006 and the nine months ended September 30, 2007 were 13%, 22%, 20% and 5% respectively. In the third quarter of 2007, we recognized a tax benefit of $1.1 million upon the reversal of a valuation allowance previously recorded against our deferred tax assets. This reversal was the result of our determination during the third quarter that it was more likely than not that the associated deferred tax assets would be realized. Without this reversal, our effective tax rate would have been 20%. As of September 30, 2007, we have a valuation allowance of $149,000 for deferred tax assets related to foreign tax credit carryforwards.

Our effective tax rate historically has been lower than the statutory rate of 34% largely due to the application of general business tax credits. If our taxable income continues to increase, future general business tax credits may not be available at levels that will allow us to maintain effective tax rates at current levels. As such, increases in our taxable income may be partially offset by increases in our effective tax rate. For these reasons, we expect our future effective tax rates to be higher than our historical rates.

Deferred revenue and unbilled receivables

For our license fees and implementation services, we invoice and are paid based upon negotiated milestones in each customer arrangement with an initial payment due upon execution and remaining payments due throughout the implementation period. We record as deferred revenue any invoices that have been issued before implementation services have been performed and before the corresponding license and implementation revenue is recognized. We record as unbilled receivables any recognized license and implementation revenue in excess of the amount invoiced to the customer. We generally invoice for our maintenance and support services on a monthly, quarterly or annual basis through the maintenance and support period. Deferred revenue does not reflect the total contract value of our customer arrangements at any point in time because we only record deferred revenue as amounts are invoiced ahead of the performance of implementation services. As a result, there is little correlation between the timing of our revenue recognition, the timing of our invoicing and the amount of deferred revenue.

Conversion and redemption of preferred stock

In June 1998, we raised $25.0 million by issuing convertible preferred stock. In August 2005, the holders of our convertible preferred stock elected to convert the convertible preferred stock into 9,750,000 shares of common stock and 3,921,312 shares of redeemable preferred stock. In August 2006, we redeemed 1,294,030 shares of our redeemable preferred stock for $8.4 million. In March 2007, we redeemed the remaining 2,627,282 shares of redeemable preferred stock for $17.4 million.

Common Stock Dividend

In March 2007, we paid a one-time cash dividend of $41.3 million to our holders of common stock. We do not anticipate declaring or paying cash dividends on our common stock for the foreseeable future.

Application of critical accounting policies and use of estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP. We make estimates and assumptions in the preparation of our consolidated financial statements, and our estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The complexity and judgment of our estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the percentage-of-completion method of accounting 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 and accrued liabilities. Numerous internal and external factors can affect estimates. Our management has reviewed these critical accounting policies, our use of estimates and the related disclosures with our audit committee.

Our accounting policies are more fully described in Note 1 to the consolidated financial statements. We believe that the following discussion addresses our most critical accounting estimates, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments.

Revenue recognition

License and implementation. We consider our implementation services essential to our customers' usability of our licensed software products, and therefore, we recognize revenue from perpetual software licenses and implementation services together as the services are performed. We do so using the percentage-of-completion method in accordance with the provisions contained within SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. The percentage-of-completion is measured as the total number of man-days expended on an implementation of our software products during a reporting period as a percentage of the total man-days estimated to be necessary to complete the implementation. The period over which we recognize license and implementation revenue depends on the number of licensed software products and the scope and complexity of the implementation requirements. Our revenue recognition period for an arrangement generally ranges from six months to several years.

Maintenance and support. Maintenance and support revenue includes post-contract customer support and the right to unspecified software updates and enhancements on a when and if available basis. Once an implementation is completed, maintenance and support revenue is recognized ratably over the term of the maintenance and support arrangement.

Allowance for doubtful accounts

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

Stock-based compensation

Prior to January 1, 2006, we accounted for employee stock options using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* or APB No. 25, and Financial Accounting Standards Board, or FASB, Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB No. 25*. The intrinsic value represents the difference between the per share market price of the stock on the date of grant and the per share exercise price of the respective stock option. We generally grant stock options to employees for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant. Under APB No. 25, no compensation expense is recorded for employee stock options granted at an exercise price equal to the market price of the underlying stock on the date of grant. We used the minimum value method to estimate the fair value of our share-based payment awards for disclosure purposes under SFAS 123.

On January 1, 2006, we adopted the provisions of the FASB *Statement of Financial Accounting Standards* No. 123(R), *Share-Based Payment*, or SFAS 123(R). Under this standard, the fair value of each share-based payment award is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our share-based payment awards. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. We do not have an established history of market prices of our common stock as we only recently became a public company, and as such we estimate volatility in accordance with Staff Accounting Bulletin No. 107, *Share-Based Payment*, using historical volatilities of similar public entities. The expected life of the options is a historical weighted average of the expected lives of similar securities of comparable public companies. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on our expectation of paying no dividends. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Stock-based compensation expense recorded in our financial statements under SFAS 123(R) is based on awards that are ultimately expected to vest.

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

The aggregate intrinsic value of outstanding vested and unvested options as of September 30, 2007 at the closing stock price of $12.07 per share was $1.3 million and $10.9 million, respectively. During 2006, we did not grant any stock options. We adopted SFAS 123(R) using the prospective method, and as a result we did not have any stock-based compensation expense related to stock-based awards granted prior to January 1, 2006.

In March, April and June 2007, we granted stock options with exercise prices as follows:

Option grant date	**Shares subject to option**	**Per share exercise price**	**Per share fair value on date of grant**
March 26, 2007	855,000	$ 6.00	$ 8.25
April 2, 2007	300,000	6.00	8.25
June 27, 2007	227,500	11.00	11.00
	1,382,500		

June 27, 2007 Options Grants. The fair value of our common stock for options granted on June 27, 2007, the date of our initial public offering, was $11.00 per share.

March 26, 2007 and April 2, 2007 Option Grants Significant Factors, Assumptions and Methodologies Used in Determining Fair Value of our Common Stock. The fair value of our common stock for options granted on March 26, 2007 and April 2, 2007 was originally estimated by our board, with input from management. Determining the fair value of our common stock requires making complex and subjective judgments. Our board considered objective and subjective factors including our financial results and financial condition, a valuation report from Houlihan Smith & Company, Inc., or Houlihan, the absence of a trading market for our common stock and discussions with the underwriters related to our potential initial public offering.

Our board reviewed the growth in our business during 2006 as reflected in our financial results in 2006 as compared to 2005. In particular, the Board considered our total revenue and net income of $46.0 million and $6.6 million, respectively. These amounts reflected an increase of our total revenue and net income in 2006 versus 2005 of 31.0% and 153.8%, respectively. Our board also received a preliminary report from our chief financial officer regarding our results in the first quarter of 2007, which were expected to be consistent with our internal estimates and to represent substantial growth compared to the prior year period.

Our board also reviewed a contemporaneous valuation report from Houlihan which determined an enterprise value of $101.6 million, or $4.89 per share on a fully diluted basis, as of February 28, 2007. In performing its analyses, Houlihan applied discounts for lack of control and lack of marketability of 15% and 25%, respectively. Both discount rates were based on ranges of such rates identified in various independent third-party studies analyzing discount rates and the actual rates utilized by Houlihan were selected from within such ranges based on qualitative considerations such as our diverse capitalization structure, growth and prospects for future growth. The Houlihan valuation of $4.89 per share did not take into consideration the contemplated redemption of our preferred stock, payment of a cash dividend or incurrence of indebtedness.

Houlihan analyzed our fair value using a market approach and an income approach. In performing the market approach, Houlihan used the Guideline Public Company Method and the Guideline Transactions Method. The Guideline Public Company Method attempts to determine enterprise value based on comparisons to public companies in similar lines of business. The Guideline Transactions Method attempts to determine value based on merger and acquisition transactions involving companies engaged in the same or similar lines of business and of a comparable size. A key assumption under the market approach is that the selected comparable companies are truly comparable. In selecting guideline companies, Houlihan searched for companies engaged in similar lines of business, with similar clients, employee bases and operating and margin structure.

Houlihan concluded that enterprise value, or EV, to earnings before interest, taxes, depreciation and amortization, or EBITDA, would yield the most appropriate indication of value for us because Houlihan believed that potential investors would focus primarily on our ability to yield the necessary returns based on positive cash flows.

Under the Guideline Public Company Method, the range of EV to EBITDA multiples of the guideline companies was 10.1x to 29.2x with a median of 14.7x. Houlihan adjusted the median EV to EBITDA market multiple of the guideline companies downward approximately 10% to reflect our smaller size relative to the median of the guideline companies. Houlihan applied the selected multiple to our 2006 EBITDA to determine an indication of our enterprise value. The value was then adjusted as previously discussed for the common stock's lack of marketability and for its minority position. On this basis, Houlihan concluded that our enterprise value as of February 28, 2007 was $105.4 million using the Guideline Public Company Method.

Under the Guideline Transactions Method, the range of EV to EBITDA multiples was 7.4x to 18.9x with a median of 12.0x. Houlihan adjusted the median EV to EBITDA multiple downward approximately 10% to reflect our smaller size relative to the median of the comparable companies.

Houlihan applied the selected multiple to our 2006 EBITDA to determine an indication of our enterprise value. The value was then adjusted (previously discussed) for the common stock's lack of marketability and for a minority position. On this basis, Houlihan concluded that our enterprise value as of February 28, 2007 was $97.8 million using the Guideline Transactions Method.

The income approach seeks to derive the present value of an enterprise based on a discount of future economic benefits. The income approach differs from the market approach in that the income approach is based on entity-specific assumptions whereas the market approach is based on marketplace rules and assumptions.

To analyze our value using the income approach, Houlihan projected our operating cash flows for the years ended December 31, 2007 though December 31, 2011 and our final cash flow, or terminal value, at the end of the period. Forecasting future cash flows involves substantial uncertainties, and forecasts are likely to be speculative and unreliable. Our future cash flows were derived based on estimated annual revenue growth rates ranging from 20% to 32.5% and total operating expenses ranging from 50% to 52.4% of total revenue. These revenue growth rates and operating expenses were only assumptions and likely are not accurate predictors of future results. If different assumptions had been used, the resulting valuation would have been different.

Houlihan computed the present value of our future cash flows and terminal value to be $101.6 million by applying a risk-adjusted discount rate of 18%. Houlihan determined the discount rate by adding a small-stock risk premium and a company-specific risk premium to the rate of return on long-term on U.S. Treasury securities. If different discount rates had been used, the valuation would have been different.

Using the three approaches, Houlihan determined a weighted-average enterprise valuation of $101.6 million, weighting each of the Guideline Public Company Approach and Guideline Transactions Approach by 25% and the income approach by 50%.

Our board also considered the increasing likelihood of our initial public offering. Throughout our registration process, our board has been very deliberate in its consideration of whether to pursue our initial public offering. On March 26, 2007 and April 2, 2007, our board's intent was to file the registration statement when ready and to assess whether doing so had an adverse impact on our business and our customer relationships. Our board was uncertain on each of the dates of grant what the reaction from customers, partners and employees would be to our public disclosure of information about us. If the reaction was negative, our board would reconsider whether to continue with our initial public offering as we did not require additional financing to operate our business. We had successfully grown our business as a private company and achieved eight consecutive years of profitability.

Based on the foregoing, our board determined that the fair value of our common stock as of March 26, 2007 was $6.00 per share. On March 29, 2007 we redeemed our preferred stock for $17.4 million, including accrued dividends of $5.6 million. On March 30, 2007, we incurred indebtedness of $20.0 million and paid a dividend of $41.3 million to our common stockholders. On April 2, 2007, our board determined that in light of these events, the fair value of our common stock on April 2, 2007 may have been less than $6.00 per share. However, in the interest of fairness and company morale the board determined that setting the exercise price of the options granted on April 2, 2007 at $6.00 per share was in the best interest of the company.

Significant Factors Contributing to the Difference between Fair Value of our Common Stock for Pre-IPO Options as of the Date of Each Grant and the IPO Price. The assumed initial public offering price of our common stock of $11.00 per share in the preliminary prospectus for our initial public offering exceeded the estimated fair value originally determined by our board on March 26, 2007 and April 2, 2007 by $5.00 per share. The increase in price was due in part to the application of different methodologies for valuing our common stock. To arrive at the price range for the preliminary prospectus, the underwriters' analysis of value was based on multiples of our estimated future operating results, whereas Houlihan relied on historical information for its market approach. Our underwriters used this methodology because they believed it more accurately assessed the price at which our stock would trade in the public market. In addition, between April 2, 2007 and the date of our initial public offering, we believe that the fair value of our common stock increased as a result of the following developments:

Our board determined to proceed with our initial public offering after assessing that the reaction from our customers, employees and partners of our filing of our registration statement was not negative and their resultant belief that our initial public offering should not adversely affect our relations with them;

The fair value determinations on March 26, 2007 and April 2, 2007 were made prior to the final determination of our operating results for the first quarter of 2007. Our operating results in the first quarter of 2007 represented a significant improvement over the operating results in the first quarter of 2006 and exceeded our internal operating plan. In particular, total revenue and net income increased in the first quarter of 2007 versus the first quarter of 2006 by 37.1% and 80.7%, respectively. These results were definitively known at the time the proposed initial public offering price range was determined but not on the dates of grant;

In April, May and June of 2007, the market for pricing and revenue optimization software remained strong as evidenced by our signing several new customer contracts in line with our internal operating plans;

On April 22-24, 2007, we held our annual conference of pricing and revenue optimization professionals. Our 2007 conference was our highest attended conference to date, and we believe that this conference significantly enhanced our customers' overall knowledge of pricing and revenue optimization strategies and their satisfaction with our products;

The absence of any liquidity discount at the time of our initial public offering;

During April, May and June 2007, the initial public offering market for emerging technology companies continued to strengthen, which increased the likelihood of our initial public offering; and

In May and June 2007, we identified two persons who would become new independent board members upon the completion of our initial public offering.

In light of these developments, our management reassessed the fair value of our common stock for financial accounting purposes on March 26, 2007 and April 2, 2007. Based on the substantial likelihood of completion of our initial public offering, we concluded that the valuation methodology used by our underwriters in arriving at the price range in the preliminary prospectus more accurately reflected the fair value of our stock on those dates. As such, we determined that the estimated fair value of our common stock for financial accounting purposes on those dates was $8.25 per share, which represented the assumed initial public offering price of $11.00 per share less the 25% marketability discount applied by Houlihan.

As of September 30, 2007 we had approximately $6.1 million of unrecognized stock-based compensation expense for options granted in 2007. Based on options granted through September 30, 2007, we expect to incur non-cash compensation expense of $448,000 in the fourth quarter of 2007 and $1.8 million in 2008. We expect to grant additional stock options in the future and to the extent we do this expense will increase.

The fair value of each option grant in 2007 was estimated on the date of grant using the Black-Scholes option pricing model and the following assumptions:

	2007
Dividend yield	0%
Volatility	54.74%
Risk free interest rate	4.48%
Weighted average expected life (in years)	4.9
Forfeitures	2.6%

Dividend yield. We do not anticipate paying any dividends to its stockholders in the foreseeable future and, as such, have assumed a dividend yield of 0%.

Volatility. We estimate volatility in accordance with Staff Accounting Bulletin No. 107, *Share-Based Payment*, using historical volatilities of similar public entities.

Risk free interest rate. We assumed the risk free interest rate to be equal to observed interest rates appropriate for the weighted average expected life of the options.

Weighted average expected life. The expected life of the options is a historical weighted average of the expected lives of similar securities of comparable public entities.

Forfeitures. The forfeiture rate on unvested stock option awards is based on historical experience since January 1, 2004.

We account for stock options granted to non-employees in accordance with Emerging Issues Task Force No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling, Goods or Services*, or EITF No. 96-18, and related interpretations. We grant stock options to certain consultants and advisory board members for a fixed number of shares with an exercise price equal to the fair value of our common stock at the date of grant. Under EITF No. 96-18, compensation expense on non-employee stock options is calculated using the Black-Scholes option-pricing model.

Nine months ended September 30, 2006 compared to nine months ended September 30, 2007

Revenue

	Nine months ended September 30		
	2006		2007
(Dollars in thousands)	Amount	As a percentage of total revenue	Amount