

2020

ANNUAL REPORT



DEAR SHAREHOLDERS, CUSTOMERS, PARTNERS AND EMPLOYEES:

Like many companies, [PROS](#) experienced a year that brought uncertainty and adversity to our business caused by the COVID-19 pandemic. Our team responded to these challenges in amazing ways. Throughout the year, we found new ways to support each other, collaborate with customers and partners, and deliver market-leading innovations that are helping customers come back stronger. As a result, our people grew closer as a team, our culture strengthened and our business benefited as we [grew subscription revenue by 17% in 2020](#).

PROS teamwork is cultivated in an environment that encourages [all employees to bring their authentic selves to work](#), and we continue to prioritize initiatives that support our people and further strengthen our inclusive culture. We are proud that during the year PROS was designated as a [2020-2021 Great Place to Work-Certified™](#) company.

[Innovation remains core to PROS DNA](#), and we continued to deliver on innovation throughout 2020. We added over 600 new features, with more than 200 releases, to the PROS Platform. We made it faster and easier for customers to deliver personalized offers as well as develop, test and deliver AI-powered, dynamic pricing at scale and in real-time. We presented additional innovations that further support the path to comprehensive self-service, which is required to scale eCommerce channels, bolster go-to-market strategies and provide superior customer buying experiences.

[We supported most customers virtually this year](#), but that didn't hinder our commitment to help them win in their markets. PROS teams delivered a record number of go-lives in 2020, a testament to the demand for PROS solutions and our ability to deliver under challenging conditions.

I am extremely grateful for how our people adapted in this new virtual-first world to end the year in a strong position. [We enter 2021 passionate about helping our people and customers continue to thrive](#), and we remain focused on capturing the large market opportunity in front us.

I hope you all stay safe and healthy, and as always, [thank you](#) for your ongoing support of PROS.

Andres

$$V(x,t) \approx \sum_{i=1}^M v_i(x,t-1)$$

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))**
- ☐ Soliciting Material Pursuant to §240.14a-12
- ☒ Definitive Proxy Statement
- ☐ Definitive Additional Materials



PROS HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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- ☐ Fee paid previously with preliminary materials.
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| (1) | Amount Previously Paid: |
| (2) | Form, Schedule or Registration Statement No.: |
| (3) | Filing Party: |
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Attending the Annual Meeting

Due to the COVID-19 pandemic, our 2021 annual meeting of stockholders (Annual Meeting) will be held in a virtual format to provide a safe experience for our stockholders and employees.

To participate in the annual meeting, please follow the instructions posted at:

www.virtualshareholdermeeting.com/PRO2021. Online access to the meeting platform will begin at 9:25 a.m. Central Daylight Time on May 12, 2021. The meeting will begin promptly at 9:30 a.m. Central Daylight Time on May 12, 2021.

If you wish to submit a question, you may do so in two ways. If you want to ask a question before the meeting, then beginning on April 14, 2021 and ending at 11:59 p.m. Eastern Time on April 28, 2021, you may log into www.proxyvote.com and enter your 16-digit control number. Questions pertinent to meeting matters which are submitted in advance will be answered during the Annual Meeting, subject to time constraints. Alternatively, if you want to submit your question during the meeting, log into the virtual meeting platform at www.virtualshareholdermeeting.com/PRO2021, type your question into the "Ask a Question" field, and click "Submit." Any questions pertinent to meeting matters that are submitted during the meeting will be posted online and answered at ir.pros.com as soon as practical after the Annual Meeting and will remain available until one week after posting. You do not need to attend the Annual Meeting to vote.

Even if you plan to attend the Annual Meeting, we encourage you to vote your shares in advance either online or as detailed under "[Voting Instructions](#)" in this Proxy Statement.

In this Proxy Statement, the terms "PROS," the "Company," "we," "us" and "our" refer to PROS Holdings, Inc. together with its consolidated subsidiaries.

These materials were first sent or made available to stockholders on April 2, 2021.



PROS Holdings, Inc.

Notice of 2021 Annual Meeting of Stockholders

Virtual Meeting Site:

www.virtualshareholdermeeting.com/PRO2021

May 12, 2021

9:30 am Central Daylight Time

The Notice of Meeting, Proxy Statement and Annual Report on Form 10-K are available free of charge at proxyvote.com and at ir.pros.com.

Items of Business

- 1 Elect two Class II directors (Raja Hammoud and William Russell) to the board of directors of PROS Holdings, Inc. (Board of Directors or Board) to serve a three-year term until the annual meeting of our stockholders to be held in the year 2024 (2024 Annual Meeting);
- 2 Advisory vote on named executive officer compensation;
- 3 Approval of amendments to our Amended and Restated 2017 Equity Incentive Plan to, among other items, increase the number of shares authorized for issuance by 3.1 million shares;
- 4 Approval of an amendment to our 2013 Employee Stock Purchase Plan to increase the number of shares authorized for employee purchase by 500,000 shares;
- 5 Ratification of appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2021; and
- 6 Transaction of other business that may properly come before the Annual Meeting.

Record Date

Close of business on March 25, 2021 (Record Date).

By Order of the Board of Directors,

/s/ Damian Olthoff
Damian Olthoff
General Counsel and Secretary
Houston, Texas
April 2, 2021

Your vote is important. Please vote.

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Our Values and ESG*

At PROS, our mission is to help people and companies outperform, and our culture is at the heart of us delivering on our mission. Centered on our core values of: We are Owners; We are Innovators; and We Care, our culture is built on our multi-decade commitment to innovating, leveraging the cutting edge of data science and putting our customers first. Consistent with these core values, we publicly disclose information about our business across a number of important topics, including environmental, social and governance (ESG) issues discussed in this proxy statement.

We are Owners

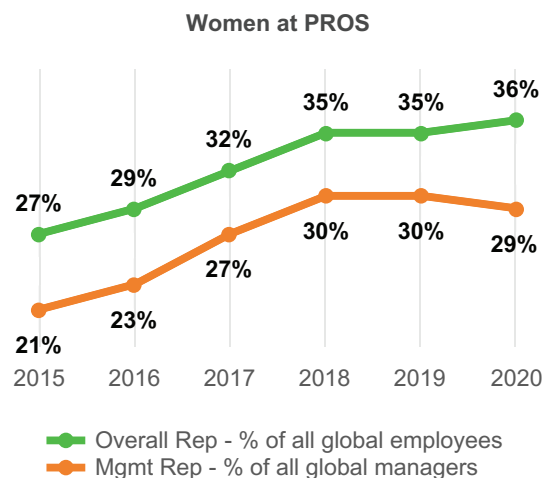
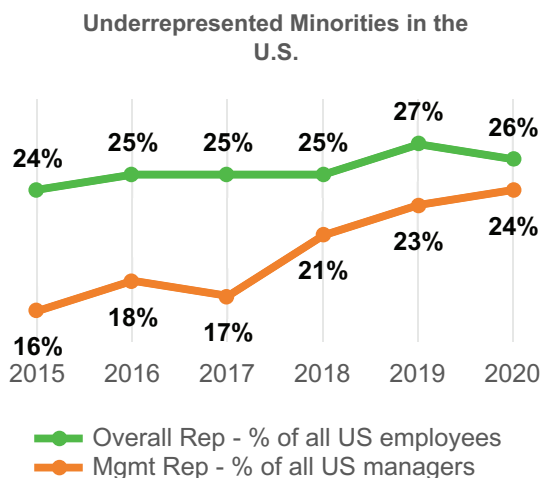
PROS was built on an unwavering commitment to the growth and success of our people and our customers. We are intensely focused on helping our customers compete and win in the digital economy by optimizing their shopping and selling experiences. Delivering on this promise, however, requires more than best-of-breed, innovative technology, deep expertise in AI and machine learning and years of proven experience, all of which we pride ourselves in. Our customers and people count on us to also maintain a thriving business, one that embraces the value of diversity, supports our local communities and respects each individual for their unique talents and gifts. This focus speaks to the "heart" of our company, our rich and deeply rooted culture centered around caring for the people, the businesses and the communities we serve.

We are Innovators

We believe that diversity and inclusion are key to driving true innovation. We are committed to continuing to hire and promote inclusively, increasing diverse representation and continuing to foster an inclusive culture that gives every employee the opportunity to realize their full potential. As part of this commitment, we sponsor employee resource groups (ERGs), which are formed and led by employees and organized around common life experiences and backgrounds. Our ERGs serve to champion our diversity initiatives and facilitate a workplace culture of equality and inclusion. Currently, the following employee resource groups are active at PROS:

- *Blaze* - dedicated to the professional development of women at PROS and in the community.
- *Empower* - created to attract, develop and retain African-American talent at PROS.
- *UNIDOS* - committed to serve as a resource for representation, advancement and inclusion of Hispanics at PROS.
- *PRIDE@PROS* - focused on positively influencing and ensuring the development of its LGBTQIA+ members.
- *YoPROS* - connecting young professionals across PROS to foster growth and development of leadership skills.

2020 tested us in a number of ways as we pivoted to virtual work in March 2020. During this time, to help our team come together in light of social justice movements in the United States, we spent dedicated time as a company sharing and learning about various minority groups' historical experiences, understanding continuing challenges facing these communities, how they may impact our current and prospective employees, and how we can each take steps to combat unconscious bias.



2020 figures based on 830 employees in the U.S. as of 12/31/20

Underrepresented Minorities include African-American, Hispanic and Multicultural

2020 figures based on 1,235 global employees as of 12/31/20

*Company goals are aspirational and and may change. Statements regarding the Company are not guarantees or promises that they will be met. Content available at websites and in documents referenced in this section are not incorporated herein and are not part of this Proxy Statement.

We Care

About our Employees

We believe that an important part of our employee experience at PROS is our work environment and are committed to employee well-being and development. During the pandemic, we have continued to prioritize the safety, well-being and development of our employees, with various health and wellness programs and flexible work arrangements. In 2020, employee wellness became an even greater priority as we managed through the COVID-19 pandemic and shifted to a remote work environment. This shift drove awareness of the importance of employee mental health and well-being while working from home. In response, we introduced numerous wellness programs and events to support our people. For example, we instituted "Work Well Wednesdays" to limit scheduled internal meetings to help combat video conferencing fatigue and allow for focused, uninterrupted work. We also added periodic company-wide "recharge days" as an extra paid day off for our teams.



We also surveyed our employees regarding their preferences for work location both during and after the pandemic. Based on employee feedback, we announced our new "virtual first" approach to provide a seamless employee experience for both full-time remote work as well as a hybrid of in-office and remote work, so our employees may maintain productivity regardless of their physical location.

Our commitment to caring about our employees can also be seen in our most recent U.S. employee engagement survey, which was conducted during the pandemic. Based on these responses, we were certified in the U.S. by Great Places to Work in November 2020, with 94% of our U.S.-based team members recommending PROS in 2020 as a great place to work.

About our Communities

Employees participating together in community outreach projects creates a culture that embraces inclusion and belonging, fosters a collaborative sense of purpose that creates a positive societal impact and further brings our corporate values to life. Our employees volunteer their time to numerous social programs that are aimed at addressing a range of issues in the areas of homelessness, education, empowerment, crisis response and conservation. Employee volunteering is a big part of our culture, and we support our employees' community outreach interests by offering two paid holidays a year for employees to spend contributing to the causes that matter most to them. In addition, we also sponsor our ERGs to support specific initiatives and community outreach projects and events, such as Girls Who Code, Grace Hopper, MS150, SEARCH homeless outreach, Houston Food Bank and Dress for Success. While the pandemic has limited the number of in-person opportunities available to give back, we adapted by creating an internal hub to help our employees find purpose-driven virtual volunteer opportunities to give back to their local communities.

About our World

We believe success is not just measured in dollars and cents; it is also measured in the impact we have on our communities. PROS continues to initiate sustainable activities that make a positive impact on the people and the environment around us. Our efforts include recycling common goods in our offices, including paper, plastic and other office consumables such as batteries and toner. Employees are also encouraged to reduce their bottled water consumption. While we have largely been a remote workforce during the COVID-19 pandemic, our new corporate headquarters reflects our commitment to sustainability and employee well-being. The LEED-certified building, featuring water-saving fixtures, LED lighting, adjustable sit/stand desks, collaborative work spaces and extensive outdoor areas, is part of our ongoing efforts to provide a great employee and customer experience that is environmentally conscious. Our massively scalable platform processes more than a trillion transactions for our customers every year. Recognizing that our platform requires significant compute, storage and network resources, it is important to us to partner with cloud providers who prioritize sustainable data center operations, including operational, equipment and infrastructure efficiency to reduce energy consumption. Our largest data center vendor has a stated goal of utilizing 100% renewable energy in its data centers by 2025.

In 2020, we published our [inaugural Corporate Social Responsibility Report](https://ir.pros.com/Social-Responsibility) (available at: <https://ir.pros.com/Social-Responsibility>).

Proxy Statement Summary

This summary highlights selected information for PROS Holdings, Inc. (together with its consolidated subsidiaries, PROS, the Company, we, us or our) in this Proxy Statement. You should read this entire Proxy Statement carefully before voting.

2021 Annual Meeting of Stockholders

Virtual Meeting Site:

virtualshareholdermeeting.com/PRO2021

Date: May 12, 2021

Time: 9:30 am Central Daylight Time

The Record Date for the Annual Meeting is March 25, 2021. Only stockholders of record at the close of business on this date are entitled to vote at the Annual Meeting.

Proposal	Recommendation of the Board
1 Election of Class II Directors	FOR <i>each of the nominees</i>
2 Advisory Vote To Approve Executive Compensation;	FOR
3 Approval of amendments to our Amended and Restated 2017 Equity Incentive Plan to, among other items, increase the number of shares authorized for issuance by 3.1 million shares;	FOR
4 Approval of an amendment to our 2013 Employee Stock Purchase Plan to increase the number of shares authorized for employee purchase by 500,000 shares; and	FOR
5 Ratification of appointment of Independent Registered Public Accounting Firm.	FOR

How to Vote

Please vote your shares promptly to ensure the presence of a quorum at the meeting. You may vote online prior to the meeting by visiting proxyvote.com and entering the control number found in your Notice of Internet Availability of Proxy Materials, or, if you requested printed copies of the proxy materials, by phone or by mail. You may also vote during the Annual Meeting by visiting www.virtualshareholdermeeting.com/PRO2021, entering the control number, and following the instructions. For more detailed information, see the section entitled [Voting Instructions](#).

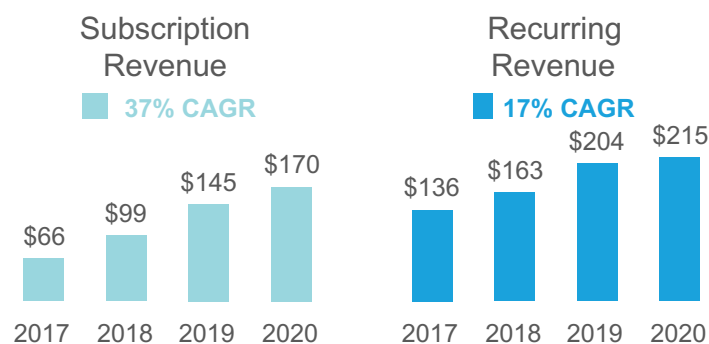
Materials to Review

We are mailing to our stockholders a Notice of Internet Availability of Proxy Materials (Notice) instead of a paper copy of this proxy statement (Proxy Statement) and our Annual Report to Stockholders for the Year Ended December 31, 2020 (2020 Annual Report). The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how to request a paper copy of our proxy materials, including this Proxy Statement, our 2020 Annual Report and a form of proxy card or voting instruction card.

2020 Business Highlights

In 2020, we continued to deliver on our mission of helping people and companies outperform as we optimized shopping and selling experiences. The COVID-19 pandemic had an unprecedented impact on the economy, our business and our lives in 2020. The global economy was significantly and negatively impacted by the pandemic, and the pandemic had a significant impact on our financial results, slowing our growth rates. During these difficult times, we supported our customers through the challenges they faced and rapidly delivered innovations to help them adapt. By continuing to execute on our strategy, we:

- Delivered continued growth in our cloud business, with subscription revenue increasing by 17% year-over-year despite the impact of the pandemic on our business and our customers.
- Completed a record number of customer go-lives in 2020, most of which were completed 100% virtually.
- Unveiled numerous innovations at our record-breaking annual customer event, Outperform, held virtually.
- Reimagined the PROS product experience, with over 600 product features and over 200 releases in 2020.
- Achieved a 2020-2021 Great Place to Work-Certified™ company designation while in a virtual work environment.
- Raised additional capital to provide additional liquidity and financial flexibility through the completion of the private offering of \$150.0 million in aggregate principal amount at maturity of convertible senior notes due 2027.
- Ranked as the top small-to-mid cap company in RBC Capital Markets' ESG Software Scorecard in recognition of the quantity and quality of our ESG disclosures and practices.



Recurring Revenue is subscription revenue plus maintenance revenue.

None of these accomplishments would have been possible without our team and culture, defined by our key values of:

- We are Owners;
- We are Innovators; and
- We Care (for each other, our customers and our communities).

EXECUTIVE COMPENSATION PROGRAM

Our executive compensation program is designed with sound compensation policies and practices that align the compensation of our named executive officers (NEOs) with our stockholders' interests. Our Compensation and Leadership Development (CLD) Committee believes that a well-functioning executive compensation program should reward executives for out-performance and incentives should pay out at reduced levels or zero when performance is not achieved. The overall design of our compensation program and its three primary components (base salary, cash incentive and long-term equity awards) remained consistent year-over-year.

Our CLD Committee set 2020 compensation targets prior to the COVID-19 pandemic, and **no pandemic-related adjustments nor discretion were applied, which resulted in a significant reduction in actual pay in 2020 vs. 2019.**

CEO Pay and Company Performance

In 2020, our CLD Committee again sought to motivate our NEOs through predominantly "performance-based" compensation, including annual cash incentives tied to pre-established performance targets and performance-based restricted stock unit (RSU) equity awards where attainment varies based on performance against certain long-term Company performance goals. PRSU attainment is formulaic and measured over multiple years against unchanged goals. Including restricted stock unit (RSU) equity awards, which increase or decrease in value based on share price movement, more than 90% of our CEO's 2020 total target compensation is considered at risk. Half of our CEO's target equity grant value was delivered in PRSUs and half in time-based RSUs. Performance goals that determine annual cash incentive attainment were also again set aggressively in 2020 and were established before COVID-19 was declared a pandemic.

The financial impact of the pandemic adversely affected our CEO's compensation, and our compensation program was effective and operated as designed.

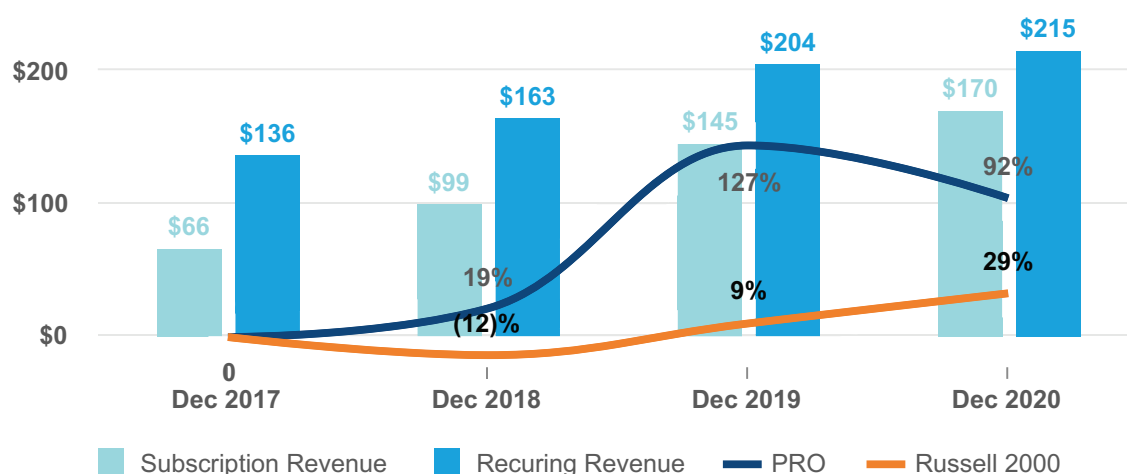
Our CEO compensation declined in 2020 in response to below target Company performance in 2020 primarily attributable to the unprecedented challenges of the pandemic. Our CEO's total 2020 compensation declined 14% from 2019 as reported in the [Summary Compensation Table](#):

2020 Cash Incentive Our CEO's earned bonus for 2020 declined 88% year-over-year and was paid per the formula, at 24% of target due to (a) total revenue growth performance below the minimum target set prior to the pandemic, and (b) recurring revenue gross margin performance just above the minimum threshold.

2019 Equity Incentive Our CEO's equity incentive from PRSUs awarded in 2019 (2019 PRSUs) were earned per the formula, at 79% of target due to total recurring revenue performance below target in 2020.

2020 Equity Incentive Our CEO's equity incentive from PRSUs awarded in 2020 (2020 PRSUs) are earned based on total recurring revenue targets for 2021 and are unlikely to be earned at even the minimum threshold.

The following chart tracks PROS growth in subscription and recurring revenue over the past four years as well as PROS stock price performance versus the Russell 2000 Index over that timeframe:



For a detailed discussion of our executive compensation program, see "Compensation Discussion and Analysis."

CORPORATE GOVERNANCE

Our Board and corporate governance structure is designed to assure that the long-term interests of our stockholders are being served. To satisfy the Board's duties, directors are expected to take a proactive approach to overseeing our CEO and other senior management to ensure that PROS is committed to business success while maintaining high ethical standards.

Board and Committee Oversight in 2020

2020 Focus Areas	Typical Board Meeting Process	
✓ Strategy	Before the meeting	Prep meetings with management, auditors and outside advisors
✓ Business Performance		
✓ Capital Structure & Liquidity	Day 1	Board committee meetings and full Board meeting (including reports from each committee chair)
✓ Impact of COVID-19		
✓ Enterprise Risk Management	Day 2	Full Board meeting, followed by an executive session
✓ Talent and leadership, including hiring of COO		
✓ Cybersecurity	After the meeting	Management follow up sessions to discuss and respond to Board requests
✓ Oversight of ESG efforts		
✓ Diversity and Inclusion		

Audit Committee

2020 Focus Areas & Select Activities
✓ Reviewing management's proposed public disclosures and investor communications and recommending enhancements
✓ Overseeing the detailed audit plan and auditor budget
✓ Monitoring critical accounting matters
✓ Reviewing annual internal controls report with internal and external auditors
✓ Reviewing with management the annual risk assessment

Compensation and Leadership Development (CLD) Committee

2020 Focus Areas & Select Activities
✓ Monitoring COVID-19 impact on existing programs
✓ Updating peer group and developing NEO compensation program for 2021
✓ Reviewing acquisition, retention and succession plans for critical talent
✓ Meeting with stockholders on executive compensation practices
✓ Monitoring equity plan usage and preparing proposals for stockholder approval to increase shares available
✓ Administering the Company's equity plans

Nominating and Corporate Governance (NCG) Committee

2020 Focus Areas & Select Activities
✓ Identifying and recruiting three new directors
✓ Reviewing Code of Conduct, Governance Guidelines and Bylaws
✓ Overseeing leadership development
✓ Exercising independence in executive compensation decisions

Diverse Board Representation

44%

Women

33%

<3 years tenure

66%

Women and/or from
underrepresented
communities

Composition of the Board of Directors

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

The Board has determined that the following directors have no relationships with us that would interfere with the exercise of independent judgment in carrying out his or her responsibilities as a director, and as such are "independent" under NYSE listing standards and federal securities laws as of December 31, 2020: Messrs. Dominguez, Petersen, Russell, and Williams and Ms. Hammoud, Herscher, Lesjak and Woestemeyer. All board committees are comprised entirely of independent directors.

The Board has standing Audit, CLD and NCG Committees. Each Committee has a written charter, which can be found under the *Investor Relations* section of our website at ir.pros.com. Our Board has determined that each member of the Audit Committee qualifies as "financially literate" within the rules of the NYSE and that three members of the Audit Committee, Messrs. Williams and Petersen and Ms. Lesjak, qualify as an Audit Committee financial expert within the meaning of the SEC regulations. Each member of our CLD Committee is a non-employee director, as defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), and an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code (Code). The following table provides additional information regarding our director nominees:

Name	Age	Director Since	Class	Independent	AC	CC	NC	Other Public Company Boards
Raja Hammoud	49	2020	II	Yes		M		-
William Russell	69	2008	II	Yes		M	C	Accesso Technology Group

Corporate Governance Practices

Our corporate governance practices are designed to assure that the long-term interests of stockholders are being served.

Independent Oversight	<ul style="list-style-type: none">• All non-employee directors are independent.• All Board committees are comprised entirely of independent directors.• Our Board holds regular executive sessions of independent directors.• Our Board has an independent non-executive Chairman.
Stock Ownership Guidelines	<ul style="list-style-type: none">• We maintain strong ownership guidelines for our directors and NEOs. See Compensation Discussion and Analysis - Governance and Other Considerations below.
Accountability	<ul style="list-style-type: none">• We have a clawback policy that applies to all cash and equity awards.• We maintain anti-hedging, anti-short and anti-pledging policies.• Our director resignation policy requires director nominees who do not receive at least 50% of the stockholder votes “for” re-election to tender their resignation.• Directors may not serve on more than four other public company boards; directors who serve as CEOs should not serve on more than two other public company boards.
Shareholder Communication	<ul style="list-style-type: none">• We proactively engage with stockholders throughout each year, including at earnings conference calls, investor road shows and investor days, as well as at individual stockholder meetings. We also welcome stockholders to attend our annual OutPerform event for customers and prospects.• Annually, we conduct a “Say-on-Pay” advisory vote on our executive compensation program.
Board Refreshment	<ul style="list-style-type: none">• Our Board periodically considers opportunities for board refreshment, with 3 new directors added in 2020.
Self-Evaluations	<ul style="list-style-type: none">• Our Board and committees conduct annual performance self-evaluations, led by our non-executive Chairman.
Diversity	<ul style="list-style-type: none">• 44% of our Board of Directors are women; and 22% are from underrepresented communities.
Education	<ul style="list-style-type: none">• Our directors regularly attend continuing education events related to board governance best practices, including conferences and webinars provided by the NYSE, NACD and Equilar, among others. For example, many of our independent directors have attended the NACD Global Board Leaders' Summit in recent years.
Succession Planning	<ul style="list-style-type: none">• We conduct an annual review of executive succession planning.

Risk Management and ESG Oversight

The Board oversees our risk management process and ESG programs, including ongoing engagement with senior executives on key matters including cybersecurity, diversity, sustainability and governance practices. Management reviews the process, including identification of key risks and steps taken to address them, with the full Board at least on an annual basis. The Audit Committee, the CLD Committee and the NCG Committee assist the Board in discharging its oversight duties. The Audit Committee considers risks related to the subject matters enumerated in its charter, including risks relating to internal controls, disclosure and financial reporting. The CLD Committee reviews risks related to the subject matters enumerated in its charter, including risks associated with our compensation programs. Similarly, the NCG Committee considers risks related to the subject matters for which it is responsible as identified in its charter, including risks associated with corporate governance. Accordingly, while each of the three committees contributes to the risk management oversight function by assisting the Board in the manner outlined above, the Board remains responsible for the oversight of our risk management and ESG programs.

Board Governance

Our non-executive chairman, among other responsibilities, oversees the planning of the annual Board calendar, and, with our CEO, in consultation with the other directors, schedules and sets the agenda for meetings of the Board and leads the discussion at such meetings, serves as a liaison between the CEO and the independent directors, leads executive sessions of our Board, and performs such additional duties and responsibilities as requested by the Board from time to time. Executive sessions of the independent directors of the Board are scheduled during each regularly scheduled in-person Board meeting. Our non-executive chairman provides feedback to our CEO, as needed, promptly after the executive session.

Accountability

Code of Business Conduct and Ethics. Our Board has adopted a Code of Business Conduct and Ethics that applies to all of our directors and employees. Our Code of Business Conduct and Ethics is available under the "Investor Relations" section of our website at ir.pros.com.

Director Resignation Policy. Our Board has adopted a director resignation policy. Under this policy in an uncontested election of directors, any nominee who receives a greater number of votes "withheld" from his or her election than votes "for" such election must promptly tender his or her resignation to the NCG Committee. The NCG Committee will promptly consider all relevant factors including, without limitation, (a) the stated reasons why votes were withheld from such director; (b) any alternatives for curing the underlying cause of the withheld votes; (c) the tenure and qualifications of the director; (d) the director's past and expected future contributions to the Company; (e) our Corporate Governance Guidelines; and (f) the overall composition of the Board, including whether accepting the resignation would cause the Company to fail to meet any applicable SEC or NYSE requirement. The NCG Committee will recommend to the qualified independent directors the action to be taken with respect to such offered resignation, and the qualified independent directors will act on the NCG Committee's recommendation no later than 90 days following the date of the stockholders' meeting in which the election occurred. If a majority of the members of the NCG Committee received a greater number of votes "withheld" from their election than votes "for" their election at the same election, then the remaining qualified independent directors on the Board will consider the matter directly or may appoint a committee of the Board amongst themselves solely for the purpose of considering the tendered resignations and making the recommendation to the Board whether to accept or reject them.

Stock Ownership Guidelines. Our Board has adopted stock ownership guidelines for our NEOs and directors that are designed to align our NEOs' and directors' interests with our stockholders' interests by promoting long-term share ownership, which reduces the incentive for excessive short-term risk taking and further increases our NEOs' and directors' alignment with stockholder interests. These guidelines require our CEO to hold shares of our stock worth at least six times his annual salary, other NEOs to hold shares of our stock worth at least two times their annual salary, and each non-employee director to hold shares of our stock worth at least five times the director's annual retainer. New directors are expected to achieve their ownership threshold within six years after joining our Board. New NEOs are expected to achieve their ownership threshold within five years from the date of hire or promotion. As of December 31, 2020, each of our NEOs and directors were in compliance with the applicable guidelines.

Prohibition Against Hedging, Short-Sale, Pledging and Repricing Underwater Stock Options. We have implemented both anti-hedging and anti-pledging policies, as well as a prohibition on participating in short sales of our stock, to ensure that our executives' stock remains at-risk. Our Insider Trading Policy, which applies to all employees, including officers and non-employee directors, specifically prohibits short sales of our securities, transactions in puts, calls or other derivative securities involving our stock, hedging or monetization transactions (including but not limited to zero-cost collars, prepaid variable forwards and equity swaps), and holding our securities in a margin account or pledging our securities as collateral for a loan. Our Amended and Restated 2017 Equity Incentive Plan (2017 Plan) also prohibits repricing, repurchase or exchange of underwater stock options without stockholder approval.

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

Communication with Our Board

Stockholders or interested parties who wish to communicate with members of our Board may send correspondence to them in care of our Corporate Secretary at 3200 Kirby Drive, Suite 600, Houston, Texas 77098. Such communication will be forwarded to the intended recipient(s). We currently do not intend to have our Corporate Secretary screen this correspondence, but we may change this policy if directed by our Board due to the nature or volume of the correspondence. Communications that are intended specifically for the non-executive chairman of the Board may also be sent to the street address noted above, to the attention of the non-executive chairman of the Board.

Role of the Board of Directors

Our Board oversees our CEO and other senior management to assure that the long-term interests of stockholders are being served. Our Board currently consists of nine members, divided into three classes, with each class serving for a staggered three-year term. The term of office of one class of directors expires each year in rotation so that one class is elected at each annual meeting for a full three-year term. Our Board believes that our classified board structure aligns the Board with the Company's long-term interests and allows for stable and informed oversight, providing institutional perspective both to management and other directors. Our Board conducts annual director evaluations and periodic Board refreshment. In 2020, for example, three new directors were added to our Board. Our Board has adopted formal Corporate Governance Guidelines to ensure that it has the practices in place to review and evaluate our business operations as needed, to make decisions independent of our management, and to align the interests of directors and management with the interests of our stockholders. Our key governance documents, including our Corporate Governance Guidelines, are available under the "Investor Relations" section of our website at ir.pros.com.

In 2020, our Board met 6 times and acted via unanimous written consent 6 times, the Audit Committee met 9 times and did not act via unanimous written consent, the CLD Committee met 6 times and acted via unanimous written consent 4 times, and the NCG Committee met 3 times and acted via unanimous written consent 3 times. Each current director who served as a director in 2020 attended at least 75% of the meetings of our Board and the Committees on which he or she served during 2020. The Board encourages all directors to attend annual meetings of the stockholders. All incumbent directors attended the 2020 meeting of the stockholders which was held virtually.

Audit Committee

The Audit Committee assists the Board in oversight and monitoring of:

- our accounting and financial reporting processes and the audits of our financial statements;
- our independent auditors, including their qualifications, engagement, performance and independence;
- the results of the annual audit and the independent auditor's review of our annual and quarterly financial statements and reports, including discussions with independent auditors without management present;
- press releases regarding our financial results and any other financial information and earnings guidance provided;
- matters that have a significant impact on our financial statements;
- the scope, adequacy and effectiveness of our internal control over financial reporting and disclosure controls;
- our internal auditors;
- procedures for complaints for employees to submit concerns anonymously about questionable accounting, internal control or auditing matters; and
- all material related-party transactions that require disclosure.

Compensation and Leadership Development Committee

The CLD Committee discharges the responsibilities of our Board relating to the compensation and benefits for our executive officers and directors, including:

- reviewing and approving the compensation arrangements for our executive officers and directors;
- reviewing and approving corporate performance goals and objectives relevant to such compensation;
- administering our equity incentive plans;
- reviewing our compensation discussion and analysis and CLD Committee report required by the rules of the SEC;
- engaging with a third-party independent advisor to assist in evaluating our executive compensation program;
- providing oversight on the overall leadership development program throughout the Company; and
- overseeing succession planning for executive officers jointly with the NCG Committee.

Nominating and Corporate Governance Committee

The NCG Committee assists the Board in:

- identifying qualified candidates to become directors and considering the nomination of our incumbent directors for reelection;
- evaluating stockholder nominations of candidates for election to our Board;
- reviewing our general policy relating to selection of director candidates and members of committees of our Board, including an assessment of the performance of our Board;
- reviewing and making recommendations to our Board regarding corporate governance principles and policies; and
- overseeing succession planning for executive officers jointly with the CLD Committee.

The NCG Committee has the responsibility for establishing the criteria for recommending which directors should stand for reelection to our Board and the selection of new directors to serve on our Board. Although the NCG Committee has not formulated any specific minimum qualifications for director candidates, it has determined desirable characteristics including, but are not limited to, business experience, mature judgment, leadership, personal and professional ethics, diversity, and integrity. We do not have a formal policy with respect to consideration of diversity in identifying director nominees; however, in the process of selecting a director nominee, the NCG Committee assesses backgrounds, diversity and expected contributions of the individuals to the Board.

OUR BOARD OF DIRECTORS

Our Board consists of a diverse group of highly qualified leaders in their respective fields. Most of our directors have senior leadership experience at major domestic and multinational technology companies. In these positions, they have gained significant and diverse experience, including strategy, finance, sales and marketing, risk management, public company financial reporting, compliance and leadership development. They also have public company experience serving as executive officers, or on boards of directors and board committees, and have an understanding of corporate governance practices and trends. The Board believes the experience, expertise and other attributes of our directors provide PROS with a diverse range of perspectives to provide oversight and represent the best interests of our stockholders. Among our nominees for election to the Board and continuing directors, three self-identify as women and two self-identify as individuals from underrepresented communities (meaning, an individual who self-identifies as Black, Hispanic, Latino, Asian, Pacific Islander or Native American).

Directors and Director Nominees



William Russell

(Nominee)

*Non-Executive Chairman of the Board
NCG Committee Chairman
CLD Committee*

Mr. Russell, 69, serves on the board of directors at Accesso Technology Group PLC (OTCMKTS:LOQPF).

Mr. Russell previously served in a variety of roles on both public and private technology company boards and previously served on the boards of SABA Software, Inc. (from January 2010 to March 2015), webMethods and Cognos. Mr. Russell held a number of senior-level roles in his more than 20 years at Hewlett-Packard, including Vice President and General Manager of the multi-billion-dollar Enterprise Systems Group. Mr. Russell holds a Bachelor of Science in Computer Science from Edinburgh University and has completed several executive development programs from institutions including Harvard Business School and INSEAD.

As a result of leading Hewlett-Packard's substantial software business and his public company board experience, Mr. Russell brings to the Board his broad knowledge of large-scale software operations, including sales, marketing, development, finance, strategic planning and leadership, and corporate governance.



Andres D. Reiner

*President and
Chief Executive Officer*

Mr. Reiner, 50, serves as our President and Chief Executive Officer, a position he has held since November 2010.

From 1999 to 2010, Mr. Reiner held a series of positions with successively increasing responsibility, including Senior Vice President of Product Development and Executive Vice President of Product and Marketing. Prior to becoming our President and Chief Executive Officer, he was responsible for global marketing and alliances, product management, science research, and development of our next generation software products. Mr. Reiner was also instrumental in our transition to a cloud business. Mr. Reiner has served on the board of directors of Paylocity Holding Corporation (NASDAQ: PCTY) since September 2014 and serves on their compensation and nominating and governance committees.

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

As a result of his more than 20 years of experience with PROS, Mr. Reiner has familiarity with all of our key day-to-day operations, in-depth experience in and knowledge of the development of our products, services and the markets in which we compete, and has leadership, management and operating experience.



Carlos Dominguez
Audit Committee

Mr. Dominguez, 62, has served as Vice-Chairman and Chief Evangelist of Sprinklr, Inc., a privately held SaaS company, since June 2020.

He served as President of Sprinklr from 2015 to 2020 and as Chief Operating Officer from 2015 to 2018. He serves on the board of directors of The Hartford Financial Services Group, Inc. (NYSE: HIG) and serves on the Compensation & Management Development, Nominating & Corporate Governance committees of Hartford's board. He also served on the board of directors of Medidata Solutions, Inc. (NASDAQ: MDSO) from 2009 until its acquisition by Dassault Systemes in 2019. From 1992 to 2015, Mr. Dominguez held a variety of roles at Cisco Systems, Inc., including SVP, Worldwide Service Provider Operations (2004 to 2008) and SVP, Office of the Chairman and CEO (2008 to 2015).

Mr. Dominguez brings to the Board his extensive business and leadership experience in technology and software companies, including experience in sales, marketing, strategy, governance, compensation planning and mergers and acquisitions.



Raja Hammoud
(Nominee)
CLD Committee

Ms. Hammoud, 49, has served as Executive Vice President of Products at Coupa Software Incorporated (NASDAQ: COUP) since 2019.

She served as Senior Vice President of Products at Coupa from 2017 to 2019 and as Vice President of Product Marketing and Management from 2014 to 2017. Prior to joining Coupa, Ms. Hammoud directed product marketing for Adobe System's (NASDAQ: ADBE) business process management business and held a product development management role at webMethods. Ms. Hammoud earned a B.S. in Computer Science with high distinction from the American University of Beirut, Lebanon.

Ms. Hammoud brings to the Board her extensive technology industry experience, including her experience in product marketing, software development and product portfolio strategy.



Catherine Lesjak
Audit Committee

Ms. Lesjak, 62, retired from HP, Inc. (NYSE: HPQ), formerly Hewlett-Packard Company (HP) in March 2019, serving as HP's interim Chief Operating Officer from 2018 to 2019, after having served as Chief Financial Officer from 2007 to 2018.

In addition, Ms. Lesjak served as interim Chief Executive Officer of HP from August 2010 through October 2010. During her 32-year career at HP, Ms. Lesjak held a broad range of financial leadership roles, including Senior Vice President and Treasurer and other financial operations and controller roles. Ms. Lesjak has a bachelor's degree in biology from Stanford University and a master of business administration degree in finance from the University of California, Berkeley.

Ms. Lesjak serves on the board of directors of SunPower (NASDAQ: SPWR) where she serves on the Audit committee and General Electric Company (NYSE: GE) where she serves on the Audit and Governance & Public Affairs committees.

An audit committee financial expert, Ms. Lesjak brings to the Board extensive experience as the chief financial officer of a major corporation, with significant presence in both the business-to-consumer and business-to-business markets, including extensive experience in strategic business planning and execution, financial oversight, corporate development and public company governance.



Greg B. Petersen
CLD Committee Chairman
Audit Committee

Mr. Petersen, 58, has served as president of Brookview Capital Advisors since 2016. He currently serves on the board of directors of the following public companies: Mohawk Group Holdings, Inc. (NASDAQ: MWK) and Plus Therapeutics, Inc. (NASDAQ: PSTV).

Mr. Petersen previously served on the board of directors of Diligent Corporation (2013 to 2016) and Pikel, Inc. (2012 to 2017). Mr. Petersen served as the chairman of the audit committee at Diligent and Pikel, and as an advisory board member at Synthesio. From 2014 to 2015, he served as Executive Vice Chairman at Diligent Corporation. Mr. Petersen previously served as Chief Financial Officer for CBG Holdings, Lombardi Software, Inc. (which was sold to IBM in 2010), and Activant Solutions, Inc. Mr. Petersen previously served in executive roles with Trilogy Software and RailTex. Mr. Petersen began his career with American Airlines, Inc. (NASDAQ:AAL), including serving as managing director of corporate development where he led a project to create Sabre Holdings, Inc. (NASDAQ:SABR) and complete its IPO. Mr. Petersen holds a Bachelor of Arts in Economics from Boston College and a Master of Business Administration from the Fuqua School of Business at Duke University.

An audit committee financial expert, Mr. Petersen brings to the Board his business and leadership experience in software companies, merger and acquisition experience, and extensive financial planning, accounting, governance, compensation planning and risk management knowledge.



Timothy V. Williams
Audit Committee Chairman
NCG Committee

Mr. Williams, 72, has served on the board of directors and as chairman of the Audit committee of ChannelAdvisor Corporation (NYSE: ECOM) since 2012. He also serves on the board of directors of PointclickCare Corp., a privately held company.

Mr. Williams previously served on the board of directors and as chairman of the audit committee of Halogen Software, Inc. (TSE: HGN) (April 2011 to May 2017). Mr. Williams served as Senior Vice President and Chief Financial Officer of Blackbaud, Inc. (NASDAQ: BLKB), a provider of software and services to non-profit organizations, from January 2001 until his retirement in November 2011. Mr. Williams previously served as Executive Vice President and Chief Financial Officer of both Mynd Corporation (now a subsidiary of Computer Sciences Corporation), and Holiday Inn Worldwide, a subsidiary of Bass PLC. Mr. Williams holds a Bachelor of Arts in business from the University of Northern Iowa.

An audit committee financial expert, Mr. Williams has extensive financial, business, management and public software company expertise. Through his experience as a chief financial officer, including with three other software and services firms, Mr. Williams brings to the Board extensive knowledge of accounting, risk management, general management of software companies and public company reporting requirements and processes.



Mariette M. Woestemeyer
Co-Founder

Mrs. Woestemeyer, 69, co-founded PROS in 1985 with her husband, Ronald F. Woestemeyer. She has served as a director of PROS since 1985.

Mrs. Woestemeyer was previously the Chief Financial Officer of Metro Networks, a broadcasting company, from 1983 to 1985 and held various financial roles with Continental Airlines and its predecessor, Texas International Airlines, prior to 1983. Mrs. Woestemeyer holds a Bachelor of Business Administration and a Master of Business Administration from the University of Houston.

As co-founder of PROS, Mrs. Woestemeyer brings to the Board continuity and history of current and past management and direct relevant industry experience. Mrs. Woestemeyer also has familiarity with all of our key operations as a result of serving as a director since our founding. Mrs. Woestemeyer also has experience as our Chief Financial Officer for many years and related operational expertise.



Penelope Herscher⁽¹⁾

CLD Committee
NCG Committee

Ms. Herscher, 60, is a seasoned technology public company board director, executive and entrepreneur, with more than 15 years of experience as a high-tech CEO in Silicon Valley and more than 10 years of experience serving on public company boards of directors. Ms. Herscher currently serves on the boards of Faurecia SA (EPA:EO), Verint (NASDAQ:VRNT), and Lumentum Holdings, Inc. (NASDAQ:LITE).

Ms. Herscher previously served as CEO for FirstRain, a privately held company in the unstructured data analytics space, from December 2004 to November 2015. Prior to leading FirstRain, she was CEO of Simplex Solutions and served in C-level and senior executive positions for a number of software and technology firms, including Cadence Design Systems, Inc.

Ms. Herscher has served on the Board since 2018 and brings her extensive business and leadership experience in software companies, including experience in software sales, marketing, strategy, governance, compensation planning and mergers and acquisitions.

(1) Ms. Herscher, a Class II director, has not been nominated for reelection and her term of service will end effective as of the Annual Meeting.

The following table provides a summary view of the experience, expertise and other attributes of our continuing directors and director nominees as well as term of office information:

Board Experience, Expertise or Attribute	Carlos Dominguez	Raja Hammoud (Nominee)	Catherine Lesjak	Greg B. Petersen	Andres D. Reiner	William Russell (Nominee)	Timothy V. Williams	Mariette M. Woestemeyer
Accounting			x	x			x	x
Business Operations	x	x	x	x	x	x	x	x
Cloud Software	x	x	x	x	x	x	x	
Finance			x	x	x		x	x
International	x	x	x		x	x		x
Leadership	x	x	x	x	x	x	x	x
M&A	x	x	x	x	x	x	x	
Public Company/Governance	x		x	x	x	x	x	
Risk Management	x		x	x			x	
Sales & Marketing	x				x	x		
Software Product Development		x			x			
Travel Industry				x	x			x
Race/Ethnicity								
Hispanic/Latin American	x				x			
Asian	x							
Middle Eastern/North African		x						
Caucasian/White			x	x		x	x	
Prefer not to disclose								x
Other Public Boards								
At March 25, 2021	1	—	2	2	1	1	1	—
Term of Service on PROS Board								
Director Since	2020	2020	2020	2007	2010	2008	2007	1985
Current Term Expires	2022	2021	2022	2023	2022	2021	2023	2023
Class of Director	III	II	III	I	III	II	I	I

PROPOSAL ONE

ELECTION OF DIRECTORS

What am I voting on?

Stockholders are being asked to elect two Class II director nominees to the Board for a three-year term.

Voting Recommendation:

The Board recommends voting “FOR” the election of each of the two Class II director nominees.

Two (2) directors are to be elected at the Annual Meeting. Our Board, upon the recommendation of the NCG Committee, has nominated Raja Hammoud and William Russell as Class II directors, each to hold office until the 2024 Annual Meeting and until their successor has been duly elected and qualified or until the earlier of their death, resignation or removal.

The Board is also composed of three Class III directors, whose terms expire upon the election and qualification of directors at the 2022 Annual Meeting, and three Class I directors, whose terms expire upon the election and qualification of directors at the 2023 Annual Meeting.

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

Vote Required

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

Directors are elected by a plurality vote of the votes cast by holders of our Common Stock entitled to vote at the Annual Meeting. Abstentions and broker non-votes will not have any effect on this proposal. Accordingly, the two nominees who receive the highest number of properly executed “FOR” votes from the holders of Common Stock will be elected as directors.

The number of “withhold” votes with respect to a nominee will affect whether our Director Resignation Policy will apply to that individual. In accordance with our Director Resignation Policy, any nominee for director who receives a greater number of votes “withheld” from his or her election than votes “for” such election is required to offer his or her resignation following certification of the stockholder vote. Our NCG Committee of our Board would then consider whether to accept the resignation and make a recommendation to our independent directors as to the action to be taken with respect to the offer. *For more information about this policy, see [Corporate Governance - Accountability - Director Resignation Policy](#).*

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

THE BOARD UNANIMOUSLY RECOMMENDS VOTING “FOR” THE ELECTION OF EACH OF THE TWO CLASS II DIRECTOR NOMINEES.

DIRECTOR COMPENSATION

The CLD Committee periodically reviews non-employee director compensation taking into account various factors, including director responsibilities, peer group data and market practices. In the spring of 2020, Frederic W. Cook & Co., Inc. (FW Cook) provided an independent analysis, including peer group data, which was taken into consideration by the CLD Committee. For 2020, the CLD Committee approved a compensation structure for non-employee directors unchanged from 2019 and consisting of an equity award, annual cash retainer, and for certain leadership roles, a supplemental cash retainer. All cash retainers are paid quarterly in arrears. In 2020, each non-employee member of our Board serving as of the 2020 Annual Meeting received a target RSU award of \$165,000, which will vest in full on April 29, 2021. Directors who joined the Board after the 2020 Annual Meeting received a pro rata award of RSUs which also vest in full on April 29, 2021. Each non-employee member of our Board received an annual cash retainer of \$35,000 in 2020, pro rated for directors who joined the Board mid-year. The non-executive chairman of our Board received a supplemental cash retainer of \$60,000 in 2020. In addition, each non-employee director serving as a chair or member of a standing committee of our Board received the following supplemental cash retainer(s):

Committee Role	Audit Committee		CLD Committee		NCG Committee	
Member	\$	15,000	\$	15,000	\$	7,500
Chair	\$	30,000	\$	20,000	\$	10,000

We also reimburse our directors for reasonable out-of-pocket expenses incurred in connection with (i) their attendance at our Board and committee meetings and other Company meetings, and (ii) director continuing education programs, including participation in the NACD, of which the Company is a member.

2020 Director Compensation Table

The following table sets forth the compensation paid to our non-employee directors for service on our Board during 2020. Compensation for Andres D. Reiner our President and CEO is set forth in the [Summary Compensation](#) table. Mr. Reiner does not receive any compensation for his services as a director.

Name	Fees Earned or Paid in Cash (\$)	Restricted Stock Units (\$) ⁽¹⁾	Total (\$)
Carlos Dominguez (2)	\$ 33,654	\$ 164,969	\$ 198,623
Raja Hammoud (3)	\$ 28,434	\$ 153,574	\$ 182,008
Penelope Herscher	\$ 57,500	\$ 164,969	\$ 222,469
Catherine Lesjak (4)	\$ 20,516	\$ 120,690	\$ 141,206
Greg B. Petersen	\$ 70,000	\$ 164,969	\$ 234,969
Leslie Rechan (5)	\$ 21,010	\$ —	\$ 21,010
William Russell	\$ 120,000	\$ 164,969	\$ 284,969
Timothy V. Williams	\$ 72,500	\$ 164,969	\$ 237,469
Mariette M. Woestemeyer	\$ 35,000	\$ 164,969	\$ 199,969
Ronald F. Woestemeyer (6)	\$ 11,538	\$ —	\$ 11,538

(1) Represents the aggregate grant date fair value of equity awards granted in 2020 calculated in accordance with GAAP. For additional information about valuation assumptions for equity awards, refer to Note 14 of our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2020. The April 29, 2020 grant of RSUs awarded to all non-employee directors serving as of conclusion of the 2020 Annual Meeting vest in full on the earlier of April 29, 2021 and the 2021 Annual Meeting and had a grant date fair value of \$34.29. The June 8, 2020 grant of RSUs awarded to Ms. Hammoud vest in full on the earlier of April 29, 2021 and the 2021 Annual Meeting and had a grant date fair value of \$44.80. The August 4, 2020 grant of RSUs awarded to Ms. Lesjak vest in full on the earlier of April 29, 2021 and the 2021 Annual Meeting and had a grant date fair value of \$33.75.

(2) Mr. Dominguez joined the Board on April 29, 2020.

(3) Ms. Hammoud joined the Board on June 6, 2020.

(4) Ms. Lesjak joined the Board on August 3, 2020.

(5) Mr. Rechan resigned from the Board effective May 13, 2020 in conjunction with his appointment as a Chief Operating Officer of the Company.

(6) Mr. Ronald F. Woestemeyer retired from the Board effective April 29, 2020.

For information on the stock holdings of each director, see [Security Ownership](#).

EXECUTIVE OFFICERS

The following section sets forth our current NEOs and other significant employees of the Company, other than Mr. A. Reiner, their ages (immediately prior to the Annual Meeting), and the Company positions currently held by each such person:



Stefan B. Schulz
*Executive Vice President
and Chief Financial Officer*

Mr. Schulz, 54, oversees our accounting, financial planning and analysis, legal, treasury, facilities, investor relations, internal audit, tax and corporate development functions.

Mr. Schulz joined PROS in his current position in March 2015. Prior to joining us, Mr. Schulz served as Chief Financial Officer for Digital River, Inc., a global provider of cloud-based commerce, payments and marketing services, from July 2011 to February 2015. Mr. Schulz previously served in various roles, including as Senior Vice President, Chief Financial Officer and Chief Accounting Officer, with Lawson Software, an enterprise resource planning software company, from October 2005 to July 2011; in various finance and accounting roles at BMC Software, from 1993 to 2005, including as Vice President and Corporate Controller; and as an Audit Manager in the Enterprise Group with Arthur Andersen LLP. Mr. Schulz was instrumental in our transition to a cloud business.

Mr. Schulz holds a B.B.A. in Accounting from Lamar University.



Leslie Rechman
Chief Operating Officer

Mr. Rechman, 59, oversees our operations, including our sales, marketing, customer success, revenue operations and professional services functions.

Mr. Rechman joined PROS as Chief Operating Officer in May 2020 after having served as a non-employee director on our Board since 2015. From 2017 to May 2020, Mr. Rechman served as President and CEO and a director of Solace Corp., a cloud-based smart data movement solutions company. From 2015 to 2017, Mr. Rechman served as President and CEO and a director of Halogen Software (TSX: HGN). From 2011 to 2014, Mr. Rechman served as General Manager, IBM Business Analytics Division. Prior to that, Mr. Rechman held various leadership positions at IBM across field sales, systems engineering, services, solutions, development and general management in North America, Europe and Asia Pacific. Mr. Rechman also served in executive roles at Cognos Inc., Oracle Corporation, Seibel Systems, Inc., Cadence Design Systems Inc. and Onyx Software Corp. Mr. Rechman serves on the board of directors of MicroStrategy Incorporated (NASDAQ: MSTR).

Mr. Rechman holds a B.S. in Electrical Engineering and a B. A. in Organizational Behavior from Brown University and a M.A. in Management from Northwestern University.



Roberto Reiner
*Executive Vice President
and Chief Technology Officer*

Mr. R. Reiner, 59, oversees our product management, product development and science and cloud operations.

Mr. R. Reiner joined PROS as Chief Technology Officer in 2016. He was appointed Executive Vice President in November 2019. Prior to joining us, Mr. R. Reiner co-founded and served as Chief Technology Officer for ITinvolve from 2011 to 2015. During his extensive software career, Mr. R. Reiner also has served in various technology leadership roles at leading software companies, including Attachmate and BMC Software.

Mr. R. Reiner holds a B.S. in Computer Science from the University of Houston.

Other Significant Employees

Name	Age	Position
Nikki Brewer	40	Chief People Officer
Scott Cook	53	Chief Accounting Officer
Katrina Klier	53	Chief Marketing Officer
Sherry Lautenbach	50	Sr. VP, Global B2B Sales
Damian Olthoff	46	General Counsel and Secretary
Martin Simoncic	39	Chief Customer Officer
Benson Yuen	60	President, Travel
Craig Zawada	50	Chief Innovation Officer

COMPENSATION AND LEADERSHIP DEVELOPMENT COMMITTEE REPORT

The Compensation and Leadership Development Committee of the Board of Directors of PROS has reviewed and discussed the following Compensation Discussion and Analysis with management and FW Cook. Based on this review and discussion, we recommended to the Board, and the Board has agreed, that the following Compensation Discussion and Analysis be included in this Proxy Statement.

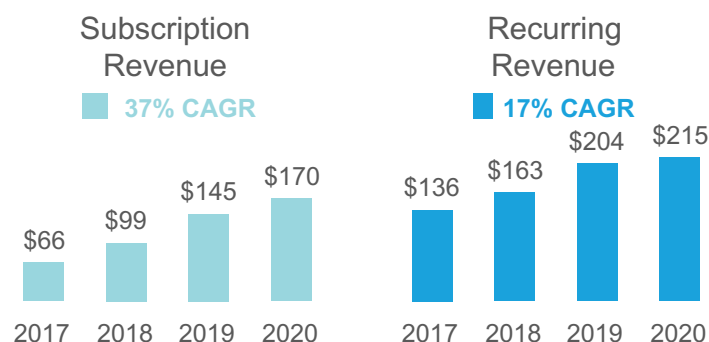
MEMBERS OF THE COMPENSATION AND LEADERSHIP DEVELOPMENT COMMITTEE

Greg B. Petersen (Chairman) | Raja Hammoud | Penelope Herscher | William Russell

COMPENSATION DISCUSSION AND ANALYSIS

PROS provides AI solutions that power commerce in the digital economy. Our solutions bring intelligence to commerce by providing companies with predictive and prescriptive guidance that enables them to dynamically price, configure and sell their products and services across all channels with speed, precision and consistency. 2020 was an unprecedented year for the Company and our customers, partners and employees as the global economy was significantly and negatively impacted by the COVID-19 pandemic, including as a result of governmental authorities implementing measures to contain the virus. Compliance with these measures by us and by our customers impacted our business. In particular, in the travel industry, our airline customers experienced historic declines in demand for travel globally.

In 2020, despite the headwinds from the impact of the pandemic, we continued to execute our strategy, growing subscription revenue 17% over 2019, continuing our cloud transition and raising additional capital. Our results reflected further success in executing on our cloud transition, even in the face of unprecedented economic challenges due to COVID-19. In addition, our Recurring Revenue Gross Margin, while less than in 2019, was 73% for 2020, within our target range set at the beginning of 2020 before COVID-19 was declared a pandemic. We believe this is a significant accomplishment given the economic conditions brought on by the pandemic and is evidence of our prudent management of expenses during the uncertainty and extended impact of the pandemic. We successfully raised capital for additional liquidity and financial flexibility, executing during favorable market conditions to complete in September 2020 a private offering of \$150.0 million in aggregate principal amount at maturity of convertible senior notes due 2027.



This Compensation Discussion and Analysis describes our executive compensation program and the compensation paid to our NEOs:

Andres D. Reiner	Chief Executive Officer, President and Director
Stefan B. Schulz	Executive Vice President and Chief Financial Officer
Leslie Rechan	Chief Operating Officer
Roberto Reiner	Executive Vice President and Chief Technology Officer
Thomas F. Dzersk	Former Executive Vice President, Worldwide Sales

Our Compensation Philosophy

Our executive compensation program is designed to provide competitive pay enabling the Company to attract and retain high-caliber talent, to link pay to Company performance and to align the interests of our executives with those of our stockholders.

Competitive Pay

Rationale	Impact in 2020
To attract and retain high-caliber talent by setting compensation competitive with that being offered to individuals holding comparable positions at other public companies with which we compete for business and talent. The Company does not target a specific percentile and reviews market data to check that compensation is generally in a market range and reflects the individual's experience, performance and contribution.	At the time the CLD Committee made its 2020 executive compensation decisions, our CEO's strong 2019 performance was taken into consideration and his 2020 total compensation was targeted within a reasonable range of the median of our 2020 peer group. See the next section for a discussion of his actual compensation in 2020.

Pay for Performance

Rationale	Impact in 2020
Provide a compensation package that is weighted heavily towards performance-based pay to motivate high performance among our NEOs, with compensation levels reflecting the achievement of short- and long-term performance objectives	Company underperformance against pre-established targets resulted in CEO bonus paid at 24% of target for 2020. 79% of the 2019 PRSUs were earned, and the 2020 PRSUs are unlikely to be earned based on performance to date. Each award is measured over a two-year performance period.

Align the interests of our executives and stockholders

Rationale	Impact in 2020
Directly link rewards to the achievement of measurable financial objectives that build long-term stockholder value	CEO bonus plan is based on growth targets established at beginning of period without discretion or adjustment. One-half of the CEO's annual equity grant value is performance-based equity awards.

Executive Compensation Operating as Designed

Our CLD Committee believes that a well-functioning executive compensation program should reward executives for out-performance. Conversely, when performance is not achieved the program's incentive elements pay out at reduced levels, and in some cases at zero.

In early February 2020, prior to the declaration of COVID-19 as a pandemic, the CLD Committee approved aggressive NEO bonus performance goals for 2020 which required 18% total revenue growth and recurring revenue gross margin of 75% for at target bonus payouts. The global economic impact of the pandemic adversely impacted our revenue in 2020, resulting in no achievement of incentives based on total revenue growth and achievement of below target recurring revenue gross margin. Thus, our NEO bonus payout for 2020 was 24% of target and no pandemic-related adjustments nor discretion were applied. Our CEO's bonus was significantly lower than in 2019, resulting in a 14% decrease in his total compensation.

In addition, the financial impact of the pandemic has and may continue to affect our NEOs' equity incentives:

- The impact of COVID-19 on our recurring revenue in 2020 resulted in 79% of target 2019 PRSUs being earned.
- Based on the impact on subscription bookings during 2020, our 2020 PRSUs, which are measured over a two-year performance period, are unlikely to vest at all.
- Approximately \$2.1 million of our CEO's 2020 reported total compensation is attributable to the grant date fair value of his 2020 PRSUs, which are likely to deliver \$0, and no adjustments are contemplated at this time.

Executive Compensation Practices

Our executive compensation practices are designed to assure that our executive compensation is competitive, rewards performance and aligns the interests of our executives with our stockholders, as highlighted in the following table:

Pay for Performance	<p>We emphasize pay-for-performance where compensation is contingent upon the performance of our business and our stock price.</p> <p>We utilize performance-based pay through equity and cash incentive awards that require achievement of pre-established goals with no discretion.</p>
Stock Ownership Guidelines	<p>We maintain robust ownership guidelines for our directors and NEOs.</p> <p>We expect our CEO to hold stock equal to six times his base salary.</p> <p>We expect each other NEO to hold stock equal to two times their base salary.</p> <p>We expect our directors to hold stock equal to five times their annual cash retainer.</p>
Accountability	<p>We have a clawback policy that applies to all cash and equity awards.</p> <p>We maintain anti-hedging, anti-short and anti-pledging policies.</p> <p>Although we have not recently utilized stock options or SARs, we do not discount from fair market value in setting the exercise price of stock options and SARs.</p> <p>Our NEO employment agreements have “double trigger” change in control provisions.</p>
No Excessive Perquisites	<p>We do not provide significant perquisites to our NEOs.</p>
Repricing	<p>We do not reprice underwater stock options or SARs without stockholder approval.</p>
Minimum Equity Vesting Requirements	<p>We do not grant equity with vesting terms of less than one year after grant, except for up to 5% of the stock plan authorized shares.</p>
Compensation Risk Oversight	<p>Our CLD Committee oversees risks associated with compensation policies and practices.</p>
Independent Consultant	<p>The CLD Committee has directly retained an independent compensation consultant that performs no services for PROS other than for the CLD Committee.</p>

Role of Our Compensation and Leadership Development Committee

Our CLD Committee, which is comprised entirely of independent directors, is responsible for establishing, administering and interpreting our policies governing the compensation and benefits for our NEOs, as well as granting any share-based awards to our NEOs. Our CLD Committee establishes executive compensation programs that it believes, based on the members' experience, is the most appropriate to achieve the goals described above. Our CLD Committee continues to evaluate our executive compensation programs on a quantitative and qualitative basis on at least a yearly basis or more frequently if circumstances dictate. Our CLD Committee expects to make new awards and adjustments to our executive compensation programs as appropriate. Our CLD Committee has taken the following steps to ensure that our executive compensation and benefit policies are consistent with both our compensation philosophy and our Corporate Governance Guidelines:

- solicited recommendations from an independent executive compensation consultant to evaluate our executive compensation practices and assisted in developing and implementing the executive compensation programs;
- established a practice, in accordance with the rules of the NYSE, of reviewing the performance and determining the compensation earned, paid or awarded to our CEO;
- established a policy, in accordance with the rules of the NYSE, to review on an annual basis the performance of our other executive officers with assistance from our CEO and determined what we believe to be appropriate total compensation for these executive officers; and
- our CLD Committee members attended continuing education related to compensation best practices provided by NYSE, NACD and Equilar, among others.

Our CLD Committee considers a broad range of facts and circumstances in setting executive compensation. Among the factors considered for our executives generally in 2020, and for the NEOs in particular, are market data and recommendations from the Committee's independent compensation advisor, FW Cook, advice from our CEO, general economic and market conditions, our financial condition and operating results, our operating plan, our geographic location and the objectives of our executive compensation policies described above. The weight given to each factor differs from year to year and may differ among individual NEOs in any given year.

Role of Our Independent Compensation Consultant

The CLD Committee retained FW Cook to advise the CLD Committee on executive compensation matters for 2020 due to the breadth and depth of FW Cook's experience with executive compensation matters and their expertise in the software industry. During 2020, FW Cook advised the CLD Committee on a variety of subjects such as compensation plan design and trends, pay for performance analytics, benchmarking norms, executive compensation best practices and other related matters. FW Cook reports directly to the CLD Committee, participates in meetings as requested and communicates with the CLD Committee Chair between meetings as necessary. FW Cook has served as the CLD Committee's independent compensation consultant since 2017.

Prior to engaging FW Cook, the CLD Committee reviewed FW Cook's qualifications, as well as their independence and any potential conflicts of interest. The CLD Committee has the sole authority to modify or approve the compensation for FW Cook, determine the nature and scope of their services, evaluate their performance, terminate their engagement and hire replacement or additional consultants at any time. FW Cook did not perform any services for us in 2020 other than as serving as advisors to the CLD Committee.

Role of the Chief Executive Officer

In early 2020, Mr. A. Reiner reviewed the performance and compensation of the NEOs, other than himself, and made recommendations as to their compensation to the CLD Committee. In making its decisions regarding executive compensation, the CLD Committee meets outside the presence of executive officers when making final decisions about each executive officer. The CEO is periodically present during portions of these deliberations that relate to the compensation for other executive officers but does not participate in discussions regarding his own pay. In addition, the CLD Committee has delegated to the CEO the authority to make share-based awards to employees below the VP level within certain limitations on aggregate grants and specific award terms.

Role of Stockholders

Each year, our CLD Committee takes into account the result of our stockholders' advisory vote on the compensation paid to our NEOs (say-on-pay). More than 64% of the total votes cast were voted in favor of our say-on-pay proposal in 2020, which was consistent with the support received in 2019. Say-on-pay is a key indicator of stockholder sentiment and is taken into account by the CLD Committee in its policy and decision-making processes. We also keep an open dialogue with our institutional investors and stockholders throughout the year. We reach out to discuss business topics, seek feedback on our performance and address other matters of importance to our stockholders, including executive compensation. We actively engaged with the stockholders that represent a significant majority of our shares outstanding in 2019, before 2020 executive compensation decisions, and again in 2020, after the 2020 stockholder vote and before 2021 executive compensation decisions. In 2020, this included the Company's management team and the CLD Committee Chairman communicating in writing with stockholders that represent over 80% of our shares outstanding and having 11 live, interactive discussions with stockholders that represent over 55% of our shares outstanding. As a result of this ongoing outreach, the CLD Committee further reevaluated our executive compensation program and took into account stockholder sentiment as it set 2021 NEO pay. The following table sets forth common themes we have heard from our stockholder engagement on executive compensation over the past several years and the CLD's ongoing response to this engagement:

What We Heard

- ✓ A focus on CEO pay level.

- ✓ Aligning NEO pay with Stockholder interests.

- ✓ Paying for Performance

What We Did

(with advice and data from our leading independent compensation consultants)

- ✓ **Reviewed and updated our peer group** prior to January 2020 and January 2021 executive compensation decisions to ensure an accurate size-appropriate comparison of peer executive compensation practices and pay levels.
- ✓ Responded to changes in our relative market cap and revenue size in 2020 by removing a company from our peer group that had a faster growing market cap than ours and adding four companies with smaller market cap and similar revenue as ours.
- ✓ Set CEO 2020 target compensation near the expected median of our updated peer group. CEO 2020 *actual* total compensation as reported in the Summary Compensation table is 14% lower than in 2019.
- ✓ Continued to **set majority of pay based on performance** through our bonus plan and equity grants tied to our performance.
- ✓ Continued to **set aggressive goals** for cash incentive attainment at the beginning of each year tied to our strategic plan. For example, in 2020, our primary growth-oriented performance metric was Total Revenue, and this goal required 17% annual growth to earn a target award.
- ✓ Did not use discretion or any pandemic-related adjustments for 2020 pay. NEO bonuses were paid at 24% of target, as calculated based on achievement against the pre-pandemic established total revenue and recurring revenue gross margin goals.
- ✓ 2018 MSUs were earned at 200% of target based on 3-year total stockholder return (TSR) outperforming the Russell 2000 Index (measured from end of 2017 to end of 2020); 2019 PRSUs were earned at 79% of target based on actual results against the 2020 recurring revenue goal, with the below-target achievement primarily due to the impact of COVID-19 on 2020.
- ✓ **No COVID-19 related adjustments** or discretionary actions were taken despite the fact that the pandemic was outside of management's control.
- ✓ **Reinstated ARR and Free Cash Flow** as metrics for 2021 NEO bonus plan in response to stockholder input to include both a top-line and profitability improvement metric.

Role of Peer Companies

To assist the CLD Committee in its deliberations on executive compensation, each year they review our peer group with our compensation consultant for appropriateness based on a variety of factors, including: similarities in market capitalization and revenue, relevant industry, the labor market for top management talent, our status as a publicly traded, U.S.-based firm and various other characteristics. Additionally, starting in 2017 and continuing through 2020, the CLD Committee specifically began to transition away from peers with a founder CEO because they tend to be paid in a differentiated manner from typical market practice (exceptions have been made in certain instances where business size and fit are strong and the pay program/mix is market normative). The CLD Committee reviewed the peer group constituents in mid-2019 for informing 2020 NEO pay. As a result of this review, two acquired companies (Callidus Software and Imperva) and two others that fell outside of the desired market cap and/or revenue size range (Model N and RingCentral) were removed. This left 14 continuing peer companies, and three new SaaS peers that were in a similar market cap and revenue size range and exhibited a similar growth profile relative to PROS at the time they were selected were added. The resulting 2020 Peer Group of 17 companies had a median revenue that was slightly above PROS revenue at the time, balanced by a median market cap that was slightly below PROS market cap at the time. A complete list of the 2020 Peer Group is set forth in the following table:

2020 Peer Group (Count = 17)				
Aspen Tech	Benefitfocus	Bottomline Tech	Cornerstone	Coupa Software
Ellie Mae	Everbridge*	Five9	Instructure*	Monotype Imaging
Paylocity	Q2 Holdings	Quotient Tech	Rapid7*	SPS Commerce
Workiva	8x8	*Added for 2020 peer group		

Market Cap range of 2020 Peer Group as of July 29, 2019 (time of peer group construction): 0.3x - 3.2x of PROS market cap

Latest TTM Revenue range of 2020 Peer group as of July 29, 2019: 0.7x - 2.5x of PROS revenue at the time

In August 2020, the CLD Committee reviewed the peer group for purposes of informing executive compensation decisions for 2021 and made several changes to the group with a focus on aligning the group's overall market cap and revenue closer to PROS market cap and revenue at the time, which were impacted by the COVID-19 pandemic more than most of the peer companies due to the travel industry being particularly affected. The following three companies were removed from the peer group because they were acquired: Ellie Mae, Instructure and Monotype Imaging. Additional changes to the peer group for 2021 were made to reduce the peer median revenue and market capitalization to be responsive to PROS smaller size relative to peers as a result of COVID-19 impacts. Coupa Software was removed because its market capitalization grew larger than the CLD Committee's targeted market cap range, and four new peers were added for the 2021 peer group, all of which had a smaller market cap than PROS and similar revenue as PROS at the time: Model N, OneSpan, QAD and Upland Software. With these changes, the CLD Committee examined the compensation practices of these companies. We believe that all companies in the 2021 peer group are in a comparable and appropriate size range, are similar in terms of their scope and complexity and are representative of widely-accepted peer group development best practices. A complete list of the 2021 Peer Group is set forth in the following table:

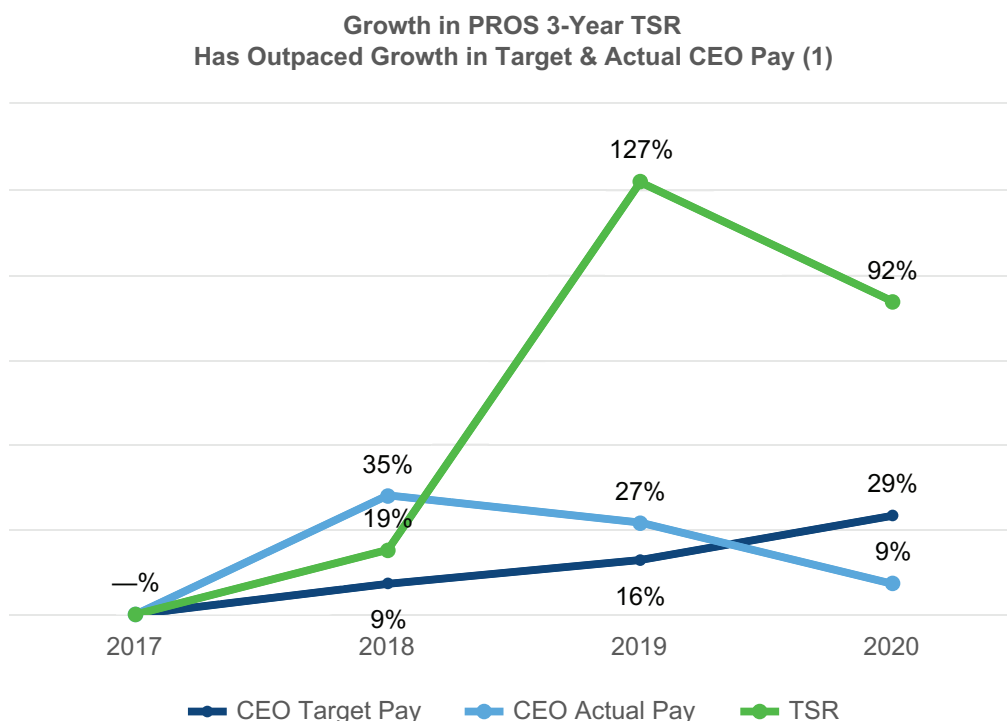
2021 Peer Group (Count = 17)				
Aspen Tech	Benefitfocus	Bottomline Tech	Cornerstone	Upland Software*
QAD*	Everbridge	Five9	Model N*	OneSpan*
Paylocity	Q2 Holdings	Quotient Tech	Rapid7	SPS Commerce
Workiva	8x8	*Added for 2021 peer group		

Market Cap range of 2021 Peer Group as of July 31, 2020 (time of peer group construction): 0.3x - 5.5x

Latest TTM Revenue range of 2020 Peer group as of July 31, 2020: 0.6x - 2.3x

2020 CEO Compensation Program Overview

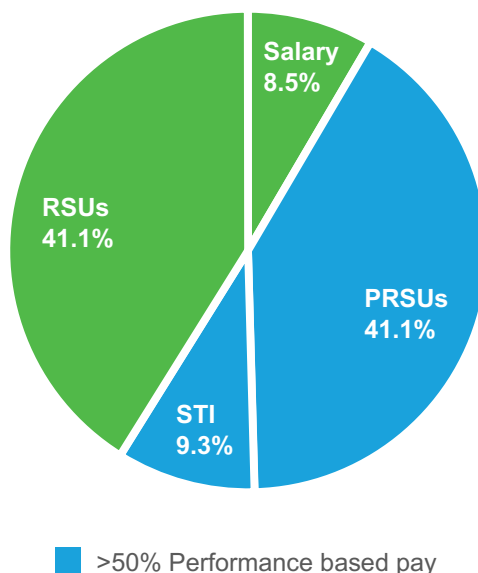
- *Growth in TSR has far outpaced growth in our CEO's target pay.* From the beginning of 2018 through 2020, PROS cumulative TSR was greater than 90%, but our CEO's target pay increased 29% over that three-year period, including no change in his base salary and target cash incentive for two of the three years.
- *Our CEO's total compensation has been near the median of our peer group.* In recognition of our strong one-year TSR in 2019 (95%) and our CEO's leadership as well as peer company data and other relevant factors, the CLD Committee increased our CEO's base salary by 2.9% for 2020 as compared to 2019 and his overall target compensation for 2020 by 11% as compared to his 2019 target total compensation.
- *Actual CEO pay decreased for 2020, driven by our underperformance attributable to the impact of COVID-19.* As reported in the Summary Compensation table, our CEO's total compensation for 2020 declined 14% as compared to 2019, primarily due to the cash incentive (bonus) declining year-over-year.



(1) Growth numbers are cumulative over time. Target equity compensation for RSUs and market stock units (MSUs) represents total target equity compensation determined by the CLD Committee divided by the closing price of the Company's Common Stock reported by the New York Stock Exchange (NYSE) on the grant date, and for 2018 MSUs differ from the accounting grant date fair value included in the [Grants of Plan-Based Awards](#) table below; and for performance-based RSUs (PRSUs) represents the accounting grant date fair value.

The Company's 2020 CEO compensation program reflects our ongoing emphasis on pay for performance with approximately 50% of total compensation directly performance-based (including annual cash incentive and performance-based equity) and >90% at risk (including time-based RSUs). The 2020 CEO equity award structure of 50% performance-based equity and 50% time-based equity was consistent with the CLD Committee's historic practices utilized each year for our CEO since 2012.

Ongoing Intended Award Type Mix for CEO



Components of 2020 Executive Compensation

Our CLD Committee chose to make the changes set forth below to our NEO compensation for 2020 after reviewing each leader's tenure and compensation history with us, the Company's and each leader's prior year performance, the compensation practices from our 2020 peer group, each leader's compensation relative to our updated peer group and feedback from stockholder engagement. Investors should keep in mind that the CLD Committee target compensation decisions for 2020 were considered and made prior to the COVID-19 global pandemic. Actual compensation received, particularly with respect to cash incentive compensation, was well below target due to the impact of COVID-19 on the Company's business and the lack of any related formulaic or discretionary adjustments. Please see the tables under Executive Compensation below.

Base Salaries

We use base salaries primarily to compensate and retain our NEOs for their services. Base salaries for our NEOs are reviewed on an annual basis and represent the minimum payment for a satisfactory level of individual performance as long as the executive remains employed with us. Base salary is set at the CLD Committee's discretion after taking into account the competitive landscape, including the compensation practices of the companies in our selected peer group, our business strategy, our performance goals and certain individual factors, such as position, salary history, individual performance and contribution, length of service with the Company and placement within the general base salary range offered to our NEOs.

Base Salary changes for 2020

- In recognition of Mr. A. Reiner's years of successful leadership, the CLD Committee approved for 2020 an increase to Mr. A. Reiner's base salary, the first such increase in four years.
- In recognition of Mr. Schulz's continued impact on our successful operational and financial progress and the resulting growth in stockholder return in 2019, the CLD Committee increased Mr. Schulz's base salary for 2020.
- Mr. R. Reiner - In recognition of Mr. R. Reiner's product development leadership and overall Company performance with increasing customer adoption in 2019, the CLD Committee increased Mr. R. Reiner's base salary for 2020.

The following table sets forth the annual base salaries for the past two years for each of our NEOs:

Named Executive Officer	Annual Base Salaries		% Increase
	2019	2020	
Andres D. Reiner	\$ 525,000	\$ 540,000	2.9%
Stefan B. Schulz	\$ 392,000	\$ 405,000	3.3%
Leslie Rechan	\$ —	425,000 (1)	—
Roberto Reiner	\$ 338,000	\$ 350,000	3.6%
Thomas F. Dziersek	\$ 383,000	\$ 383,000 (2)	—

(1) Mr. Rechan's actual salary was prorated for 2020 based on his May 2020 start date as an employee of the Company. See Summary Compensation table below.

(2) In connection with his retirement from the Company which was announced in May 2020, the Company and Mr. Dziersek entered into an amended and restated employment agreement providing that for the transition period from July through October 2020 Mr. Dziersek's base salary would be reduced from an annual rate of \$383,000 to \$192,000.

Cash Incentives

For 2020, we utilized a cash incentive plan for our NEOs under which cash incentive payments could be earned based on our performance against our corporate objectives for the year. This program is intended to reward our NEOs upon the achievement of financial performance goals. Each component of the cash incentive plan had minimum threshold, target and maximum levels and operated independently of the other components. Actual results between the minimum threshold, target and the maximum goal levels are interpolated. We use our cash incentive plan to align our NEOs' performance with our financial results and to motivate our NEOs to successfully implement our cloud strategy and execute our corresponding financial plan by achieving annual goals that were set at the beginning of the year and remained unchanged through the end of the year.

NEO Cash Incentive Plan for 2020. The NEO cash incentive plan for 2020 (2020 NEO Plan) was approved, including establishing the performance goals and setting the targets, by the CLD Committee in early February 2020, before COVID-19 was declared a pandemic. Similar to the 2019 NEO Plan, the 2020 NEO Plan contained two performance-based measures: Total Revenue and non-GAAP Recurring Revenue Gross Margin. Non-GAAP Recurring Revenue Gross Margin measures the efficiency of our business as it takes into account the costs required to drive our recurring revenue. It is defined as (a) total recurring revenue (comprised of subscription plus maintenance and support revenue), less recurring cost of revenue excluding share-based compensation, amortization of acquisition-related intangibles, acquisition-related expenses and non-cash rent expense on our preoccupied new headquarters and other items approved by the Audit Committee for exclusion from external non-GAAP financial reporting, divided by (b) total recurring revenue, expressed as a percentage.

Going into 2020, the CLD Committee continued to believe that Total Revenue was a valuable indicator of growth for the Company and that Recurring Revenue Gross Margin is the best indicator to measure the health and sustainability of our cloud business. The two measures are distinct and complementary as one measures the overall revenue of the Company and the other is a profitability metric for our business. The weighting of the 2020 NEO Plan components is set forth in the following table:

Component	Weighting
Total Revenue	60%
Recurring Revenue Gross Margin	40%

Each NEO's target payout was established as a percentage of base salary as set forth in the payout table below, with the minimum threshold payout being 50% of such target amount and the maximum payout being 200% of such target amount. Actual payouts under the 2020 NEO Plan were based on Company performance compared to aggressive goals for each component's target. In February 2020, the CLD Committee set the 2020 NEO Plan target performance goals as indicated in the table below. These targets were set prior to the declaration of COVID-19 as a pandemic, which has significantly and negatively impacted the global economy and travel-related industries served by our solutions. As a result, our total revenue minimum threshold level was not achieved. No discretion nor adjustments were made to the 2020 NEO Plan.

As detailed below, the 2020 NEO Plan payout was 24.2% of target solely due to Recurring Revenue Gross Margin being achieved just above the pre-established threshold performance level. The minimum threshold, target, and maximum goals for each component are set forth in the following table (linear interpolation applies between performance levels):

Component	Threshold	Goals		Performance Achieved
		Target	Maximum	
Total Revenue (in millions)	\$285	\$295	\$305	\$252
Recurring Revenue Gross Margin	73%	75%	77%	73.4%
Payout at Level	50%	100%	200%	24.2%

The payout for 2020 performance as a percentage of the base salary of each NEO reflects actual results against the performance schedule described above and are set forth in the following table:

Named Executive Officer	Target Payout	Actual Payout	
	As a % of Base ⁽¹⁾	Incentive Paid	As a % of Target
Andres D. Reiner	110 %	\$143,748	24.2 %
Stefan B. Schulz	80 %	\$78,408	24.2 %
Leslie Rechan (2)	90 %	\$58,928	24.2 %
Roberto Reiner	70 %	\$59,290	24.2 %
Thomas F. Dzersk (3)	100 %	—	—

(1) No changes were made to target payout amounts as a percentage of base salary in 2020; they are the same as applied in 2019.

(2) Mr. Rechan's prorated bonus target payout for 2020 was \$243,504.

(3) Mr. Dzersk retired from the Company effective October 31, 2020 and was ineligible for any 2020 incentive payout.

Equity Awards

The CLD Committee believes that equity compensation plans are an essential tool to align the long-term interests of our NEOs and employees with those of our stockholders. For our NEOs, the CLD Committee awards a mix of performance-based equity awards and time-based equity awards. While the disclosure rules of the SEC require us to disclose in the Summary Compensation table below the grant-date fair value of equity awards granted to our NEOs, the actual value received by an NEO depends on multiple factors, including the number of shares actually received via vesting and the share price upon ultimate sale. As such, even time-based RSUs include an implied performance element in that the ultimate value received is directly tied to the Company's stock performance over time. The CLD Committee determines the size of awards following review of competitive market data from our peer group, as well as subjective factors such as relative job scope, individual performance, tenure and experience, expected future contributions to the growth and development of the Company, Company performance, historical equity compensation awarded to a NEO and the unvested equity position held by each NEO.

2020 Equity Awards

For 2020, each NEO, except Mr. Rechan who joined the Company as an executive mid-year, received a mix of performance-based and time-based RSUs based upon a target award value as set forth in the table below. Mr. Rechan received a sign-on time-based RSU award which represented a combination of his annual long-term incentive grant for 2020 and a meaningful "make whole" award for unvested equity forfeited in connection with his leaving his prior employer and CEO role to join PROS as Chief Operating Officer.

Named Executive Officer	Target Award Value (000s)	Mix of Equity Award Types ⁽¹⁾		Share Price on 1/13/20	Units Granted	
		Performance-Based	Time-Based		PRSUs	RSUs
Andres D. Reiner	\$5,250	50%	50%	\$66.44	39,500	39,500
Stefan B. Schulz	\$2,500	40%	60%	\$66.44	15,100	22,600
Leslie Rechan (2)	\$4,000	—	100%	N/A	—	132,406
Roberto Reiner	\$1,800	40%	60%	\$66.44	10,800	16,300
Thomas F. Dzierisk (3)	\$1,400	40%	60%	\$66.44	8,400	12,600

- (1) The calculation of the number of respective units to grant was determined by the CLD Committee based upon the closing stock price of our Common Stock on the date of grant of the RSUs (January 13, 2020), rounding to the nearest hundred RSUs. However, the PRSUs were granted on February 7, 2020. The grant of PRSUs was delayed because management and the Board established the financial plan for 2020 in early February, and the performance targets were thus not set until February 2020. However, the number of PRSUs to be awarded had been established using the target award values and stock price in January 2020. Regardless of the movement of the stock price between January 13, 2020 and February 7, 2020, the number of PRSUs to be awarded was set on January 13, 2020. The SEC requires us to present in the Summary Compensation table below the grant date fair value of equity awards calculated based on the stock price on the date of grant. Because our stock declined in value between January 13, 2020 and February 7, 2020, the date of granting the PRSUs, the value shown in the Summary Compensation table shows as a lower amount than the total target equity value set by the CLD Committee and shown in the table above. It also could appear that our CEO's 2020 equity awards were not based on a 50/50 performance-based to time-based ratio. But, this table illustrates that the intent of the CLD Committee was to award our CEO on a 50/50 ratio.
- (2) Mr. Rechan's award included his initial "sign-on" and "make whole" award with a combined total target value of \$4,000,000 and was granted on May 13, 2020 using the closing share price on such date of \$30.21 to calculate the number of RSUs.
- (3) Mr. Dzierisk retired from the Company effective October 31, 2020, and the equity awards granted in 2020 were forfeited unvested upon his departure from the Company.

Performance-based RSUs. In 2020, the CLD Committee granted PRSUs for the performance-based equity component. Similar to the PRSUs granted in 2019, the 2020 PRSUs are earned based on achievement of a long-term recurring revenue goal measured over a two-year performance period. The CLD Committee believes that measuring recurring revenue over a multi-year period incents our NEOs to build long-term customer relationships. This measure is distinct from total revenue utilized in the 2020 NEO Plan which measures all revenue in the year, including services revenue which is not recurring. The percentage of target units earned, up to a maximum of 200% of target, depends upon the achievement against the performance goal. If we fail to achieve the performance level at goal, the percentage at which the 2020 PRSUs convert into earned RSUs will be reduced from 100%, through linear interpolation between a 50% threshold and 100% achievement, with zero units earned for performance below threshold. Vesting of the earned PRSUs, which are payable in shares of our Common Stock, is then contingent on an additional one-year continued employment condition.

Time-based RSUs. RSUs granted in 2020 to our NEOs vest in four equal annual installments on the four anniversaries of the grant date, assuming continued employment over the vesting period, and settle in shares of our Common Stock upon vesting.

See 2020 award detail included in the [Grants of Plan-Based Awards](#) table.

Earning of Prior Year Performance-Based Equity Awards

As stated above, performance-based equity is a key component of our executive compensation program. Once a performance period has completed, our CLD Committee certifies the performance and number of units that are earned. The following sections set forth information regarding the actual results of performance-based equity awards with performance periods that have recently completed.

2018 Market Stock Units

In January 2018, Messrs. A. Reiner and Schulz were awarded market stock units (MSUs) as the performance-based equity component of their 2018 compensation. Messrs. Rechan and R. Reiner did not participate in, and Mr. Dziersek did not earn due to his retirement, such awards. The number of units (payable in shares of our Common Stock) actually earned was based on our TSR for a three-year period from January 1, 2018 through December 31, 2020 as compared to the Russell 2000 Index. The performance multiplier determining the number of units earned was equal to the sum of 100% plus the product of 2.5 multiplied by the difference (whether positive or negative) equal to our TSR minus the return of the Russell 2000 Index, capped at 200%. In January 2021, following completion of the three-year performance period, the CLD Committee certified the performance multiplier and number of earned units for each executive based on the award agreement formula (no discretion nor adjustment applied) as set forth in the table below:

2018 MSUs for Performance Period January 2018 - December 2020*			
Named Executive Officer	MSUs granted at target	Performance Multiplier	Units Earned
Andres D. Reiner	82,948	200%	165,896
Stefan B. Schulz	27,778	200%	55,556

*As calculated per the MSU award agreements, PROS stock (TSR = 89%) outperformed the Russell 2000 Index (29% return), resulting in 251% calculated out-performance, capped at 200%.

2019 PRSUs

In January 2019, Messrs. A. Reiner and Schulz were awarded PRSUs as the performance-based equity component of their 2019 compensation. Messrs. Rechan and R. Reiner did not participate in, and Mr. Dziersek did not earn due to his retirement, such awards. The number of units (payable in shares of our Common Stock) actually earned was based on our performance against a Total Recurring Revenue goal for a two-year performance period ended December 31, 2020. If performance was below the minimum goal, no units were earned. If performance was equal to the minimum goal, 50% of the awarded (at target) units were earned; If performance was equal to or above the target goal, 100% of the awarded units were earned; and if performance was equal to the maximum goal, 200% of the awarded units were earned. Linear interpolation was used to determine the number of earned units if the percentage attainment of the performance goal fell between the minimum, target or maximum goals. In February 2021, the number of earned units was certified for each executive based on the award agreement formula (no discretion nor adjustment applied) as set forth in the table below. The earned units are subject to an additional one-year vesting period and will vest on January 15, 2022, assuming continued employment.

Named Executive Officer	Total Recurring Revenue (\$M)				PRSUs	
	Minimum	Target	Maximum	Actual vs. Target	#Granted at Target	Units Earned
Goals	\$206.5	\$221.4	\$236.8			
Actual	\$215.2			79.1%		
Andres D. Reiner				79.1%	70,348	55,645
Stefan B. Schulz				79.1%	24,206	19,146

Other Compensation

Our NEOs are eligible to participate in our health and welfare programs, 401(k) plan, Employee Stock Purchase Plan and other benefit programs on the same basis as other U.S. employees. We also offer our NEOs reimbursement for the costs of an annual executive, comprehensive physical. In 2020, Messrs. A. Reiner and R. Reiner utilized this benefit.

Severance Compensation and Termination Protection

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

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

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

Employment Agreements

Andres D. Reiner. In December 2018, we entered into a second amended and restated employment agreement with Mr. A. Reiner, our President and CEO. This agreement will automatically renew for additional three-year terms unless the Company decides not to renew. The base salary payable to Mr. A. Reiner is subject to periodic review by our CLD Committee. In the event Mr. A. Reiner’s employment with us is terminated by him for good reason, by us without cause or we decide not to renew his agreement, he will receive (i) his full base salary each month for the following 12 months, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) the payment of a bonus at 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by us for 12 months, (iv) an amount equal to 12 times the monthly cost of Mr. A. Reiner’s health benefits, (v) the acceleration of vesting of all equity awards with respect to such shares that would have vested following his termination date, and (vi) the acceleration of vesting of all market stock awards where the number of units vesting is determined as if the performance period ended on his termination date. If Mr. A. Reiner’s employment is terminated by us without cause, if he resigns for good reason, or we decide not to renew his agreement within six months prior to, or any time after, a change of control of the Company, he will receive (i) an amount equal to 150% of his annual salary, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) the payment of an aggregate bonus equal to 100% of performance targets, including any discretionary components, within the bonus plan in effect as if employed by us for eighteen months, (iv) an amount equal to 18 times the monthly cost of Mr. A. Reiner’s health benefits, and (v) the acceleration of vesting of all equity awards with respect to shares that would have vested following the termination date. If Mr. A. Reiner’s employment with us terminates due to his death or disability, his employment will automatically terminate and he will be entitled to accelerated vesting of (i) all equity awards with respect to all shares that would have vested after the termination date, and (ii) all MSUs at 100% of the target number granted. In addition, if the surviving or acquiring entity (or its parent entity) elects not to assume, continue or substitute for the equity awards or options due under the either the 2007 Equity Incentive Plan (2007 Plan) or 2017 Plan, all outstanding equity awards and options under each plan will vest in full and become fully exercisable. Mr. Reiner is subject to non-competition and non-solicitation restrictions during the term of his employment and for the 12-month period following the termination of his employment.

Stefan B. Schulz and Leslie Rechan. In December 2018, we entered into an amended and restated employment agreement with Mr. Schulz, our Executive Vice President and Chief Financial Officer. In May 2020, we entered into an employment agreement with Mr. Rechan, our Chief Operating Officer. The agreements with these two officers utilize a similar form and provide that the agreements are for a three-year term and automatically renew for three-year terms unless the Company decides not to renew. The base salary payable to the officer is subject to periodic review by our CLD Committee. In the event the officer's employment with us is terminated by him for good reason, by us without cause, or we decide not to renew his agreement, he will receive (i) his full base salary each month for the following 12 months, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) the payment of a bonus at 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by us for 12 months, (iv) an amount equal to 12 times the monthly cost of the officer's health benefits, (v) the acceleration of vesting of all equity awards with respect to such shares that would have vested following the date of termination and prior to the first anniversary of his termination date, and (vi) the acceleration of vesting of all market stock awards, in the case of Mr. Schulz, or performance stock awards, in the case of Mr. Rechan, scheduled to vest prior to the first anniversary of his termination date, where the applicable performance period is deemed to have ended on his termination date. Alternatively, if the officer's employment is terminated by us without cause, if he resigns for good reason or we decide not to renew his agreement, in any of these cases, within six months prior to, or any time after, a change of control of the Company, he will receive (i) an amount equal to 150% of his annual salary, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) the payment of an aggregate bonus equal to 100% of performance targets, including discretionary components, within the bonus plan in effect as if employed by us for 18 months, (iv) an amount equal to 18 times the monthly cost of the officer's health benefits, and (v) the acceleration of vesting of all equity awards with respect to such shares that would have vested following the date of termination. In addition, if the surviving or acquiring entity (or its parent entity) elects not to assume, continue or substitute for the equity awards or options due under the 2007 Plan or 2017 Plan, all outstanding equity awards and options under each plan will vest in full and become fully exercisable. If the officer's employment with us terminates due to his death or disability, his employment will automatically terminate and he will be entitled to accelerated vesting of (i) all equity awards with respect to all shares that would have vested after the termination date, and (ii) all MSUs, in the case of Mr. Schulz, and all performance stock awards, in the case of Mr. Rechan, at 100% of the target number granted. Mr. Schulz and Mr. Rechan are subject to non-competition and non-solicitation restrictions during the term of his employment and for the 12-month period following the termination of his employment.

Roberto Reiner. In November 2019, we entered into an amended and restated employment agreement with Mr. R. Reiner, our Executive Vice President and Chief Technology Officer. This agreement is for a three-year term and automatically renews for three-year terms unless the Company decides not to renew. The base salary payable to Mr. R. Reiner is subject to periodic review by our CLD Committee. In the event Mr. R. Reiner's employment with us is terminated by him for good reason, by us without cause, or we decide not to renew his agreement, Mr. R. Reiner will receive (i) his full base salary each month for the following 12 months, and (ii) an amount equal to 12 times the monthly cost of his health benefits. Alternatively, if Mr. R. Reiner's employment is terminated by us without cause, if he resigns for good reason, or we decide not to renew his agreement within six months prior to, or any time after, a change of control of the Company, he will receive (i) an amount equal to 150% of his annual salary, (ii) any unpaid bonus earned prior to the termination relating to periods preceding the date of termination, (iii) an amount equal to 18 times the monthly cost of his health benefits, and (iv) the acceleration of vesting of all equity awards with respect to such shares that would have vested following the date of termination. In addition, if the surviving or acquiring entity (or its parent entity) elects not to assume, continue or substitute for the equity awards or options due under the 2017 Plan, all outstanding equity awards and options under the 2017 Plan will vest in full and become fully exercisable. Mr. R. Reiner is subject to non-competition and non-solicitation restrictions during the term of his employment and for the 12-month period following the termination of his employment.

Thomas F. Dzersk. In June 2020 in connection with his planned retirement from the Company, we entered into an amended and restated employment agreement with Mr. Dzersk, our former Executive Vice President, Worldwide Sales, providing that Mr. Dzersk's employment would terminate as of October 31, 2020. This agreement also provided that Mr. Dzersk's base salary was reduced from the previous annualized rate of \$383,000 to \$192,000 for the transition employment period July 1 through October 31, 2020 and that Mr. Dzersk would not be eligible for any incentive compensation payouts for 2020. Mr. Dzersk continued to vest in outstanding equity awards through his employment termination date of October 31, 2020. Mr. Dzersk is subject to non-competition and non-solicitation restrictions for the 12-month period following the termination of his employment.

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

Each of our NEOs can resign for “good reason” and be entitled to certain severance payments as detailed above in the table titled “Potential Payments Upon Termination of Employment or Change of Control.” “Good reason” is defined in their employment agreements as (i) a material diminution in their authority, duties or responsibilities or the assignment of duties to them that are not materially commensurate with their position with the Company, other than, in the case of the employment agreement with Mr. R. Reiner, where he is asked to assume substantially similar duties and responsibilities in a larger entity after any change of control; (ii) a material reduction in their base salaries, or in the case of Mr. Rechan his target bonus opportunity, other than reductions which are part of a general reduction affecting all employees; (iii) the relocation of their principal place of service to their employer to more than 25 miles from their present location; (iv) any failure by the Company to continue to provide them with the opportunity to participate, on terms no less favorable than those in effect for the benefit of any employee holding a comparable position with the Company, in any material benefit or compensation plans and programs, which results in a material detriment to them; (v) any material breach by the Company of any provision of their employment agreement; or (vi) any failure by any successor corporation to assume the Company’s obligations under the NEO’s employment agreement.

Governance and Other Considerations

Tax and Accounting Considerations

Limits on Deductibility of Compensation. Section 162(m) of the Code generally prevents us from deducting as a business expense that portion of compensation paid to certain of our executive officers that exceeds \$1,000,000. Historically, there was an exception to this \$1,000,000 deduction limit for compensation that qualified as “performance-based compensation” under Section 162(m). Under federal tax legislation enacted on December 22, 2017, referred to as the Tax Cuts and Jobs Act, the performance-based exemption was repealed for taxable years on or after January 1, 2018, and the persons treated as covered employees subject to the deduction limit have been expanded to include our CFO and mandated that once an individual is treated as a covered employee for a given year, that individual will be treated as a covered employee for all subsequent years. Accordingly, any compensation paid to our covered executive officers in excess of \$1 million in any one year will not be deductible. The CLD Committee believes that its primary responsibility is to provide a compensation program to meet our stated business objectives, and accordingly the Company reserves the right to pay compensation that is not tax-deductible if it determines that such a payment is in the best interests of the Company and our stockholders.

Clawback Policy. Our “clawback” policy permits our Board to consider and make a decision in its sole discretion to recover, under applicable law, any incentive bonuses awarded to NEOs whose fraud or intentional misconduct significantly contributed to a restatement of financial results that led to the awarding of incentive bonuses. This “clawback” policy is designed to further link our executive compensation and our long-term performance. Additionally, the 2017 Plan provides for recovery of certain equity awards and profits from securities sales in similar circumstances.

Prohibition Against Hedging, Pledging, and Short-Sales. We have implemented both anti-hedging and anti-pledging policies, as well as a prohibition on participating in short sales of our stock, to ensure that our executives’ stock remains at-risk. Our Insider Trading Policy, which applies to all employees, including officers, and non-employee directors, specifically prohibits short sales of our securities, transactions in puts, calls or other derivative securities involving our stock, hedging or monetization transactions (including but not limited to zero-cost collars, prepaid variable forwards, and equity swaps), and holding our securities in a margin account or pledging our securities as collateral for a loan.

Stock Ownership Guidelines. As part of our overall corporate governance and compensation practices, our Board adopted stock ownership guidelines for our NEOs and directors. These guidelines are designed to align our NEOs’ and directors’ interests with our stockholders’ long-term interests by promoting long-term share ownership, which reduces the incentive for excessive short-term risk taking and further increases our NEOs’ and directors’ alignment with stockholder interests. These guidelines require our Chief Executive Officer to hold shares of our stock worth six times his annual salary and each other NEO is required to hold shares of our stock worth two times their annual salary. The guidelines also state that each non-employee director is required to hold shares of our stock worth five times the annual cash retainer for directors. Share units or unexercised options held by a NEO or director under any of our equity incentive plans are included, at 100% of their intrinsic value, in calculating the value of ownership to determine whether this minimum ownership requirement has been met. Shares held by a NEO or director under either of our equity incentive plans will continue to be included in calculating the value of ownership to determine whether this minimum ownership requirement has been met. Our NEOs must attain this ownership threshold within five years after being appointed as a NEO. Our directors must attain this ownership threshold within six years after joining our Board. As of December 31, 2020, each of our NEOs and directors were in compliance with the applicable guidelines.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table presents the compensation paid to or earned by our NEOs during 2020, 2019 and 2018:

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Andres D. Reiner	2020	\$ 540,000	\$ —	\$4,766,465 (2)	\$ 143,748	\$ 12,799 (3)	\$ 5,463,781
<i>President and Chief Executive Officer</i>	2019	\$ 525,000	\$ —	\$4,650,003 (4)	\$ 1,155,000	\$ 8,567	\$ 6,338,570
	2018	\$ 525,000	\$ —	\$5,408,210 (5)	\$ 799,838	\$ 1,785	\$ 6,734,832
Stefan B. Schulz	2020	\$ 405,000	\$ —	\$2,320,417 (6)	\$ 78,408	\$ 11,400 (3)	\$ 2,815,225
<i>Executive Vice President and Chief Financial Officer</i>	2019	\$ 392,000	\$ —	\$2,000,021 (7)	\$ 627,200	\$ 8,548	\$ 3,027,769
	2018	\$ 380,000	\$ —	\$2,186,406 (8)	\$ 421,040	\$ 5,660	\$ 2,993,106
Leslie Rechan	2020	\$ 298,952 (9)	\$ 100,000 (10)	\$3,999,985 (11)	\$ 58,928	\$ —	\$ 4,357,865
<i>Chief Operating Officer</i>							
Roberto Reiner	2020	\$ 350,000	\$ —	\$1,668,656 (12)	\$ 59,290	\$ 11,886 (3)	\$ 2,088,446
<i>Executive Vice President and Chief Technology Officer</i>	2019	\$ 338,000	\$ —	\$1,800,002 (13)	\$ 444,808	\$ 8,400	\$ 2,253,210
Thomas F. Dzersk	2020	\$ 247,500 (14)	\$ —	\$1,292,676 (15)	\$ —	\$ 8,530	\$ 1,548,706
<i>former EVP, Worldwide Sales</i>	2019	\$ 383,000	\$ —	\$1,600,017 (16)	\$ 766,000	\$ 6,479	\$ 2,755,496
	2018	\$ 375,000	\$ —	\$ 485,863 (17)	\$ 519,375	\$ —	\$ 1,380,238

- (1) Represents the aggregate grant date fair value of equity awards granted in the specified fiscal year as calculated in accordance with GAAP. For additional information about equity award valuation assumptions, refer to Note 14 of our financial statements in our Form 10-K for the year ended December 31, 2020.
- (2) Represents 39,500 RSUs awarded to Mr. A. Reiner on January 13, 2020 and 39,500 PRSUs awarded to Mr. A. Reiner on February 7, 2020. The 2020 RSUs vest annually in one-fourth installments on January 13th of each year and have a grant date fair value of \$66.44 per unit. The 2020 PRSUs will vest on January 13, 2023, and have a grant date fair value of \$54.23 per unit. The number of PRSUs and target award value for the 2020 PRSUs was established by the CLD Committee on January 13, 2020 but were granted on February 7, 2020 when the performance targets were finalized. For additional information on the 2020 RSUs and 2020 PRSUs, see [Grants of Plan-Based Awards](#).
- (3) Includes 401(k) Company match for Messrs. A. Reiner and Schulz of \$11,400 and for Mr. R. Reiner of \$10,500.
- (4) Represents 70,348 RSUs and 70,348 PRSUs awarded to Mr. A. Reiner on January 15, 2019. The 2019 RSUs vest annually in one-fourth installments on January 15th of each year and have a grant date fair value of \$33.05 per unit. The 2019 PRSUs will vest on January 15, 2022, and have a grant date fair value of \$33.05 per unit.
- (5) Represents 82,948 RSUs awarded to Mr. A. Reiner on January 8, 2018 and 82,948 MSUs awarded on January 12, 2018. The 2018 RSUs vest annually in one-fourth installments on January 10th of each year and have a grant date fair value of \$27.02 per unit. The 2018 MSUs will vest on January 10, 2021, and have a grant date fair value of \$38.18 per unit.
- (6) Represents 22,600 RSUs awarded to Mr. Schulz on January 13, 2020 and 15,100 PRSUs awarded to Mr. Schulz on February 7, 2020. The 2020 RSUs vest annually in one-fourth installments on January 13th of each year and have a grant date fair value of \$66.44 per unit. The 2020 PRSUs will vest on January 13, 2023, and have a grant date fair value of \$54.23 per unit. The number of PRSUs and target award value for the 2020 PRSUs was established by the CLD Committee on January 13, 2020 but were granted on February 7, 2020 when the performance targets were finalized. For additional information on the 2020 RSUs and 2020 PRSUs, see [Grants of Plan-Based Awards](#).
- (7) Represents 36,309 RSUs and 24,206 PRSUs awarded to Mr. Schulz on January 15, 2019. The 2019 RSUs vest annually in one-fourth installments on January 15th of each year and have a grant date fair value of \$33.05 per unit. The 2019 PRSUs will vest on January 15, 2022, and have a grant date fair value of \$33.05 per unit.
- (8) Represents 41,667 RSUs awarded to Mr. Schulz on January 8, 2018 and 27,778 MSUs awarded on January 12, 2018. The 2018 RSUs vest annually in one-fourth installments on January 10th of each year and have a grant date fair value of \$27.02 per unit. The 2018 MSUs will vest on January 10, 2021, and have a grant date fair value of \$38.18 per unit.
- (9) Mr. Rechan's base salary was prorated based on his start date as Chief Operating Officer of May 13, 2020.
- (10) Mr. Rechan was provided as part of his offer package \$100,000 reimbursement for relocation expenses to move to the United States.
- (11) Represents 132,406 RSUs awarded to Mr. Rechan on May 13, 2020. The RSUs vest annually in one-fourth installments on May 13th of each year and have a grant date fair value of \$30.21 per unit.

- (12) Represents 16,300 RSUs awarded to Mr. R. Reiner on January 13, 2020 and 10,800 PRSUs awarded to Mr. R. Reiner on February 7, 2020. The 2020 RSUs vest annually in one-fourth installments on January 13th of each year and have a grant date fair value of \$66.44 per unit. The 2020 PRSUs will vest on January 13, 2023, and have a grant date fair value of \$54.23 per unit. The number of PRSUs and target award value for the 2020 PRSUs was established by the CLD Committee on January 13, 2020 but were granted on February 7, 2020 when the performance targets were finalized. For additional information on the 2020 RSUs and 2020 PRSUs, see [Grants of Plan-Based Awards](#).
- (13) Represents 54,463 RSUs awarded to Mr. R. Reiner on January 15, 2019. The 2019 RSUs vest annually in one-fourth installments on January 15th of each year and have a grant date fair value of \$33.05 per unit.
- (14) In connection with Mr. Dziersk's announced retirement, his base salary was reduced for the transition employment period July 1 through October 31, 2020 from the annualized salary of \$383,000 to \$192,000.
- (15) Represents 12,600 RSUs awarded to Mr. Dziersk on January 13, 2020 and 8,400 PRSUs awarded to Mr. Dziersk on February 7, 2020. The 2020 RSUs vest annually in one-fourth installments on January 13th of each year and have a grant date fair value of \$66.44 per unit. The PRSUs have a grant date fair value of \$54.23 per unit. Mr. Dziersk has forfeited all these awards in connection with his retirement from the Company.
- (16) Represents 29,047 RSUs and 19,365 PRSUs awarded to Mr. Dziersk on January 15, 2019. The 2019 RSUs vest annually in one-fourth installments on January 15th of each year and have a grant date fair value of \$33.05 per unit. The 2019 PRSUs will vest on January 15, 2022, and have a grant date fair value of \$33.05 per unit.
- (17) Represents 9,259 RSUs awarded to Mr. Dziersk on January 8, 2018 and 6,173 MSUs awarded on January 12, 2018. The 2018 RSUs vest annually in one-fourth installments on January 10th of each year and have a grant date fair value of \$27.02 per unit. The 2018 MSUs have a grant date fair value of \$38.18 per unit and have been forfeited by Mr. Dziersk in connection with his retirement from the Company.

Grants of Plan-Based Awards

The following table shows all plan-based awards granted to our NEOs during 2020:

Named Executive Officer	Type of Award	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards		All Other Stock Awards: Number of Shares of Stock or Units (#)	FMV on Grant Date (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
			Threshold (\$)	Target (\$)	Maximum (\$)	Target (#)	Maximum (#)			
Andres D. Reiner	RSU	1/13/2020						39,500	\$ 66.44	\$2,624,380
	PRSU ⁽¹⁾	2/7/2020				39,500	79,000		\$ 54.23	\$2,142,085
	Cash incentive ⁽³⁾		\$118,800	\$594,000	\$1,188,000					
Stefan B. Schulz	RSU	1/13/2020						22,600	\$ 66.44	\$1,501,544
	PRSU ⁽¹⁾	2/7/2020				15,100	30,200		\$ 54.23	\$ 818,873
	Cash incentive ⁽³⁾		\$ 64,800	\$324,000	\$ 648,000					
Leslie Rechan	RSU ⁽²⁾	5/13/2020						132,406	\$ 30.21	\$3,999,985
	Cash incentive ⁽³⁾⁽⁴⁾		\$ 48,701	\$243,504	\$ 487,008					
Roberto Reiner	RSU	1/13/2020						16,300	\$ 66.44	\$1,082,972
	PRSU ⁽¹⁾	2/7/2020				10,800	21,600		\$ 54.23	\$ 585,684
	Cash incentive ⁽³⁾		\$ 49,000	\$245,000	\$ 490,000					
Thomas F. Dziersk	RSU ⁽⁵⁾	1/13/2020						12,600	\$ 66.44	\$ 837,144
	PRSU ⁽¹⁾⁽⁵⁾	2/7/2020				8,400	16,800		\$ 54.23	\$ 455,532
	Cash incentive ⁽³⁾⁽⁵⁾		\$ 76,600	\$383,000	\$ 766,000					

- (1) The number of PRSUs awarded to each of Messrs. A. Reiner, Schulz, R. Reiner and Dziersk were determined by the CLD Committee on January 13, 2020 in conjunction with the grant of RSUs on that day to align the target award value split between RSUs and PRSUs in the following respective splits: Mr. A. Reiner - 50/50 and Messrs. Schulz, R. Reiner and Dziersk - 60/40 each. However, the PRSUs were granted on February 7, 2020 when the long-term performance targets were established by the CLD Committee. Because the PRSUs have a grant date of February 7, 2020, the fair market value required to be shown in the table above and other tables herein is the closing stock price on February 7, 2020 which was lower than on January 13, 2020. The 2020 PRSUs are subject to both a performance condition and a time-based vesting condition. The number of PRSUs that may be earned, up to 200% of target award, is based upon achievement by the Company against total recurring revenue targets over a performance period ending December 31, 2021. Such earned PRSUs then vest on January 13, 2023. Grant Date Fair Value was calculated using at target number of PRSUs with the fair value of \$54.23 per unit determined on grant date.
- (2) Mr. Rechan's award included his initial "sign-on" and "make whole" award with a combined total target value of \$4,000,000 and was granted on May 13, 2020 using the closing share price on such date of \$30.21 to calculate the number of RSUs.
- (3) The 2020 cash incentive plan consisted of two independent measures each with their own respective thresholds. The measure for Total Revenue had a threshold of 30% of target while Non-GAAP Recurring Revenue Gross Margin had a threshold of 20%.
- (4) Mr. Rechan's target cash incentive was prorated to reflect his start date of May 13, 2020.
- (5) In connection with his retirement from the Company, Mr. Dziersk has forfeited all of these awards.

Outstanding Equity Awards at Fiscal Year End

The following table presents the number of options to purchase shares of our Common Stock, SARs, RSUs and MSUs held by our NEOs as of December 31, 2020 and the value of such awards based on the closing stock price of \$50.77 as of such date:

Named Executive Officer	Stock Awards			
	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#)		Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested (\$)	
Andres D. Reiner	21,000	(1)	\$	1,066,170
	41,474	(2)	\$	2,105,635
	82,948	(3)	\$	4,211,270
	52,761	(4)	\$	2,678,676
	70,348	(5)	\$	3,571,568
	39,500	(6)	\$	2,005,415
	39,500	(7)	\$	2,005,415
Stefan B. Schulz	9,800	(1)	\$	497,546
	20,834	(2)	\$	1,057,742
	27,778	(3)	\$	1,410,289
	27,232	(4)	\$	1,382,569
	24,206	(5)	\$	1,228,939
	22,600	(6)	\$	1,147,402
	15,100	(7)	\$	766,627
Leslie Rechan	132,406	(8)	\$	6,722,253
Roberto Reiner	16,325	(1)	\$	828,820
	27,006	(2)	\$	1,371,095
	40,848	(4)	\$	2,073,853
	16,300	(6)	\$	827,551
	10,800	(7)	\$	548,316
Thomas F. Dzersk	—			—

- (1) Represents 2017 RSUs awarded to Messrs. A. Reiner, Schulz, and R. Reiner on January 20, 2017. These 2017 RSUs continue to vest annually in one-fourth installments on January 1st of each year through 2021.
- (2) Represents 2018 RSUs awarded to Messrs. A. Reiner, Schulz and R. Reiner on January 8, 2018. These 2018 RSUs continue to vest annually in one-fourth installments on January 10th of each year through 2022.
- (3) Represents 2018 MSUs awarded to Messrs. A. Reiner and Schulz on January 12, 2018. These 2018 MSUs vest on January 10, 2021. The amounts shown above reflect the number of 2018 MSUs that would be earned if the performance goals related to these awards were met at the target level at the end of the performance period. If the minimum performance threshold is not met, there will be no payout. The number of shares that will actually be earned will depend on our TSR for the period from January 1, 2018 through December 31, 2020 as compared to the Russell 2000 Index.
- (4) Represents 2019 RSUs awarded to Messrs. A. Reiner, Schulz, Dzersk and R. Reiner on January 15, 2019. These 2019 RSUs vest annually in one-fourth installments on January 15th of each year through 2023.
- (5) Represents 2019 PRSUs awarded to Messrs. A. Reiner and Schulz on January 15, 2019. These 2019 PRSUs are subject to both a performance condition and a time-based vesting condition. The number of 2019 PRSUs which may be earned, up to 200% of target award, is based upon achievement by the Company against total recurring revenue targets over a performance period ending December 31, 2020. Such earned 2019 PRSUs then vest on January 15, 2022.
- (6) Represents 2020 RSUs awarded to Messrs. A. Reiner, Schulz, and R. Reiner on January 13, 2020. These 2020 RSUs vest annually in one-fourth installments on January 13th of each year through 2024.
- (7) Represents 2020 PRSUs awarded to Messrs. A. Reiner, Schulz, and R. Reiner on February 7, 2020. These 2020 PRSUs are subject to both a performance condition and a time-based vesting condition. The number of 2020 PRSUs which may be earned, up to 200% of target award, is based upon achievement by the Company against total recurring revenue targets over a performance period ending December 31, 2021. Such earned 2020 PRSUs then vest on January 13, 2023.
- (8) Represents RSUs awarded to Mr. Rechan in connection with his employment with the Company as Chief Operating Officer on May 13, 2020. These RSUs vest annually in one-fourth installments on May 13th of each year through 2024.

Option Exercises and Equity Awards Vested

The following table presents information on the exercises of stock options and vesting of PRSUs, RSUs and MSUs for our NEOs during the year ended December 31, 2020:

Named Executive Officer	Option Awards		Stock Awards		
	Number of shares acquired on exercise (#)	Value realized on exercise (\$)	Number of shares acquired on RSU vesting (#)	Number of shares acquired on PRSU and MSU vesting (#)	Value realized on vesting (\$)
Andres D. Reiner	—	—	81,824	168,000	\$ 12,743,147
Stefan B. Schulz	—	—	44,919	52,200	\$ 5,069,877
Leslie Rechan	—	—	—	—	—
Roberto Reiner	—	—	73,443	—	\$ 4,217,087
Thomas F. Dzersk	—	—	24,452	70,492	\$ 3,590,211

Potential Payments Upon Termination of Employment or Change of Control

The following table represents amounts payable at, following, or in connection with the events described below, assuming that such events occurred on December 31, 2020 for each of the NEOs other than Mr. Dzersk who was not employed by the Company at December 31, 2020:

Named Executive Officer	Severance	Annual Bonus Payment	Equity Grants	Welfare Benefits	Total Payment
Andres D. Reiner					
Death or Disability (1)	—	—	\$ 19,103,533	—	\$ 19,103,533
Termination (2)	\$ 1,134,000	\$ 143,748	\$ 19,103,533	\$ 22,434	\$ 20,403,715
Termination on Change of Control (3)	\$ 1,701,000	\$ 143,748	\$ 21,108,961	\$ 33,652	\$ 22,987,361
Vesting on Change of Control (4)	—	—	\$ 13,253,065	—	\$ 13,253,065
Stefan B. Schulz					
Death or Disability (1)	—	—	\$ 7,877,879	—	\$ 7,877,879
Termination (2)	\$ 729,000	\$ 78,408	\$ 5,566,744	\$ 19,748	\$ 6,393,900
Termination on Change of Control (3)	\$ 1,093,500	\$ 78,408	\$ 8,644,554	\$ 29,623	\$ 9,846,085
Vesting on Change of Control (4)	—	—	\$ 4,559,296	—	\$ 4,559,296
Leslie Rechan					
Death or Disability (1)	—	—	\$ 6,722,253	—	\$ 6,722,253
Termination (2)	\$ 807,500	58,928	1,680,563	\$ 22,434	\$ 2,569,425
Termination on Change of Control (3)	\$ 1,211,250	\$ 58,928	\$ 6,722,253	\$ 33,652	\$ 8,026,083
Vesting on Change of Control (4)	—	—	—	—	—
Roberto Reiner					
Death or Disability (1)	—	—	\$ 4,272,499	—	\$ 4,272,499
Termination (2)	\$ 350,000	—	—	\$ 14,140	\$ 364,140
Termination on Change of Control (3)	\$ 525,000	\$ 59,290	\$ 5,649,635	\$ 21,210	\$ 6,255,135
Vesting on Change of Control (4)	—	—	\$ —	—	\$ —

- (1) Death or Disability - in the event of a termination of the executive officer's employment due to death or disability certain equity awards will vest. For an explanation of these benefits by executive, see [Employment Agreements](#) above.
- (2) Termination - in the event of an involuntary termination of the executive officer's employment by the Company without Cause or a termination of employment by the executive officer for Good Reason, certain severance, bonus, equity vesting and other benefits are due to the executive officer. For an explanation of these benefits by executive and the definitions of Cause and Good Reason, see [Employment Agreements](#) above.
- (3) Termination on Change of Control - in the event of an involuntary termination of the executive officer's employment by the Company without Cause or a termination of employment by the executive officer for Good Reason, in either event during the six-month period prior to a Change of Control or after a Change of Control, certain severance, bonus, equity vesting and other benefits are due the executive officer. For an explanation of these benefits by executive, see [Employment Agreements](#) above.
- (4) Vesting on Change of Control - in the event of a Change of Control, certain performance-based equity awards accelerate their vesting by their terms because the respective performance period is deemed to have ended as of the date of the Change of Control. For PRSUs, if a Change of Control occurs prior to the one-year anniversary of the beginning of a performance period, the award vests at 100% of the target award amount and the earned shares are delivered, or paid out, to the executives as of the Change of Control. For MSUs, a Change of Control triggers a measurement of performance as of the Change of Control. Earned MSUs based on this measurement are paid out to the executives as of the Change of Control pro rata based on the length of the performance period concluded prior to the Change of Control. The remaining earned MSUs vest at the end of the original performance period.

CEO Pay Ratio

Under Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, the Company is required to provide the ratio of the annual total compensation of our Chief Executive Officer to the annual total compensation of the median employee of the Company (Pay Ratio Disclosure). For 2020, the median annual total compensation of all employees of the Company and its subsidiaries other than our CEO, was \$105,741. Our CEO's total annual compensation for 2020 for purposes of the Pay Ratio Disclosure was \$5.46 million. The ratio of the total annual compensation of our CEO to the median of all other employees was 52:1. As SEC rules permit different methodologies, exemptions, estimates and assumptions for identifying the median employee and calculating pay ratio, our Pay Ratio Disclosure may not be comparable to the pay ratio reported by other companies.

We identified the median employee by examining the 2020 total cash compensation for all individuals, excluding our CEO, who were employed by us during the 2020 calendar year (whether employed on a full-time, part-time, or seasonal basis). For such employees, we did not make any assumptions, adjustments, or estimates with respect to total cash compensation, and we did not annualize the compensation for any full-time employees that were not employed by us for all of 2020. We used the relevant exchange rate on December 31, 2020. After identifying the median employee criteria, we calculated annual total compensation for such employee and compared it to the CEO's total compensation as set forth in the Summary Compensation table above.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2020 with respect to compensation plans under which our equity securities are authorized for issuance. For additional information on our equity compensation plans, see Note 14 of the Notes to the Consolidated Financial Statements in our [2020 Annual Report](#).

Plan Category	I	II	III
	Number of securities to be issued upon exercise of outstanding options and rights (2)	Weighted-average exercise price of outstanding options and rights (\$) (3)	Number of securities remaining available for future issuance under plans (excluding securities listed in Column (I)) (4)
All compensation plans previously approved by security holders (1)	2,375,922	11.42	1,820,694
All compensation plans not previously approved by security holders	0	N/A	0
Total	2,375,922	11.42	1,820,694

(1) Includes awards from the 2007 Plan and the 2017 Plan. No further grants will be made from the 2007 Plan.

(2) Includes 1,801,762 RSUs, 221,452 MSUs (at maximum attainment of 200%), 324,708 PRSUs (at 200%), and 28,000 SARs.

(3) Includes the weighted average as it pertains to outstanding SARs only.

(4) Includes unissued award pools from the 2017 Plan and the 2013 Employee Stock Purchase Plan.

PROPOSAL TWO

NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION

What am I voting on?

As required pursuant to Section 14A of the Exchange Act, we are providing our stockholders with the opportunity to vote to approve, on an advisory or non-binding basis, the compensation of our NEOs as disclosed in this Proxy Statement in accordance with SEC rules. We currently conduct this advisory vote on an annual basis and expect to conduct the next advisory vote at our Annual Meeting to be held in 2022.

As described in the [Executive Compensation Program](#) and [Compensation Discussion and Analysis](#) sections of this Proxy Statement, our executive compensation program is designed to attract, retain, and motivate talented individuals with the executive experience and leadership skills necessary for us to manage our business and meet our long-term objectives. We seek to provide executive compensation that is competitive with companies that are similar to us. We also seek to provide near-term and long-term financial incentives that reward well-performing executives when strategic corporate objectives designed to increase long-term stockholder value are achieved. We believe that executive compensation should include base salary, cash incentives and equity awards. We also believe that our executive officers' base salaries should be set at levels relative to comparable companies, and cash and equity incentives should generally be set at levels that give executives the opportunity to achieve above-average total compensation reflecting above-average Company performance. In particular, our executive compensation philosophy is to promote long-term value creation for our stockholders by rewarding improvement in selected financial metrics and by using equity incentives. *Please see our [Compensation Discussion and Analysis](#) and related compensation tables for detailed information about our executive compensation programs, including information about the fiscal year 2020 compensation of our NEOs.*

For the reasons discussed above, the Board unanimously recommends that stockholders vote in favor of the following resolution:

Resolved, that the stockholders approve, on an advisory basis, the compensation paid to the Company's NEOs, as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis, compensation tables and narrative discussion.

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

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

Vote Required

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

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

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

PROPOSAL THREE

APPROVAL OF AMENDMENTS TO THE AMENDED AND RESTATED 2017 EQUITY INCENTIVE PLAN TO, AMONG OTHER ITEMS, INCREASE PLAN SHARES AUTHORIZED FOR ISSUANCE

What am I voting on?

We are seeking stockholder approval of the following amendments to our Amended and Restated 2017 Equity Incentive Plan (2017 Plan):

Increased Shares Authorized for Issuance. An increase of 3,100,000 shares, for an aggregate maximum number of shares of Common Stock of the Company (the Shares) reserved for issuance of new grants under the 2017 Plan of 3,869,902 Shares as of March 1, 2021, assuming the amendments are approved at the Annual Meeting. Our continuing ability to offer equity incentive awards under the 2017 Plan is critical to our ability to attract, motivate and retain qualified personnel, particularly as we grow and in light of the highly competitive market for employee talent in which we operate.

Extension of Plan Term. An extension of the term of the 2017 Plan for an additional two years (currently scheduled to expire in May 2029) to May 12, 2031.

Other Amendments. The other amendments to the 2017 Plan establish a total compensation limit on non-employee director awards, exclude from the minimum vesting requirement any Shares delivered in lieu of fully vested cash-based awards, provide additional flexibility and discretion to the CLD Committee in establishing and settling performance awards and clarify the administration of certain change in control provisions.

The Board has determined that it is in the best interests of the Company and its stockholders to approve this proposal. The Board has approved the amendments to the 2017 Plan to increase the available shares thereunder, extend the term of the 2017 Plan and revise certain other provisions of the 2017 Plan, subject to stockholder approval, and recommends that stockholders vote in favor of this proposal at the Annual Meeting. Stockholder approval of this proposal requires the affirmative vote of a majority of the outstanding Shares that are present in person or by proxy and entitled to vote on the proposal at the Annual Meeting.

If stockholders approve this proposal, the amendments to the 2017 Plan will become effective as of the date of stockholder approval. If stockholders do not approve this proposal, the amendments to the 2017 Plan described in this proposal will not take effect and our 2017 Plan will continue to be administered in its current form. Our executive officers and directors have an interest in this proposal by virtue of their being eligible to receive equity awards under the 2017 Plan. The remainder of this discussion, when referring to the 2017 Plan, refers to the 2017 Plan as if this proposal is approved by our stockholders, unless otherwise specified or the context otherwise references the 2017 Plan prior to the amendments.

Increasing the Number of Shares Authorized for Issuance under the 2017 Plan

Background

The 2017 Plan was initially adopted by the Board in March 2017, and our stockholders approved it in May 2017. As described in more detail below, the initial share reserve under the 2017 Plan was 2,500,000 Shares. At the 2019 Annual Meeting, our stockholders, upon recommendation of the Board, approved amendments to the 2017 Plan and a share increase to reserve an additional 2,050,000 Shares. As discussed in our 2019 proxy, when we sought stockholder approval of the amendments to the 2017 Plan at the 2019 Annual Meeting, we believed that the Shares reserved for issuance under it following stockholder approval (along with Shares becoming available for future grant due to forfeitures and cancellations) would be sufficient to enable us to continue to grant equity awards under the 2017 Plan for approximately two to three years. This estimate was based on a forecast that took into account our anticipated rate of growth in hiring, an estimated range of our stock price over time and our historical forfeiture rates.

Shares Available for Future Awards

As of March 1, 2021, 769,902 Shares remained available for grant under the 2017 Plan. The Board believes that additional Shares are necessary to meet the Company's anticipated equity compensation needs. The proposed Share increase is expected to last approximately two to three years. This estimate is based on a forecast that takes into account our anticipated rate of growth in hiring, an estimated range of our stock price over time and our historical forfeiture rates.

If the amendments are approved, the total number of Shares that will be available for future awards under the 2017 Plan will be equal to 3,100,000, plus the 769,902 shares that remained available for grants as of March 1, 2021, less shares subject to awards made after March 1, 2021, and subject to adjustment as provided in the 2017 Plan and as described below.

Reasons for Voting for the Proposal

Long-Term Equity Is a Key Component of Our Compensation Objective

As discussed in the [Compensation Discussion and Analysis](#) section, our overall compensation objective is to compensate our personnel in a manner that attracts and retains the highly talented employees necessary to manage and staff a high-growth business in an innovative and competitive industry. Our employees are our most valuable asset, and we strive to provide them with compensation packages that are competitive, that reward personal and company performance and that help meet our retention needs. Equity awards, whose value depends on our stock performance and which require continued service over time before any value can be realized, help achieve these objectives and are a key element of our compensation program. Equity awards also incentivize our employees to manage our business as owners, aligning their interests with those of our stockholders. We believe we must continue to use equity compensation on a broad basis to help attract, retain and motivate employees to continue to grow our business, develop new products and ultimately increase stockholder value. As of March 1, 2021, 1,216 of our employees held outstanding equity awards.

The 2017 Plan Requires Additional Shares to Meet Our Forecasted Needs

As described above, the 2017 Plan has 769,902 Shares available for grant as of March 1, 2021. We believe additional Shares should be reserved for issuance under our 2017 Plan to meet our estimated near-term equity compensation needs.

We operate in a highly competitive industry and geography for employee talent and do not expect required rates of compensation to decline. One alternative to using equity awards would be to significantly increase cash compensation. We do not believe this would be practical or advisable. As a high-growth company, we believe that a combination of equity and cash compensation is better for attracting, retaining and motivating employees. Any significant increase in cash compensation in lieu of equity awards would reduce the cash otherwise available for operations and investment in our business. Furthermore, we do not believe a more cash-oriented program would have the same long-term retention value or serve to align employees' interests to those of our stockholders as well as a program that includes equity.

We Manage Our Equity Incentive Program Thoughtfully

We manage our long-term stockholder dilution by limiting the number of equity awards granted annually and limiting what we grant to what we believe is an appropriate amount of equity necessary to attract, reward and retain employees. Our three-year average burn rate, which we define as the number of Shares subject to equity awards granted in a fiscal year divided by the weighted average Shares outstanding for that fiscal year, was 3.0% for fiscal years 2018 through 2020 (see table below for detailed calculation of our three-year average burn rate).

Equity Awards Outstanding

As of March 1, 2021, equity awards outstanding under our equity plans were: no SARs, no stock options, no unvested restricted shares, 2,042,937 RSUs and 265,732 performance-based or market-based RSUs (at target).

As of March 1, 2021, we had 44,247,277 Shares outstanding. Accordingly, our approximately 2,308,669 outstanding awards (not including awards under our ESPP) plus 769,902 Shares available for future grant under our 2017 Plan (not including under our ESPP) as of March 1, 2021 represented 6.5% of our Common Stock outstanding (commonly referred to as the "overhang"). No stock options or SARs were outstanding as of March 1, 2021.

	As of March 1, 2021
RSUs outstanding	2,042,937
Performance-based RSUs outstanding, at target (1)	265,732
Total shares available for grant under the 2017 Plan	769,902
Total	3,078,571
Shares Outstanding	44,247,277
Total potential dilution (2)	6.5 %

(1) Includes 125,541 MSUs at target and 140,191 PRSUs (2019 PRSUs at actual and 2020 PRSUs at target).

(2) Calculated by dividing "Total" (the sum of outstanding RSUs, performance-based RSUs (at target) and shares available for grant under the 2017 Plan) by the sum of Total and Shares Outstanding.

The 2017 Plan Incorporates Good Compensation and Governance Practices.

Fixed plan term. The 2017 Plan has a fixed term of ten years.

No evergreen authorization. The 2017 Plan does not have an evergreen provision, which would have permitted an annual increase in the number of shares authorized for issuance without further stockholder approval.

No liberal share recycling on options and stock appreciation rights. The 2017 Plan generally provides for gross share counting. The number of shares remaining available for grant under the 2017 Plan is reduced by the gross number of shares subject to options and stock appreciation rights settled on a net basis, and any shares withheld for taxes in connection with the exercise or settlement of options and stock appreciation rights will not again be available for the future grant of awards. Shares withheld or reacquired by the Company for taxes up to the minimum statutory withholding rate in connection with the vesting or settlement of full value awards will not reduce the number of shares remaining available for the future grant of awards.

Individual award limits. The 2017 Plan limits the maximum number of shares for which share-denominated awards may be granted to any employee in any fiscal year and the maximum dollar amount that an employee may earn for each fiscal year contained in a performance period under a cash-denominated award.

Non-employee director award limit. The number of shares for which awards may be granted to any non-employee member of our Board plus the total amount of cash paid to such director in a fiscal year is limited.

No discounted options or stock appreciation rights. Options and stock appreciation rights must have an exercise price or base price at or above the fair market value per share of our common stock on the date of grant.

Prohibition of option repricing. The 2017 Plan prohibits the repricing of stock options and stock appreciation rights without the approval of our stockholders.

Minimum vesting. The 2017 Plan requires each stock-based award to have a minimum vesting period of one year, except for 5% of the aggregate number of shares authorized for issuance under the 2017 Plan.

Performance-based awards. Performance share and performance unit awards require the achievement of pre-established goals. The 2017 Plan establishes a list of measures of business and financial performance from which the CLD Committee may construct predetermined performance goals that must be met for an award to vest, although the CLD Committee may choose to construct performance goals using alternative metrics.

No liberal change-in-control definition. The 2017 Plan does not contain a “liberal” change in control definition (e.g., mergers require actual consummation).

No automatic vesting upon a change in control. With the exception of awards held by non-employee directors, the 2017 Plan does not provide for automatic acceleration of awards vesting upon a change in control. The 2017 Plan allows for an acquiring corporation to assume, continue or substitute new awards for outstanding awards, and, if such awards are assumed, continued or replaced, their vesting will generally not accelerate in connection with the change in control, unless the award holder is involuntarily terminated without cause within 18 months following the change in control. The vesting of awards that are not assumed, continued or replaced will be accelerated. The vesting of awards held by non-employee directors will accelerate in full upon a change in control.

No tax gross-ups. The 2017 Plan does not provide for any tax gross-ups.

Limitation on dividends and dividend equivalents. Dividend equivalents may not be granted in connection with options or stock appreciation rights. Any dividends or dividend equivalents payable in connection with a full value award will be subject to the same restrictions as the underlying award and will not be paid until and unless such award vests.

Summary of the 2017 Plan

The following is a summary of the operation and principal features of the 2017 Plan. The summary is qualified in its entirety by reference to the complete text of the 2017 Plan, as amended, as set forth in [Appendix A](#).

Purpose

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

In approving the initial adoption of the 2017 Plan, our stockholders authorized us to issue up to 2,500,000 Shares under the 2017 Plan. At the 2019 Annual Meeting, our stockholders authorized us to issue an additional 2,050,000 Shares under the 2017 Plan. As of March 1, 2021, a total of 769,902 Shares remained available for the future grant of awards under the 2017 Plan. As described above, if the amendments are approved, the total number of shares that will be available for future awards under the 2017 Plan will be equal to 3,100,000, plus the 769,902 shares that remained available for grants as of March 1, 2021, less shares subject to awards made after March 1, 2021, subject to adjustment as provided in the 2017 Plan and as described below.

Dilution, Burn Rate and Equity Overhang

We recognize that equity awards dilute existing stockholders. Our CLD Committee regularly reviews our equity compensation program to ensure that we balance our employee compensation objectives with our stockholders' interest in limiting dilution from equity awards.

Our CLD Committee also regularly reviews our burn rate and potential dilution from equity compensation. Our equity award burn rate averaged 3.0% of weighted average common shares outstanding over the last three fiscal years, calculated as follows:

Detailed Three-Year Average Burn Rate Calculation

	2018	2019	2020	3-Year Average
RSUs granted	829,000	816,000	976,000	873,667
Performance-based awards vested	124,000	520,000	300,000	314,667
Total	953,000	1,336,000	1,276,000	1,188,333
Weighted Average # of Shares Outstanding	34,465,000	40,232,000	43,301,000	39,332,667
Gross Burn Rate (1)	2.8%	3.3%	2.9%	3.0%

(1) Calculated by dividing the Total (sum of RSUs granted and performance-based awards earned in each year) by the weighted average Shares outstanding.

Share Counting

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

Adjustments for Capital Structure Changes

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

Non-employee Director Award Limits

A non-employee director may not be granted awards under the 2017 Plan in any calendar year having an aggregate grant date fair value exceeding, including the total cash compensation paid to such director for services rendered for such calendar year, \$600,000.

Other Award Limits

The 2017 Plan establishes limits on the maximum aggregate number of shares or dollar value for which awards may be granted to an employee in any fiscal year, as follows:

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

In addition, to comply with applicable tax rules, the 2017 Plan also limits to 7,650,000 the number of shares that may be issued upon the exercise of incentive stock options granted under the 2017 Plan.

Administration

The 2017 Plan generally will be administered by the CLD Committee of the Board, although the Board retains the right to appoint another of its committees to administer the 2017 Plan or to administer the 2017 Plan directly. For purposes of this summary, the term “Committee” will refer to either such duly appointed committee or the Board. Subject to the provisions of the 2017 Plan, the Committee determines in its discretion the persons to whom and the times at which awards are granted, the types and sizes of awards, and all of their terms and conditions. The Committee may, subject to certain limitations on the exercise of its discretion provided by the 2017 Plan, amend, cancel or renew any award, waive any restrictions or conditions applicable to any award, and accelerate, continue, extend or defer the vesting of any award.

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

Prohibition of Option and SAR Repricing

The 2017 Plan expressly provides that, without the approval of a majority of the votes cast in person or by proxy at a meeting of our stockholders, the Committee may not provide for any of the following with respect to options or stock appreciation rights: (1) the cancellation of outstanding options or stock appreciation rights with exercise prices per share greater than the then fair market value of the Company's common stock in exchange for new options or stock appreciation rights having a lower exercise price, other awards or payments in cash (except in the event of a change in control), or (2) the amendment of outstanding options or stock appreciation rights to reduce the exercise price.

Minimum Vesting

No more than 5% of the aggregate number of shares authorized under the 2017 Plan may be issued pursuant to stock-based awards that vest earlier than one year following the date of grant. This minimum vesting requirement will not prohibit the Committee from accelerating vesting, including in connection with a participant's death or disability or in connection with a change in control of the Company. Also, the minimum vesting requirement will not apply to awards granted by another company that we assume or substitute for in connection with our acquisition of such company, shares of stock delivered in lieu of fully vested cash-based awards, or to awards granted to our non-employee directors that vest on the earlier of the one year anniversary of the date of grant or the next annual meeting of the stockholders which is at least 50 weeks after the immediately preceding year's annual meeting.

Eligibility

Awards may be granted to employees, directors and consultants of the Company or any present or future parent or subsidiary corporation or other affiliated entity of the Company. Incentive stock options may be granted only to employees who, as of the time of grant, are employees of the Company or any parent or subsidiary corporation of the Company. As of March 1, 2021, we had approximately 1,237 employees and 8 non-employee directors who would be eligible under the 2017 Plan. While the 2017 Plan permits awards to non-employee consultants to the Company, to date we have issued zero awards under the 2017 Plan to consultants.

Stock Options

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

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

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

Options are nontransferable by the participant other than by will or by the laws of descent and distribution, and are exercisable during the participant's lifetime only by the participant. However, an option may be assigned or transferred to certain family members or trusts for their benefit to the extent permitted by the Committee and, in the case of an incentive stock option, only to the extent that the transfer will not terminate its tax qualification. No option may be transferred to a third party financial institution for value.

Stock Appreciation Rights

The Committee may grant stock appreciation rights either in tandem with a related option (Tandem SAR) or independently of any option (Freestanding SAR). A Tandem SAR requires the option holder to elect between the exercise of the underlying option for shares of common stock or the surrender of the option and the exercise of the related stock appreciation right. A Tandem SAR is exercisable only at the time and only to the extent that the related stock option is exercisable, while a Freestanding SAR is exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the Committee. The exercise price of each stock appreciation right may not be less than the fair market value of a share of our common stock on the date of grant.

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

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

Restricted Stock Awards

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

Restricted Stock Units

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

Performance Awards

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

Performance goals may be based on the attainment of specified target levels with respect to one or more measures of business, or financial (or other measure or metric, determined in the subjective discretion of the Committee) performance of the Company and each subsidiary corporation consolidated with the Company for financial reporting purposes, or such division or business unit of the Company as may be selected by the Committee. The Committee, in its discretion, may base performance goals on one or more of the following such measures (or any other metric or goal the Committee may determine, including subjective performance criteria): bookings, revenue; sales; expenses; operating income; gross margin; operating margin; earnings before any one or more of: stock-based compensation expense, interest, taxes, depreciation and amortization; pre-tax profit; adjusted pre-tax profit; net operating income; net income; economic value added; free cash flow; operating cash flow; balance of cash, cash equivalents and marketable securities; stock price; earnings per share; return on stockholder equity; return on capital; return on assets; return on investment; total stockholder return, employee satisfaction; employee retention; market share; customer satisfaction; product development; research and development expense; completion of an identified special project and completion of a joint venture or other corporate transaction.

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

Following completion of the applicable performance period, the Committee will certify in writing the extent to which the applicable performance goals have been attained and the resulting value to be paid to the participant. The Committee retains the discretion to increase or reduce the amount that would otherwise be payable on the basis of the performance goals attained. The Committee may make positive or negative adjustments to performance award payments to reflect the participant's individual job performance or other factors determined by the Committee. In its discretion, the Committee may provide for a participant awarded performance shares to receive dividend equivalent rights with respect to cash dividends paid on the Company's common stock to the extent that the performance shares become vested. The Committee may provide for performance award payments in lump sums or installments.

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

Cash-Based Awards and Other Stock-Based Awards

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

Change in Control

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

If a Change in Control occurs, the surviving, continuing, successor or purchasing entity or its parent may, without the consent of any participant, either assume or continue outstanding awards or substitute substantially equivalent awards for its stock. If so determined by the Committee, stock-based awards will be deemed assumed if, for each share subject to the award prior to the Change in Control, its holder is given the right to receive the same amount of consideration that a stockholder would receive as a result of the Change in Control. The vesting of any awards that are not assumed, continued or replaced in connection with a Change in Control will be accelerated in full, and, if not exercised prior to the Change in Control, will terminate effective as of the time of the Change in Control. The vesting of any awards that are assumed, continue or replaced will be accelerated in full if, within 18 months following the Change in Control, the holder's employment is terminated without cause or the holder resigns following reduction in base salary of 15% or more.

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

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

Awards Subject to Section 409A of the Code

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

Amendment, Suspension or Termination

The 2017 Plan will continue in effect until its termination by the Committee, provided that no awards may be granted under the 2017 Plan following the tenth anniversary of the 2017 Plan's effective date, which is May 12, 2031. The Committee may amend, suspend or terminate the 2017 Plan at any time, provided that no amendment may be made without stockholder approval that would increase the maximum aggregate number of shares of stock authorized for issuance under the 2017 Plan, change the class of persons eligible to receive incentive stock options or require stockholder approval under any applicable law or the rules of any stock exchange on which the Company's shares are then listed. No amendment, suspension or termination of the 2017 Plan may affect any outstanding award unless expressly provided by the Committee, and, in any event, may not have a materially adverse effect on an outstanding award without the consent of the participant unless necessary to comply with any applicable law, regulation or rule, including, but not limited to, Section 409A of the Code.

Tax Aspects Under the Code

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

Incentive Stock Options

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

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

Nonstatutory Stock Options

Options not designated or qualifying as incentive stock options are nonstatutory stock options having no special tax status. A participant generally recognizes no taxable income upon receipt of such an option. Upon exercising a nonstatutory stock option, the participant normally recognizes ordinary income equal to the difference between the exercise price paid and the fair market value of the shares on the date when the option is exercised. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the exercise date, will be taxed as capital gain or loss. We generally should be entitled to a tax deduction equal to the amount of ordinary income recognized by the participant as a result of the exercise of a nonstatutory stock option, except to the extent such deduction is limited by applicable provisions of the Code.

Stock Appreciation Rights

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

Restricted Stock

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

Restricted Stock Unit, Performance, Cash-Based and Other Stock-Based Awards

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

Number of Awards Granted to Employees and Directors

The number of awards that an employee or director may receive under the 2017 Plan is in the discretion of the Committee and therefore cannot be determined in advance.

The following table sets forth, with respect to the individuals and groups named below: (i) the aggregate number of Shares subject to awards of restricted stock units granted under the 2017 Plan during the fiscal year ended December 31, 2020, and (ii) the dollar value of such units based on \$47.97 per share, the closing price of a Share on the NYSE on March 1, 2021. No stock options nor Restricted Stock have been issued under the 2017 Plan, and no SARs were granted in 2020.

Identity of Individual or Group	Number of Shares Subject to Stock Awards (#)	Dollar Value of Shares subject to Stock Awards (\$)
Andres D. Reiner	118,500 ⁽¹⁾	5,684,445
Stefan B. Schulz	52,800 ⁽²⁾	2,532,816
Leslie Rechan	132,406	6,351,516
Roberto Reiner	37,900 ⁽³⁾	1,818,063
Thomas D. Dziersk	29,400 ⁽⁴⁾	—
All current executive officers as a group	341,606	16,386,840
All current non-employee directors as a group	35,870	1,720,684
All other employees (including all current officers who are not executive officers) as a group	712,164	34,162,507

(1) Includes 79,000 2020 PRSUs at maximum attainment.

(2) Includes 30,200 2020 PRSUs at maximum attainment.

(3) Includes 21,600 2020 PRSUs at maximum attainment.

(4) Includes 16,800 2020 PRSUs at maximum attainment. In connection with his retirement from the Company, Mr. Dziersk has forfeited all of these awards.

Vote Required

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

THE BOARD UNANIMOUSLY RECOMMENDS VOTING “FOR” THE APPROVAL OF THE PROPOSED AMENDMENTS TO THE 2017 EQUITY INCENTIVE PLAN.

PROPOSAL FOUR

APPROVAL OF AMENDMENT TO THE 2013 EMPLOYEE STOCK PURCHASE PLAN TO INCREASE PLAN SHARES AUTHORIZED FOR ISSUANCE

What am I voting on?

Our 2013 Employee Stock Purchase Plan (ESPP), is a benefit that we make broadly available to our employees and employees of our participating subsidiary corporations that allows them to purchase shares of Company Common Stock (Shares) at a discount. The ESPP helps us attract, retain and reward highly qualified employees and promotes employee stock ownership, which aligns employees' interests with those of our stockholders. We are asking our stockholders to approve amending the ESPP to increase by 500,000 Shares the number of Shares reserved for issuance under the ESPP. The Board has approved amending the ESPP to increase the share pool by 500,000 Shares, subject to stockholder approval at the Annual Meeting. Stockholder approval of the ESPP requires the affirmative vote of a majority of the outstanding Shares present in person or by proxy at the Annual Meeting and entitled to vote on the proposal.

If stockholders approve this proposal, the total number of Shares authorized and reserved for issuance under the ESPP will be 1,000,000 Shares. However, if this proposal is rejected by stockholders, the total number of Shares authorized and reserved for issuance under the ESPP will remain at 500,000, of which approximately 32,824 remain available for issuance as of March 1, 2021. Based on our current forecasts and estimated participation rates, if the increase is not approved, it is anticipated that the ESPP will not have enough shares available for the June 30, 2021 purchase.

We believe that the ESPP is an essential tool that helps us compete for talent in the labor markets in which we operate. We also believe the ESPP is a crucial element in rewarding and encouraging current employees that promotes stock ownership by employees, which aligns their interests with those of our stockholders. Without stockholder approval of this proposal, we believe our ability to attract and retain talent would be hampered, and our recruiting, retention and incentive efforts would become more difficult.

Our executive officers currently are permitted to participate in the ESPP and therefore have an interest in this proposal; however none of our executive officers participated in 2020 or is currently participating. The remainder of this discussion, when referring to the ESPP, refers to the amended ESPP as if this proposal is approved by our stockholders, unless otherwise specified or the context otherwise references the ESPP prior to amendment.

Increasing the Number of Shares Authorized for Issuance under the ESPP

Background

The ESPP was initially adopted by the Board in April, 2013 and approved by our stockholders in June 2013. The ESPP was implemented and made available to employees beginning with the six-month offering period starting in January 2014. In November 2015, the CLD Committee increased the discount from 5% to 15%, applicable to purchases made starting January 2016 and thereafter.

Under the ESPP, a participant may authorize participant contributions, generally in the form of payroll deductions, which, unless changed by the CLD Committee, may not exceed \$5,000 during the offering period. Payroll deductions are applied on the last day of a purchase period (the "purchase date") to purchase a whole number of Shares on behalf of a participant, which shall not exceed 500 Shares. The purchase price is 85% of the fair market value of a Share on the first day of the offering period or on the purchase date, whichever date results in a lower price.

Reasons for Voting for the Proposal

We believe that the number of Shares remaining available for issuance under the ESPP will not be sufficient for the expected levels of ongoing participation in the ESPP. Therefore, increasing the number of Shares available under the ESPP would be appropriate to help the Company meet the goals of its compensation strategy. The Board believes that the interests of the Company and its stockholders will be advanced if the Company can continue to offer employees the opportunity to acquire or increase their ownership in the Company.

In considering its recommendation to seek stockholder approval for the addition to the ESPP of 500,000 Shares, the Board considered the historical number of Shares purchased under the ESPP in the past three years, which were 65,457, 75,304, and 75,546, in 2020, 2019 and 2018, respectively. The Board also considered the Company's expectation that the additional Shares should last until approximately December 31, 2025. In the event that more Shares are required for the ESPP in the future, the prior approval of our stockholders will be required.

Summary of the ESPP

This section provides a summary of the principal features of the ESPP and its operation. This summary is qualified in its entirety by reference to the complete text of the ESPP as set forth in [Appendix B](#).

General

The purpose of the ESPP is to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward eligible employees and by motivating such employees to contribute to the growth and profitability of the Company and its participating subsidiary corporations, in each case, by providing eligible employees with the opportunity to acquire a proprietary interest in the Company through the purchase of Shares.

The ESPP is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended (Section 423). Under an employee stock purchase plan that qualifies under Section 423, no U.S. taxable income will be recognized by a participant, and no deductions will be allowable to the Company, upon either the grant or the exercise of the purchase rights. U.S. taxable income will not be recognized until there is a sale or other disposition of the Shares acquired under the ESPP or in the event the participant should die while still owning the purchased Shares. The ESPP also authorizes the grant of rights to purchase Shares that do not qualify under Section 423 pursuant to rules, procedures or sub-plans adopted by the CLD Committee to achieve tax, securities law or other compliance objectives in particular locations outside of the United States (Non-Section 423 Plan).

Each participant in the ESPP is granted at the beginning of each offering under the plan the right to purchase (Purchase Right) through accumulated payroll deductions up to a number of shares of the Common Stock of the Company determined on the first day of the offering. The Purchase Right is automatically exercised on the last day of the offering unless the participant has withdrawn from participation in the ESPP prior to such date.

Eligibility to Participate

Most employees of the Company and its participating subsidiary corporations whose customary employment is for at least twenty hours per week are eligible to participate in the ESPP. In addition, an employee is not eligible if he or she would own or hold outstanding options to purchase five percent or more of the total combined voting power or value of all classes of stock of the Company or of any parent or subsidiary corporation of the Company. As of March 1, 2021, approximately 1,066 employees were eligible to participate in the ESPP.

Number of Shares and Market Price of Shares Available Under the ESPP

A total of 500,000 Shares were initially authorized and reserved for issuance under the ESPP. Because approximately 32,824 Shares remained available for issuance as of March 1, 2021, if stockholders approved the proposed 2021 increase of 500,000 Shares, approximately 532,824 Shares would be available for issuance under the ESPP, subject to appropriate adjustment in the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or similar change in our capital structure, or in the event of any merger, sale of assets or other reorganization of the Company. If any Purchase Right expires or terminates, the shares subject to the unexercised portion of the Purchase Right will again be available for issuance under the ESPP.

As of March 1, 2021, the closing price of our Common Stock on the NYSE was \$47.97 per Share.

Administration

Our CLD Committee administers the ESPP and has full and exclusive authority to interpret the terms of the ESPP and determine employee eligibility to participate subject to the conditions of our ESPP. The ESPP provides, subject to certain limitations, for indemnification by the Company of any director, officer or employee against all reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the plan.

Offering Periods and Contributions

Eligible employees voluntarily elect whether or not to enroll in the ESPP. The ESPP provides for consecutive six-month offering periods. The offering periods generally start on the first trading days of January and July of each year. The CLD Committee may, in its discretion, modify the terms of future offering periods, provided that no offering period may exceed 27 months.

The ESPP permits participants to purchase Common Stock through payroll deductions of up to 10% of their eligible compensation, which includes a participant's base straight time gross earnings, commissions, and overtime, but exclusive of payments for incentive compensation, bonuses and other compensation. Generally, a participant may purchase during an offering period up to the lesser of 500 shares or a number of shares equal to \$5,000 divided by the fair market value of a share of Common Stock at the beginning of the offering period. The CLD Committee may change this limit for any future offering period, but the maximum amount of stock for all offerings beginning in a calendar year a participant may purchase cannot have a fair market value (measured as of the first day of the offering period) that would exceed \$25,000.

Purchase of Shares

Amounts deducted and accumulated by the participant are used to purchase Shares at the end of each six-month offering period. Per the CLD Committee resolution of November 2014, the purchase price of the Shares generally will be 85% of the lower of the fair market value of our Common Stock (i) on the first trading day of each offering period or (ii) on the purchase date, but in no event less than the amount permitted by Section 423 of the Code. Participants may end their participation at any time during an offering period, and will be paid their accrued payroll deductions that have not yet been used to purchase shares of Common Stock. Participation ends automatically upon termination of employment.

Non-transferability

A participant may not transfer rights granted under the ESPP other than as provided in the ESPP.

Adjustments; Certain Transactions

In the event of our merger, sale of substantially all of our assets or other change in control, as defined in the ESPP, a successor corporation may assume or substitute replacement rights for each outstanding Purchase Right. If the successor corporation refuses to assume or substitute for the outstanding Purchase Rights, the offering period then in progress will be shortened, and a new purchase date will be set. Each participant will be notified that the purchase date has been changed and that the participant's Purchase Right will be exercised automatically on the new purchase date unless prior to such date the participant has withdrawn from the offering period.

Amendment and termination

Our ESPP will continue indefinitely until we terminate it. The CLD Committee has the authority to amend, suspend or terminate our ESPP, except that (a) subject to certain exceptions described in the ESPP, no such action may adversely affect any outstanding rights to purchase stock under our ESPP; and (b) the approval of the Company's stockholders is required for any amendment increasing the number of shares authorized for issuance under our ESPP.

Number of Shares Purchased by Certain Individuals and Groups

Our Participation in the ESPP is voluntary and dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Further, the number of Shares that may be purchased under the ESPP is determined, in part, by the price of our Common Stock on the first and last day of each offering period. Accordingly, the actual number of Shares that may be purchased by any eligible individual is not determinable.

For illustrative purposes only, the following table sets forth (i) the number of Shares that were purchased during 2020 under the ESPP, and (ii) the weighted average per Share purchase price paid for such Shares, for all NEOs, all current executive officers as a group, all non-employee directors as a group and all other employees who participated in the ESPP as a group.

Identity of Individual or Group	Number of Shares Purchased (#)	Weighted Average Purchase Price Per Share (\$)
Andres D. Reiner	—	—
Stefan B. Schulz	—	—
Leslie Rechan	—	—
Roberto Reiner	—	—
Thomas D. Dziersk	—	—
All current executive officers as a group	—	—
All non-employee directors as a group (1)	—	—
All other employees (including all current officers who are not executive officers) as a group	65,457	43.15

(1) Non-employee directors are not eligible to participate in the ESPP.

In January 2021, 41,970 Shares were purchased under the ESPP at a purchase price of \$38.03 per Share.

Summary of U.S. Federal Income Tax Consequences

The following summary is intended only as a general guide as to the United States federal income tax consequences of participation in the ESPP under current law and does not attempt to describe all possible federal or other tax consequences of such participation or tax consequences based on particular circumstances.

Generally, there are no tax consequences to an employee of either becoming a participant in the ESPP or purchasing shares under the ESPP. The tax consequences of a disposition of shares vary depending on the period such stock is held before its disposition. If a participant disposes of shares within two years after the start of the applicable offering period or within one year after the purchase date on which the shares are acquired (Disqualifying Disposition), the participant recognizes ordinary income in the year of disposition in an amount equal to the difference between the fair market value of the shares on the purchase date and the purchase price. Such income may be subject to withholding of tax. Any additional gain or resulting loss recognized by the participant from the disposition of the shares is a capital gain or loss. If the participant disposes of shares at least two years after the start of the applicable offering period and at least one year after the purchase date on which the shares are acquired, the participant recognizes ordinary income in the year of disposition in an amount equal to the lesser of (i) the difference between the fair market value of the shares on the date of disposition and the purchase price or (ii) the difference between the fair market value of the shares on at the start of the offering period and purchase price (determined as if the Purchase Right were exercised on the first day of the offering period). Any additional gain recognized by the participant on the disposition of the shares is a capital gain. If the fair market value of the shares on the date of disposition is less than the purchase price, there is no ordinary income, and the loss recognized is a capital loss. If the participant owns the shares at the time of the participant's death, the lesser of (i) the difference between the fair market value of the shares on the date of death and the purchase price or (ii) the difference between the fair market value of the shares at the start of the offering period and purchase price (determined as if the Purchase Right were exercised on the first day of the offering period) is recognized as ordinary income in the year of the participant's death.

If the exercise of a Purchase Right does not constitute an exercise pursuant to an "employee stock purchase plan" under section 423 of the Code, the exercise of the Purchase Right will be treated as the exercise of a nonstatutory stock option. The participant would therefore recognize ordinary income on the purchase date equal to the excess of the fair market value of the shares acquired over the purchase price. Such income is subject to withholding of income and employment taxes. Any gain or loss recognized on a subsequent sale of the shares, as measured by the difference between the sale proceeds and the sum of (i) the purchase price for such shares and (ii) the amount of ordinary income recognized on the exercise of the Purchase Right, will be treated as a capital gain or loss, as the case may be.

If the participant disposes of the shares in a Disqualifying Disposition we should be entitled to a deduction equal to the amount of ordinary income recognized by the participant as a result of the disposition, except to the extent such deduction is limited by applicable provisions of the Code or the regulations thereunder. In all other cases, we are not allowed a deduction.

Vote Required and Board of Directors' Recommendation

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

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

determining the number of shares represented and voting with respect to the particular proposal on which the broker has expressly not voted and, accordingly, will not affect the approval of this proposal.

THE BOARD UNANIMOUSLY RECOMMENDS VOTING “FOR” THE APPROVAL OF THE AMENDMENT TO THE 2013 EMPLOYEE STOCK PURCHASE PLAN TO INCREASE PLAN SHARES AUTHORIZED FOR ISSUANCE.

SECURITY OWNERSHIP

The following tables set forth information regarding beneficial ownership of our Common Stock for each person known to own beneficially more than 5% of our outstanding Common Stock, each of our NEOS, each director and director nominee, and our NEOs, directors and director nominee as a group, each as of the Record Date unless otherwise noted below. Applicable percentage of ownership is based on 44,252,765 shares of our Common Stock outstanding as of the Record Date.

Principal Shareholders and Address	Common Stock and Nature of Beneficial Ownership	Percentage
Brown Capital Management, LLC, 1201 N. Calvert Street, Baltimore, MD 21202	6,541,717 ⁽¹⁾	14.8 %
The Vanguard Group, 100 Vanguard Blvd., Malvern, PA 19355	3,701,299 ⁽²⁾	8.4 %
BlackRock, Inc., 55 East 52nd Street, New York, NY 10055	3,535,630 ⁽³⁾	8.0 %
Ronald F. and Mariette M. Woestemeyer, 3200 Kirby Drive, Ste 600, Houston, TX 77098	2,864,946 ⁽⁴⁾	6.5 %
Conestoga Capital Advisors, LLC, 550 E. Swedesford Rd. Suite 120, Wayne, PA 19087	2,526,766 ⁽⁵⁾	5.7 %
Alger Associates, Inc., 360 Park Avenue South, New York, NY 10010	2,385,942 ⁽⁶⁾	5.4 %
Tremblant Capital Group, 767 Fifth Avenue, New York, NY 10153	2,219,411 ⁽⁷⁾	5.0 %

(1) Based solely upon a Schedule 13G/A filed by Brown Capital Management, LLC (Brown) with the SEC on February 12, 2021 reporting that Brown beneficially owned 6,541,717 shares of our Common Stock as of December 31, 2020, with sole voting power with respect to 4,016,507 shares of our Common Stock and sole dispositive power with respect to 6,541,717 shares of our Common Stock.

(2) Based solely upon a Schedule 13G filed by The Vanguard Group (Vanguard) with the SEC on February 10, 2021 reporting that Vanguard owned 3,701,299 shares of our Common Stock as of December 31, 2020, with shared voting power with respect to 90,597 shares of our Common Stock, sole dispositive power with respect to 3,578,056 shares of our Common Stock and shared dispositive power with respect to 123,243 shares of our Common Stock.

(3) Based solely upon a Schedule 13G/A filed by BlackRock, Inc. (BlackRock) with the SEC on January 29, 2021 reporting that BlackRock beneficially owned 3,535,630 shares of our Common Stock as of December 31, 2020, with sole voting power with respect to 3,381,550 shares of our Common Stock and sole dispositive power with respect to 3,535,630 shares of our Common Stock.

(4) Includes 2,851,835 shares held by various trusts for the benefit of certain family members and 4,811 shares from RSUs which are scheduled to vest on April 29, 2021.

(5) Based solely upon a Schedule 13G/A filed by Conestoga Capital Advisors, LLC (Conestoga) with the SEC on January 6, 2021 reporting that Conestoga owned 2,526,766 shares of our Common Stock as of December 31, 2020, with solve voting power with respect to 2,394,991 shares of our Common Stock and sole dispositive power with respect to 2,526,766 shares of our Common Stock.

(6) Based solely upon a Schedule 13G filed by Alger Associates, Inc. (Alger) with the SEC on February 16, 2021 reporting that Alger and associated funds owned 2,385,942 shares of our Common Stock as of December 31, 2020, with sole voting and dispositive power with respect to all such shares of our Common Stock.

(7) Based solely upon a Schedule 13G filed by Tremblant Capital Group (Tremblant) with the SEC on February 16, 2021 reporting that Tremblant beneficially owned 2,219,411 shares of our Common Stock as of December 31, 2020, with sole voting and dispositive power as to all such shares of our Common Stock.

Name of Beneficial Owner	Common Stock Beneficially Owned ⁽¹⁾	Percentage
Named Executive Officers		
Andres D. Reiner	921,032	2.1 %
Stefan B. Schulz	291,136	*
Leslie Rechan	67,789 ⁽²⁾	*
Roberto Reiner	106,279	*
Non-Employee Directors and Director Nominees		
Carlos Dominguez	4,811 ⁽³⁾	*
Raja Hammoud	3,428 ⁽⁴⁾	*
Penelope Herscher	14,389 ⁽³⁾	*
Catherine A. Lesjak	3,576 ⁽⁵⁾	*
Greg B. Petersen	112,246 ⁽³⁾	*
William Russell	138,022 ⁽³⁾	*
Timothy V. Williams	116,198 ⁽³⁾	*
Mariette M. Woestemeyer	2,864,946 ⁽³⁾	6.5 %
All NEOs, directors and director nominees as a group	4,643,852	10.5 %

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

(1) Beneficial ownership represents sole voting and investment power.

(2) Includes 33,101 shares from RSUs which are scheduled to vest on May 13, 2021.

(3) Includes 4,811 shares from RSUs which are scheduled to vest on April 29, 2021.

(4) Includes 3,428 shares from RSUs which are scheduled to vest on April 29, 2021.

(5) Includes 3,576 shares from RSUs which are scheduled to vest on April 29, 2021.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires each of our directors and NEOs, among others, to file with the SEC an initial report of ownership and reports of changes in ownership of Common Stock of the Company. Such persons are required by SEC regulations to furnish us with copies of all such filings. Based on a review of the copies of such forms in our possession, and on written representations from reporting persons, we believe that during 2020, all of our NEOs and directors filed the required reports on a timely basis under Section 16(a).

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since January 1, 2020, there has not been (nor is there currently proposed), any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded or exceeds \$120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest, other than compensation arrangements with directors and executive officers, and the transactions described below:

Relationships with Directors and Management

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

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

Family relationships. Mr. Roberto Reiner, who serves as our Executive Vice President and Chief Technology Officer is the brother of Andres Reiner, our President and CEO. Prior to his appointment as Executive Vice President, Mr. R. Reiner's compensation was regularly reviewed by the CLD Committee and all his equity awards were approved by the CLD Committee. In conjunction with his appointment as Executive Vice President, Mr. R. Reiner's compensation and amended and restated employment agreement were approved by the CLD Committee.

Procedures for Related Party Transactions

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

AUDIT COMMITTEE REPORT

The Audit Committee operates under a written charter adopted by the Board of Directors, a current copy of which is available under *Corporate Governance* in the "Investor Relations" section of our website at ir.pros.com. The Audit Committee reviews and assesses the adequacy of its charter at least annually and, when appropriate, recommends changes to the Board to reflect the evolving role of the Audit Committee. The Audit Committee is composed of non-employee directors who meet the independence and financial literacy requirements of the NYSE and additional, heightened independence criteria applicable to members of the Audit Committee under SEC and NYSE rules. The Audit Committee currently consists of Timothy V. Williams (Chairman), Carlos Dominguez, Catherine A. Lesjak and Greg B. Petersen. Our Board of Directors has determined that three of the members of the Audit Committee (Messrs. Williams and Petersen and Ms. Lesjak) are an "Audit Committee financial expert" as is currently defined under SEC regulations and the rules of the NYSE and Mr. Dominguez is "financially literate" under the rules of the NYSE.

Primary Responsibilities

The Audit Committee oversees the Company's accounting and financial reporting processes on behalf of the Board of Directors and assists the Board in fulfilling its oversight responsibility relating to the integrity of the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, and the annual independent audit of the Company's financial statements. The Audit Committee also oversees the independent auditors' qualifications and independence and the Company's internal auditors. The Company's management has the primary responsibility for preparing the Company's financial statements, for maintaining effective internal control over financial reporting, and for assessing the effectiveness of internal control over financial reporting.

Oversight of Independent Auditors

The Audit Committee engaged PricewaterhouseCoopers LLP (PwC) as our independent auditors for the year ended December 31, 2020. In its meetings with our independent auditors, the Audit Committee asks them to address, and discusses their responses to, several questions that the Audit Committee believes are relevant to its oversight. The Audit Committee also discussed with the independent auditors those matters required to be discussed by the auditors with the Audit Committee under the rules adopted by the Public Company Accounting Oversight Board (PCAOB). The Audit Committee received the written disclosures and the letter from the independent auditors required by applicable requirements of the PCAOB regarding the independent auditors' communication with the Audit Committee concerning independence, and has discussed with the independent auditors their independence.

2020 Audited Financial Statements

In its oversight role, the Audit Committee relies on the work and assurances of the Company's management. In fulfilling its oversight responsibilities in 2020, the Audit Committee reviewed and discussed with management the Company's consolidated financial statements for the fiscal year ended December 31, 2020, including a discussion of, among other things, the quality of the Company's accounting principles, the reasonableness of significant estimates and judgments, and the clarity of disclosures in the Company's financial statements.

The Audit Committee has (1) reviewed and discussed the audited financial statements with management, (2) discussed with PwC, our independent registered public accounting firm, the matters required to be discussed by the Statement on Auditing Standards No. 1301, "Communications with Audit Committees", as adopted by the Public Company Accounting Oversight Board, (3) received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and has discussed with the independent accountant the independent accountant's independence, and (4) considered with the independent auditors whether the provision of non-audit services provided by them to the Company during 2019 was compatible with their independence. Based upon these discussions and reviews, the Audit Committee recommended to our Board of Directors, and the Board has approved, that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 and filed with the SEC.

THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Timothy V. Williams, Chairman
Carlos Dominguez
Catherine Lesjak
Greg B. Petersen

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES

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

The following table summarizes the aggregate fees billed for professional services rendered to us by PwC in 2020 and 2019. A description of these various fees and services follows the table:

	2020	2019
Audit fees	\$ 1,604,294	\$ 1,953,252
Audit-related fees	—	233,650
Tax fees	—	78,970
All other fees	2,893	2,893
Total fees	<u>\$ 1,607,187</u>	<u>\$ 2,268,765</u>

Fees Billed by PricewaterhouseCoopers, LLP

Audit fees. The aggregate fees billed to us by PwC in connection with the annual audit of our financial statements, reviews of our financial statements included in quarterly reports on Form 10-Q, consents related to documents filed with the SEC and comfort letters, were \$1,604,294 and \$1,953,252 for the years ended December 31, 2020 and 2019, respectively.

Audit-related fees. Audit-related fees consist of fees for professional services that are reasonably related to the performance of the audit or review of the Company's financial statements. This category may include fees related to due diligence related to mergers and acquisitions, accounting and financial reporting consultations and research necessary to comply with generally accepted audit standards. There were zero and \$233,650 audit-related fees billed for the years ended December 31, 2020 and 2019, respectively.

Tax fees. The aggregate tax fees billed to us by PwC related to tax compliance, tax advice and tax planning, and were zero and \$78,970 for the years ended December 31, 2020 and 2019, respectively.

All other fees. The other fees consist of subscription fees for an accounting and auditing research tools.

Audit Committee Approval of Services

The Audit Committee is authorized by its charter to pre-approve all auditing and permitted non-audit services to be performed by our independent registered public accounting firm. The Audit Committee reviews and approves the independent registered public accounting firm's retention to perform attest services, including the associated fees. The Audit Committee also evaluates other known potential engagements of the independent registered public accounting firm, including the scope of the proposed work and the proposed fees, and approves or rejects each service, taking into account whether the services are permissible under applicable law and the possible impact of each non-audit service on the independent registered public accounting firm's independence from management. At subsequent meetings, the Audit Committee receives updates on services actually provided by the independent registered public accounting firm, and management may present additional services for approval. The Audit Committee has delegated to the chairman of the Audit Committee the authority to evaluate and approve engagements on behalf of the Audit Committee in the event that a need arises for pre-approval between Audit Committee meetings. If the Chairman approves any such engagements, he reports that approval to the full Audit Committee at its next meeting. During fiscal year 2020, all such services were pre-approved in accordance with the procedures described above.

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

PROPOSAL FIVE

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM APPOINTMENT

The Audit Committee has selected the independent registered public accounting firm of PwC to audit our consolidated financial statements for the fiscal year ending December 31, 2021. We have determined to submit the selection of auditors to stockholder ratification, even though it is not required by our governing documents or Delaware law, as a matter of good corporate governance practice. If the selection of PwC as our independent auditors is not ratified by our stockholders, our Audit Committee will reconsider, but might not change, its selection. Notwithstanding the selection and ratification, the Audit Committee, in its discretion, may appoint a different independent registered public accounting firm at any time, if it believes doing so would be in the best interests of us and our stockholders.

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

Vote Required

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

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

THE BOARD UNANIMOUSLY RECOMMENDS VOTING “FOR” THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2021.

General Information

Voting

As of the Record Date, 44,252,765 shares of Common Stock were outstanding. Each stockholder of record as of the Record Date is entitled to one vote for each share of Common Stock held by such stockholder. Only "stockholder of record" as of close of business on the Record Date are entitled to vote at the Annual Meeting.

Vote Required

Our amended and restated bylaws, as contained in the Current Report on Form 8-K filed with the SEC on April 29, 2020 (Bylaws) provide that a majority of the outstanding shares of our stock entitled to vote, whether present in person or represented by proxy, shall constitute a quorum for the transaction of business at the Annual Meeting. Votes for and against, abstentions and "broker non-votes" (shares held by a broker or nominee that does not have the authority, either express or discretionary, to vote on a particular matter) will each be counted as present for purposes of determining the presence of a quorum.

If a quorum is present, a plurality vote of the holders of our Common Stock entitled to vote and present or represented by proxy at the Annual Meeting is required for the election of a director. This "plurality" standard means the nominees who receive the largest number of "for" votes cast are elected as directors. Thus, the number of shares not voted for the election of a nominee (and the number of "withhold" votes cast with respect to that nominee) will not affect the determination of whether that nominee has received the necessary votes for election under Delaware law. However, the number of "withhold" votes with respect to a nominee will affect whether our Director Resignation Policy will apply to that individual. Our Director Resignation Policy provides that any nominee for director who receives a greater number of votes "withheld" from his or her election than votes "for" such election is required to offer his or her resignation following certification of the stockholder vote. The Nominating and Corporate Governance Committee would then consider the offer of resignation and make a recommendation to our independent directors as to the action to be taken with respect to the offer. This policy does not apply in contested elections. We will not count abstentions as either for or against a director, so abstentions have no effect on the election of a director.

The affirmative vote of the holders of a majority of the shares of Common Stock present or represented by proxy and voting at the Annual Meeting is required to approve the advisory vote on executive compensation, the amendments to the Amended and Restated 2017 Equity Incentive Plan, the amendment to the 2013 Employee Stock Purchase Plan and the ratification of the selection of our independent auditors. A properly executed proxy marked "abstain" with respect to any matter is considered entitled to vote, and thus, will have the effect of a vote against a matter, except for the election of directors.

Voting Instructions

Stockholders have four ways to vote:

- *Online.* You may vote online by visiting www.proxyvote.com, and entering the control number found in your proxy card. You can vote via the Internet up until 11:59 P.M. Eastern Time on May 11, 2021.
- *Telephone.* You may vote by calling the toll-free number provided on your proxy card, and following the instructions found on your proxy card. You can vote via the telephone up until 11:59 P.M. Eastern Time on May 11, 2021.
- *Mail.* If you received a printed copy of the proxy card, you may vote by filling out the card and returning it in the postage-paid envelope provided. Please promptly mail your proxy card to ensure that it is received prior to the closing of the polls at the Annual Meeting.
- *Virtual Meeting.* You may vote at the virtual Annual Meeting by visiting www.virtualshareholdermeeting.com/PRO2021, and any previous votes that you submitted, whether by Internet, telephone or mail, will be superseded by the vote that you cast at the Annual Meeting.

If you are a beneficial owner, or you hold your shares in "street name," please check your voting instruction card or contact your bank, broker or nominee to determine whether you will be able to vote by Internet or telephone. Even if you plan on attending the virtual Annual Meeting, **we encourage you to vote in advance via the Internet**, by phone, or by mail to ensure that your vote will be represented at the Annual Meeting.

Changing your Vote

You may revoke your proxy and change your vote at any time before the taking of the vote at the Annual Meeting:

- *Online.* Using the online voting method described above, in which case only your latest internet proxy submitted prior to the Annual Meeting will be counted.
- *Telephone.* Using the telephone voting method described above, in which case only your latest telephone proxy submitted prior to the Annual Meeting will be counted.

- *Mail.* By signing and returning a new proxy card dated as of a later date, in which case only your latest proxy card or voting instruction form received prior to the Annual Meeting will be counted.
- *Virtual Meeting.* By attending the virtual Annual Meeting and voting by visiting www.virtualshareholdermeeting.com/PROS2021. However, attendance at the virtual Annual Meeting will not in and of itself revoke your proxy unless you properly vote at the virtual Annual Meeting or specifically request that your prior proxy be revoked by delivering a written notice of revocation prior to the Annual Meeting to our Corporate Secretary at or before the taking of the vote at the Annual Meeting.

Any written notice of revocation or subsequent proxy should be delivered to PROS Holdings, Inc. at 3200 Kirby Drive, Suite 600, Houston, Texas 77098, Attention: Corporate Secretary, or hand-delivered to our Corporate Secretary before the taking of the vote at the Annual Meeting.

Effect of Not Casting Your Vote

Banks, brokers and other intermediaries may not vote shares held in their clients' accounts on elections of directors and other "non-routine" matters unless the client has provided voting instructions. If you hold your shares in street name, you must cast your vote if you want it to count for purposes of Proposals One, Two, Three, Four and Five.

Proxy Materials are Available on the Internet

We use the internet as the primary means of furnishing proxy materials to our stockholders. We are mailing to our stockholders a Notice of Internet Availability of Proxy Materials (Notice) that contains instructions on how to access our proxy materials over the Internet, as well as how to request a paper copy of our proxy materials, including this Proxy Statement, our 2020 Annual Report and a form of proxy card or voting instruction card. The Notice was first mailed and those documents were first made available on or about April 2, 2021 to stockholders entitled to vote at the Annual Meeting. We encourage stockholders to take advantage of the availability of the proxy materials on the internet.

Eliminating Duplicate Mailings

Some banks, brokers and other nominee record holders participate in the practice of "householding", which helps reduce the environmental impact of our annual meetings and reduces our printing and mailing costs, by sending only one copy of the Notice and Proxy Statement to multiple stockholders sharing the same address. If you would prefer to receive separate copies of a proxy statement, please contact our Corporate Secretary by calling 713-335-5151 or by writing to us at 3200 Kirby Drive, Suite 600, Houston, Texas 77098. In addition, stockholders sharing an address and receiving multiple copies can request delivery of a single copy of proxy statements upon written request to our Corporate Secretary at the address stated above.

STOCKHOLDERS PROPOSALS

Stockholders may present proposals for action at meetings of stockholders only if they comply with the rules established by the SEC, applicable Delaware law and Bylaws. No stockholder proposals were received for consideration at the Annual Meeting.

Stockholders interested in submitting a proposal for inclusion in our proxy materials and for consideration at the 2022 annual meeting of our stockholders (2022 Annual Meeting) may do so by following the procedures set forth in Rule 14a-8 under the Exchange Act. To be eligible for inclusion in such proxy materials, stockholder proposals must be received by our Corporate Secretary no later than December 3, 2021.

Under our Bylaws, for any stockholder proposal or director nomination that is not submitted for inclusion in the next year's proxy statement but instead is proposed to be presented directly at our 2022 Annual Meeting, the stockholder must provide us written notice not later than the close of business on the later of the ninetieth day prior to our 2022 Annual Meeting or the 10th day following the date on which public announcement of the date of the 2022 Annual Meeting is first made. Any such notice for director nominations must satisfy the requirements specified in Article II, Section 2.15(b) of our Bylaws. Any such notice for other stockholder proposals (other than director nomination) must satisfy the requirements specified in Article I, Section 1.10(b) of our Bylaws. In the absence of such notice meeting the above requirements, a stockholder shall not be entitled to present any business at our 2022 Annual Meeting.

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

day on which public announcement is first made of the date of the special meeting and of the nominees proposed by our Board to be elected at such meeting.

DIRECTOR NOMINATION

Our Bylaws permit any stockholder of record to nominate directors. Stockholders who wish to submit nominees for election at an annual or special meeting of stockholders should follow the procedure described in the [Stockholder Proposals](#) section above. The NCG Committee applies the same standards in considering candidates submitted by stockholders as it does in evaluating candidates submitted by members of the Board.

EXPENSES AND SOLICITATION

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

NO INCORPORATION BY REFERENCE OF CERTAIN PORTIONS OF THIS PROXY STATEMENT

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

OTHER MATTERS

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

The Board of Directors
PROS HOLDINGS, INC.

April 2, 2021

Your **Vote** Counts!

PROS HOLDINGS, INC.

2021 Annual Meeting

Vote by May 11, 2021

11:59 PM ET



PROS HOLDINGS, INC.
C/O BROADRIDGE CORPORATE ISSUER SOLUTIONS
P.O. BOX 1342
BRENTWOOD, NY 11717



D34313-P49018

You invested in PROS HOLDINGS, INC. and it's time to vote!

You have the right to vote on proposals being presented at the Annual Meeting. **This is an important notice regarding the availability of proxy material for the stockholder meeting to be held on May 12, 2021.**

Get informed before you vote

View the Notice and Proxy Statement and Annual Report online OR you can receive a free paper or email copy of the material(s) by requesting prior to April 28, 2021. If you would like to request a copy of the material(s) for this and/or future stockholder meetings, you may (1) visit www.ProxyVote.com, (2) call 1-800-579-1639 or (3) send an email to sendmaterial@proxyvote.com. If sending an email, please include your control number (indicated below) in the subject line. Unless requested, you will not otherwise receive a paper or email copy.



For complete information and to vote, visit www.ProxyVote.com

Control #

Smartphone users

Point your camera here and
vote without entering a
control number



Vote Virtually at the Meeting*

May 12, 2021
9:30 A.M. CDT






Virtually at:
www.virtualshareholdermeeting.com/PRO2021

*Please check the meeting materials for any special requirements for meeting attendance.

V1

THIS IS NOT A VOTABLE BALLOT

This is an overview of the proposals being presented at the upcoming stockholder meeting. Please follow the instructions on the reverse side to vote these important matters.

Voting Items	Board Recommends
1. Raja Hammoud and William V. Russell as Class II directors, each to hold office until the 2024 Annual Meeting and until their successor has been duly elected and qualified or until the earlier of their death, resignation or removal. Nominees: 01) Raja Hammoud 02) William V. Russell	 For
2. To conduct an advisory vote on executive compensation.	 For
3. Approval of amendments to our Amended and Restated 2017 Equity Incentive Plan.	 For
4. Approval of an amendment to our 2013 Employee Stock Purchase Plan.	 For
5. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of PROS Holdings, Inc. for the fiscal year ending December 31, 2021.	 For
6. Transaction of other business that may properly come before the Annual Meeting.	

NOTE: Such other business as may properly come before the meeting or any adjournment thereof will be voted at the proxies' discretion. The Board of Directors recommends a vote IN FAVOR OF the directors listed above, IN FAVOR OF the advisory vote on executive compensation, IN FAVOR OF the amendments to our Amended and Restated 2017 Equity Incentive Plan, IN FAVOR OF the amendment to our 2013 Employee Stock Purchase Plan and IN FAVOR OF the appointment of PricewaterhouseCoopers LLP.

The Proxy, when properly executed, will be voted as specified. If no specification is made, the Proxy will be voted IN FAVOR OF the directors listed above, IN FAVOR OF advisory vote on executive compensation, IN FAVOR OF the amendments to our Amended and Restated 2017 Equity Incentive Plan, IN FAVOR OF the amendment to our 2013 Employee Stock Purchase Plan and IN FAVOR OF the appointment of PricewaterhouseCoopers LLP.

Prefer to receive an email instead? While voting on www.ProxyVote.com, be sure to click "Sign up for E-delivery".



PROS HOLDINGS, INC.
C/O BROADRIDGE CORPORATE ISSUER SOLUTIONS
P.O. BOX 1342
BRENTWOOD, NY 11717

VOTE BY INTERNET

Before The Meeting - Go to www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information. Vote by 11:59 p.m. Eastern Time on May 11, 2021 for shares held directly and by 11:59 p.m. Eastern Time on May 7, 2021 for shares held in a Plan. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

During The Meeting - Go to www.virtualshareholdmeeting.com/PRO2021

You may attend the meeting via the Internet and vote during the meeting. Have the information that is printed in the box marked by the arrow available and follow the instructions.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions. Vote by 11:59 p.m. Eastern Time on May 11, 2021 for shares held directly and by 11:59 p.m. Eastern Time on May 7, 2021 for shares held in a Plan. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

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

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

D34295-P49018

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

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

PROS HOLDINGS, INC.

The Board recommends voting "FOR" the election of each of the two Class II director nominees.

1. Raja Hammoud and William V. Russell as Class II directors, each to hold office until the 2024 Annual Meeting and until their successor has been duly elected and qualified or until the earlier of their death, resignation or removal.

Nominees:

- 01) Raja Hammoud
- 02) William V. Russell

For All Withhold For All
All Except

☐ ☐ ☐

To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.

6. Transaction of other business that may properly come before the Annual Meeting.

The Board of Directors recommends you vote FOR the following proposals:

2. To conduct an advisory vote on executive compensation.
3. Approval of amendments to our Amended and Restated 2017 Equity Incentive Plan.
4. Approval of an amendment to our 2013 Employee Stock Purchase Plan.
5. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of PROS Holdings, Inc. for the fiscal year ending December 31, 2021.

For Against Abstain

☐ ☐ ☐

For Against Abstain

☐ ☐ ☐

For Against Abstain

☐ ☐ ☐

For Against Abstain

☐ ☐ ☐

NOTE: Such other business as may properly come before the meeting or any adjournment thereof will be voted at the proxies' discretion. The Board of Directors recommends a vote IN FAVOR OF the directors listed above, IN FAVOR OF the advisory vote on executive compensation, IN FAVOR OF the amendments to our Amended and Restated 2017 Equity Incentive Plan, IN FAVOR OF the amendment to our 2013 Employee Stock Purchase Plan and IN FAVOR OF the appointment of PricewaterhouseCoopers LLP.

This Proxy, when properly executed, will be voted as specified. If no specification is made, the Proxy will be voted IN FAVOR OF the directors listed above, IN FAVOR OF advisory vote on executive compensation, IN FAVOR OF the amendments to our Amended and Restated 2017 Equity Incentive Plan, IN FAVOR OF the amendment to our 2013 Employee Stock Purchase Plan and IN FAVOR OF the appointment of PricewaterhouseCoopers LLP.

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

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:
The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

D34296-P49018

PROS HOLDINGS, INC.
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
ANNUAL MEETING OF STOCKHOLDERS MAY 12, 2021

The stockholder(s) hereby appoint(s) Damian W. Olthoff and Christopher C. Chaffin, or each of them, as proxies, each with the power to appoint his substitute, and hereby authorize(s) them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of PROS Holdings, Inc. that the stockholder(s) is/are entitled to vote at the virtual Annual Meeting of Stockholders to be held at 9:30 a.m. CDT on May 12, 2021 at www.virtualshareholdermeeting.com/PRO2021, and any adjournment or postponement thereof. Such shares shall be voted as indicated with respect to the proposals listed on the reverse side hereof and the proxies' discretion on such other matters as may properly come before the meeting or any adjournment thereof.

The Board of Directors recommends a vote **IN FAVOR OF** the directors listed on the reverse side, **IN FAVOR OF** the advisory vote on executive compensation, **IN FAVOR OF** the amendments to our Amended and Restated 2017 Equity Incentive Plan, **IN FAVOR OF** the amendment to our 2013 Employee Stock Purchase Plan, and **IN FAVOR OF** the appointment of PricewaterhouseCoopers LLP.

If no specification is made, this Proxy will be voted **IN FAVOR OF** the election of directors listed on the reverse side of this proxy card, **IN FAVOR OF** the advisory vote on executive compensation, **IN FAVOR OF** the amendments to our Amended and Restated 2017 Equity Incentive Plan, **IN FAVOR OF** the amendment to our 2013 Employee Stock Purchase Plan, and **IN FAVOR OF** the appointment of PricewaterhouseCoopers LLP.

Continued and to be signed on reverse side

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PROS

AMENDED AND RESTATED

2017 EQUITY INCENTIVE PLAN,

as amended

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PROS

Amended and Restated 2017 Equity Incentive Plan

1. Establishment, Purpose and Term of Plan.

1.1 Establishment. The Amended and Restated PROS 2017 Equity Incentive Plan (the “*Plan*”) is hereby established effective as of May 12, 2021, the date of its approval by the stockholders of the Company (the “Effective Date”). The PROS 2017 Equity Incentive Plan was originally approved by stockholders of the Company on May 11, 2017, was amended and restated on March 22, 2019 by the Board and approved by stockholders on May 7, 2019, and was further amended and restated on February 22, 2021, and certain amendments to the Plan requiring stockholder approval were submitted for approval by the stockholders of the Company at the Company’s 2021 annual meeting of stockholders.

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

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

2. Definitions and Construction.

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

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

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

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

(c) **“Board”** means the Board of Directors of the Company.

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

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

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

(g) **“Change in Control”** means the occurrence of any one or a combination of the following:

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

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

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

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

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

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

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

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

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

(l) “**Director**” means a member of the Board.

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

(n) “**Dividend Equivalent Right**” means the right of a Participant, granted at the discretion of the Committee or as otherwise provided by the Plan, to receive a credit for the account of such Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award held by such Participant. Dividend Equivalent Rights may not be granted in connection with an Option or SAR.

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

(p) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

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

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

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

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

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

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

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

(u) “**Insider**” means an Officer, a Director or other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(v) “**Net Exercise**” means a Net Exercise as defined in Section 6.3(b)(iii).

(w) “**Nonemployee Director**” means a Director who is not an Employee.

(x) “**Nonemployee Director Award**” means any Award granted to a Nonemployee Director.

(y) “**Non-Exempt Employee**” means an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended.

(z) “**Nonstatutory Stock Option**” means an Option not intended to be (as set forth in the Award Agreement evidencing such Option) or which does not qualify as an incentive stock option within the meaning of Section 422(b) of the Code.

(aa) “**Officer**” means any person designated by the Board as an officer of the Company.

(bb) “**Option**” means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(cc) “**Other Stock-Based Award**” means an Award denominated in shares of Stock and granted pursuant to Section 11.

(dd) “**Ownership Change Event**” means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company’s then outstanding securities entitled to vote generally in the election of Directors; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

(ee) “**Parent Corporation**” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

- (ff) **“Participant”** means any eligible person who has been granted one or more Awards.
- (gg) **“Participating Company”** means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.
- (hh) **“Participating Company Group”** means, at any point in time, the Company and all other entities collectively which are then Participating Companies.
- (ii) **“Performance Award”** means an Award of Performance Shares or Performance Units.
- (jj) **“Performance Award Formula”** means, for any Performance Award, a formula or table established by the Committee pursuant to Section 10.3 which provides the basis for computing the value of a Performance Award at one or more levels of attainment of the applicable Performance Goal(s) measured as of the end of the applicable Performance Period.
- (kk) **“Performance Goal”** means a performance goal established by the Committee pursuant to Section 10.3.
- (ll) **“Performance Period”** means a period established by the Committee pursuant to Section 10.3 at the end of which one or more Performance Goals are to be measured.
- (mm) **“Performance Share”** means a right granted to a Participant pursuant to Section 10 to receive a payment equal to the value of a Performance Share, as determined by the Committee, based upon attainment of applicable Performance Goal(s).
- (nn) **“Performance Unit”** means a right granted to a Participant pursuant to Section 10 to receive a payment equal to the value of a Performance Unit, as determined by the Committee, based upon attainment of applicable Performance Goal(s).
- (oo) **“Restricted Stock Award”** means an Award of a Restricted Stock Bonus or a Restricted Stock Purchase Right.
- (pp) **“Restricted Stock Bonus”** means Stock granted to a Participant pursuant to Section 8.
- (qq) **“Restricted Stock Purchase Right”** means a right to purchase Stock granted to a Participant pursuant to Section 8.
- (rr) **“Restricted Stock Unit”** means a right granted to a Participant pursuant to Section 9 to receive on a future date or occurrence of a future event a share of Stock or cash in lieu thereof, as determined by the Committee.
- (ss) **“Rule 16b-3”** means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.
- (tt) **“SAR” or “Stock Appreciation Right”** means a right granted to a Participant pursuant to Section 7 to receive payment, for each share of Stock subject to such Award, of an amount equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the Award over the exercise price thereof.
- (uu) **“Section 409A”** means Section 409A of the Code.
- (vv) **“Section 409A Deferred Compensation”** means compensation provided pursuant to an Award that constitutes nonqualified deferred compensation within the meaning of Section 409A.
- (ww) **“Securities Act”** means the Securities Act of 1933, as amended.
- (xx) **“Service”** means a Participant’s employment or service with the Participating Company Group, whether as an Employee, a Director or a Consultant. Unless otherwise provided by the Committee, a Participant’s Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders Service or a change in the Participating Company for which the Participant renders Service, provided that there is no interruption or termination of the Participant’s Service. Furthermore, a Participant’s Service shall not be deemed to have been interrupted or terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company. However, unless otherwise provided by the Committee, if any such leave taken by a Participant exceeds ninety (90) days, then on the ninety-first (91st) day following the commencement of such leave the Participant’s Service shall be deemed to have terminated, unless the Participant’s right to return to Service is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, an unpaid leave of absence shall not be treated as Service for purposes of determining vesting under the Participant’s Award Agreement. A Participant’s Service shall be deemed to have terminated either upon an actual termination of Service or upon the business entity for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant’s Service has terminated and the effective date of and reason for such termination.

- 4.3. (yy) “**Stock**” means the common stock of the Company, as adjusted from time to time in accordance with Section
- (zz) “**Stock Tender Exercise**” means a Stock Tender Exercise as defined in Section 6.3(b)(ii).
- (aaa) “**Subsidiary Corporation**” means any present or future “subsidiary corporation” of the Company, as defined in Section 424(f) of the Code.
- (bbb) “**Substitute Awards**” shall mean Awards granted or Stock issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company acquired by the Company or any Subsidiary Corporation or with which the Company or any Subsidiary Corporation combines.
- (ccc) “**Ten Percent Owner**” means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company (other than an Affiliate) within the meaning of Section 422(b)(6) of the Code.
- (ddd) “**Trading Compliance Policy**” means the written policy of the Company pertaining to the purchase, sale, transfer or other disposition of the Company’s equity securities by Directors, Officers, Employees or other service providers who may possess material, nonpublic information regarding the Company or its securities.
- (eee) “**Vesting Conditions**” mean those conditions established in accordance with the Plan prior to the satisfaction of which an Award or shares subject to an Award remain subject to forfeiture or a repurchase option in favor of the Company exercisable for the Participant’s monetary purchase price, if any, for such shares upon the Participant’s termination of Service or failure of a performance condition to be satisfied.

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

3. Administration.

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

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

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

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

- (a) to determine the persons to whom, and the time(s) at which, Awards are granted and the number of shares of Stock, units or monetary value to be subject to each Award;
- (b) to determine the type of Award granted;
- (c) to determine the Fair Market Value of Stock or other property;
- (d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares of Stock pursuant to any Award, (ii) the method of payment for shares of Stock purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with any Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the Performance Measures, Performance Period, Performance Award Formula and Performance Goals applicable to any Award and the extent to which such Performance Goals have been attained, (vi) the time of expiration of any Award, (vii) the effect of any Participant’s termination of Service on any of the foregoing, and (viii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;

- (e) to determine whether an Award will be settled in Stock, cash, other property or in any combination thereof;
- (f) to approve one or more forms of Award Agreement;
- (g) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares of Stock acquired pursuant thereto;
- (h) to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares of Stock acquired pursuant thereto, including with respect to the period following a Participant's termination of Service;
- (i) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, and to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws of, or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose residents may be granted Awards; and
- (j) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

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

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

4. Shares Subject to Plan.

4.1 Maximum Number of Shares Issuable. Subject to adjustment as provided in Sections 4.2 and 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be equal to 7,650,000 shares¹, and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof.

4.2 Share Counting. If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company for an amount not greater than the Participant's purchase price, the shares of Stock allocable to the terminated portion of such Award or such forfeited or repurchased shares of Stock shall again be available for issuance under the Plan. Shares of Stock shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash. Upon payment in shares of Stock pursuant to the exercise of an SAR, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the SAR is exercised. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant, or by means of a Net Exercise, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the Option is exercised. Shares withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to the exercise or settlement of Options or SARs pursuant to Section 16.2 shall not again be available for issuance under the Plan. Shares withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to the vesting or settlement of Full Value Awards pursuant to Section 16.2 will again become available for issuance under the Plan; provided, however, that any shares so withheld or tendered above the applicable minimum statutory withholding rate will not become available again for issuance under the Plan.

¹ The 7,650,000 total shares is comprised of the initial 2,500,000 shares approved under the Plan, an additional 2,050,000 shares approved in 2019, and the 3,100,000 new shares proposed for approval at the 2021 annual meeting of stockholders. As of March 1, 2021, 769,902 shares remained available for grant under the Plan.

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

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

5. Eligibility, Participation and Award Limitations.

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

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

5.3 Incentive Stock Option Limitations.

(a) **Maximum Number of Shares Issuable Pursuant to Incentive Stock Options.** Subject to adjustment as provided in Section 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to the exercise of Incentive Stock Options shall not exceed 7,650,000 shares. The maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to all Awards other than Incentive Stock Options will be the number of shares determined in accordance with Section 4.1, subject to adjustment as provided in Sections 4.2 and 4.3.

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

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

5.4 Award Limits. Subject to adjustment as provided in Section 4.3, no Employee shall be granted within any fiscal year of the Company one or more share-denominated Awards which in the aggregate are for more than 1,250,000 shares or one or more cash-dominated Awards which could result in such Employee receiving more than \$2,000,000 or equivalent value in shares for each full fiscal year of the Company contained in the Performance Period for such Award.

5.5 Nonemployee Director Award Limit. Notwithstanding any other provision of the Plan to the contrary, the aggregate grant date fair value (computed as of the date of grant in accordance with generally accepted accounting principles in the United States) of all Awards granted to any Nonemployee Director during any single calendar year, plus the total cash compensation paid to such Nonemployee Director for services rendered for such calendar year, shall not exceed \$600,000; provided, however, that this limitation shall not apply to any amounts, including any severance, consulting fees or similar fees, paid to a Nonemployee Director for prior or current service as an employee or consultant of the Company; and provided, further, that any deferred compensation shall be counted for purposes of this limitation in the year it is first earned regardless of when paid or settled.

5.6 Minimum Vesting. As provided in Section 4, no Award (other than cash-based Awards) shall vest earlier than one year following the date of grant of such Award; provided that, the foregoing minimum vesting requirement shall not apply to any (a) acceleration of vesting of any Award, including upon death, disability, or in connection with a Change in Control, as determined by the Committee in its discretion, (b) Substitute Awards, (c) Awards to Nonemployee Directors that vest on the earlier of the one year anniversary of the date of grant or the next annual meeting of stockholders which is at least 50 weeks after the immediately preceding year's annual meeting, (d) shares of Stock delivered in lieu of fully vested cash-based Awards; and (e) other Awards up to a maximum of five percent (5%) of the aggregate number of shares of Stock that may be issued under the Plan (subject to adjustment as provided in Section 4.3).

6. Stock Options.

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

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

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

6.3 Payment of Exercise Price.

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

(b) *Limitations on Forms of Consideration.*

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

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

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

6.4 Effect of Termination of Service.

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

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

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

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

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

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

6.5 Transferability of Options. During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant’s guardian or legal representative. An Option is not subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant’s beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Option, an Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 under the Securities Act or, in the case of an Incentive Stock Option, only as permitted by applicable regulations under Section 421 of the Code in a manner that does not disqualify such Option as an Incentive Stock Option. An Option shall never be transferred to a third-party financial institution for value.

7. Stock Appreciation Rights.

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

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

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

7.3 Exercisability and Term of SARs.

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

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

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

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

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

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

8. Restricted Stock Awards.

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

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

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

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

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

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

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

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

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

9. Restricted Stock Units.

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

9.1 Grant of Restricted Stock Unit Awards. Restricted Stock Unit Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If either the grant of a Restricted Stock Unit Award or the Vesting Conditions with respect to such Award is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

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

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

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

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

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

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

10. Performance Awards.

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

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

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

10.3 Establishment of Performance Period, Performance Goals and Performance Award Formula. In granting each Performance Award, the Committee shall establish in writing the applicable Performance Period (subject to the minimum vesting provisions of Section 5.6), Performance Award Formula and one or more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Award Formula the final value of the Performance Award to be paid to the Participant. The Company shall notify each Participant granted a Performance Award of the terms of such Award, including the Performance Period, Performance Goal(s) and Performance Award Formula.

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

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

and amortization;

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

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

10.5 Settlement of Performance Awards.

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

(b) **Discretionary Adjustment of Award Formula.** In its discretion, the Committee may, either at the time it grants a Performance Award or at any time thereafter, provide for the positive or negative adjustment of the Performance Award Formula applicable to a Performance Award granted to any Participant to reflect such Participant's individual performance in his or her position with the Company or such other factors as the Committee may determine. The Committee shall have the discretion, on the basis of such criteria as may be established by the Committee, to increase or reduce some or all of the value of the Performance Award that would otherwise be paid to the Employee upon its settlement notwithstanding the attainment of any Performance Goal and the resulting value of the Performance Award determined in accordance with the Performance Award Formula.

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

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

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

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

10.6 Voting Rights; Dividend Equivalent Rights and Distributions. Participants have no voting rights with respect to shares of Stock represented by Performance Share Awards until the date of the issuance of such shares, if any (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Performance Share Award that the Participant will be entitled to Dividend Equivalent Rights with respect to the payment of cash dividends on Stock during the period beginning on the date the Award is granted and ending, with respect to each share subject to the Award, on the earlier of the date on which the Performance Shares are settled or the date on which they are forfeited. Such Dividend Equivalent Rights, if any, will be credited to the Participant either in cash or in the form of additional whole Performance Shares as of the date of payment of such cash dividends on Stock, as determined by the Committee. The number of additional Performance Shares (rounded to the nearest whole number), if any, to be so credited shall be determined by dividing (a) the amount of cash dividends paid on the dividend payment date with respect to the number of shares of Stock represented by the Performance Shares previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Dividend Equivalent Rights, if any, will be accumulated and paid to the extent that the related Performance Shares become nonforfeitable. Settlement of Dividend Equivalent Rights may be made in cash, shares of Stock, or a combination thereof as determined by the Committee, and may be paid on the same basis as settlement of the related Performance Share as provided in Section 10.5. Dividend Equivalent Rights will not be paid with respect to Performance Units. In the event of a dividend or distribution paid in shares of Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant's Performance Share Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Performance Share Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Performance Goals as are applicable to the Award.

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

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

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

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

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

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

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

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

11.3 Value of Cash-Based and Other Stock-Based Awards. Each Cash-Based Award shall specify a monetary payment amount or payment range as determined by the Committee. Each Other Stock-Based Award must be expressed in terms of shares of Stock or units based on such shares of Stock, as determined by the Committee. Subject to the minimum vesting provisions of Section 5.6, The Committee may require the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as established by the Committee and set forth in the Award Agreement evidencing such Award. If the Committee exercises its discretion to establish performance criteria, the final value of Cash-Based Awards or Other Stock-Based Awards that will be paid to the Participant will depend on the extent to which the performance criteria are met. The establishment of performance criteria with respect to the grant or vesting of any Cash-Based Award or Other Stock-Based Award shall follow procedures substantially equivalent to those applicable to Performance Awards set forth in Section 10.

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

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

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

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

12. Standard Forms of Award Agreement.

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

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

13. Change in Control.

13.1 Effect of Change in Control on Awards. In the event of a Change in Control, outstanding Awards will be subject to the definitive agreement entered into by the Company in connection with the Change in Control. Subject to the requirements and limitations of Section 409A, if applicable, the following provisions shall apply:

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

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

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

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

13.2 Effect of Change in Control on Nonemployee Director Awards. Subject to the requirements and limitations of Section 409A, if applicable, including as provided by Section 15.4(f), in the event of a Change in Control, each outstanding Nonemployee Director Award shall become immediately exercisable and vested in full and, except to the extent assumed, continued or substituted for pursuant to Section 13.1(b), will be settled effective immediately prior to the time of consummation of the Change in Control.

13.3 Federal Excise Tax Under Section 4999 of the Code.

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

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

14. Compliance with Securities Law.

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

15. Compliance with Section 409A.

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

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

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

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

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

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

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

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

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

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

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

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

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

15.4 Payment of Section 409A Deferred Compensation.

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

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

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

(iii) The Participant's death;

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

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

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

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

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

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

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

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

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

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

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

16. Tax Withholding.

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

16.2 Withholding in or Directed Sale of Shares. The Company has the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of any Participating Company. The Fair Market Value of Stock withheld or tendered to satisfy any such tax withholding obligations may not (a) be less than the amount determined by the applicable minimum statutory withholding rates; and (b) exceed the amount determined by the maximum applicable statutory tax rates applicable to the Participant and to the particular Award or the shares acquired pursuant thereto. Any shares withheld above minimum statutory rates shall not be added back into the share authorization of Section 4.1, in accordance with Section 4.2. The Company may require a Participant to direct a broker, upon the vesting, exercise or settlement of an Award, to sell a portion of the shares subject to the Award determined by the Company in its discretion to be sufficient to cover the tax withholding obligations of any Participating Company and to remit an amount equal to such tax withholding obligations to such Participating Company in cash.

17. Amendment, Suspension or Termination of Plan.

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

18. Miscellaneous Provisions.

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

18.2 Forfeiture Events.

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

(b) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, any Participant who knowingly or through gross negligence engaged in the misconduct, or who knowingly or through gross negligence failed to prevent the misconduct, and any Participant who is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, shall reimburse the Company for (i) the amount of any payment in settlement of an Award received by such Participant during the twelve (12) month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document embodying such financial reporting requirement, and (ii) any profits realized by such Participant from the sale of securities of the Company during such twelve (12) month period.

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

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

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

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

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

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

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

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

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

18.12 Unfunded Obligation. Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan are considered unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company will be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account will not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant’s creditors in any assets of any Participating Company. Participants have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.

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

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing sets forth the PROS Amended and Restated 2017 Equity Incentive Plan, as amended and adopted by the Board on February 22, 2021.

/s/ Damian Olthoff, Secretary

Damian Olthoff, Secretary

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PROS

**2013 EMPLOYEE STOCK PURCHASE PLAN,
as amended**

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PROS 2013 Employee Stock Purchase Plan, as amended

1. Establishment, Purpose and Term of Plan.

1.1 Establishment. The PROS 2013 Employee Stock Purchase Plan, as amended (the “*Plan*”) is hereby established effective as of May 12, 2021, the date of its approval by the stockholders of the Company (the “*Effective Date*”). The PROS 2013 Employee Stock Purchase Plan was originally approved by stockholders of the Company on June 4, 2013, was amended on February 22, 2021 by the Board and an amendment to the Plan requiring stockholder approval was submitted for approval by the stockholders of the Company at the Company’s 2021 annual meeting of stockholders.

1.2 Purpose. The purpose of the Plan is to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward Eligible Employees of the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan provides such Eligible Employees with an opportunity to acquire a proprietary interest in the Company through the purchase of Stock. The Company intends that the Plan qualify as an “employee stock purchase plan” under Section 423 of the Code (including any amendments or replacements of such section), and the Plan shall be so construed.

1.3 Term of Plan. The Plan shall continue in effect until its termination by the Committee.

2. Definitions and Construction.

2.1 Definitions. Any term not expressly defined in the Plan but defined for purposes of Section 423 of the Code shall have the same definition herein. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) “*Board*” means the Board of Directors of the Company.

(b) “*Change in Control*” means the occurrence of any one or a combination of the following:

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

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

(iii) approval by the stockholders of a plan of complete liquidation or dissolution of the Company; provided, however, that a Change in Control shall be deemed not to include a transaction described in subsections (i) or (ii) of this Section 2.1(b) in which a majority of the members of the board of directors of the continuing, surviving or successor entity, or parent thereof, immediately after such transaction is comprised of Incumbent Directors.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Committee shall determine whether multiple acquisitions of the voting securities of the Company and/or multiple Ownership Change Events are related and to be treated in the aggregate as a single Change in Control, and its determination shall be final, binding and conclusive.

(c) **Code** means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

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

(e) **Company** means PROS Holdings, Inc., a Delaware corporation, or any successor corporation thereto.

(f) **Compensation** means, with respect to any Offering Period, regular base wages or salary, overtime payments, shift premiums and payments for paid time off, calculated before deduction of (i) any income or employment tax withholdings or (ii) any amounts deferred pursuant to Section 401(k) or Section 125 of the Code. Compensation shall be limited to such amounts actually payable in cash or deferred during the Offering Period. Compensation shall not include (i) sign-on bonuses, annual or other incentive bonuses, commissions, profit-sharing distributions or other incentive-type payments, (ii) any contributions made by a Participating Company on the Participant's behalf to any employee benefit or welfare plan now or hereafter established (other than amounts deferred pursuant to Section 401(k) or Section 125 of the Code), (iii) payments in lieu of notice, payments pursuant to a severance agreement, termination pay, moving allowances, relocation payments, or (iv) any amounts directly or indirectly paid pursuant to the Plan or any other stock purchase, stock option or other stock-based compensation plan, or any other compensation not expressly included by this Section.

(g) **Eligible Employee** means an Employee who meets the requirements set forth in Section 5 for eligibility to participate in the Plan.

(h) **Employee** means a person treated as an employee of a Participating Company for purposes of Section 423 of the Code. A Participant shall be deemed to have ceased to be an Employee either upon an actual termination of employment or upon the corporation employing the Participant ceasing to be a Participating Company. For purposes of the Plan, an individual shall not be deemed to have ceased to be an Employee while on any military leave, sick leave, or other bona fide leave of absence approved by the Company of ninety (90) days or less. If an individual's leave of absence exceeds ninety (90) days, the individual shall be deemed to have ceased to be an Employee on the ninety-first (91st) day of such leave unless the individual's right to reemployment with the Participating Company Group is guaranteed either by statute or by contract.

(i) **Fair Market Value** means, as of any date:

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

(ii) If, on the relevant date, the Stock is not then listed on a national or regional securities exchange or quotation system, the Fair Market Value of a share of Stock shall be as determined in good faith by the Committee.

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

(k) **Non-United States Offering** means a separate Offering covering Eligible Employees of one or more Participating Companies whose Eligible Employees are subject to a prohibition under applicable law on payroll deductions, as described in Section 11.1(b).

(l) **Offering** means an offering of Stock pursuant to the Plan, as provided in Section 6.

(m) **Offering Date** means, for any Offering Period, the first day of such Offering Period.

(n) **Offering Period** means a period, established by the Committee in accordance with Section 6, during which an Offering is outstanding.

(o) **“Officer”** means any person designated by the Board as an officer of the Company.

(p) **“Ownership Change Event”** means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of securities of the Company representing more than fifty percent (50%) of the total combined voting power of the Company’s then outstanding securities entitled to vote generally in the election of Directors; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

(q) **“Parent Corporation”** means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.

(r) **“Participant”** means an Eligible Employee who has become a participant in an Offering Period in accordance with Section 7 and remains a participant in accordance with the Plan.

(s) **“Participating Company”** means the Company and any Parent Corporation or Subsidiary Corporation designated by the Committee as a corporation the Employees of which may, if Eligible Employees, participate in the Plan. The Committee shall have the discretion to determine from time to time which Parent Corporations or Subsidiary Corporations shall be Participating Companies.

(t) **“Participating Company Group”** means, at any point in time, the Company and all other corporations collectively which are then Participating Companies.

(u) **“Purchase Date”** means, for any Offering Period, the last day of such Offering Period, or, if so determined by the Committee, the last day of each Purchase Period occurring within such Offering Period.

(v) **“Purchase Period”** means a period, established by the Committee in accordance with Section 6, included within an Offering Period and on the final date of which outstanding Purchase Rights are exercised.

(w) **“Purchase Price”** means the price at which a share of Stock may be purchased under the Plan, as determined in accordance with Section 9.

(x) **“Purchase Right”** means an option granted to a Participant pursuant to the Plan to purchase such shares of Stock as provided in Section 8, which the Participant may or may not exercise during the Offering Period in which such option is outstanding. Such option arises from the right of a Participant to withdraw any payroll deductions or other funds accumulated on behalf of the Participant and not previously applied to the purchase of Stock under the Plan, and to terminate participation in the Plan at any time during an Offering Period.

(y) **“Securities Act”** means the Securities Act of 1933, as amended.

(z) **“Stock”** means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(aa) **“Subscription Agreement”** means a written or electronic agreement, in such form as specified by the Company, stating an Employee’s election to participate in the Plan and authorizing payroll deductions under the Plan from the Employee’s Compensation or other method of payment authorized by the Committee pursuant to Section 11.1(b).

(bb) **“Subscription Date”** means the last business day prior to the Offering Date of an Offering Period or such earlier date as the Company shall establish.

(cc) **“Subsidiary Corporation”** means any present or future “subsidiary corporation” of the Company, as defined in Section 424(f) of the Code.

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

3. Administration.

3.1 **Administration by the Committee.** The Plan shall be administered by the Committee. All questions of interpretation of the Plan, of any form of agreement or other document employed by the Company in the administration of the Plan, or of any Purchase Right shall be determined by the Committee, and such determinations shall be final, binding and conclusive upon all persons having an interest in the Plan or the Purchase Right, unless fraudulent or made in bad faith. Subject to the provisions of the Plan, the Committee shall determine all of the relevant terms and conditions of Purchase Rights; provided, however, that all Participants granted Purchase Rights pursuant to an Offering shall have the same rights and privileges within the meaning of Section 423(b)(5) of the Code. Any and all actions, decisions and determinations taken or made by the Committee in the exercise of its discretion pursuant to the Plan or any agreement thereunder (other than determining questions of interpretation pursuant to the second sentence of this Section 3.1) shall be final, binding and conclusive upon all persons having an interest therein. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

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

3.3 **Power to Adopt Sub-Plans or Varying Terms with Respect to Non-U.S. Employees.** The Committee shall have the power, in its discretion, to adopt one or more sub-plans of the Plan as the Committee deems necessary or desirable to comply with the laws or regulations, tax policy, accounting principles or custom of foreign jurisdictions applicable to employees of a subsidiary business entity of the Company, provided that any such sub-plan shall not be within the scope of an “employee stock purchase plan” within the meaning of Section 423 of the Code. Any of the provisions of any such sub-plan may supersede the provisions of this Plan, other than Section 4. Except as superseded by the provisions of a sub-plan, the provisions of this Plan shall govern such sub-plan. Alternatively and in order to comply with the laws of a foreign jurisdiction, the Committee shall have the power, in its discretion, to grant Purchase Rights in an Offering to citizens or residents of a non-U.S. jurisdiction (without regard to whether they are also citizens of the United States or resident aliens) that provide terms which are less favorable than the terms of Purchase Rights granted under the same Offering to Employees resident in the United States.

3.4 **Power to Establish Separate Offerings with Varying Terms.** The Committee shall have the power, in its discretion, to establish separate, simultaneous or overlapping Offerings having different terms and conditions and to designate the Participating Company or Companies that may participate in a particular Offering, provided that each Offering shall individually comply with the terms of the Plan and the requirements of Section 423(b)(5) of the Code that all Participants granted Purchase Rights pursuant to such Offering shall have the same rights and privileges within the meaning of such section.

3.5 **Policies and Procedures Established by the Company.** Without regard to whether any Participant’s Purchase Right may be considered adversely affected, the Company may, from time to time, consistent with the Plan and the requirements of Section 423 of the Code, establish, change or terminate such rules, guidelines, policies, procedures, limitations, or adjustments as deemed advisable by the Company, in its discretion, for the proper administration of the Plan, including, without limitation, (a) a minimum payroll deduction amount required for participation in an Offering, (b) a limitation on the frequency or number of changes permitted in the rate of payroll deduction during an Offering, (c) an exchange ratio applicable to amounts withheld or paid in a currency other than United States dollars, (d) a payroll deduction greater than or less than the amount designated by a Participant in order to adjust for the Company’s delay or mistake in processing a Subscription Agreement or in otherwise effecting a Participant’s election under the Plan or as advisable to comply with the requirements of Section 423 of the Code, and (e) determination of the date and manner by which the Fair Market Value of a share of Stock is determined for purposes of administration of the Plan. All such actions by the Company shall be taken consistent with the requirements under Section 423(b)(5) of the Code that all Participants granted Purchase Rights pursuant to an Offering shall have the same rights and privileges within the meaning of such section, except as otherwise permitted by Section 3.3 and the regulations under Section 423 of the Code.

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

4. **Shares Subject to Plan.**

4.1 **Maximum Number of Shares Issuable.** Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be 1,000,000 and shall consist of authorized but unissued or reacquired shares of Stock, or any combination thereof. If an outstanding Purchase Right for any reason expires or is terminated or canceled, the shares of Stock allocable to the unexercised portion of that Purchase Right shall again be available for issuance under the Plan.

4.2 **Adjustments for Changes in Capital Structure.** Subject to any required action by the stockholders of the Company and the requirements of Section 424 of the Code to the extent applicable, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting regular, periodic cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number and kind of shares subject to the Plan, the limit on the shares which may be purchased by any Participant during an Offering (as described in Sections 8.1 and 8.2) and each Purchase Right, and in the Purchase Price in order to prevent dilution or enlargement of Participants' rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." If a majority of the shares which are of the same class as the shares that are subject to outstanding Purchase Rights are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the "**New Shares**"), the Committee may unilaterally amend the outstanding Purchase Rights to provide that such Purchase Rights are for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise price per share of, the outstanding Purchase Rights shall be adjusted in a fair and equitable manner as determined by the Committee, in its discretion. Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number, and in no event may the Purchase Price be decreased to an amount less than the par value, if any, of the stock subject to the Purchase Right. The adjustments determined by the Committee pursuant to this Section 4.2 shall be final, binding and conclusive.

5. **Eligibility.**

5.1 **Employees Eligible to Participate.** Each Employee of a Participating Company is eligible to participate in the Plan and shall be deemed an Eligible Employee, except any Employee who is customarily employed by the Participating Company Group for twenty (20) hours or less per week.

5.2 **Exclusion of Certain Stockholders.** Notwithstanding any provision of the Plan to the contrary, no Employee shall be treated as an Eligible Employee and granted a Purchase Right under the Plan if, immediately after such grant, the Employee would own, or hold options to purchase, stock of the Company or of any Parent Corporation or Subsidiary Corporation possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of such corporation, as determined in accordance with Section 423(b)(3) of the Code. For purposes of this Section 5.2, the attribution rules of Section 424(d) of the Code shall apply in determining the stock ownership of such Employee.

5.3 Determination by Company. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee or an Eligible Employee and the effective date of such individual's attainment or termination of such status, as the case may be. For purposes of an individual's participation in or other rights, if any, under the Plan as of the time of the Company's determination of whether or not the individual is an Employee, all such determinations by the Company shall be final, binding and conclusive as to such rights, if any, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination as to such individual's status as an Employee.

6. Offerings.

The Plan shall be implemented by sequential Offerings of approximately six (6) months' duration or such other duration as the Committee shall determine. Offering Periods shall commence on or about the first trading days of January and July of each year and end on or about the last trading days of the next June and December, respectively, occurring thereafter. Unless otherwise determined by the Committee, the initial Offering Period shall commence on the first trading day of January 2014. Notwithstanding the foregoing, the Committee may establish additional or alternative concurrent, sequential or overlapping Offering Periods, a different duration for one or more Offering Periods or different commencing or ending dates for such Offering Periods; provided, however, that no Offering Period may have a duration exceeding twenty-seven (27) months. If the Committee shall so determine in its discretion, each Offering Period may consist of two (2) or more consecutive Purchase Periods having such duration as the Committee shall specify, and the last day of each such Purchase Period shall be a Purchase Date. If the first or last day of an Offering Period or a Purchase Period is not a day on which the principal stock exchange or quotation system on which the Stock is then listed is open for trading, the Company shall specify the trading day that will be deemed the first or last day, as the case may be, of the Offering Period or Purchase Period.

7. Participation in the Plan.

7.1 Initial Participation. An Eligible Employee may become a Participant in an Offering Period by delivering a properly completed written or electronic Subscription Agreement to the Company office or representative designated by the Company (including a third-party administrator designated by the Company) not later than the close of business on the Subscription Date established by the Company for that Offering Period. An Eligible Employee who does not deliver a properly completed Subscription Agreement in the manner permitted or required on or before the Subscription Date for an Offering Period shall not participate in the Plan for that Offering Period or for any subsequent Offering Period unless the Eligible Employee subsequently delivers a properly completed Subscription Agreement to the appropriate Company office or representative on or before the Subscription Date for such subsequent Offering Period. An Employee who becomes an Eligible Employee after the Offering Date of an Offering Period shall not be eligible to participate in that Offering Period but may participate in any subsequent Offering Period provided the Employee is still an Eligible Employee as of the Offering Date of such subsequent Offering Period.

7.2 Continued Participation. A Participant shall automatically participate in the next Offering Period commencing immediately after the final Purchase Date of each Offering Period in which the Participant participates provided that the Participant remains an Eligible Employee on the Offering Date of the new Offering Period and has not either (a) withdrawn from the Plan pursuant to Section 12.1, or (b) terminated employment or otherwise ceased to be an Eligible Employee as provided in Section 13. A Participant who may automatically participate in a subsequent Offering Period, as provided in this Section, is not required to deliver any additional Subscription Agreement for the subsequent Offering Period in order to continue participation in the Plan. However, a Participant may deliver a new Subscription Agreement for a subsequent Offering Period in accordance with the procedures set forth in Section 7.1 if the Participant desires to change any of the elections contained in the Participant's then effective Subscription Agreement.

8. Right to Purchase Shares.

8.1 Grant of Purchase Right. Except as otherwise provided below, on the Offering Date of each Offering Period, each Participant in such Offering Period shall be granted automatically a Purchase Right consisting of an option to purchase the lesser of (a) that number of whole shares of Stock determined by dividing \$5,000.00 by the Fair Market Value of a share of Stock on such Offering Date or (b) 500 shares of Stock. Subject to Section 8.2, the Committee may, in its discretion and prior to the Offering Date of any Offering Period, (i) change the method of, or any of the foregoing factors in, determining the number of shares of Stock subject to Purchase Rights to be granted on such Offering Date, or (ii) specify a maximum aggregate number of shares that may be purchased by all Participants in an Offering or on any Purchase Date within an Offering Period. No Purchase Right shall be granted on an Offering Date to any person who is not, on such Offering Date, an Eligible Employee.

8.2 Calendar Year Purchase Limitation. Notwithstanding any provision of the Plan to the contrary, no Participant shall be granted a Purchase Right which permits his or her right to purchase shares of Stock under the Plan to accrue at a rate which, when aggregated with such Participant's rights to purchase shares under all other employee stock purchase plans of a Participating Company intended to meet the requirements of Section 423 of the Code, exceeds Twenty-Five Thousand Dollars (\$25,000) in Fair Market Value (or such other limit, if any, as may be imposed by the Code) for each calendar year in which such Purchase Right is outstanding at any time. For purposes of the preceding sentence, the Fair Market Value of shares purchased during a given Offering Period shall be determined as of the Offering Date for such Offering Period. The limitation described in this Section shall be applied in conformance with Section 423(b)(8) of the Code and the regulations thereunder.

9. **Purchase Price.**

The Purchase Price at which each share of Stock may be acquired in an Offering Period upon the exercise of all or any portion of a Purchase Right shall be established by the Committee, provided that such Purchase Price shall not be less than the minimum amount permitted by Section 423(b)(6) of the Code. Subject to adjustment as provided by the Plan and unless otherwise provided by the Committee, the Purchase Price for each Offering Period shall be eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period or (b) the Fair Market Value of a share of Stock on the Purchase Date.

10. **Accumulation of Purchase Price through Payroll Deduction.**

Except as provided in Section 11.1(b) with respect to a Non-United States Offering, shares of Stock acquired pursuant to the exercise of all or any portion of a Purchase Right may be paid for only by means of payroll deductions from the Participant's Compensation accumulated during the Offering Period for which such Purchase Right was granted, subject to the following:

10.1 Amount of Payroll Deductions. Except as otherwise provided herein, the amount to be deducted under the Plan from a Participant's Compensation on each pay day during an Offering Period shall be determined by the Participant's Subscription Agreement. The Subscription Agreement shall set forth the percentage of the Participant's Compensation to be deducted on each pay day during an Offering Period in whole percentages of not less than one percent (1%) (except as a result of an election pursuant to Section 10.3 to stop payroll deductions effective following the first pay day during an Offering) or more than ten percent (10%). The Committee may change the foregoing limits on payroll deductions effective as of any Offering Date.

10.2 Commencement of Payroll Deductions. Payroll deductions shall commence on the first pay day following the Offering Date and shall continue to the end of the Offering Period unless sooner altered or terminated as provided herein.

10.3 Election to Stop Payroll Deductions. During an Offering Period, a Participant may elect to stop deductions from his or her Compensation by delivering to the Company office or representative designated by the Company (including a third-party administrator designated by the Company) an amended Subscription Agreement authorizing such change on or before the "Change Notice Date." The "***Change Notice Date***" shall be a date prior to the beginning of the first pay period for which such election is to be effective as established by the Company from time to time and announced to the Participants. A Participant who elects, effective following the first pay day of an Offering Period, to stop his or her payroll deductions shall nevertheless remain a Participant in such Offering Period unless the Participant withdraws from the Plan as provided in Section 12.1.

10.4 Administrative Suspension of Payroll Deductions. The Company may, in its discretion, suspend a Participant's payroll deductions under the Plan as the Company deems advisable to avoid accumulating payroll deductions in excess of the amount that could reasonably be anticipated to purchase the maximum number of shares of Stock permitted (a) under the Participant's Purchase Right or (b) during a calendar year under the limit set forth in Section 8.2. Unless the Participant has either withdrawn from the Plan as provided in Section 12.1 or has ceased to be an Eligible Employee, suspended payroll deductions shall be resumed at the rate specified in the Participant's then effective Subscription Agreement either (i) at the beginning of the next Offering Period if the reason for suspension was clause (a) in the preceding sentence, or (ii) at the beginning of the next Offering Period having a first Purchase Date that falls within the subsequent calendar year if the reason for suspension was clause (b) in the preceding sentence.

10.5 Participant Accounts. Individual bookkeeping accounts shall be maintained for each Participant. All payroll deductions from a Participant's Compensation (and other amounts received from a non-United States Participant pursuant to Section 11.1(b)) shall be credited to such Participant's Plan account and shall be deposited with the general funds of the Company. All such amounts received or held by the Company may be used by the Company for any corporate purpose.

10.6 No Interest Paid. Interest shall not be paid on sums deducted from a Participant's Compensation pursuant to the Plan or otherwise credited to the Participant's Plan account.

11. Purchase of Shares.

11.1 Exercise of Purchase Right.

(a) Generally. Except as provided in Section 11.1(b), on each Purchase Date of an Offering Period, each Participant who has not withdrawn from the Plan and whose participation in the Offering has not otherwise terminated before such Purchase Date shall automatically acquire pursuant to the exercise of the Participant's Purchase Right the number of whole shares of Stock determined by dividing (a) the total amount of the Participant's payroll deductions accumulated in the Participant's Plan account during the Offering Period and not previously applied toward the purchase of Stock by (b) the Purchase Price. However, in no event shall the number of shares purchased by the Participant during an Offering Period exceed the number of shares subject to the Participant's Purchase Right. No shares of Stock shall be purchased on a Purchase Date on behalf of a Participant whose participation in the Offering or the Plan has terminated before such Purchase Date.

(b) Purchase by Non-United States Participants for Whom Payroll Deductions Are Prohibited by Applicable Law. Notwithstanding Section 11.1(a), where payroll deductions on behalf of Participants who are citizens or residents of countries other than the United States (without regard to whether they are also citizens of the United States or resident aliens) are prohibited by applicable law, the Committee may establish a separate Offering (a "*Non-United States Offering*") covering all Eligible Employees of one or more Participating Companies subject to such prohibition on payroll deductions. The Non-United States Offering shall provide another method for payment of the Purchase Price with such terms and conditions as shall be administratively convenient and comply with applicable law. On each Purchase Date of the Offering Period applicable to a Non-United States Offering, each Participant who has not withdrawn from the Plan and whose participation in such Offering Period has not otherwise terminated before such Purchase Date shall automatically acquire pursuant to the exercise of the Participant's Purchase Right a number of whole shares of Stock determined in accordance with Section 11.1(a) to the extent of the total amount of the Participant's Plan account balance accumulated during the Offering Period in accordance with the method established by the Committee and not previously applied toward the purchase of Stock. However, in no event shall the number of shares purchased by a Participant during such Offering Period exceed the number of shares subject to the Participant's Purchase Right. The Company shall refund to a Participant in a Non-United States Offering in accordance with Section 11.4 any excess Purchase Price payment received from such Participant.

11.2 Pro Rata Allocation of Shares. If the number of shares of Stock which might be purchased by all Participants on a Purchase Date exceeds the number of shares of Stock remaining available for issuance under the Plan or the maximum aggregate number of shares of Stock that may be purchased on such Purchase Date pursuant to a limit established by the Committee pursuant to Section 8.1, the Company shall make a pro rata allocation of the shares available in as uniform a manner as practicable and as the Company determines to be equitable. Any fractional share resulting from such pro rata allocation to any Participant shall be disregarded.

11.3 Delivery of Title to Shares. Subject to any governing rules or regulations, as soon as practicable after each Purchase Date, the Company shall issue or cause to be issued to or for the benefit of each Participant the shares of Stock acquired by the Participant on such Purchase Date by means of one or more of the following: (a) by delivering to the Participant evidence of book entry shares of Stock credited to the account of the Participant, (b) by depositing such shares of Stock for the benefit of the Participant with the Company designated broker, or (c) by delivering such shares of Stock to the Participant in certificate form.

11.4 Return of Plan Account Balance. Any cash balance remaining in a Participant's Plan account following any Purchase Date shall be refunded to the Participant as soon as practicable after such Purchase Date. However, if the cash balance to be returned to a Participant pursuant to the preceding sentence is less than the amount that would have been necessary to purchase an additional whole share of Stock on such Purchase Date, the Company may retain the cash balance in the Participant's Plan account to be applied toward the purchase of shares of Stock in the subsequent Purchase Period or Offering Period.

11.5 Tax Withholding. At the time a Participant's Purchase Right is exercised, in whole or in part, or at the time a Participant disposes of some or all of the shares of Stock he or she acquires under the Plan, the Participant shall make adequate provision for the federal, state, local and foreign taxes (including social insurance), if any, required to be withheld by any Participating Company upon exercise of the Purchase Right or upon such disposition of shares, respectively. A Participating Company may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary to meet such withholding obligations.

11.6 Expiration of Purchase Right. Any portion of a Participant's Purchase Right remaining unexercised after the end of the Offering Period to which the Purchase Right relates shall expire immediately upon the end of the Offering Period.

11.7 Provision of Reports and Stockholder Information to Participants. Each Participant who has exercised all or part of his or her Purchase Right shall receive, as soon as practicable after the Purchase Date, a report of such Participant's Plan account setting forth the total amount credited to his or her Plan account prior to such exercise, the number of shares of Stock purchased, the Purchase Price for such shares, the date of purchase and the cash balance, if any, remaining immediately after such purchase that is to be refunded or retained in the Participant's Plan account pursuant to Section 11.4. The report required by this Section may be delivered in such form and by such means, including by electronic transmission, as the Company may determine. In addition, each Participant shall be provided information concerning the Company equivalent to that information provided generally to the Company's common stockholders.

12. Withdrawal from Plan.

12.1 Voluntary Withdrawal from the Plan. A Participant may withdraw from the Plan by signing and delivering to the Company office or representative designated by the Company (including a third-party administrator designated by the Company) a written or electronic notice of withdrawal on a form provided by the Company for this purpose. Such withdrawal may be elected at any time prior to the end of an Offering Period; provided, however, that if a Participant withdraws from the Plan after a Purchase Date, the withdrawal shall not affect shares of Stock acquired by the Participant on such Purchase Date. A Participant who voluntarily withdraws from the Plan is prohibited from resuming participation in the Plan in the same Offering from which he or she withdrew, but may participate in any subsequent Offering by again satisfying the requirements of Sections 5 and 7.1. The Company may impose, from time to time, a requirement that the notice of withdrawal from the Plan be on file with the Company office or representative designated by the Company for a reasonable period prior to the effectiveness of the Participant's withdrawal.

12.2 Return of Plan Account Balance. Upon a Participant's voluntary withdrawal from the Plan pursuant to Section 12.1, the Participant's accumulated Plan account balance which has not been applied toward the purchase of shares of Stock shall be refunded to the Participant as soon as practicable after the withdrawal, without the payment of any interest, and the Participant's interest in the Plan and the Offering shall terminate. Such amounts to be refunded in accordance with this Section may not be applied to any other Offering under the Plan.

13. Termination of Employment or Eligibility.

Upon a Participant's ceasing, prior to a Purchase Date, to be an Employee of the Participating Company Group for any reason, including retirement, disability or death, or upon the failure of a Participant to remain an Eligible Employee, the Participant's participation in the Plan shall terminate immediately. In such event, the Participant's Plan account balance which has not been applied toward the purchase of shares of Stock shall, as soon as practicable, be returned to the Participant or, in the case of the Participant's death, to the Participant's beneficiary designated in accordance with Section 20, if any, or legal representative, and all of the Participant's rights under the Plan shall terminate. Interest shall not be paid on sums returned pursuant to this Section 13. A Participant whose participation has been so terminated may again become eligible to participate in the Plan by satisfying the requirements of Sections 5 and 7.1.

14. Effect of Change in Control on Purchase Rights.

In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or parent thereof, as the case may be (the "**Acquiring Corporation**"), may, without the consent of any Participant, assume or continue the Company's rights and obligations under outstanding Purchase Rights or substitute substantially equivalent purchase rights for the Acquiring Corporation's stock. If the Acquiring Corporation elects not to assume, continue or substitute for the outstanding Purchase Rights, the Purchase Date of the then current Offering Period shall be accelerated to a date before the date of the Change in Control specified by the Committee, but the number of shares of Stock subject to outstanding Purchase Rights shall not be adjusted. All Purchase Rights which are neither assumed or continued by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control.

15. **Nontransferability of Purchase Rights.**

Neither payroll deductions or other amounts credited to a Participant's Plan account nor a Participant's Purchase Right may be assigned, transferred, pledged or otherwise disposed of in any manner other than as provided by the Plan or by will or the laws of descent and distribution. (A beneficiary designation pursuant to Section 20 shall not be treated as a disposition for this purpose.) Any such attempted assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw from the Plan as provided in Section 12.1. A Purchase Right shall be exercisable during the lifetime of the Participant only by the Participant.

16. **Compliance with Securities Law.**

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

17. **Rights as a Stockholder and Employee.**

A Participant shall have no rights as a stockholder by virtue of the Participant's participation in the Plan until the date of the issuance of the shares of Stock purchased pursuant to the exercise of the Participant's Purchase Right (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.2. Nothing herein shall confer upon a Participant any right to continue in the employ of the Participating Company Group or interfere in any way with any right of the Participating Company Group to terminate the Participant's employment at any time.

18. **Notification of Disposition of Shares.**

The Company may require the Participant to give the Company prompt notice of any disposition of shares of Stock acquired by exercise of a Purchase Right. The Company may require that until such time as a Participant disposes of shares of Stock acquired upon exercise of a Purchase Right, the Participant shall hold all such shares in the Participant's name until the later of two years after the date of grant of such Purchase Right or one year after the date of exercise of such Purchase Right. The Company may direct that the certificates evidencing shares of Stock acquired by exercise of a Purchase Right refer to such requirement to give prompt notice of disposition.

19. **Legends.**

The Company may at any time place legends or other identifying symbols referencing any applicable federal, state or foreign securities law restrictions or any provision convenient in the administration of the Plan on some or all of the certificates representing shares of Stock issued under the Plan. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to a Purchase Right in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include but shall not be limited to the following:

“THE SHARES EVIDENCED BY THIS CERTIFICATE WERE ISSUED BY THE CORPORATION TO THE REGISTERED HOLDER UPON THE PURCHASE OF SHARES UNDER AN EMPLOYEE STOCK PURCHASE PLAN AS DEFINED IN SECTION 423 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. THE TRANSFER AGENT FOR THE SHARES EVIDENCED HEREBY SHALL NOTIFY THE CORPORATION IMMEDIATELY OF ANY TRANSFER OF THE SHARES BY THE REGISTERED HOLDER HEREOF. THE REGISTERED HOLDER SHALL HOLD ALL SHARES PURCHASED UNDER THE PLAN IN THE REGISTERED HOLDER’S NAME (AND NOT IN THE NAME OF ANY NOMINEE).”

20. **Designation of Beneficiary.**

20.1 Designation Procedure. Subject to local laws and procedures, a Participant may file a written designation of a beneficiary who is to receive (a) shares and cash, if any, from the Participant’s Plan account if the Participant dies subsequent to a Purchase Date but prior to delivery to the Participant of such shares and cash, or (b) cash, if any, from the Participant’s Plan account if the Participant dies prior to the exercise of the Participant’s Purchase Right. If a married Participant designates a beneficiary other than the Participant’s spouse, the effectiveness of such designation may be subject to the consent of the Participant’s spouse. A Participant may change his or her beneficiary designation at any time by written notice to the Company.

20.2 Absence of Beneficiary Designation. If a Participant dies without an effective designation pursuant to Section 20.1 of a beneficiary who is living at the time of the Participant’s death, the Company shall deliver any shares or cash credited to the Participant’s Plan account to the Participant’s legal representative or as otherwise required by applicable law.

21. **Notices.**

All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. **Amendment or Termination of the Plan.**

The Committee may at any time amend, suspend or terminate the Plan, except that (a) no such amendment, suspension or termination shall affect Purchase Rights previously granted under the Plan unless expressly provided by the Committee, and (b) no such amendment, suspension or termination may adversely affect a Purchase Right previously granted under the Plan without the consent of the Participant, except to the extent permitted by the Plan or as may be necessary to qualify the Plan as an employee stock purchase plan pursuant to Section 423 of the Code or to comply with any applicable law, regulation or rule. In addition, an amendment to the Plan must be approved by the stockholders of the Company within twelve (12) months of the adoption of such amendment if such amendment would authorize the sale of more shares than are then authorized for issuance under the Plan or would change the definition of the corporations that may be designated by the Committee as Participating Companies. Notwithstanding the foregoing, in the event that the Committee determines that continuation of the Plan or an Offering would result in unfavorable financial accounting consequences to the Company, the Committee may, in its discretion and without the consent of any Participant, including with respect to an Offering Period then in progress: (i) terminate the Plan or any Offering Period, (ii) accelerate the Purchase Date of any Offering Period, (iii) reduce the discount or the method of determining the Purchase Price in any Offering Period (e.g., by determining the Purchase Price solely on the basis of the Fair Market Value on the Purchase Date), (iv) reduce the maximum number of shares of Stock that may be purchased in any Offering Period, or (v) take any combination of the foregoing actions.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing sets forth the PROS 2013 Employee Stock Purchase Plan as duly adopted by the Board on April 18, 2013, as amended by the Board on February 22, 2021.

/s/ Damian Olthoff, Secretary

Damian Olthoff, Secretary

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

Form 10-K

(MARK ONE)

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

For the fiscal year ended December 31, 2020

OR

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

For the transition period from _____ to _____

Commission File Number **001-33554**



PROS HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

76-0168604

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

3200 Kirby Drive, Suite 600

77098

Houston, Texas

(Address of Principal Executive Offices)

(Zip code)

Registrant's telephone number, including area code: **713 335-5151**

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

Title of Each Class

Trading Symbol

Name of Each Exchange on Which Registered

Common Stock, \$0.001 par value per share

PRO

New York Stock Exchange

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

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

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated Filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately \$1,726,848,858 as of June 30, 2020 based upon the closing price for the registrant's common stock on the New York Stock Exchange. This determination of affiliate status was based on publicly filed documents and is not necessarily a conclusive determination for other purposes.

44,235,427 shares of common stock were issued and outstanding as of February 8, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement relating to its 2021 Annual Stockholders Meeting (the "2021 Proxy Statement"), are incorporated by reference into Part III of this Annual Report on Form 10-K. The 2021 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days of the end of the fiscal year to which this report relates.

PROS Holdings, Inc.
Annual Report on Form 10-K
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For the Year Ended December 31, 2020

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SIGNIFICANT RELATIONSHIPS REFERENCED IN THIS ANNUAL REPORT

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this report other than historical facts are forward-looking and are based on current estimates, assumptions, trends, and projections. Statements which include the words "believes," "seeks," "expects," "may," "should," "intends," "likely," "targets," "plans," "anticipates," "estimates," or the negative version of those words and similar expressions are intended to identify forward-looking statements. Numerous important factors, risks and uncertainties affect our operating results, including, without limitation, those contained in this report, and could cause our actual results to differ materially, from the results implied by these or any other forward-looking statements made by us or on our behalf. You should pay particular attention to the important risk factors and cautionary statements described in the section of this report entitled "Risk Factors". You should also carefully review the cautionary statements described in the other documents we file from time to time with the Securities and Exchange Commission ("SEC"), specifically all Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

You should not rely on forward-looking statements as predictions of future events, as we cannot guarantee that future results, levels of activity, performance or achievements will meet expectations. The forward-looking statements made herein are only made as of the date hereof, and we undertake no obligation to publicly update such forward-looking statements for any reason.

Part I

Item 1. *Business*

Overview

PROS provides solutions that optimize the processes of selling and shopping in the digital economy. PROS solutions leverage artificial intelligence ("AI"), self-learning and automation to ensure that every transactional experience is fast, frictionless and personalized for every shopper, supporting both business-to-business ("B2B") and business-to-consumer ("B2C") companies across industry verticals. Companies can use our selling, pricing, revenue optimization and eCommerce solutions to assess their market environments in real time to deliver customized prices and offers. Our solutions enable buyers to move fluidly across our customers' direct sales, partner, online, mobile and emerging channels with personalized experiences regardless of which channel buyers choose. Our decades of data science and AI expertise are infused into our solutions and are designed to reduce time and complexity through actionable intelligence. We provide standard configurations of our solutions based on the industries we serve and offer services to configure our solutions to meet the specific needs of each customer.

Our subscription-as-a-service ("SaaS") solutions are designed to achieve high levels of security, scalability, performance and availability. We believe our SaaS solutions provide an advantage over traditional enterprise software by allowing our customers to reduce their initial investment in third-party software, hardware and administration requirements, and also allow smaller customers or business units to cost-effectively leverage our enterprise class infrastructure, infrastructure management, security and other strategic services.

Before 2015, we primarily offered on-premises license solutions, for which our customers purchased the perpetual right to use our software within a specific license scope. These license customers generally also purchased software maintenance and support, which includes unspecified software updates and enhancements on a when-and-if-available basis, maintenance releases and patches released during the term of the support period.

More than half of our revenue in 2020 and 2019 was derived from our cloud solutions, and since 2017 we have sold over 90% of our solutions as SaaS offerings. We manage all updates and upgrades of software deployed on the PROS cloud on behalf of our customers, which enables us to deliver our latest product innovations to our customers in a more uniform way. We focus the vast majority of our product development efforts on our SaaS solutions, and our next-generation solutions have been built natively in the cloud.

Our Industry

Real-time decision making is an important driver of business performance in the digital economy. Rapidly changing markets and buyer expectations make it increasingly harder for companies to compete and grow. In response to these pressures, we believe that market forces, including increasingly dynamic and complex business models, the explosion of eCommerce, and the exponential increase in the volume of enterprise and market data will accelerate the demand for software solutions that enable companies to dynamically price, configure and sell their products and services across an ever-increasing set of buyer channels with speed, precision and consistency. We believe the market for solutions that can power commerce using AI and machine learning is a large, growing market that spans most major industries.

Our Solutions

Our cloud-based software solutions provide companies with AI-based predictive and prescriptive guidance on key business decisions that drive growth and profitability, including product mix optimization, price forecasting, price optimization, product configuration recommendations, new sales opportunity recommendations, cross-sell recommendations and proactive attrition detection. These insights are derived from machine learning data science based on historical customer transactions, external market inputs and other data. Our cloud solutions enable a consistent buyer experience across direct, partner and eCommerce channels to support digital selling. Our solutions help increase visibility, business agility and customer engagement by aligning sales and pricing strategy across go-to-market channels. As a result, our solutions make it easier for companies to recommend and configure the correct solution(s), set the right price and quickly get a quote into the hands of a buyer.

Solutions for Selling Improvement

PROS selling solutions are designed to improve sales productivity and accelerate deal velocity by automating common sales tasks. Utilizing a foundation of AI and machine learning algorithms, PROS selling solutions empower businesses to tailor every offer for every buyer, across all sales channels, leading to more personalized and engaging customer interactions:

- *PROS Smart CPQ* accelerates the sales process and provides a powerful, intuitive tool for sales teams and partners to respond to customer quotes within minutes. Leveraging state-of-the-art AI and machine learning algorithms, Smart CPQ enables users to find and tailor product recommendations, customize configurations, manage approvals, price just right and generate professional proposals to increase the probability of winning the sale on the first quote. Smart CPQ supports all selling scenarios including spot-order purchases, subscription orders and setup and maintenance of negotiated sales agreements. Businesses can also integrate Smart CPQ into their eCommerce portals, empowering end users to self-serve with confidence. We also offer a *Sales Agreements* edition which automates the quoting process when a longer-term agreement on product, price and terms is negotiated between buyer and seller, supporting increased collaboration and approvals that are required when actual order quantity is uncertain but can be estimated over the agreement term period.
- *PROS Opportunity Detection* increases sales effectiveness and productivity while accelerating quota attainment by uncovering sales opportunities in existing accounts for sales teams. By applying AI and machine learning techniques to historical transactional activity, Opportunity Detection surfaces new opportunities to help proactively increase account penetration with existing customers while preventing customer churn. Businesses can also integrate Opportunity Detection into their eCommerce portal, providing personalized product recommendations for every end user along their eCommerce journey.

Solutions for Pricing

PROS pricing solutions enable enterprises to optimize, personalize and harmonize pricing across the complexity of their go-to-market channels in the context of dynamic market and competitive conditions. Our pricing solutions include:

- *PROS Control* provides a comprehensive pricing platform that offers a single source of accuracy for price management, coordination and strategy. This platform allows businesses to harmonize pricing across go-to-market channels while simultaneously increasing price discipline and protecting price attainment. Pricing users leverage this solution to deploy formulaic price strategies that can incorporate real-time information or conditional data to ensure that every delivered price is up-to-date with the latest market and competitive conditions. With the performance, power and scalability of PROS Control's Real-Time Pricing Engine, B2B and B2C organizations can replace price lists across commerce channels with dynamic calculations for price requests, ensuring that every delivered price is cognizant of conditions at the time of request. This engine allows businesses facing volatile price competition and underlying component costs to leverage data science

to systematically adjust pricing in real time.

- *PROS Guidance* leverages AI-powered algorithms to provide market-relevant price guidance across sales channels that is dynamically refined to adapt to changing market conditions and buyer behavior. This predictive and prescriptive price guidance provides optimized pricing for each unique buying scenario, which is designed to help businesses drive revenue growth, recover margin leakage, accelerate quote turnaround times and increase win-rates. PROS Guidance works with traditional eCommerce scenarios where a sales person is not involved, as well as where a sales person needs negotiation support, and in all cases this solution provides business-relevant analytics to promote explainability of the AI recommendation.

Airline Revenue Optimization

PROS revenue optimization solutions enable enterprises in the travel industry to drive revenue- and profit-maximizing business strategies through the application of advanced forecasting, optimization technologies and decision-support capabilities. These solutions are designed to empower companies to quickly adapt to changing market conditions, differentiate customers by market and sales channel, monitor pricing and revenue management performance, and increase customer loyalty by providing the right products and services to the right customer at the right time. Our Airline Revenue Optimization suite of products includes:

- *PROS Airline Revenue Management* delivers algorithmic forecasting and network optimization for the travel industry. Airlines leverage our forecasting and optimization capabilities to determine optimal capacity levels and manage booking classes inventory in order to optimize revenue at the flight/network level.
- *PROS Airline Real-Time Dynamic Pricing™* is a scalable solution that offers accurate booking class availability and seat prices across all channels, while keeping the rules, fares and other data in sync. The solution dynamically applies strategies to compute both booking class availability and seat prices in real time at the time of transaction so that airlines can maximize revenue.
- *PROS Airline Group Sales Optimizer* is a group revenue optimization solution powered by dynamic pricing science that enables airlines and their travel agent partners to create and manage group bookings, contracts and policies in one location across users.

Airline eCommerce

Our Airline eCommerce solutions power airlines to become better retailers by increasing their control and flexibility over how they sell and distribute offers. These solutions provide airlines with scalable shopping, booking and merchandising capabilities to design and distribute offers across individuals and groups. The solutions are powered by proprietary algorithms, compliant with industry pricing and distribution standards and are entirely passenger service system-independent. Our Airline eCommerce suite of products includes:

- *PROS Airline Shopping* powers airlines' shopping, pricing and repricing by delivering fast, accurate and comprehensive flight offers to travelers across airlines' sales channels.
- *PROS Airline Merchandising* increases airlines' conversion and revenues per passenger by dynamically selling ancillary services, including extra baggage, legroom and other services. Airlines can upsell with personalized offers at any time in the customer journey using rich content across the airlines' sales channels.
- *PROS Airline Retail* offers a single, configurable end-to-end solution for airlines to optimize the user experience throughout the entire traveler journey from inspiration to post-trip. With this International Air Transport Association ("IATA") New Distribution Capability ("NDC") Level 4 capable solution, airlines can increase conversion rates and upsell opportunities while having the flexibility and control to optimize user interface across their internet booking engine and mobile application.

Technology

Our high-performance software architecture supports real-time, high-volume transaction processing and enables us to handle the complex and demanding processing requirements of sophisticated global enterprises, including those who require sub-second response times for their customers. We provide the majority of our cloud services via cloud computing platform partners who offer Infrastructure-as-a-Service, including servers, storage, databases and networking, located in the United States, the Netherlands, Ireland, Germany, United Arab Emirates, Australia and other countries. The use of cloud computing platform partners provides us flexibility to service customers at scale and also offer options to comply with in-country data privacy requirements. We also deliver our solutions from infrastructure designed and operated by us but secured within third-party data center facilities. We offer both single-tenant and multi-tenant cloud solutions.

Artificial Intelligence. More than three decades of data science research and access to very large data sets underlies the robust machine learning and AI capabilities of our solutions. Our dynamic AI, including forecasting, optimization, neural networks, segmentation and reinforcement learning, allows us to leverage our deep science and research expertise in our solutions. These capabilities are industry-independent and are validated using our proprietary verification and testing processes.

Configuration vs. Custom Coding. Our solutions can be configured to meet each customer's business needs through configuration rather than custom code. The configuration capabilities define both a business layer (including definition of user workflows, executive dashboards, analytics views, calculations, approval processes and alerts), as well as a data layer that permits configuration of data structures, including hierarchical dimensions, pricing levels and measures. We maintain our customers' configurations which allows them to use the latest version of our solutions.

Data Integration. The data needed to execute and power personalized digital buying typically resides in multiple sources, such as a company's enterprise resource planning ("ERP"), supply chain management ("SCM"), customer relationship management ("CRM"), eCommerce, reservations and inventory systems, external market data sources, spreadsheets and/or industry-specific transaction systems. Our platform interoperates with many different systems, including those that have been heavily customized to customer requirements. Our data integration capabilities bring data from disparate sources together into a single cohesive database, both in real time and through scheduled batch tasks. We also provide certified content for integration with SAP and integration development services using industry standard tools as well as adapters and integration tools for other common data sources and applications.

Micro-services Architecture. A comprehensive web services interface is at the heart of our architecture. This interface enables extension onto other platforms and the creation of rich integrated solutions.

User Interface. Our technology provides a rich and modern, browser-based interface that supports both local and remote users. This interface supports a wide variety of interactive charts and other data views, and provides a comprehensive security model based on user role and scope of responsibility. This interface operates on a variety of internet browsers, mobile devices and tablets. We also provide native capabilities for Salesforce CRM and Microsoft Dynamics CRM.

Subscription Services

Our subscription services provide customers access to our software via the Internet which, as compared to an on-premises software model, helps reduce their infrastructure, installation and ongoing administration requirements. We also reduce the total cost of ownership of our cloud services over the subscription term by delivering multiple feature releases per year that automatically introduce new features, while preserving previous configurations and integrations that minimize additional customer investment for compatibility. We also offer cloud-based services to allow existing customers who previously purchased licenses to our software to have access to that software within a cloud-based IT environment that we manage.

Sales and Marketing

We sell and market our software solutions primarily through our direct global sales force and indirectly through go-to-market partners, resellers and systems integrators. Our sales force is organized by our target markets, including automotive and industrial manufacturing, transportation and logistics, chemicals and energy, food and beverage, healthcare, high tech and travel. Our marketing activities consist of a variety of programs designed to generate sales leads, accelerate sales opportunities and build awareness of our solutions. We also use digital channels including search and content syndication to reach our target market. We host an annual customer conference, Outperform, where our customers and prospects are invited to learn about best practices from thought leaders, executives and other practitioners in using technology to compete in the digital economy, hear about our latest innovations, and network with peers across industries. We also host other smaller conferences throughout the year, host informational web seminars and participate in and sponsor other industry and trade conferences and organizations.

Services

We provide software-related services, including implementation, configuration, consulting and training services. Our software solution implementations have a standardized and tested implementation process developed through years of experience implementing our software solutions in global enterprises across multiple industries. We also offer an array of training on all aspects of our software solutions, from introductory on-demand mini-courses to multi-day hands-on deep

technical classroom sessions. In addition to our own internal services team, we also work with many globally diverse partners who have been certified to implement our software.

Maintenance and Support

Customers maintaining implementations under on-premises licenses may purchase, at their discretion, maintenance and support services. Maintenance enrollment entitles a customer to solicit support through a web-based interface to submit and track issues, access our online knowledge base, and receive unspecified upgrades, maintenance releases and bug fixes during the term of the support period.

Revenue from maintenance and support services has continued to decline as a percentage of our total revenue since we transitioned to our cloud strategy and sold fewer on-premises licenses to our software. We expect our maintenance revenue to continue to decrease as more existing customers migrate from our legacy on-premises solutions to our cloud solutions. Revenue from maintenance and support services comprised 18%, 23%, and 33% of our total revenue in 2020, 2019 and 2018, respectively.

Customers

We sell our solutions to customers across many industries, including automotive and industrial manufacturing, transportation and logistics, chemicals and energy, food and beverage, healthcare, high tech and travel. Our customers are generally large global enterprises and medium-sized businesses, although we also have customers that are smaller in scope of operations. In each of 2020, 2019 and 2018, we had no single customer that accounted for 10% or more of our revenue. Our customers are also geographically diverse, as approximately 67%, 66%, and 65% of our total revenue came from customers outside the U.S. for the years ended December 31, 2020, 2019 and 2018, respectively.

We provide our customers with several service options including a customer success team to help our customers accelerate the value of their investments in our solutions; a services ecosystem of both our service teams and certified third-party system integrators; 24x7 support; and an online community to facilitate collaboration among our customers and our product development teams.

Competition

The markets for our solutions are competitive, fragmented and rapidly evolving. For example, we have seen consolidation in the quoting software market with large vendors acquiring smaller quoting companies as they attempt to provide end-to-end solutions. Today, we are increasingly competing in a sales ecosystem with competitors that all aim to drive effectiveness and efficiency in selling, although we believe we are unmatched in our ability to deliver sales and pricing AI with speed, scale and precision. We face competition from both larger and smaller competitors, including those providing industry specific software, a portion of our pricing solutions, a portion of our selling solutions, and a portion of our revenue management, retail, shopping and merchandising solutions in the airline industry. To a lesser extent, we compete against large enterprise application providers that have developed offerings that include competing functionality and custom solutions developed internally by businesses, which generally include some combination of spreadsheets, manual processes, external consultants, and internally developed software tools.

The number of companies that we compete with has increased in recent years as we expanded into adjacent technologies. We believe our customers consider the following factors when evaluating our solutions versus competitive solutions:

- product architecture, functionality, performance, data security, reliability and scalability;
- strength of AI embedded in offerings;
- real-time capabilities;
- customer base and references;
- return on investment, total cost of ownership and time-to-value;
- breadth and depth of product and service offerings;
- depth of expertise in data and pricing science;
- industry domain expertise;

- investment in research and development;
- services and customer support quality;
- size and quality of partner ecosystem;
- existing customer relationships; and
- vendor viability.

We believe that none of our competitors can provide a competitive level of all the functionality needed to support an organization interested in optimizing sales growth through AI-based omnichannel pricing, selling and revenue management. Our competitors generally compete on price or by bundling their applications with other enterprise applications, and we expect that this will continue in the future. We distinguish ourselves from these vendors through our long history of providing software solutions incorporating AI and/or machine learning, the breadth and depth of the functionality we offer, the robust integration and configuration capabilities of our solutions, our ability to handle large data volumes at scale, and our proven ability to provide high-value dynamic science-based optimization software to our global customer base across industries. In the future, we believe our competition will continue to increase as we expand into adjacent market segments.

Intellectual Property

Our success and ability to compete is dependent, in part, on our ability to develop and maintain the proprietary aspects of our technology and operate without infringing upon the proprietary rights of others. We protect our intellectual property with a combination of trade secrets, confidentiality procedures, contractual provisions, patents, trademarks, copyrights and other similar measures. We believe that reliance upon trade secrets and unpatented proprietary know-how are generally the most advantageous methods for us to protect our proprietary information.

Research and Development

We believe our software innovation is the foundation of our business and accordingly have made, and continue to make, significant investments in research and development for the enhancement of existing solutions and the development of solutions. We also believe that our long-term investments in AI and machine learning to power pricing and revenue management differentiate us from our competitors. We are committed to continuing the further development of these high-value solutions as evidenced by our continued investment in research and development. In fiscal 2020, 2019 and 2018, we incurred expenses of \$75.6 million, \$67.2 million and \$55.7 million, respectively, in research and development, net of capitalized internal-use software cost, to enhance our existing portfolio of solutions and to develop new solutions. Our research and development expenses include costs associated with our product management, product development and science and research groups. We conduct research and development activities predominantly in Bulgaria, France and the U.S., and also utilize third-party contractors in Bolivia, Colombia, France, India, Romania and Mexico.

We employ data scientists, most of whom are Ph.D.'s, to advance sales, pricing, and revenue management technology and its implementation in our software solutions. These scientists have specialties including, but not limited to, AI, machine learning, operations research, management science, statistics, econometrics and computational methods. Our data scientists regularly interact with our customers, product development, sales, marketing and services team to help keep our science efforts relevant to real-world demands.

Human Capital Resources

Our mission is to help people and companies outperform. To fulfill that mission, we believe we must attract, develop, motivate and retain exceptional employees to maintain our culture and uphold our high ethical standards. As innovation is one of our core values, we believe that our commitment to innovation begins with our commitment to create an environment where our employees can do their best work. To accomplish this, we offer competitive total rewards, invest in ongoing learning and development, promote diversity and inclusion, and focus on employee health, safety and well-being. Oversight of our approach to and investment in human capital management and leadership and talent development are thus key governance matters for the Board of Directors ("Board"). Directly, and through its Compensation and Leadership Development Committee, the Board engages regularly with management on human capital matters. As of December 31, 2020, we had 1,403 full-time personnel, which included 1,235 employees and 168 outsourced personnel. Our team spans 10+ countries, reflecting various backgrounds, ages, gender identities and ethnicities.

At PROS, our values and culture are embedded in everything we do. We proactively look for ways to maintain our collaborative and open company culture and further improve our organizational health, including through regular employee and

management communication, and periodic team events, as well as through employee pulse surveys. We use insights from our pulse surveys and other employee feedback, including through town halls, leader forums and other communication channels, to inform our human capital resources plans. Our most recent U.S. engagement survey, conducted during the COVID-19 pandemic and virtual work, shows the impact of our efforts, with 94% of our U.S.-based team members recommending PROS as a great place to work. Following the conclusion of this survey and submission of other required elements, PROS was designated as a 2020-2021 Great Place to Work-Certified™ company.

We encourage you to visit our website for more detailed information regarding our Human Capital programs and initiatives. Nothing on our website shall be deemed incorporated by reference into this Annual Report on Form 10-K.

Total Rewards. We require a talented workforce to drive innovation, operational excellence, and long-term stockholder value. We also believe that employees should be paid for what they do and how they do it, regardless of their gender, race, or other personal characteristics, and we constantly strive for pay parity. We define pay parity as ensuring that employees in the same job and location are paid fairly regardless of their gender or ethnicity. To attract and retain a talented workforce, we provide total rewards programs, practices and policies designed to be market-competitive, including by benchmarking and setting pay ranges based on market data, and also considering factors such as an employee's role, skills, experience, job location and performance. We have invested in analysis and transparency to demonstrate our commitment to fair compensation and opportunity.

Our human resources management philosophy goes beyond traditional compensation and benefits. We design our total rewards to meet the needs of the whole person, not just the employee, recognizing that life events and circumstances that occur outside of work may impact what happens at work. For example, during 2020 we adopted a trusted time off approach in the U.S. to give employees more flexibility and control over their schedules. Our investments in employee mental health and wellness programs are also cornerstones of this philosophy. During COVID-19 we have added specific employee well-being initiatives discussed below.

Diversity and Inclusion. We believe diversity and inclusion drive innovation and ownership. We are committed to fostering a diverse and inclusive workplace that attracts and retains exceptional talent and upholds high ethical standards. We strive to maintain a working environment that celebrates diverse perspectives, cultures and experiences. We are proud of what we have accomplished to advance diversity and inclusion, but we recognize we still have work to do, including beyond the virtual walls of PROS.

Our commitment to diversity and inclusion starts at the top with a skilled and diverse Board which provides oversight for our human capital resources efforts, including our diversity and inclusion programs and initiatives. As of December 31, 2020, the majority of our Board was comprised of either female and/or ethnically diverse directors, with both female and ethnically diverse representation on our Board for more than 10 years. As of December 31, 2020, women represent 36% of our global employees, and in the U.S., more than half our employees represent minority groups, with underrepresented minorities (defined as those who identify as Black/African American, Hispanic/Latinx, Native American, Pacific Islander and/or two or more races) representing 26% of our U.S. employees.

We have a heritage of fostering inclusion and belonging, awareness and education, and social interaction and camaraderie through our employee resource groups. Sponsored and funded by PROS, these employee-led groups are open to any interested employee and create spaces for our people to connect from all walks of life, grow together and build relationships and community. Additional information on our diversity and inclusion strategy, diversity metrics and programs can be found on our website at pros.com/about-pros/diversity-and-inclusion. Nothing on our website shall be deemed incorporated by reference into this Annual Report on Form 10-K.

Learning and Development. We believe that continuous learning cultivates innovation and that the development of our most important assets, our people, is foundational to fulfill our mission. We regularly invest in our employees' career growth and provide our employees opportunities for training on a wide range of skills designed to help them to be more effective in their current and future roles. In 2020, over 95% of employees participated in learning and development activities, including thousands of courses across a broad range of categories – leadership, inclusion and diversity, professional skills, technical and compliance. Because the development of our employees and next generation of leaders is critical to our long-term success, we annually engage in a comprehensive talent evaluation and succession planning process, including manager evaluations of all employees and detailed succession planning for all director and above roles with Board oversight for senior management and other key roles.

Pandemic Response. Our top priority during the ongoing COVID-19 pandemic remains protecting the health and well-being of our employees, customers, partners and communities. Since the onset of the COVID-19 pandemic, we have maintained

a work-from-home policy for substantially all our employees, materially limited business travel, and we have taken an integrated approach to helping our employees manage their work and personal responsibilities, with a strong focus on employee physical and mental health. Recognizing that working virtually across a global company is a new and sudden way for all to interact, we instituted several company-wide initiatives to assist our employees in managing through the unprecedented situation, including a mental health awareness day, monthly recharge days and "wellness Wednesdays" with limited scheduled meetings. Additional information on our pandemic response and related wellness initiatives will be included in the 2021 Proxy Statement.

Corporate Information

We were incorporated in Texas in 1985. We reincorporated as a Delaware corporation in 1998. In 2002, we reorganized as a holding company in Delaware. Our principal executive offices are located at 3200 Kirby Drive, Suite 600, Houston, Texas 77098. We report as one operating segment with our Chief Executive Officer acting as our chief operating decision maker. Our telephone number is (713) 335-5151. Our website is *www.pros.com*. Our website and the information that can be accessed through our website are not part of this report.

Available Information

We make available, free of charge through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, including exhibits thereto, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the reports are electronically filed with or furnished to the SEC. Our reports that are filed with, or furnished to, the SEC are also available at the SEC's website at *www.sec.gov*.

Annual CEO Certification

Pursuant to Section 303A.12(a) of the New York Stock Exchange ("NYSE") Listed Company Manual, on May 14, 2020, we submitted to the NYSE an annual certification signed by our Chief Executive Officer certifying that he was not aware of any violation by us of NYSE corporate governance listing standards.

Item 1A. Risk Factors

We operate in a dynamic environment that involves numerous risks and uncertainties. The following section describes some of the risks that may adversely affect our business, financial condition or results of operations, and the trading price of our common stock; these risks are categories and not listed in terms of their importance or level of risk.

Strategic, Commercial and Operational Risks

We must successfully navigate the demand, supply and operational challenges associated with the ongoing coronavirus (COVID-19) pandemic, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

The COVID-19 pandemic has adversely impacted, and we expect will continue to adversely impact, many aspects of our business. Governmental authorities have implemented or reinstated numerous severe measures in an attempt to contain the spread of COVID-19, including travel bans and restrictions, quarantines, physical distancing, shelter-in-place orders, and business limitations and shutdowns. Compliance with these measures by us and by our prospects, customers, suppliers and other counterparties has impacted our business, and this impact could last for an indefinite period of time. The economic impact of COVID-19 has adversely impacted a number of our prospects and customers, who have experienced, and may continue to experience, downturns or uncertainty in their own businesses. In particular, our travel industry customers experienced unprecedented declines in demand globally in 2020, which may remain suppressed for some time. To address these financial difficulties, some prospects and customers decreased, and may continue to decrease, spending on technology initiatives, stalled or halted implementation projects, and in limited cases filed for bankruptcy protection. As a result, we may be unable to collect receivables from or renew subscription agreements with those customers significantly impacted by COVID-19. In addition, certain customers have requested, and we expect will continue to request, concessions from existing contracts, and the extent and impact of future requests is uncertain. If a significant number of our customers are unable to make their contractually obligated payments to us, file for bankruptcy protection, or elect to renew their current contracts with us at lower usage levels, this would have an adverse impact on our subscription revenue, business and financial condition. COVID-19 may also have the effect of heightening many of the other risks described herein, including risks associated with our customers and supply chain.

As compared to our expectations prior to COVID-19, the economic impact of COVID-19 adversely impacted our revenue, customer bookings, bad debt expense and operating cash flow during the year ended December 31, 2020. We expect that customer bookings and the related revenue and cash flows will continue to be lower than anticipated during the pandemic, particularly new demand for our airline solutions. In response, we have postponed or canceled, and may continue to postpone or cancel, planned investments in our business, which may impact our product development and rate of innovation, either of which could seriously harm our business. The impact of COVID-19 will likely continue even after the pandemic is contained. For example, airline travel demand may remain suppressed and recovery may not follow a linear path. As there are no comparable recent events that provide guidance as to the effect, extent or duration of the current pandemic, or the resultant personal, economic and governmental reactions, we are unable to forecast the impact of COVID-19 on our bookings, revenue, results from operations, financial condition, liquidity and cash flows, and may have to take additional actions in the future that could further harm our business and financial performance. Although we expect that current cash and cash equivalent balances and cash flows that are generated from operations will be sufficient to meet our working capital needs and other capital and liquidity requirements for at least the next 12 months, if our access to capital is restricted or our borrowing costs increase, our operations and financial condition could be adversely impacted.

To support the health and well-being of our employees and communities, we implemented and expect to continue a work-from-home policy for substantially all our employees and materially limited business travel, and we may take further actions that alter our operations as required by governmental authorities, or which we determine are in our best interests. While almost all of our operations have been performed remotely since March 2020, and we have not experienced any material interruptions to our operations to date, there is no guarantee that we will continue to be as effective while working remotely. The disruptions caused by COVID-19, including the limitations on meeting in-person with existing and potential customers and amongst our teams because our team is dispersed, may result in inefficiencies, delays and additional costs in our product development, sales, marketing, product implementations and customer service efforts that we cannot fully mitigate through remote work arrangements. Many employees have additional personal needs to attend to such as looking after children as a result of school closures or adjusted school calendars or family who become sick, and employees may continue to become sick themselves and be unable to work. To date, employee illnesses have not materially impacted our operations. However, if one or more of our senior leaders were unable to carry out their duties due to COVID-19, it could have a significant adverse impact on our operations. Similarly, our business practice modifications in response to the pandemic could present challenges to maintaining our corporate culture, including employee engagement, development and productivity. Where local regulations permit, we have provided limited access to our offices for our employees, and when appropriate, we anticipate that we will fully

reopen our offices. Planning for the reopening of our offices has required and will likely continue to require non-trivial investments to manage additional risks and operational challenges, including in the design, implementation and enforcement of new workplace safety protocols. These efforts may divert management attention, and the protocols may create logistical challenges for our employees which could adversely impact employee productivity and morale. Even if we follow what we believe to be best practices, our measures may not prevent the transmission of COVID-19. Any incidents of actual or perceived transmission may expose us to liability from employee claims, adversely impact employee productivity and morale, and result in negative publicity and reputational harm.

The impacts of COVID-19 on our business continue to be uncertain, evolving, dynamic and dependent on numerous unpredictable factors outside of our control, including:

- the spread, duration and severity of COVID-19 and the mutations or variations thereof as a public health matter and its impact on governments, businesses and society generally and our clients, partners and our business;
- the duration, impact and effectiveness of measures taken by governments, businesses and society in response to COVID-19, including the effectiveness of vaccines, the rate at which vaccines are administered, and the effectiveness of fiscal and monetary stimulus programs and other legislative and regulatory measures;
- the impact of COVID-19 on overall long-term demand for air travel, including the impact on demand for business travel as a result of increased usage of videoconferencing and other technologies;
- the impact of COVID-19 on the financial health and operations of our current and prospective customers and partners, including the increase in business failures among our customers and other businesses;
- the pace and extent to which our customers and other businesses reduce their personnel;
- the possibility of failure of our operating facilities, computer systems or communication systems;
- the willingness of current and prospective clients to invest in our products and services; and
- the satisfaction of current and prospective customers with product and service remote delivery and support.

If we are not able to respond to and manage the impact of such events effectively, our results of operations, financial performance, and overall business will be harmed. We continue to evaluate the nature and extent of the impact of COVID-19 to our business.

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

Our solutions involve the storage, and to a more limited extent, the transmission of our customers' proprietary information, including personal and other sensitive data. We have incurred, and expect to continue to incur significant costs to maintain security measures designed to prevent, eliminate or alleviate known security vulnerabilities, data theft, data corruption, computer viruses, malicious software programs, attacks by third parties or similar disruptive problems (each a "Security Incident"), and obtain third-party security attestations regarding those security measures. Despite the implementation of these security measures and third-party security attestations, if these measures are breached as a result of third-party action, employee error or misconduct or otherwise, we could experience a Security Incident that could result in someone obtaining unauthorized access to our IT systems, customers' data or our data, including our intellectual property and other confidential business information. Because the techniques used to compromise systems change frequently, may exploit vulnerabilities, and may not be recognized until launched, we may be unable to anticipate these techniques or to implement adequate preventative measures. We cannot predict the extent, frequency or impact of these problems on us. Any Security Incident could result in interruptions, delays, cessation of service and loss of existing or potential customers, as well as loss of confidence in the security of our solutions and services, damage to our reputation, negative impact to our future sales, disruption of our business, increases to our information security costs, and could lead to indemnity obligations, legal liability and other costs. In the normal course of our business, we experience Security Incidents and have increased risk given our all remote workforce due to COVID-19. To date, however, the identified Security Incidents have neither been material or significant to us, including to our business operations, nor had a material financial impact. There can be no assurance that future Security Incidents will not be material or significant.

Failure to increase business from our customers and sustain our historical renewal rates and pricing could adversely affect our future revenue and operating results.

Many of our existing customers initially purchase our software solutions for a specific business segment or geographic location within their organization, and over time we partner with them to add business segments and geographic locations within their organization. These customers might not choose to make additional purchases of our software solutions or to expand their existing software solutions to other business segments. In addition, as we deploy new applications and features for our software solutions or introduce new software solutions, our current customers may not 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.

Our subscription agreements are typically for an initial term of three years, and our legacy maintenance and support agreements are typically renewed for annual terms. Our customers have no obligation to renew their software subscriptions after the expiration of their initial term, and some customers elect not to renew. Subscription revenue represented the majority of our total revenue for the year ended December 31, 2020. Maintenance and support revenue from our legacy on-premises software products continues to decline as a percentage of total revenue, representing approximately 18%, 23% and 33% of our total revenue for the years ended December 31, 2020, 2019 and 2018, respectively.

We may not accurately predict future customer renewal rates, which can decline or fluctuate as a result of a number of factors, including customers' level of satisfaction with our services, our ability to continue to regularly add functionality, the reliability (including uptime) of our subscription services, the prices of our services, the actual or perceived information security of our systems and services, mergers and acquisitions of our customers, reductions in our customers' spending levels, or declines in customer activity as a result of economic downturns or uncertainty in financial markets. COVID-19 has had a negative impact on our revenue retention, particularly for our travel industry customers. If our customers choose not to renew their subscription, maintenance and support agreements with us on favorable terms or at all, our business, operating results and financial condition could be harmed.

If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service and operational controls or adequately address competitive challenges.

Over the past several years, we have experienced substantial growth in our customers, headcount and operations. Despite the challenges posed by COVID-19, we expect to continue to expand our customer base, headcount and operations over time. This growth has placed, and future growth will place, a significant strain on our management, general and administrative resources and operational infrastructure. Our success will depend in part on our ability to effectively manage this growth and scale our operations. To manage this growth, we have and will continue to need to improve our operational, financial, management controls, reporting systems and procedures. As we continue to grow, we also need to ensure that our policies and procedures evolve to reflect our current operations and are appropriately communicated to and observed by employees, and that we continue to appropriately manage our assets. Failure to effectively manage growth could adversely impact our business performance and operating results.

We depend on third-party data centers, software, data and other unrelated service providers and any disruption from such third-party providers could impair the delivery of our service and negatively affect our business.

Our cloud products are dependent upon third-party hardware, software and cloud hosting vendors, including Microsoft Azure, IBM Softlayer and Amazon Web Services, all of which must inter-operate for end users to achieve their computing goals. We utilize third-party data center hosting facilities, cloud platform providers, and other service providers to host and deliver our subscription services as well as for our own business operations. We host our cloud products from data centers in a variety of countries, including the United States, the Netherlands, Ireland, Germany, United Arab Emirates, Australia and other countries. While we control and generally have exclusive access to our servers and all of the components of our network that are located in our external data centers, we do not control the operation of these facilities and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to Security Incidents, break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite our failover capabilities, standard protocols and other precautions, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. In addition, these providers have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms or at all, or if one of our data center operators is acquired, we may be required to transfer our servers and other infrastructure to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so.

Certain of our applications are essential to our customers' ability to quote, price, and/or sell their products and services. Interruption in our service may affect the availability, accuracy or timeliness of quotes, pricing or other information and could require us to issue service credits to our customers, damage our reputation, cause our customers to terminate their use of our solutions, require us to indemnify our customers against certain losses, and prevent us from gaining additional business from current or future customers. In addition, certain of our applications require access to our customer's data which may be held by third parties, some of whom are, or may become, our competitors. For example, many of our travel industry products rely upon access to airline data held by large airline IT providers which compete against certain of our airline products. Certain of these competitors have in the past, and may again in the future, make it difficult for our airline customers to access their data in a timely and/or cost-effective manner.

Any disruption from our third-party data center, software, data or other service providers could impair the delivery of our service and negatively affect our business, damage our reputation, negatively impact our future sales and lead to legal liability and other costs.

Implementation projects involve risks which can negatively impact the effectiveness of our software, resulting in harm to our reputation, business and financial performance.

The implementation of certain of our software solutions involve complex, large-scale projects that require substantial support operations, significant resources and reliance on factors beyond our control. For example, the success of certain of our implementation projects is dependent upon the quality of data used by our software solutions and the commitment of customers' resources and personnel to the projects. We may not be able to correct or compensate for weaknesses or problems in data, or any lack of our customers' commitment and investment in personnel and resources. Further, various factors, including our customers' business, integration, migration and security requirements, or errors by us, our partners, or our customers, may cause implementations to be delayed, inefficient or otherwise unsuccessful. For example, changes in customer requirements, delays, or deviations from our recommended best practices have and continue to occur during implementation projects. As a result, we may incur significant costs in connection with the implementation of our products. If we are unable to successfully manage the implementation of our software solutions, and as a result those products or implementations do not meet customer needs, expectations or timeline, we may become involved in disputes with our customers, may be unable to sell additional products or secure a renewal of the customer's subscription, and our business reputation and financial performance may be significantly harmed. If an implementation project for a large customer or a number of customers is substantially delayed or canceled, our ability to recognize the associated revenue and our operating results could be adversely affected.

If we fail to manage our cloud operations, we may be subject to liabilities and our reputation and operating results may be adversely affected.

We have experienced substantial growth in the number of customers and data volumes serviced by our cloud infrastructure in recent years. While we have designed our cloud infrastructure to meet the current and anticipated future performance and accessibility needs of our customers, we must manage our cloud operations in order to handle changes in hardware and software parameters, spikes in customer usage and new versions of our software. We have experienced, and may in the future experience, system disruptions, outages and other cloud infrastructure performance problems. These problems may be caused by a variety of factors, including infrastructure changes, human or software errors, viruses, security attacks (internal or external), fraud, spikes in customer usage, denial of service issues and other Security Incidents. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. Our customer agreements typically provide service level commitments on a monthly basis and for certain of our products we also offer response time commitments. If we are unable to meet the stated service level or response time commitments, or if we suffer extended periods of unavailability for our solutions, we may be contractually obligated to issue service credits or refunds to customers for prepaid and unused subscription services, or customers may choose to terminate or not renew contracts. Any extended service outages or other performance problems could also result in damage to our reputation or our customers' businesses, cause our customers to elect not to renew or to delay or withhold payment to us, loss of future sales, lead to customers making other claims against us that could harm our subscription revenues, result in an increase in our provision for doubtful accounts, increase collection cycles for our accounts receivable or lead to the expense and risk of litigation.

If we fail to protect our intellectual property adequately, our business may be harmed.

Our success and ability to compete depends in part on our ability to protect our intellectual property. We rely upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements, and patent, copyright and trademark laws to protect our intellectual property rights. We cannot, however, be certain that steps we take to protect our intellectual property are adequate.

We may be required to spend significant resources to protect our intellectual property rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. The procurement and enforcement of certain intellectual property rights involves complex legal and factual considerations, and the associated legal standards are not always applied predictably or uniformly, can change, and may not provide adequate remedies. As a result, we may not be able to obtain or adequately enforce our intellectual property rights, and other companies may be better able to develop products that compete with ours. Our failure to secure, protect, and enforce our intellectual property rights could adversely affect our brand, competitive business position, business prospects, operating results and financial condition.

Our use of third-party software creates dependencies outside of our control.

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

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 have completed four acquisitions since 2013, and we plan to continue to acquire other businesses, technologies and products that we intend to complement or enhance our existing business, solutions, services and technologies. We cannot provide assurance that the acquisitions we have made or may make in the future will provide us with the benefits or achieve the results we anticipated when entering into the transaction(s). Acquisitions are typically accompanied by a number of risks, including:

- difficulties in integrating the operations and personnel of the acquired companies;
- difficulties in maintaining acceptable standards, controls, procedures and policies, including integrating financial reporting and operating systems, particularly with respect to foreign and/or public subsidiaries;
- disruption of ongoing business and distraction of management;
- inability to maintain relationships with customers of the acquired business;
- impairment of relationships with employees and customers as a result of any integration of new management and other personnel;
- difficulties in incorporating acquired technology and rights into our solutions and services;
- unexpected expenses resulting from the acquisition; and
- potential unknown liabilities associated with the acquisition.

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

Catastrophic events may disrupt our operations.

Our headquarters are located in Houston, Texas, and we conduct business in other domestic and international locations. We also rely on our network and third-party infrastructure and enterprise applications for our sales, marketing, development, services, operational support and hosted services. A disruption, infiltration or failure of these systems or third-

party hosted services in the event of a major hurricane, earthquake, fire, flood or other weather event, power loss, telecommunications failure, software or hardware malfunctions, pandemics (including the COVID-19 pandemic), cyber-attack, war, terrorist attack or other catastrophic event that our business continuity and disaster recovery plans do not adequately address, could cause system interruptions, reputational harm, loss of intellectual property, delays in our product development, lengthy interruptions in our services, breaches of data security and loss of critical data. Any of these events could prevent us from fulfilling our customer obligations or could negatively impact a country or region in which we sell our products, which could in turn decrease that country's or region's demand for our products. Even though we carry business interruption insurance and typically have provisions in our contracts that protect us in certain events, we might suffer losses from business interruptions that exceed the coverage under our insurance policies or for which we do not have coverage. Any natural disaster or other catastrophic event could create a negative perception in the marketplace, delay our product innovations, or lead to lengthy interruptions in our services, breaches of data security, and losses of critical data, all of which could have an adverse effect on our operating results.

We are a multinational corporation exposed to risks inherent in international operations.

The majority of our revenues are derived from our customers outside the U.S. To date, the majority of our sales have been denominated in U.S. dollars, although the majority of our expenses that we incur in our international operations are denominated in local currencies. To date, we have not used risk management techniques or "hedged" the risks associated with fluctuations in foreign currency exchange rates. Consequently, our results of operations and financial condition, including our revenue and operating margins, can be subject to losses from fluctuations in foreign currency exchange rates, as well as regulatory, political, social and economic developments or instability in the foreign jurisdictions in which we operate. *For additional financial information about geographic areas, see Note 19 of the Notes to the Consolidated Financial Statements.*

Our operations outside the U.S. are subject to risks inherent in doing business internationally, requiring resources and management attention, and may subject us to new or larger levels of regulatory, economic, foreign currency exchange, tax and political risks. We have customers in over 60 countries internationally, which we service through our operations in the U.S., Australia, Bulgaria, Canada, France, Germany, Ireland, United Arab Emirates and United Kingdom. We expect our international operations to continue to grow. Among the risks we believe are most likely to affect us with respect to our international operations are:

- economic conditions in various parts of the world;
- sustained disruption to international travel from the COVID-19 pandemic and variations or mutations thereof as well as any other outbreaks of contagious diseases;
- differing labor and employment regulations, especially where labor laws are generally more advantageous to employees as compared to the U.S.;
- the difficulty of managing and staffing our international operations and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- unexpected changes in regulatory requirements, including changes in laws governing the flow of data across international borders;
- less favorable intellectual property laws;
- new and different sources of competition;
- compliance with multiple, conflicting, ambiguous or evolving governmental laws and regulations, including privacy, anti-corruption, import/export, antitrust, and industry-specific laws and regulations and our ability to identify and respond timely to compliance issues when they occur;
- vetting and monitoring our third-party business partners in new and evolving markets to confirm they maintain standards consistent with our brand and reputation;
- 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;
- availability of sufficient network connectivity required for certain of our products;

- difficulties in enforcing contracts and collecting accounts receivable, especially in developing countries; and
- tariffs and trade barriers, data sovereignty, import and export controls and other regulatory or contractual limitations on our ability to sell or develop our solutions in certain foreign markets.

If we continue to expand our business globally, our success 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.

Market and Competition Risks

Any downturn in sales to our target markets could adversely affect our operating results.

Our success is highly dependent upon our ability to sell our software solutions to customers in our target industries, including automotive and industrial manufacturing, transportation and logistics, chemicals and energy, food and beverage, healthcare, high tech and travel. If we are unable to sell our software solutions effectively to customers in these industries, we may not be able to grow our business. For example, COVID-19 has had a dramatic adverse impact on the travel industry and the timing and pace of recovery is unpredictable as further described above.

We have historically been subject to lengthy sales cycles, and delays or failures to complete sales may harm our business and cause our revenue and operating income to decline in the future.

While our sales cycle times have continued to improve relative to our historical averages since we shifted to a cloud strategy in 2015, our sales cycles may take a month to over a year for large enterprise customers. A large enterprise customer's decision to use our solutions typically involves a number of internal approvals, and sales to those prospective customers generally require us to provide greater levels of education about the benefits of our solutions. We expend substantial resources during our sales cycles with no assurance that a sale may ultimately result. The length of each individual sales cycle depends on many factors, a number of which we cannot control, including the prospective customer's internal evaluation and approval process requirements, as well as the prospective customer's budget and/or resource constraints. Any unexpected lengthening of the sales cycle or failure to secure anticipated orders could negatively affect our revenue. Any significant failure to generate sales after incurring costs related to our sales process could also have a material adverse effect on our business, financial condition and results of operations.

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

Because the markets in which we compete are characterized by rapid technological developments, newly emerging and changing customer requirements, and frequent solution introductions, updates and functional enhancements, we spend substantial amounts of time and money to enhance our existing software solutions and research and develop new solutions. We must introduce enhancements to our existing software solutions and bring new solutions to the market to meet our business plan, maintain or improve our competitive position, keep pace with technological developments, satisfy increasing customer requirements and increase awareness for our software. New functionality and solutions we develop may not be introduced timely and may not achieve market acceptance sufficient to generate material revenue. Furthermore, our competitors could be heavily investing in research and development and may develop and market new solutions that may compete with, and may reduce the demand for, our software solutions. We may not be successful in developing or acquiring, marketing and selling new functionality or solutions, 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 selling of such functionality or solutions. If we are unable to develop or acquire new functionality, enhance our existing software solutions, develop and market new solutions or adapt to changing industry requirements to meet market demand, we may not be able to grow our business and our revenue and operating results would be adversely affected. Furthermore, because our software solutions are intended to interoperate with a variety of third-party enterprise software solutions, we must continue to modify and enhance our software to keep pace with changes in such solutions. Any inability of our software to operate effectively with third-party software necessary to provide effective solutions to our customers, could reduce the demand for our software solutions, result in customer dissatisfaction and limit our revenue.

The markets in which we participate are intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The markets for enterprise software applications for selling improvement (including configure-price-quote solutions and pricing), airline revenue optimization (including revenue management solutions), and airline eCommerce (including shopping, merchandising and retail solutions) are competitive, fragmented and rapidly evolving. We expect additional competition from other established and emerging companies as the markets in which we compete continue to develop and expand, as well as through 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. Some of our current and potential competitors may have larger installed bases of users, longer operating histories, broader distribution, greater name recognition, and have significantly greater resources than we have. As a result, these companies may be able to respond more quickly to new or emerging technologies and changes in customer demands, and devote greater resources to the development, promotion and sale of their products.

Competition could seriously impede our ability to sell our software solutions and services on terms favorable to us. Our current and potential competitors may develop and market new technologies that render our existing or future solutions obsolete, unmarketable or less competitive. In addition, if these competitors develop solutions with similar or superior functionality to our solutions, or if they offer solutions with similar functionality at a substantially lower prices than our solutions, we may need to decrease the prices for our solutions in order to remain competitive. If we are unable to maintain our current pricing due to competitive pressures, our margins could be reduced and our operating results could be adversely affected. If we do not compete successfully against current or future competitors, competitive pressures could materially and adversely affect our business, financial condition and operating results.

We focus primarily on selling improvement, pricing, revenue management and airline eCommerce software, and if the markets for this software develop more slowly than we expect, our business could be harmed.

We derive most of our revenue from providing our software solutions for selling improvement (including our configure-price-quote solutions), pricing, airline revenue optimization (including our revenue management solutions), and airline eCommerce (including our shopping, merchandising and retail solutions), as well as providing implementation services and ongoing customer support. The selling improvement, pricing, revenue management and airline eCommerce markets are evolving rapidly, and it is uncertain whether software for these markets will achieve and sustain high levels of demand. Our success depends on the willingness of businesses in our target markets to use selling improvement, pricing, revenue management and airline eCommerce software. Some businesses may be reluctant or unwilling to implement such software for a number of reasons, including failure to understand the potential returns of improving their processes and lack of knowledge about the potential benefits that such software may provide. Some businesses may elect to improve their sales and pricing processes through solutions obtained from their existing enterprise software providers, whose solutions are designed principally to address functional areas other than what our solutions provide. If businesses do not embrace the benefits of selling improvement, pricing, revenue management and airline eCommerce software, the market for such software 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.

Human Capital Risks

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

We invest substantial time and resources in building and maintaining our culture and developing our personnel; however, as we continue to scale our business both organically and through potential acquisitions, it may be increasingly difficult to maintain our culture. As stated above, since March 2020 our workforce has been primarily working virtually from home during the COVID-19 pandemic, and we plan to evolve to a more flexible, virtual first workforce over time post-pandemic. While we have implemented many wellness, development and supportive programs for our workforce, the dramatic shift in workplace and workstyle increases the risk to our culture. Any failure to preserve our culture could negatively affect our future success, including our ability to retain and recruit personnel and to effectively pursue our strategic objectives.

We may lose key members of our management team or sales, development or operations personnel, and may be unable to attract and retain employees we need to support our operations and growth.

Our future success depends upon the performance and service of our executive officers and other key personnel. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives. For example, Mr. Rechan joined as our Chief Operating Officer in 2020, and two of our previous executive officers retired in the past twelve months. Changes in our executive management team may be disruptive to our business. Our future success depends on our ability to continue to timely identify, attract and retain highly qualified personnel and effectively plan for succession for key roles, and there can be no assurance that we will be able to do so. We have continued to add a significant number of new personnel to support our continued growth, and their ability to learn our business and manage it effectively is important to our continued growth and expansion. In addition, given the highly sophisticated artificial intelligence included in our solutions, the pool of data scientists and software developers qualified to work on our solutions is limited. The implementation of certain of our software solutions requires highly-qualified personnel, and hiring and retaining such personnel to support our growth may be challenging. Competition for qualified personnel is intense, and we compete for these individuals with other companies that may have greater resources than we do. If our key personnel are unable to effectively manage our business, or if we fail to identify, attract and retain additional qualified personnel, our operating results could be adversely affected.

Failure to adequately expand and train our direct and indirect sales force may impede our growth.

To date, substantially all of our revenue has been attributable to the efforts of our direct sales force. We believe that our future growth will depend, to a significant extent, on the continued development of our direct sales force, and our sales team's ability to manage and retain our existing customer base, expand our sales to existing customers and obtain new customers. Our ability to achieve significant revenue growth in the future will depend, in large part, on our success in recruiting, training and retaining a sufficient number of direct sales personnel. New hires require significant training and may take a number of months before becoming fully productive, if at all. If we are unable to develop sufficient numbers of productive direct sales personnel, our growth may be impeded.

In addition to our direct sales force, we have developed, and expect to expand, our indirect sales force via channel partners, such as management consulting firms, systems integrators and other resellers, to market, sell and/or implement our solutions. We anticipate that channel partners will become an increasingly important driver of our sales growth, particularly as more channel partners become resellers of our solutions. We expect to invest significant resources to identify, establish, train and retain successful strategic resell partner relationships. If we are unable to establish and maintain our partner relationships, or otherwise develop and expand our indirect distribution channel, our sales growth rates may be limited.

Regulatory, Compliance and Litigation Risks

Evolving data privacy, cyber security and data localization laws impact our business and expose us to increased liability.

Personal privacy, data localization and data security have become significant issues in the United States, Europe, and in many other jurisdictions. We provide our cloud software solutions globally, including in countries that have, or may adopt in the future, stringent data privacy, cyber security or data localization laws. For example, the EU's General Data Protection Regulation ("GDPR") imposes substantial requirements regarding the handling of personal data and provides for robust regulatory enforcement and sanctions for non-compliance. As another example, the California Consumer Privacy Act ("CCPA") provides data privacy rights for consumers which creates new and uncertain operational requirements for our business.

Privacy, data localization and data security laws may be subject to interpretation, may be applied differently across jurisdictions resulting in inconsistent or conflicting requirements, and are likely to continue to evolve in the future. For example, in July 2020 the Court of Justice of the European Union ("CJEU") invalidated the U.S./EU Privacy Shield framework that allowed participating companies to transfer personal data from EU member states to the U.S. While we instead rely on Standard Contractual Clauses for such transfers, the CJEU ruling made clear that these transfer mechanisms will be subject to additional scrutiny. Although we have implemented measures designed to comply with the laws and regulations applicable to our business, our ongoing efforts to comply with the GDPR, the CCPA and other changes in laws and regulations entail substantial expenses and may divert resources from other initiatives. These changes have in the past increased, and may continue to increase, our cost of providing our products and services, could limit us from offering certain solutions in certain jurisdictions, could adversely affect our sales cycles, and could impact our new technology innovation. In addition, our cloud software solutions store data on behalf of our customers, and if our customers fail to comply with contractual obligations or applicable laws and regulations, such non-compliance could result in litigation or reputational harm to us. Any perceived

inability to adequately address privacy, data localization or cyber security compliance or to comply with more complex and numerous laws and regulations, even if unfounded, could result in liability to us and indemnification obligations, damage our reputation, inhibit sales of our solutions or harm our business, financial condition and results of operations.

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

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

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

Our industry is characterized by the existence of a large number of patents, trademarks and copyrights, and by 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. Selling improvement (including configure-price-quote), pricing, airline revenue optimization (including revenue management) and airline eCommerce (including shopping, merchandising and retail) solutions may become increasingly subject to infringement claims as the number of such commercially available solutions increases and the functionality of these solutions overlaps. In addition, changes in patent laws in the U.S. may affect the scope, strength and enforceability of our patent rights or the nature of proceedings which may be brought by us related to our patent rights. Future litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own potential patents may therefore provide little or no deterrence. Regardless of the merit of any particular claim that our technology violates the intellectual property rights of others, responding to such claims may require us to:

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

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

Our contract terms generally obligate us to indemnify and hold our customers harmless from certain costs arising from third-party claims brought against our customers alleging that the use of our solutions infringe intellectual property rights of others. If we are unable to resolve our legal obligations by settling or paying an infringement claim, we may be required to compensate our customers.

Our use of open source software may subject our software solutions to general release or re-engineering.

We use open source software in our solutions. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. As a result, we could be

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

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

Our software solutions are complex and may contain undetected defects or errors. Several of our solutions have recently been developed and may therefore be more likely to contain undetected defects or errors. In addition, we frequently develop enhancements to our software solutions that may contain defects. We have not suffered significant harm from any defects or errors to date. We have in the past issued, and may in the future need to issue, corrective releases of our solutions to correct defects or errors. The occurrence of any defects or errors could result in:

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

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

Business Model and Capital Structure Risks

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

In September 2020, we issued \$150.0 million principal amount of 2.25% convertible senior notes ("2027 Notes") due September 15, 2027, unless earlier redeemed, purchased or converted in accordance with their terms prior to such date. Interest is payable semi-annually in arrears on March 15 and September 15 of each year. As of December 31, 2020, the entire \$150.0 million of aggregate principal amount of 2027 Notes are outstanding.

In May 2019, we issued \$143.8 million principal amount of 1.0% convertible senior notes ("2024 Notes" and together with the 2027 Notes, the "Notes") due May 15, 2024, unless earlier redeemed, purchased or converted in accordance with their

terms prior to such date. Interest is payable semi-annually in arrears on May 15 and November 15 of each year. As of December 31, 2020, the entire \$143.8 million of aggregate principal amount of 2024 Notes are outstanding.

Our indebtedness could have important consequences because it may impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and general corporate or other purposes. Our ability to meet our debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. We cannot control many of these factors. Our future operations may not generate sufficient cash to enable us to repay our debt. If we fail to comply with any covenants contained in the agreements governing any of our debt, or make a payment on any of our debt when due, we could be in default on such debt, which could, in turn, result in such debt and our other indebtedness becoming immediately payable in full. If we are at any time unable to pay our indebtedness when due, we may be required to renegotiate the terms of the indebtedness, seek to refinance all or a portion of the indebtedness, and/or obtain additional financing. There can be no assurance that, in the future, we will be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

Our quarterly results may vary and may not fully reflect the performance of our business.

We generally recognize revenue from customers ratably over the terms of their subscription agreements. As a result, most of the revenue we report in each quarter is the result of agreements entered into during prior quarters. Consequently, a decline in new or renewed subscriptions in any quarter may not be reflected in our revenue for that quarter, but will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales, our failure to achieve our internal sales targets, a decline in the market demand of our services or decreases in our retention rate may not be fully reflected in our operating results until future periods. For example, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as subscription revenue from additional sales must be recognized over the applicable subscription term. We may be unable to timely adjust our cost structure to reflect changes in revenues. In addition, a significant majority of our costs are expensed as incurred, while subscription revenues are recognized over the term of the customer agreement. As a result, increased sales growth could result in our recognition of more costs than revenues in the earlier periods of the terms of our agreements. In addition, we expect to continue to experience some seasonal variations in our cash flows from operating activities, including, as a result of the timing of payment of payroll taxes, performance bonuses to our employees and costs associated with annual company-wide events, each of which have historically been highest in our first fiscal quarter. Therefore, the results of any prior quarterly periods should not be relied upon as an indication of our future operating performance.

If we fail to migrate customers with on-premises software licenses to our latest cloud software solutions, our future revenue may be limited and our costs to provide support to those customers may increase.

Customers with on-premises licenses for our legacy software may need to migrate to our current cloud solutions to take advantage of our latest features, functionality and security which are only available via the PROS cloud. Although we intend to continue to support our legacy on-premises software customers under perpetual licenses for the foreseeable future, we continue to focus on migrating such customers to our cloud solutions. Historically, customers who purchased on-premises licenses for our solutions may have invested substantial personnel and financial resources in our legacy software. In addition, when considering whether to migrate, these customers may evaluate alternative solutions due to the additional change management and implementation costs associated with migrating to cloud-based applications. When on-premises software customers delay or decline to migrate to our cloud solutions, our internal development and customer support teams find it increasingly difficult and costly to support a declining number of on-premises customers. In addition, if our legacy on-premises license customers delay or decline to migrate to our cloud solutions, choose alternative solutions or otherwise choose to not continue doing business with us by, for example, canceling maintenance, our future revenue may be limited.

We have experienced losses since we transitioned to a cloud strategy in 2015, and may continue to incur losses for longer than we expect.

We expect our expenses to continue to exceed our revenues in the near term as we continue to make investments as part of our cloud strategy, particularly in new product development, sales, marketing, security, privacy and cloud operations. Our ability to return to profitability depends on our ability to: continue to drive subscription sales, enhance our existing products and develop new products, scale our sales and marketing and product development organizations, successfully execute our marketing and sales strategies, renew our subscription agreements with existing customers, and manage our expenses. If we are not able to execute on these actions, our business may not grow as we anticipate, our operating results could be adversely affected and we may continue to incur net losses in the future. Additionally, our new initiatives may not generate sufficient

revenue and cash flows to recoup our investments in them. If any of these events were to occur, it could adversely affect our business, results of operations and financial condition.

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

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

Risks relating to Ownership of our Common Stock

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

The market price for our common stock, and the software industry generally, has been and is likely to continue to be volatile. Volatility could make it difficult to trade shares of our common stock at predictable prices or times. Many factors could cause the market price of our common stock to be volatile, including the following:

- variations in our quarterly or annual operating results;
- decreases in market valuations of comparable companies;
- fluctuations in stock market prices and volumes;
- decreases in financial estimates by equity research analysts;
- announcements by our competitors of significant contracts, new solutions or enhancements, acquisitions, distribution partnerships, joint ventures or capital commitments;
- departure of key personnel;
- changes in governmental regulations and standards affecting the software industry and our software solutions;
- sales of common stock or other securities by us in the future;
- damages, settlements, legal fees and other costs related to litigation, claims and other contingencies;
- deterioration of the general U.S. and global economic condition; and
- other risks described elsewhere in this section.

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

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

At December 31, 2020, our directors and executive officers collectively control approximately 10% of our issued and outstanding common shares, and together with certain significant stockholders, including investment funds associated with Brown Capital Management, LLC, Vanguard Group Inc., BlackRock, Inc., Conestoga Capital Advisors, LLC and Fred Alger Management, LLC, control approximately 53% of our issued and outstanding common shares. In the event that these stockholders each independently decided to vote for or against matters requiring stockholder approval, they could influence such matters in ways that may not align with your specific interests as a stockholder, including the election of directors and

approval of significant corporate transactions. This concentration of ownership could affect the market price of our shares if there is a sale by this group of stockholders, and could also have the effect of delaying or preventing a change in control of us even if such change of control could be beneficial to you as a stockholder.

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

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

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

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

We do not intend to pay dividends for the foreseeable future.

We do not currently anticipate paying any cash dividends on our common stock in the foreseeable future. We currently anticipate that we will retain all of our available cash, if any, for use as working capital, repayment of debt and for other general corporate purposes. Consequently, stockholders must rely on sales of their common stock after price appreciation as the only way to realize any future gains on their investment.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters are located in Houston, Texas, where we lease approximately 118,000 square feet of office space; however, due to COVID-19 our workforce remained primarily remote during most of the year. We also lease a number of smaller regional offices. We believe our existing facilities are sufficient for our current needs. Based on the effectiveness of our all remote workforce during COVID-19, we plan to evolve to a virtual first workforce over time post-pandemic which we expect will impact our needs for leased office space. However, we may add new facilities and expand our existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

Item 3. Legal Proceedings

In the ordinary course of our business, we may be involved in various legal proceedings and claims. The outcomes of these matters are inherently unpredictable. We are not currently involved in any outstanding litigation that we believe, individually or in the aggregate, will have a material adverse effect on our business, results of operations or financial condition.

Item 4. *Mine Safety Disclosures*

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities

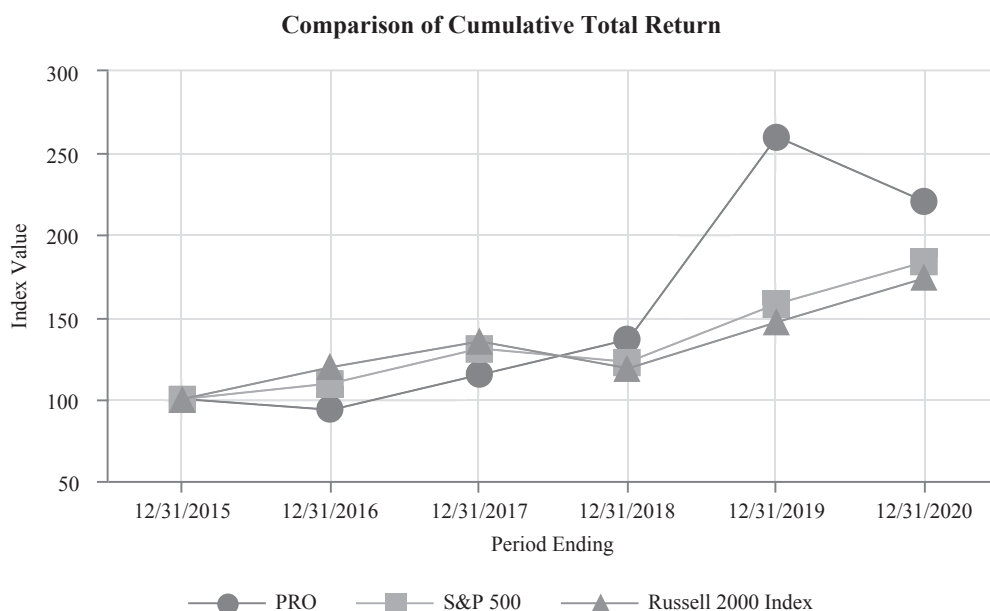
Market Information, Holders and Dividends

Our common stock is listed on the NYSE under the symbol "PRO". On February 8, 2021 there were 43 stockholders of record of our common stock. Since 2007, we have not declared or paid any dividends on our common stock. We currently expect to retain all remaining available funds and any future earnings for use in the operation and development of our business. Accordingly, we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future.

Performance Graph

The following shall not be deemed "soliciting material" or "filed" with the SEC, or incorporated by reference into any future filing under the Securities Act or Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The graph below presents a five-year comparison of the relative investment performance of our common stock, the Standard & Poor's 500 Stock Index ("S&P 500"), and the Russell 2000 Index for the period commencing on December 31, 2015, and ending December 31, 2020. The graph is not meant to be an indication of our future performance.



- (1) The graph assumes that \$100 was invested on December 31, 2015 in our common stock, the S&P 500 and the Russell 2000 Index and further assumes all dividends were reinvested. No cash dividends have been paid on our common stock for the periods presented above.

Company/Index	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
PRO	\$ 100.00	\$ 93.40	\$ 114.80	\$ 136.28	\$ 260.07	\$ 220.36
S&P 500	\$ 100.00	\$ 109.54	\$ 130.81	\$ 122.65	\$ 158.07	\$ 183.77
Russell 2000 Index	\$ 100.00	\$ 119.48	\$ 135.18	\$ 118.72	\$ 146.89	\$ 173.86

Issuer Purchase of Equity Securities

On August 25, 2008, we announced that the Board of Directors authorized a stock repurchase program for the purchase of up to \$15.0 million of our common stock. Under the board-approved repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice.

During 2020, we did not make any purchases of our common stock under this program. As of December 31, 2020, \$10.0 million remains available under the stock repurchase program.

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities for the year ended December 31, 2020.

Item 6. Selected Financial Data

The following selected consolidated financial data presented under the captions "Selected consolidated statement of operations data" and "Selected consolidated balance sheet data" are derived from our Consolidated Financial Statements. The selected consolidated financial data set forth below should be read in conjunction with, and is qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Result of Operations" and our Consolidated Financial Statements and the related notes included elsewhere in this report. As presented in the table, amounts are in thousands (except per share data).

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Selected consolidated statement of operations data:					
Total revenue	\$ 252,424	\$ 250,334	\$ 197,024	\$ 168,816	\$ 153,276
Gross profit	147,791	151,217	119,845	100,250	89,923
Loss from operations	(66,080)	(53,338)	(49,215)	(64,943)	(65,398)
Net loss	(76,984)	(69,081)	(64,246)	(77,926)	(75,225)
Net loss per share:					
Basic and diluted	(1.78)	(1.72)	(1.86)	(2.46)	(2.47)
Weighted average number of shares:					
Basic and diluted	43,301	40,232	34,465	31,627	30,395
Selected consolidated balance sheet data:					
Cash and cash equivalents, unrestricted	\$ 329,134	\$ 306,077	\$ 295,476	\$ 160,505	\$ 118,039
Working capital	246,382	189,811	71,393	100,031	76,936
Total assets	539,971	513,307	436,967	288,683	227,654
Long-term obligations	275,016	152,177	107,318	233,637	134,327
Total stockholders' equity	\$ 117,037	\$ 164,996	\$ 54,899	\$ (46,979)	\$ (3,394)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

In 2020, we continued to grow through our subscription-based revenue model, by enabling our customers to leverage our AI-driven solutions to help them compete in the digital economy, while managing the impact of the coronavirus ("COVID-19") pandemic. Notable items for 2020 included:

- Subscription revenue increased by 17% in 2020 over 2019, and accounted for 68%, 58% and 50% of total revenue for the years ended December 31, 2020, 2019 and 2018, respectively;
- Recurring revenue, which consists of subscription and maintenance and support revenue, accounted for 85% of our total revenue and grew by 6% in 2020 over 2019;
- Annual recurring revenue ("ARR") was \$209.7 million as of December 31, 2020, down 5% year-over-year;
- Designated as a 2020-2021 Great Place to Work-Certified™ company;
- Delivered the record-breaking, virtual PROS 2020 Outperform Customer Conference, with registration exceeding more than 600% as compared with our 2019 Outperform conference;
- Completed an offering of \$150.0 million aggregate principal amount of 2027 Notes in a private placement in September 2020.

While COVID-19 continued to spread throughout the world, our focus remained on promoting employee health and safety, serving our customers and ensuring business continuity. As a result, we directed our teams to work from home, suspend travel and replaced historically in-person events such as our Outperform conference with digital events. *For further discussion of the possible impact of COVID-19 to our business and our response, please see our Risk Factors under [Part I, Item 1A](#) of this Annual Report on Form 10-K, and "Pandemic Response" under [Part I, Item 1](#) of this Annual Report on Form 10-K.*

ARR is one of our key performance metrics to assess the health and trajectory of our overall business. ARR, a non-GAAP financial measure, is defined, as of a specific date, as contracted recurring revenue, including contracts with a future start date, together with annualized overage fees incurred above contracted minimum transactions, and excluding perpetual and term license agreements recognized as license revenue in accordance with GAAP. ARR should be viewed independently of revenue, deferred revenue and other GAAP measures, and is not intended to be combined with any of these items. Total ARR as of December 31, 2020 was \$209.7 million, down from \$219.8 million as of December 31, 2019, a decrease of 5%, due to the impact of COVID-19.

Cash used in operating activities was \$49.4 million for the year ended December 31, 2020, as compared to cash provided by operating activities of \$5.2 million for the year ended December 31, 2019.

Free cash flow is another key metric to assess the strength of our business. We define free cash flow, a non-GAAP financial measure, as net cash provided by (used in) operating activities minus capital expenditures (excluding expenditures for PROS new headquarters), purchases of other (non-acquisition-related) intangible assets and capitalized internal-use software development costs. We believe free cash flow may be useful to investors and other users of our financial information in evaluating the amount of cash generated by our business operations. Free cash flow used for the year ended December 31, 2020 was \$53.3 million, compared to \$0.9 million for the year ended December 31, 2019. The following is a reconciliation of free cash flow to the most comparable GAAP measure, net cash provided by (used in) operating activities:

	Year Ended December 31,	
	2020	2019
Net cash provided by operating activities	\$ (49,389)	\$ 5,245
Purchase of property and equipment (excluding new headquarters)	(2,248)	(4,626)
Purchase of intangible asset	—	(50)
Capitalized internal-use software development costs	(1,686)	(1,436)
Free cash flow	<u>\$ (53,323)</u>	<u>\$ (867)</u>

Financial Performance Summary

Recurring revenue, which is comprised of our subscription and maintenance and support revenue, accounted for 85% of our total revenue for the year ended December 31, 2020. Total recurring revenue was \$215.2 million for the year ended December 31, 2020 as compared to \$203.5 million for the year ended December 31, 2019, an increase of approximately \$11.7 million, or 6%. This increase in recurring revenue was primarily attributable to a 17% increase in subscription revenue from new and existing customers.

Revenue by Geography

Geographic revenue is categorized based on the location of our customers' headquarters, and for the years ended December 31, 2020, 2019 and 2018, is as follows:

	Year Ended December 31,					
	2020		2019		2018	
	Revenue	Percent	Revenue	Percent	Revenue	Percent
United States of America	\$ 82,299	32 %	\$ 85,963	34 %	\$ 68,482	35 %
Europe	74,936	30 %	73,914	30 %	60,947	31 %
The rest of the world	95,189	38 %	90,457	36 %	67,595	34 %
Total revenue	<u>\$ 252,424</u>	100 %	<u>\$ 250,334</u>	100 %	<u>\$ 197,024</u>	100 %

Convertible Debt

In September 2020, we issued the 2027 Notes in an aggregate principal amount of \$150.0 million. The interest rate for the 2027 Notes is fixed at 2.25% per year and interest is payable semiannually in arrears in cash on March 15 and September 15 of each year, beginning on March 15, 2021. The 2027 Notes mature on September 15, 2027 unless redeemed or converted in accordance with their terms prior to such date.

In May 2019, we issued the 2024 Notes in an aggregate principal amount of \$143.8 million. We used a portion of the net proceeds of the offering of the 2024 Notes to exchange and retire approximately \$122.1 million in aggregate principal of 2.0% convertible senior notes due December 2019 (the "2019 Notes") for an aggregate cash consideration of \$76.0 million and approximately 2.2 million shares of our common stock (the "Exchange Transactions"). We recorded a \$2.3 million loss on debt extinguishment related to the Exchange Transactions. In the fourth quarter of 2019, at maturity, we settled the remaining principal of the 2019 Notes in cash and distributed approximately 0.3 million shares of our common stock to the notes holders, which represented the conversion value in excess of the principal amount.

In August 2019, we issued a notice of redemption to the holders of our outstanding 2.0% convertible senior notes due June 2047 (the "2047 Notes"), and during the third and fourth quarter of 2019, we converted the entire aggregate principal of \$106.3 million of the 2047 Notes and delivered approximately 2.3 million shares of our common stock upon conversion. We recorded a \$3.4 million loss on debt extinguishment related to the Redemption. The loss on extinguishment is included in the other (expense) income, net in the Consolidated Statements of Comprehensive Income (Loss).

Factors Affecting Our Performance

Key factors and trends that have affected and we believe will continue to affect our operating results include:

- COVID-19 Global Impact.** The global economy has been significantly and negatively impacted by COVID-19, and the scope and duration of the outbreak and timeframe for economic recovery is uncertain. The travel industry, a sector served by our solutions, has been particularly adversely impacted. For example, unprecedented declines in travel demand have forced airlines, including some of our customers, to respond by significantly reducing capacity, grounding flights, reducing personnel, adjusting corporate liquidity and, in certain cases, filing for bankruptcy protection. The global workplace environment has also substantially changed in the wake of COVID-19. To support the health and well-being of our employees, customers, partners and communities, our global workforce has been primarily working remotely since March 16, 2020. Many of our customers are also working remotely, which in some cases has delayed, and may continue to impact the timing of new business and implementations of our solutions. The duration and extent of the impact of COVID-19 continues to be unknown and could continue to impact the pace and timing of adoption and implementation of our solutions, cash flow from operations and customer retention.

- *COVID-19 Financial Impact.* As compared to our expectations prior to COVID-19, the global economic impact of COVID-19 adversely impacted our revenue, bad debt expense and operating cash flow during the year ended December 31, 2020. We expect customer bookings and the related revenue and cash flows will continue to be lower than anticipated prior to the pandemic as a result of decreased demand for new subscriptions and services, delays to projects during the COVID-19 pandemic, and increased scrutiny on new large software purchases. In addition, certain customers have requested, and we expect will continue to request, relief to existing contracts and the impact of those is uncertain.
- *Buying Preferences Driving Technology Adoption.* Corporate buyers are increasingly demanding the same type of digital buying experience that they enjoy as consumers. Buyers often prefer not to interact with sales representatives as their primary source of research, and increasingly prefer to buy online when they have already decided what to buy. This trend has accelerated during the current pandemic environment. In response, we believe that businesses are increasingly modernizing their sales process to compete in digital commerce by adopting technologies which provide fast, frictionless, and personalized buying experiences across sales channels. We believe we are uniquely positioned to help power these buying experiences with our AI-powered solutions that enable buyers to move fluidly and with personalized experiences across our customers' direct sales, online, mobile and partner channels.
- *Continued Investments.* As a result of the economic impact of COVID-19, we are continuing to be measured in our investments and focused on cost control efforts across our organization, while continuing to create awareness for our solutions, expand our customer base and grow our subscription revenues. For example, we are slowing our overall rate of employee hiring, emphasizing hiring for strategic positions and cross training our travel implementation personnel to serve prospects and customers in other existing industry verticals. While we incurred losses in 2020, we believe our market is large and underpenetrated and intend to continue investing in sales, marketing, customer success, cloud support, security, privacy, infrastructure and other long-term initiatives to expand our ability to sell and renew our subscription offerings globally. We also plan to continue investing in product development to enhance our existing technologies, including initiatives to accelerate customer time-to-value and provide out-of-the-box integration with third-party commerce solutions, and develop new applications and technologies.
- *Cloud Migrations.* Sales of our cloud-based solutions have, and we expect future sales of our cloud-based solutions will continue to reduce our future maintenance and support revenue, as long-term customers continue to migrate from our legacy licensed solutions to our current cloud solutions.

Description of Key Components of our Operating Results

Revenue

We derive our revenues primarily from recurring revenue, which includes subscription and maintenance and support services. Recurring revenues accounted for 85% of our total revenue in 2020.

Subscription. Subscription revenue primarily consists of fees that give customers access to one or more of our cloud applications with related customer support. We primarily recognize subscription revenue ratably over the contractual term of the arrangement beginning with commencement of service. Subscription revenue related to certain offerings, where fees are based on a number of transactions, are recognized on a usage basis.

Maintenance and support. Maintenance and support revenue includes customer support for our on-premises software and the right to unspecified software updates and enhancements. We recognize revenue from maintenance arrangements ratably over the period in which the services are provided. Our maintenance and support contracts are generally one year in length, billed annually in advance, and non-cancelable.

Services. Services revenue primarily consists of fees for configuration services, consulting and training. We typically sell our services on either a fixed-fee or time-and-materials basis. Services revenue is generally recognized as the services are performed for time and material contracts, or on a proportional performance basis for fixed-price contracts. The majority of our services contracts are on a fixed-fee basis. Training revenues are recognized as the services are performed.

Services revenue varies from period to period depending on different factors, including the level of services required to implement our solutions, the timing of services revenue recognition on certain subscription contracts and any additional services requested by our customers during a particular period.

Significant judgments are required in determining whether services that are contained in our customer subscription contracts are considered distinct, including whether the services are capable of being distinct and whether they are separately identifiable. Services deemed to be distinct are accounted for as a separate performance obligation and revenue is recognized as the services are performed. If determined services are not considered distinct, the services and the subscription are determined to be a single performance obligation and revenue is recognized over the contractual term of the subscription beginning on the date that subscription services are made available to the customer.

Cost of Revenue

Cost of subscription. Cost of subscription consists of infrastructure costs to support our current subscription customer base including third-party hosting services and expenses related to operating our network infrastructure, including depreciation expense and operating lease payments, salaries and related expenses, amortization of capitalized software and an allocation of depreciation, amortization of certain intangible assets and allocated overhead.

Cost of maintenance and support. Cost of maintenance and support consists largely of employee-related costs and an allocation of depreciation, amortization of intangibles, and allocated overhead.

Cost of services. Cost of services includes those costs related to services and implementation of our solutions, primarily employee-related costs and third-party contractors, billable and non-billable travel and an allocation of depreciation and allocated overhead. Cost of providing services may vary from quarter to quarter depending on a number of factors, including the amount of services required to implement and configure our solutions.

Services gross profit varies period to period depending on different factors, including the level of services required to implement our solutions, our mix of employees and third-party contractors, our effective billable man-day rates, our use of third-party system integrators and the billable utilization of our services personnel.

Operating Expenses

Selling and marketing. Selling and marketing expenses primarily consist of employee-related costs, third-party contractors, sales commissions, sales and marketing programs such as lead generation programs, company awareness programs, our annual Outperform conference, participation in industry trade shows, and other sales and marketing programs, travel, amortization expenses associated with acquired intangible assets and allocated overhead. Sales commissions are deferred and amortized on a straight-line basis over the period of benefit, which we have determined to be five to eight years.

General and administrative. General and administrative expenses primarily consist of employee-related costs for executive, accounting, finance, legal, human resources and internal IT support functions and an allocation of depreciation and allocated overhead. General and administrative expenses also include outside legal and accounting fees and provision for bad debts.

Research and development. Research and development expenses primarily consist of employee-related costs and third-party contractors who work on enhancements of existing solutions, the development of new solutions, scientific research, quality assurance and testing, and an allocation of depreciation, facilities and allocated overhead.

Results of Operations

Comparison of year ended December 31, 2020 with year ended December 31, 2019

Revenue:

(Dollars in thousands)	For the Year Ended December 31,					
	2020		2019		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Subscription	\$ 170,473	67 %	\$ 145,327	58 %	\$ 25,146	17 %
Maintenance and support	44,692	18 %	58,184	23 %	(13,492)	(23)%
Total subscription, maintenance and support	215,165	85 %	203,511	81 %	11,654	6 %
Services	37,259	15 %	46,823	19 %	(9,564)	(20)%
Total revenue	<u>\$ 252,424</u>	100 %	<u>\$ 250,334</u>	100 %	<u>\$ 2,090</u>	1 %

Subscription revenue. Subscription revenue increased primarily due to an increased number of customer subscription contracts as compared to the prior year. For the year ended December 31, 2020, our subscription revenue was negatively impacted by a decrease in customer revenue retention attributed to the impact of COVID-19, and primarily driven by the impact of COVID-19 on our travel customers. Our ability to maintain consistently high customer retention rates will directly impact our ability to continue to grow our subscription revenue. Due to the ongoing uncertain economic conditions caused by COVID-19, we expect subscription revenue to grow at a slower pace in the near term.

Maintenance and support revenue. Maintenance and support revenue decreased primarily as a result of existing maintenance customers migrating to our cloud solutions and a decrease in customer retention due to the impact of COVID-19. We expect maintenance revenue to continue to decline as we continue to migrate maintenance customers to our cloud solutions.

Services revenue. Services revenue decreased primarily as a result of lower sales of services related to subscription contracts than in 2019 due to the impact of COVID-19.

Cost of revenue and gross profit.

(Dollars in thousands)	For the Year Ended December 31,					
	2020			2019		
	Amount	Percentage of total revenue	Amount	Percentage of total revenue	Variance \$	Variance %
Cost of subscription	\$ 51,673	20 %	\$ 42,339	17 %	\$ 9,334	22 %
Cost of maintenance and support	9,880	4 %	11,052	4 %	(1,172)	(11)%
Total cost of subscription, maintenance and support	61,553	24 %	53,391	21 %	8,162	15 %
Cost of services	43,080	17 %	45,726	18 %	(2,646)	(6)%
Total cost of revenue	\$ 104,633	41 %	\$ 99,117	40 %	\$ 5,516	6 %
Gross profit	\$ 147,791	59 %	\$ 151,217	60 %	\$ (3,426)	(2)%

Cost of subscription. Cost of subscription increased primarily due to increased infrastructure costs to support our current subscription customer base and increased employee-related costs driven by higher headcount. Our subscription gross profit percentage was 70% and 71%, respectively, for the years ended December 31, 2020 and 2019.

Cost of maintenance and support. Cost of maintenance and support declined primarily due to a decrease in personnel costs as a result of the need to support a smaller maintenance customer base as we migrate customers to our subscription solutions. Maintenance and support gross profit percentages for the years ended December 31, 2020 and 2019, were 78% and 81%, respectively.

Cost of services. Cost of services decreased primarily due to the lower utilization of third-party contractors and reduced travel expenses due to the COVID-19 pandemic, partially offset by increased employee-related costs driven by higher headcount. Services gross profit percentages for the years ended December 31, 2020 and 2019, were (16)% and 2%, respectively. The decrease in services gross profit percentages was primarily due to the decrease in services revenues and the increase in headcount.

Gross profit. Overall gross profit decreased for the year ended December 31, 2020 principally attributable to the slower growth in revenue due to the impact of COVID-19.

Operating expenses:

(Dollars in thousands)	For the Year Ended December 31,					
	2020		2019		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Selling and marketing	\$ 87,182	35 %	\$ 89,553	36 %	\$ (2,371)	(3)%
General and administrative	51,075	20 %	47,254	19 %	3,821	8 %
Research and development	75,614	30 %	67,246	27 %	8,368	12 %
Acquisition-related	—	— %	502	— %	(502)	(100)%
Total operating expenses	<u>\$ 213,871</u>	<u>85 %</u>	<u>\$ 204,555</u>	<u>82 %</u>	<u>\$ 9,316</u>	<u>5 %</u>

Selling and marketing expenses. Sales and marketing expenses decreased primarily due to a decrease of travel expense of \$7.0 million due to the COVID-19 pandemic, partially offset by an increase of \$4.2 million in employee-related costs driven by higher sales and marketing headcount, as we continue to focus on adding new customers and increasing penetration within our existing customer base, an increase of \$0.3 million in expenses for sales and marketing events, and a \$0.1 million increase in allocated overhead.

General and administrative expenses. General and administrative expenses increased primarily due to an increase of \$5.3 million in bad debt expense recognized as a result of increased credit risk from uncertain economic conditions caused by COVID-19 and the bankruptcy of several customers in the travel industry, partially offset by a decrease in professional fees in 2020 as compared to 2019 related to our acquisition of Travelaer in 2019.

Research and development expenses. Research and development expenses increased primarily due to an increase of \$8.3 million in employee-related costs driven by higher headcount and a slight increase in allocated overhead.

Acquisition-related expenses. Acquisition-related expenses were \$0.5 million for the year ended December 31, 2019, and consisted primarily of integration costs, professional fees and retention bonuses for our acquisition of Travelaer in 2019.

Other income (expense), net:

(Dollars in thousands)	For the Year Ended December 31,					
	2020		2019		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Convertible debt interest and amortization	\$ (11,125)	(4)%	\$ (14,765)	(6)%	\$ 3,640	(25)%
Other income (expense), net	\$ 897	— %	\$ (354)	— %	\$ 1,251	(353)%

Convertible debt interest and amortization. Convertible debt interest and amortization expense for each of the years ended December 31, 2020 and 2019 related to coupon interest and amortization of debt discount and issuance costs attributable to our Notes. Convertible debt interest and amortization decreased primarily as a result of our settlement of the 2019 Notes and 2047 Notes during 2019, partially offset by an increase due to the issuance of our 2027 Notes in September 2020.

Other income (expense), net. The change in other income (expense), net for the year ended December 31, 2020, primarily related to a \$5.7 million loss on debt extinguishment related to our 2019 Notes and 2047 Notes recognized in 2019 which was partially offset by a decrease in interest income during the period.

Income tax provision:

(Dollars in thousands)	For the Year Ended December 31,				Variance \$	Variance %
	2020		2019			
Effective tax rate	(0.9)%		(0.9)%		n/a	— %
Income tax provision	\$ 676		\$ 624		\$ 52	8 %

Our tax provision for the year ended December 31, 2020 included both foreign income and withholding taxes. No tax benefit was recognized on jurisdictions with a projected loss for the year due to the valuation allowances on our deferred tax assets.

Our 2020 and 2019 effective tax rates had an unusual relationship to pretax loss from operations due to a valuation allowance on our net deferred tax assets. Our income tax provisions in 2020 and 2019 only included foreign income and withholding taxes, resulting in an effective tax rate of (0.9)% and (0.9)%, respectively. The difference between the effective tax rates and the federal statutory rate of 21% for the years ended December 31, 2020 and 2019 was primarily due to the increase in our valuation allowance of \$24.3 million and \$12.4 million, respectively.

As of December 31, 2020 and 2019, we had a valuation allowance on our net deferred tax assets of \$130.7 million and \$106.5 million, respectively. The increase in the valuation allowance was principally attributable to an additional valuation allowance recorded on our current year's tax loss.

Comparison of year ended December 31, 2019 with year ended December 31, 2018

Additional information on fiscal 2018 items, including discussion of the year-over-year comparisons between 2019 and 2018 that are not included in this Form 10-K, can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 19, 2020.

Revenue:

(Dollars in thousands)	For the Year Ended December 31,					
	2019		2018		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Subscription	\$ 145,327	58 %	\$ 98,708	50 %	\$ 46,619	47 %
Maintenance and support	58,184	23 %	64,760	33 %	(6,576)	(10)%
Total subscription, maintenance and support	203,511	81 %	163,468	83 %	40,043	24 %
Services	46,823	19 %	33,556	17 %	13,267	40 %
Total revenue	<u>\$ 250,334</u>	<u>100 %</u>	<u>\$ 197,024</u>	<u>100 %</u>	<u>\$ 53,310</u>	<u>27 %</u>

Cost of revenue and gross profit:

(Dollars in thousands)	For the Year Ended December 31,					
	2019		2018		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Cost of subscription	\$ 42,339	17 %	\$ 35,619	18 %	\$ 6,720	19 %
Cost of maintenance and support	11,052	4 %	11,602	6 %	(550)	(5)%
Total cost of subscription, maintenance and support	53,391	21 %	47,221	24 %	6,170	13 %
Cost of services	45,726	18 %	29,958	15 %	15,768	53 %
Total cost of revenue	<u>\$ 99,117</u>	<u>40 %</u>	<u>\$ 77,179</u>	<u>39 %</u>	<u>\$ 21,938</u>	<u>28 %</u>
Gross profit	<u>\$ 151,217</u>	<u>60 %</u>	<u>\$ 119,845</u>	<u>61 %</u>	<u>\$ 31,372</u>	<u>26 %</u>

Operating expenses:

(Dollars in thousands)	For the Year Ended December 31,					
	2019		2018		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Selling and marketing	\$ 89,553	36 %	\$ 72,006	37 %	\$ 17,547	24 %
General and administrative	47,254	19 %	41,302	21 %	5,952	14 %
Research and development	67,246	27 %	55,657	28 %	11,589	21 %
Acquisition-related	502	— %	95	— %	407	428 %
Total operating expenses	<u>\$ 204,555</u>	<u>82 %</u>	<u>\$ 169,060</u>	<u>86 %</u>	<u>\$ 35,495</u>	<u>21 %</u>

Other (expense) income, net:

(Dollars in thousands)	For the Year Ended December 31,					
	2019		2018		Variance \$	Variance %
	Amount	Percentage of total revenue	Amount	Percentage of total revenue		
Convertible debt interest and amortization	\$ (14,765)	(6)%	\$ (16,986)	(9)%	\$ 2,221	(13)%
Other (expense) income, net	\$ (354)	— %	\$ 2,155	1 %	\$ (2,509)	(116)%

Income tax provision:

(Dollars in thousands)	For the Year Ended December 31,				Variance \$	Variance %
	2019	2018				
Effective tax rate	(1)%	— %			n/a	(1)%
Income tax provision	\$ 624	\$ 200	\$ 424			212 %

Liquidity and Capital Resources

At December 31, 2020, we had \$329.1 million of cash and cash equivalents and \$246.4 million of working capital as compared to \$306.1 million of cash and cash equivalents and \$189.8 million of working capital at December 31, 2019.

Our principal sources of liquidity are our cash and cash equivalents, cash flows generated from operations and potential borrowings under our \$50 million secured Credit Agreement ("Revolver") with the lenders party thereto and Wells Fargo Bank, National Association as agent for the lenders party thereto. The facility expires in July 2022. We issued the 2027 Notes in September 2020, the 2024 Notes in May 2019 and completed our Secondary Offering in August 2018 to supplement our overall liquidity position. Our material drivers or variants of operating cash flow are net income (loss), noncash expenses (principally share-based compensation, intangible amortization and amortization of debt discount and issuance costs) and the timing of periodic invoicing and cash collections related to licenses, subscriptions and support for our software and related services. Our operating cash flows are also impacted by the timing of payments to our vendors and the payments of our other liabilities and customer concessions. We generally pay our vendors and service providers in accordance with the invoice terms and conditions.

We believe our existing cash, cash equivalents, including funds available under our Revolver, and our current estimates of future operating cash flows, will provide adequate liquidity and capital resources to meet our operational requirements, anticipated capital expenditures and coupon interest payments for our Notes for the next twelve months. Our future working capital requirements will depend on many factors, including the operations of our existing business, potential growth of our subscription services, future acquisitions we might undertake, expansion into complementary businesses and the impact of COVID-19, including the pace and timing of adoption and implementation of our solutions, relief to existing contracts and customer retention. If such need arises, we may raise additional funds through equity or debt financings. However, the recent COVID-19 pandemic caused some disruption in the capital markets and further disruption could make financing more difficult and/or expensive and we may not be able to obtain such financing on terms acceptable to us or at all. During the period of uncertainty and volatility related to COVID-19, we will continue to monitor our liquidity.

The following table presents key components of our Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018:

(Dollars in thousands)	For the Year Ended December 31,		
	2020	2019	2018
Net cash (used in) provided by operating activities	\$ (49,389)	\$ 5,245	\$ 5,703
Net cash used in investing activities	(30,460)	(17,560)	(6,258)
Net cash provided by financing activities	102,914	22,991	135,352
Cash and cash equivalents (beginning of period)	306,077	295,476	160,505
Cash and cash equivalents (end of period)	\$ 329,134	\$ 306,077	\$ 295,476

Operating Activities

Cash used in operating activities in 2020 was \$49.4 million and increased as compared to cash provided by operating activities in 2019 of \$5.2 million. The increase was primarily attributable to higher cash operating expenses driven mainly by an increase in headcount year-over-year, higher annual incentive payment as compared to 2019, customer requests during the pandemic to defer payments into 2021, and a decrease in customer revenue retention attributed to the impact of COVID-19.

Cash provided by operating activities in 2019 was \$5.2 million and declined slightly as compared to \$5.7 million in 2018. The decrease was primarily attributable to higher cash operating expenses driven mainly by an increase in headcount and partially offset by an increase in sales and related cash collections.

Investing Activities

Net cash used in investing activities for 2020 of \$30.5 million was primarily due to \$28.5 million of capital expenditures mainly attributable to the build out of our new headquarters which was committed prior to the pandemic. In addition, we incurred capitalized internal-use software development costs on our subscription solutions of \$1.7 million, and investment in equity securities of \$0.3 million.

Net cash used in investing activities for 2019 was \$17.6 million, which was primarily related to our acquisition of Travelaer. In addition, we incurred capitalized internal-use software development costs on our subscription service solutions of \$1.4 million, capital expenditures of \$5.3 million, investment in equity securities of \$0.3 million and intangible (non-acquisition) asset of \$0.1 million.

Financing Activities

Net cash provided by financing activities for 2020 was \$102.9 million, which was attributable to the proceeds of \$146.9 million from the issuance of our 2027 Notes and proceeds from the exercise of employee stock plans of \$2.8 million, partially offset by the purchase of Capped Call of \$25.3 million, a payment of \$20.5 million for tax withholdings on vesting of employee share-based awards and a \$1.0 million payment for debt issuance costs related to the 2027 Notes.

Net cash provided by financing activities for 2019 was \$23.0 million, which was attributable to the proceeds of \$140.2 million from the issuance of our 2024 Notes, proceeds from the bond hedge termination of \$64.8 million and proceeds from the exercise of employee stock plans of \$2.0 million, which was partially offset by the settlement of our 2019 and 2047 Notes of \$97.7 million, termination of warrant of \$45.2 million, a payment of \$23.8 million for tax withholdings on vesting of employee share-based awards, the purchase of Capped Call of \$16.4 million and a \$0.9 million payment for debt issuance costs related to the 2024 Notes.

Stock Repurchases

In August 2008, our Board of Directors authorized a stock repurchase program for the purchase of up to \$15.0 million of our common stock. No shares were repurchased under the program during the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, \$10.0 million remained available in the stock repurchase program. The repurchase of stock, if continued, will be funded primarily with existing cash balances. The timing of any repurchases will depend upon various factors including, but not limited to, market conditions, the market price of our common stock and management's assessment of our liquidity and cash flow needs. *For additional information on the stock repurchase program see [Item 5](#), "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."*

Off-Balance Sheet Arrangements and Contractual Obligations

We do not have any relationships with unconsolidated entities or financial partnerships, such as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Our principal commitments as of December 31, 2020 consist of obligations under operating leases and various service agreements. See *Note 18* of our Notes to Consolidated Financial Statements for additional information regarding our contractual commitments.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2020:

(Dollars in thousands)	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Notes, including interest	\$ 322,350	\$ 4,813	\$ 9,625	\$ 151,162	\$ 156,750
Operating leases	72,882	9,580	21,752	9,683	31,867
Purchase and contractual commitments	39,259	30,148	9,111	—	—
Total contractual obligations	<u>\$ 434,491</u>	<u>\$ 44,541</u>	<u>\$ 40,488</u>	<u>\$ 160,845</u>	<u>\$ 188,617</u>

Notes

As of December 31, 2020, our outstanding Notes consist of the 2024 and 2027 Notes. Interest on the 2024 Notes is payable semi-annually, in arrears on May 15 and November 15 of each year. Interest on the 2027 Notes is payable semiannually in arrears in cash on March 15 and September 15 of each year, beginning on March 15, 2021. At December 31, 2020, our maximum commitment for interest payments under the 2024 and 2027 Notes was \$28.6 million for their remaining duration.

Covenants

Our Revolver contains affirmative and negative covenants, including covenants which restrict our ability to, among other things, create liens, incur additional indebtedness and engage in certain other transactions, in each case subject to certain exclusions. In addition, our Revolver contains certain financial covenants which become effective in the event our liquidity falls below \$50 million or upon the occurrence of an event of default. As of December 31, 2020, we were in compliance with all financial covenants in the Revolver.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Actual results could differ from those estimates.

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

Revenue Recognition

We derive our revenues primarily from subscription services, services and associated software maintenance and support services.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the customer contract(s);
- Determination of the transaction price;
- Allocation of the transaction price to each performance obligation in the customer contract(s); and

- Recognition of revenue when, or as, we satisfy a performance obligation.

Subscription revenue

Subscription revenue primarily consists of fees that give customers access to one or more of our cloud applications with related customer support. We primarily recognize subscription revenue ratably over the contractual term of the arrangement beginning with commencement of service. Subscription revenue related to certain offerings, where fees are based on a number of transactions, are recognized on a usage basis.

Maintenance and support revenue

Maintenance and support revenue includes customer support for our on-premises software and the right to unspecified software updates and enhancements. We recognize revenue from maintenance arrangements ratably over the period in which the services are provided. Our maintenance and support contracts are generally one year in length, billed annually in advance, and non-cancelable.

Services revenue

Services revenue primarily consists of fees for configuration services, consulting and training. We typically sell our services on either a fixed-fee or time-and-materials basis. Services revenue is generally recognized as the services are performed for time and material contracts, or on a proportional performance basis for fixed-price contracts. The majority of our services contracts are on a fixed-fee basis. Training revenues are recognized as the services are performed.

Significant judgments are required in determining whether services that are contained in our customer subscription contracts are considered distinct, including whether the services are capable of being distinct and whether they are separately identifiable. Services deemed to be distinct are accounted for as a separate performance obligation and revenue is recognized as the services are performed. If determined services are not considered distinct, the services and the subscription are determined to be a single performance obligation and revenue is recognized over the contractual term of the subscription beginning on the date that subscription services are made available to the customer.

Customer contracts with multiple performance obligations

A portion of our customer contracts contain multiple performance obligations. Significant judgment is required in determining whether multiple performance obligations contained in a single customer contract are capable of being distinct and are separately identifiable. An obligation determined to be distinct is accounted for as a separate performance obligation and revenue for that separate performance obligation is recognized when, or as, we satisfy the performance obligation. If obligations are not determined to be distinct, those obligations are accounted for as a single, combined performance obligation. The transaction price is allocated to each performance obligation on a relative standalone selling price basis.

Allowance for Doubtful Accounts

In addition to our initial credit evaluations upon entering into a new customer contract, we regularly assess our ability to collect outstanding customer invoices. The allowance is based on both specific and general reserves. To do so, we make estimates of the collectability of accounts receivable. We provide an allowance for doubtful accounts when we determine that the collection of an outstanding customer receivable is not probable. We regularly review our trade receivables allowance by considering factors such as historical experience, the age of the trade receivable balances and current economic conditions that may affect a customer's ability to pay.

Deferred Costs

Sales commissions earned by our sales representatives are considered incremental and recoverable costs of obtaining a customer contract. Sales commissions are deferred and amortized on a straight-line basis over the period of benefit, which we have determined to be five to eight years. We determined the period of benefit by taking into consideration our customer contracts, expected renewals of those customer contracts (as we currently do not pay an incremental sales commission for renewals), our technology and other factors. We also defer amounts earned by employees other than sales representatives who earn incentive payments under compensation plans tied to the value of customer contracts acquired.

Deferred Implementation Costs

We capitalize certain contract fulfillment costs, including personnel and other costs (such as hosting, employee salaries, benefits and payroll taxes), that are associated with arrangements where services are not distinct from other undelivered obligations in our customer contracts. We analyze implementation costs and capitalize those costs that are directly related to customer contracts that are expected to be recoverable and enhance the resources which will be used to satisfy the undelivered performance obligations in those contracts. Deferred implementation costs are amortized ratably over the remaining contract term once the revenue recognition criteria for the respective performance obligation has been met and revenue recognition commences.

Deferred Revenue

Deferred revenue primarily consists of customer invoicing in advance of revenues being recognized. We generally invoice our customers annually in advance for subscription services and maintenance and support services. Deferred revenue that is anticipated to be recognized during the next twelve-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

Noncash Share-Based Compensation

We have two noncash share-based compensation plans, the 2007 equity incentive plan and the 2017 equity incentive plan which authorize the discretionary granting of various types of stock awards to key employees, officers, directors and consultants. Our 2007 equity incentive plan expired in March 2017, and in May 2017, we adopted our 2017 equity incentive plan which serves as the successor to our 2007 equity incentive plan. Under the 2017 equity incentive plan, we may provide noncash share-based compensation through the grant of: (i) restricted stock awards; (ii) restricted stock unit awards - time, performance and market-based ("RSUs"); (iii) stock options; (iv) stock appreciation rights ("SARs"); (v) phantom stock; and (vi) performance awards, such as market stock units ("MSUs"). To date, we have granted stock options, SARs, RSUs and MSUs.

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

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

We estimate the fair value of the stock options and SARs using the Black-Scholes option pricing model, which requires us to use significant judgment to make estimates regarding the expected life of the award, volatility of our stock price, the risk-free interest rate and the dividend yield of our stock over the life of the award. The expected life of the award is a historical weighted average of the expected lives of similar securities of comparable public companies. We estimate volatility using our historical volatility. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on our expectation of paying no dividends.

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

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

MSUs are performance-based awards that cliff vest based on our shareholder return relative to the total shareholder return of the Russell 2000 Index ("Index") over the three-year periods ending February 28, 2020, October 9, 2020 and December 31, 2020 ("Performance Period"), respectively. The MSUs vested on March 1, 2020 and October 9, 2020 and are

scheduled to vest on January 10, 2021, respectively. The maximum number of shares issuable upon vesting is 200% of the MSUs initially granted based on the average price of our common stock relative to the Index during the Performance Period. We estimate the fair value of MSUs on the date of grant using a Monte Carlo simulation model. The determination of the fair value of the MSUs is affected by our stock price and a number of assumptions including the expected volatilities of our stock and the Index, the risk-free interest rate and expected dividends. Our expected volatility at the date of grant was based on the historical volatilities of our stock and the Index over the Performance Period.

We record deferred tax assets for share-based compensation awards that will result in future deductions on our income tax returns, based on the amount of share-based compensation recognized at the statutory tax rate in the jurisdiction in which we will receive a tax deduction. Because the deferred tax assets we record are based upon the share-based compensation expenses in a particular jurisdiction, the aforementioned inputs that affect the fair values of our stock awards may also indirectly affect our income tax expense. In addition, differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on our income tax returns are recorded in our income tax (expense) income.

At December 31, 2020, we had \$55.9 million of total unrecognized compensation costs related to noncash share-based compensation arrangements for stock awards granted. These costs will be recognized over a weighted-average period of 2.5 years.

Accounting for Income Taxes

We estimate our income taxes based on the various jurisdictions where we conduct business and we use estimates in determining our provision for income taxes. We estimate separately our deferred tax assets, related valuation allowances, current tax liabilities and deferred tax liabilities. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax rules and the potential for future adjustment of our uncertain tax positions by the U.S. Internal Revenue Service or other taxing jurisdictions. We estimate our current tax liability and assess temporary differences that result from differing treatments of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we show on our balance sheet. At December 31, 2020, our deferred tax assets consisted primarily of temporary differences related to noncash share-based compensation, interest expense limited under Section 163(j), Research and Experimentation ("R&E") tax credit carryforwards and net operating losses.

We review the realizability of our deferred tax asset on a quarterly basis, or whenever events or changes in circumstances indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results of the legal entity or consolidated group recording the net deferred tax asset are considered, along with any other positive or negative evidence. Since future financial results may differ from previous estimates, periodic adjustments to our valuation allowances may be necessary. We continually perform an analysis related to the realizability of our deferred tax assets. As a result, and after considering tax planning initiatives and other positive and negative evidence, we determine that it is more likely than not that our net deferred tax assets will not be realized. During 2020, there was not sufficient positive evidence to outweigh the current and historic negative evidence to determine that it was more likely than not that our net deferred tax assets would not be realized. Therefore, we continue to have a valuation allowance against net deferred tax assets as of December 31, 2020.

We account for uncertain income tax positions recognized in our financial statements in accordance with the Income Tax Topic of the Accounting Standards Codification ("ASC"), issued by the FASB. This interpretation requires companies to use a prescribed model for assessing the financial recognition and measurement of all tax positions taken or expected to be taken in their tax returns. This guidance provides clarification on recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. *Please see [Note 15](#) to the Consolidated Financial Statements for more information.*

Business Combinations

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

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

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

Intangible Assets, Goodwill and Long-Lived Assets

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

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

We assess goodwill for impairment as of November 30 of each fiscal year, or more frequently if events or changes in circumstances indicate that the fair value of our reporting unit has been reduced below its carrying value. When conducting our annual goodwill impairment assessment, we use a two-step process. The first step is to perform an optional qualitative evaluation as to whether it is more likely than not that the fair value of our reporting unit is less than its carrying value, using an assessment of relevant events and circumstances. In performing this assessment, we are required to make assumptions and judgments including, but not limited to, an evaluation of macroeconomic conditions as they relate to our business, industry and market trends, as well as the overall future financial performance of our reporting unit and future opportunities in the markets in which it operates. If we determine that it is not more likely than not that the fair value of our reporting unit is less than its carrying value, we are not required to perform any additional tests in assessing goodwill for impairment. However, if we conclude otherwise or elect not to perform the qualitative assessment, we perform a second step for our reporting unit, consisting of a quantitative assessment of goodwill impairment. This quantitative assessment requires us to compare the fair value of our reporting unit with its carrying value. If the carrying amount exceeds the fair value, an impairment charge will be recognized, however, loss cannot exceed the total amount of goodwill allocated to the reporting unit.

Recent Accounting Pronouncements

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

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Foreign Currency Exchange Risk

Our contracts are predominately denominated in U.S. dollars; however, we have contracts denominated in foreign currencies and therefore a portion of our revenue is subject to foreign currency risks. The primary market risk we face is from foreign currency exchange rate fluctuations. Our cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The effect of an immediate 10% adverse change in exchange rates on foreign denominated receivables as of December 31, 2020, would have resulted in a \$0.4 million loss. We are also exposed to foreign currency risk due to our operating subsidiaries in France, United Kingdom, Canada, Germany, Ireland, Australia, Bulgaria and United Arab Emirates. A hypothetical 10% adverse change in the value of the U.S. dollar in relation to the Euro, which is our single most significant

foreign currency exposure, would have changed revenue for the year ended December 31, 2020 by approximately \$1.6 million. However, due to the relatively low volume of payments made and received through our foreign subsidiaries, we do not believe that we have significant exposure to foreign currency exchange risks. Fluctuations in foreign currency exchange rates could harm our financial results in the future.

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

Exposure to Interest Rates

Our exposure to market risk for changes in interest rates relates to the variable interest rate on borrowings under our Revolver. As of December 31, 2020, we had no borrowings under the Revolver.

As of December 31, 2020, we had outstanding principal amounts of \$150.0 million and \$143.8 million of the 2027 and the 2024 Notes, respectively, which are fixed rate instruments. Therefore, our results of operations are not subject to fluctuations in interest rates. The fair value of the Notes may change when the market price of our stock fluctuates.

We believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates due to the short term nature of our cash equivalents.

Item 8. Financial Statements and Supplementary Data

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

We implemented internal controls to ensure we adequately evaluated our provisions for credit losses in light of the adoption of Topic 326 on January 1, 2020. There were no significant changes to our internal control over financial reporting due to the adoption of Topic 326.

There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that our employees are working remotely due to COVID-19. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

Management's Report on Internal Control over Financial Reporting

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2020, based on the criteria in Internal Control — Integrated Framework (2013) issued by COSO. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2020 based upon the COSO criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Item 9B. Other Information

None.

Part III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item is incorporated by reference from our proxy statement in connection with our 2021 Annual Meeting of Stockholders, which proxy statement will be filed with the SEC not later than 120 days after the close of our fiscal year ended December 31, 2020.

Item 11. *Executive Compensation*

The information required by this item is incorporated by reference from our proxy statement in connection with our 2021 Annual Meeting of Stockholders, which proxy statement will be filed with the SEC not later than 120 days after the close of our fiscal year ended December 31, 2020.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is incorporated by reference from our proxy statement in connection with our 2021 Annual Meeting of Stockholders, which proxy statement will be filed with the SEC not later than 120 days after the close of our fiscal year ended December 31, 2020.

Item 13. *Certain Relationships, Related Transactions and Director Independence*

The information required by this item is incorporated by reference from our proxy statement in connection with our 2021 Annual Meeting of Stockholders, which proxy statement will be filed with the SEC not later than 120 days after the close of our fiscal year ended December 31, 2020.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated by reference from our proxy statement in connection with our 2021 Annual Meeting of Stockholders, which proxy statement will be filed with the SEC not later than 120 days after the close of our fiscal year ended December 31, 2020.

Part IV

Item 15. Exhibits and Financial Statements Schedules

(a)(1) Financial Statements

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

(a)(2) Financial Statement Schedules

Reference is made to Schedule II, Valuation and Qualifying Accounts, as indexed on page F-35.

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

(a)(3) Exhibits

Exhibits are as set forth below in the Exhibit Index. Exhibits which are incorporated herein by reference can be inspected and copied at the public reference rooms maintained by the SEC in Washington, D.C., New York, New York, and Chicago, Illinois, and are also available to the public from commercial document retrieval services and at the website maintained by the SEC at <http://www.sec.gov>.

PROS Holdings, Inc.
Index to the Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of PROS Holdings, Inc. and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive income (loss), of stockholders’ equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2020 appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 and the manner in which it accounts for revenues from contracts with customers in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and

expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue recognition – Identifying distinct performance obligations within customer contracts

As described in Note 2 to the consolidated financial statements, for the year ended December 31, 2020, the Company recognized revenue of \$252.4 million from customer contracts. A portion of these customer contracts contain multiple performance obligations. Significant judgment is required by management in determining whether multiple performance obligations contained in a single customer contract are capable of being distinct and are separately identifiable. An obligation determined to be distinct is accounted for as a separate performance obligation and revenue for that separate performance obligation is recognized when, or as, the Company satisfies the performance obligation. If obligations are not determined to be distinct, those obligations are accounted for as a single, combined performance obligation.

The principal considerations for our determination that performing procedures relating to identifying distinct performance obligations within customer contracts is a critical audit matter are the significant amount of judgment by management in determining whether multiple performance obligations contained in a single customer contract are capable of being distinct and are separately identifiable. This in turn led to significant auditor judgment and effort in performing procedures to evaluate whether the distinct performance obligations within a single customer contract were appropriately identified by management.

Addressing the matter involved performing procedures and evaluating evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the identification of distinct performance obligations. These procedures also included, among others, examining customer contracts on a test basis to identify whether the performance obligations were capable of being distinct and were separately identifiable, and evaluating management's conclusions through tests of underlying information.

/s/ PricewaterhouseCoopers LLP

San Jose, California
February 12, 2021

We have served as the Company's auditor since 2002.

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

	December 31,	
	2020	2019
Assets:		
Current assets:		
Cash and cash equivalents	\$ 329,134	\$ 306,077
Trade and other receivables, net of allowance of \$4,122 and \$214, respectively	49,578	65,074
Deferred costs, current	5,941	5,756
Prepaid and other current assets	9,647	9,038
Total current assets	394,300	385,945
Property and equipment, net	36,504	14,794
Operating lease right-of-use assets	30,689	26,550
Deferred costs, noncurrent	12,544	15,478
Intangibles, net	8,341	14,605
Goodwill	50,044	49,104
Other assets, noncurrent	7,549	6,831
Total assets	<u>\$ 539,971</u>	<u>\$ 513,307</u>
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable and other liabilities	\$ 4,246	\$ 9,098
Accrued liabilities	13,065	22,748
Accrued payroll and other employee benefits	25,514	32,656
Operating lease liabilities, current	5,937	7,173
Deferred revenue, current	99,156	124,459
Total current liabilities	147,918	196,134
Deferred revenue, noncurrent	11,372	17,801
Convertible debt, net, noncurrent	218,028	110,704
Operating lease liabilities, noncurrent	44,099	22,391
Other liabilities, noncurrent	1,517	1,281
Total liabilities	422,934	348,311
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized none issued	—	—
Common stock, \$0.001 par value, 75,000,000 shares authorized; 48,142,267 and 47,310,846 shares issued, respectively; 43,461,544 and 42,630,123 shares outstanding, respectively	48	47
Additional paid-in capital	589,040	560,496
Treasury stock, 4,680,723 common shares, at cost	(29,847)	(29,847)
Accumulated deficit	(438,773)	(361,789)
Accumulated other comprehensive loss	(3,431)	(3,911)
Total stockholders' equity	117,037	164,996
Total liabilities and stockholders' equity	<u>\$ 539,971</u>	<u>\$ 513,307</u>

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

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

	For the Year Ended December 31,		
	2020	2019	2018
Revenue:			
Subscription	\$ 170,473	\$ 145,327	\$ 98,708
Maintenance and support	44,692	58,184	64,760
Total subscription, maintenance and support	215,165	203,511	163,468
Services	37,259	46,823	33,556
Total revenue	252,424	250,334	197,024
Cost of revenue:			
Subscription	51,673	42,339	35,619
Maintenance and support	9,880	11,052	11,602
Total cost of subscription, maintenance and support	61,553	53,391	47,221
Services	43,080	45,726	29,958
Total cost of revenue	104,633	99,117	77,179
Gross profit	147,791	151,217	119,845
Operating expenses:			
Selling and marketing	87,182	89,553	72,006
General and administrative	51,075	47,254	41,302
Research and development	75,614	67,246	55,657
Acquisition-related	—	502	95
Loss from operations	(66,080)	(53,338)	(49,215)
Convertible debt interest and amortization	(11,125)	(14,765)	(16,986)
Other income (expense), net	897	(354)	2,155
Loss before income tax provision	(76,308)	(68,457)	(64,046)
Income tax provision	676	624	200
Net loss	(76,984)	(69,081)	(64,246)
Net loss per share:			
Basic and diluted	(1.78)	(1.72)	(1.86)
Weighted average number of shares:			
Basic and diluted	43,301	40,232	34,465
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	480	(537)	(558)
Other comprehensive loss, net of tax	480	(537)	(558)
Comprehensive (loss) income	\$ (76,504)	\$ (69,618)	\$ (64,804)

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

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

	Year Ended December 31,		
	2020	2019	2018
Operating activities:			
Net loss	\$ (76,984)	\$ (69,081)	\$ (64,246)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	14,334	13,870	13,055
Amortization of debt discount and issuance costs	8,743	11,115	12,027
Share-based compensation	24,399	24,680	21,453
Deferred income tax, net	—	(119)	(463)
Provision for doubtful accounts	4,783	(754)	212
Loss on disposal of assets	—	—	37
Loss on debt extinguishment	—	5,660	—
Changes in operating assets and liabilities:			
Accounts and unbilled receivables	10,450	(22,273)	(9,550)
Deferred costs	2,749	(3,772)	(4,086)
Prepaid expenses and other assets	(1,376)	(5,044)	87
Operating lease right-of-use assets and liabilities	16,974	(61)	—
Accounts payable and other liabilities	(4,817)	2,550	3,931
Accrued liabilities	(9,848)	15,455	2,764
Accrued payroll and other employee benefits	(7,106)	7,937	5,830
Deferred revenue	(31,690)	25,082	24,652
Net cash (used in) provided by operating activities	(49,389)	5,245	5,703
Investing activities:			
Purchase of property and equipment	(28,493)	(5,271)	(1,475)
Purchase of equity securities	(281)	(293)	(45)
Acquisition of Travelaer, net of cash acquired	—	(10,510)	—
Capitalized internal-use software development costs	(1,686)	(1,436)	(4,613)
Purchase of intangible asset	—	(50)	(125)
Net cash used in investing activities	(30,460)	(17,560)	(6,258)
Financing activities:			
Exercise of stock options	—	—	1,142
Proceeds from employee stock plans	2,824	1,995	1,720
Tax withholding related to net share settlement of stock awards	(20,481)	(23,753)	(9,410)
Proceeds from Secondary Offering, net	—	—	141,954
Payments of notes payable	—	—	(54)
Proceeds from issuance of convertible debt, net	146,925	140,156	—
Debt issuance costs related to convertible debt	(1,019)	(860)	—
Purchase of Capped Call	(25,335)	(16,445)	—
Settlement of convertible debt	—	(97,678)	—
Proceeds from termination of Note Hedges	—	64,819	—
Payment for termination of Warrants	—	(45,243)	—
Net cash provided by financing activities	102,914	22,991	135,352
Effect of foreign currency rates on cash	(8)	(75)	174
Net change in cash and cash equivalents	23,057	10,601	134,971

Cash and cash equivalents:			
Beginning of period	306,077	295,476	160,505
End of period	<u>\$ 329,134</u>	<u>\$ 306,077</u>	<u>\$ 295,476</u>

Supplemental disclosure of cash flow information:

Cash (paid) refund during period for:			
Taxes	\$ (341)	\$ (308)	\$ (262)
Interest	\$ (1,680)	\$ (3,499)	\$ (5,252)
Noncash investing activities:			
Purchase of property and equipment accrued but not paid	\$ 341	\$ 891	\$ 247

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

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

	Common Stock			Additional Paid-In Capital	Treasury Stock		Accumulated (Deficit) Retained Earnings	Accumulated other comprehensive loss	Total Stockholders' Equity
	Shares	Amount	36	\$	Shares	Amount			
Balance at December 31, 2017	31,939,175	\$	36	\$	207,924	\$	(238,185)	\$	(46,979)
Exercise of stock options	161,997		1	1,141					1,142
Stock awards net settlement	609,188		1	(9,411)					(9,410)
Proceeds from employee stock plans	75,546		—	1,720					1,720
Proceeds from Secondary Offering, net	4,370,000		4	141,950					141,954
Noncash share-based compensation	—		—	21,553					21,553
Cumulative effect of adoption of section 606	—		—	—			9,723		9,723
Other comprehensive loss	—		—	—				(558)	(558)
Net loss	—		—	—			(64,246)		(64,246)
Balance at December 31, 2018	37,155,906	\$	42	\$	364,877	\$	(292,708)	\$	54,899
Stock awards net settlement	958,264		1	(23,754)					(23,753)
Proceeds from employee stock plans	75,304		—	1,995					1,995
Settlement of convertible debt	4,703,787		4	140,845					140,849
Exercise of Note Hedges	(263,138)		—	15,911	263,138	(15,909)			2
Termination of Note Hedges	—		—	64,819					64,819
Termination of Warrants	—		—	(45,243)					(45,243)
Equity component of convertible debt issuance, net	—		—	32,883					32,883
Purchase of Capped Call	—		—	(16,445)					(16,445)
Noncash share-based compensation	—		—	24,608					24,608
Other comprehensive loss	—		—	—				(537)	(537)
Net loss	—		—	—			(69,081)		(69,081)
Balance at December 31, 2019	42,630,123	\$	47	\$	560,496	\$	(361,789)	\$	164,996
Stock awards net settlement	765,801		1	(20,482)					(20,481)
Proceeds from employee stock plans	65,457		—	2,824					2,824
Equity component of convertible debt issuance, net	—		—	47,215					47,215
Purchase of Capped Call	—		—	(25,335)					(25,335)
Warrant exercise	163		—	—					—
Noncash share-based compensation	—		—	24,322					24,322
Other comprehensive loss	—		—	—				480	480
Net loss	—		—	—			(76,984)		(76,984)
Balance at December 31, 2020	43,461,544	\$	48	\$	589,040	\$	(438,773)	\$	117,037

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

PROS Holdings, Inc.
Notes to Consolidated Financial Statements

1. Organization and Nature of Operations

PROS Holdings, Inc., a Delaware corporation, through its operating subsidiaries (collectively, the "Company"), provides solutions that optimize the processes of selling and shopping in the digital economy. PROS solutions leverage artificial intelligence ("AI"), self-learning and automation to ensure that every transactional experience is fast, frictionless and personalized for every shopper, supporting both business-to-business ("B2B") and business-to-consumer ("B2C") companies across industry verticals. Companies can use the Company's selling, pricing, revenue optimization and eCommerce solutions to assess their market environments in real time to deliver customized prices and offers. The Company's solutions enable buyers to move fluidly across its customers' direct sales, partner, online, mobile and emerging channels with personalized experiences regardless of which channel those buyers choose. The Company's decades of data science and AI expertise are infused into its solutions and are designed to reduce time and complexity through actionable intelligence. The Company provides standard configurations of its solutions based on the industries it serves and offers services to configure its solutions to meet the specific needs of each customer.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

These Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). Certain prior year amounts have been reclassified for consistency with the current year presentation. This insignificant reclassification had no effect on the reported results of operations. License revenue and license cost of revenue are now combined with subscription revenue and subscription cost of revenue, respectively.

Risks and uncertainties

Coronavirus ("COVID-19") continues to spread throughout the U.S. and the world and compliance with the various containment measures implemented by governmental authorities has impacted the Company's business, as well as the businesses of its customers, suppliers and other counterparties, and this impact could last for an indefinite period of time. There are no comparable recent events that provide guidance as to the effect of the spread of COVID-19 as a global pandemic, and as a result, the Company is unable to predict the full impact that COVID-19 will have on its results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures.

Changes in Accounting Policies

The Company has consistently applied the accounting policies described in this Note 2 to all periods presented in these Consolidated Financial Statements, except for the Company's adoption of certain accounting standards described in more detail under "*Recently adopted accounting pronouncements*" in this Note 2 below.

Dollar Amounts

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

Use of Estimates

The preparation of these Consolidated Financial Statements in conformity with GAAP requires the Company to make certain estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses during the reporting period. The complexity and judgment required in the Company's estimation process, as well as issues related to the assumptions, risks and uncertainties inherent in determining the nature and timing of satisfaction of performance obligations and determining the standalone selling price of performance obligations, 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, the determination of the period of benefit for deferred commissions, operating lease right-of-use assets and operating lease liabilities, useful lives of assets, depreciation and amortization, fair value of assets acquired and liabilities assumed for business combinations, income taxes and deferred tax asset valuation, valuation of stock options, other current liabilities and accrued liabilities. Numerous internal and external factors can affect estimates. Actual results could differ from those estimates and such differences could be material to the Company's consolidated financial position and results of operations.

Cash and Cash Equivalents

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

Trade and Other Receivables

Trade and other receivables are primarily comprised of trade receivables, net of allowance for doubtful accounts, contract assets and unbilled receivables. The Company records trade accounts receivable for its unconditional rights to consideration arising from the Company's performance under contracts with customers. The Company's standard billing terms are that payment is due upon receipt of invoice, payable generally within thirty to sixty days. The carrying value of such receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. When developing its estimate of expected credit losses on trade and other receivables, the Company considers the available information relevant to assessing the collectability of cash flows, which includes a combination of both internal and external information relating to past events, current conditions, and future forecasts as well as relevant qualitative and quantitative factors that relate to the environment in which the Company operates.

Contract assets represent conditional rights to consideration that have been recognized as revenue in advance of billing the customer. Unbilled receivables represent unconditional rights to consideration arising from contingent revenue that have been recognized as revenue in advance of billing the customer.

Prepaid Expenses and Other Assets

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

Property and Equipment, Net

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

Internal-Use Software

Costs incurred to develop internal-use software during the application development stage are capitalized, stated at cost, and depreciated using the straight-line method over the estimated useful lives of the assets. Application development stage costs generally include salaries and personnel costs and third-party contractor expenses associated with internal-use software development, configuration and coding. Capitalization of such costs begins when the preliminary project stage is complete and ceases at the point in which the project is substantially complete and is ready for its intended purpose. Capitalized internal-use software is included in property and equipment, net in the Consolidated Balance Sheets.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current operating lease liabilities and noncurrent operating lease liabilities in the Company's Consolidated Balance Sheet.

ROU assets represent the Company's right to use an underlying asset over the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company includes any anticipated lease incentives in the determination of lease liability.

The Company uses its estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. The Company gives consideration to its recent debt issuances as well as publicly available data for instruments with similar characteristics when determining its incremental borrowing rates.

The Company's lease terms will include options to extend the lease when it is reasonably certain that the Company will exercise that option. Leases with a term of 12 months or less are not recorded on the Company's unaudited condensed consolidated balance sheet. The Company's lease agreements do not contain any residual value guarantees.

Deferred Costs

Sales commissions earned by the Company's sales representatives are considered incremental and recoverable costs of obtaining a customer contract. Sales commissions are deferred and amortized on a straight-line basis over the period of benefit, which the Company has determined to be five to eight years. The Company determined the period of benefit by taking into consideration its customer contracts, expected renewals of those customer contracts (as the Company currently does not pay an incremental sales commission for renewals), the Company's technology and other factors. The Company also defers amounts earned by employees other than sales representatives who earn incentive payments under compensation plans that are also tied to the value of customer contracts acquired.

Deferred Implementation Costs

The Company capitalizes certain contract fulfillment costs, including personnel and other costs (such as hosting, employee salaries, benefits and payroll taxes), that are associated with arrangements where services are not distinct from other undelivered obligations in its customer contracts. The Company analyzes implementation costs and capitalizes those costs that are directly related to customer contracts that are expected to be recoverable and enhance the resources which will be used to satisfy the undelivered performance obligations in those contracts. Deferred implementation costs are amortized ratably over the remaining contract term once the revenue recognition criteria for the respective performance obligation has been met and revenue recognition commences. Deferred implementation costs are included in prepaid and other current assets and other assets, noncurrent in the Consolidated Balance Sheets. Amortization of deferred implementation costs is included in cost of subscription and cost of services revenues in the Consolidated Statements of Comprehensive Income (Loss).

Deferred Revenue

Deferred revenue primarily consists of customer invoicing in advance of revenues being recognized. The Company generally invoices its customers annually in advance for subscription services and maintenance and support services. Deferred revenue that is anticipated to be recognized during the next twelve-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent deferred revenue.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever an event or change in circumstances indicates that the carrying amount of an asset or group of assets may not be recoverable. The impairment review includes comparison of future cash flows expected to be generated by the asset or group of assets with the associated assets' carrying value. If the carrying value of the asset or group of assets exceeds its expected future cash flows (undiscounted and without interest charges), an impairment loss is recognized to the extent that the carrying amount of the asset exceeds its fair value. The Company did not identify any impairment indicators and recorded no impairment charges in the year ended December 31, 2020, 2019 and 2018.

Intangible Assets and Goodwill

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

Goodwill represents the excess of the purchase consideration over the net of the acquisition-date fair value of identifiable assets acquired, including identifiable intangible assets, and liabilities assumed in connection with business combinations. Goodwill is not amortized but is assessed for impairment as of November 30 of each fiscal year, or more frequently if events or changes in circumstances indicate that the fair value of the Company's sole reporting unit has been reduced below its carrying value. When conducting the annual goodwill impairment assessment, a two-step process is used. The first step is to perform an optional qualitative evaluation as to whether it is more likely than not that the fair value of the Company's sole reporting unit is less than its carrying value, using an assessment of relevant events and circumstances. In performing this assessment, the Company is required to make assumptions and judgments including but not limited to an evaluation of macroeconomic conditions as they relate to the business, industry and market trends, as well as the overall future financial performance of the reporting unit and future opportunities in the markets in which it operates. If it is determined that it is not more likely than not that the fair value of the reporting unit is less than its carrying value, no additional tests are required to be performed in assessing goodwill for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, the Company performs a second step, consisting of a quantitative assessment of goodwill impairment. This quantitative assessment requires the Company to compare the fair value of its reporting unit with its carrying value. If the carrying amount exceeds the fair value, an impairment charge will be recognized, however, loss cannot exceed the total amount of goodwill allocated to the reporting unit. Based on the results of the qualitative review of goodwill performed as of November 30, 2020, the Company did not identify any indicators of impairment. As such, the quantitative assessment described above was not necessary.

Equity Investments

Investments in equity securities of privately held companies without readily determinable fair value, where the Company does not exercise significant influence over the investee, are recorded at cost, less impairment and adjusted for subsequent observable price changes obtained from orderly transactions for identical or similar investments issued by the same investee. Adjustments resulting from impairment, fair value, or observable price changes are accounted for in the Consolidated Statements of Comprehensive Income (Loss).

Financial Instruments

The carrying amount of the Company's financial instruments, which include cash equivalents, receivables and accounts payable, and equity investments approximates their fair values at December 31, 2020 and 2019. *For additional information on the Company's fair value measurements, see [Note 10](#) to the Consolidated Financial Statements.*

Convertible Senior Notes

In accounting for the issuance of the Notes, the Company separates each of the Notes into liability and equity components. The carrying amounts of the liability components are calculated by measuring the fair value of similar liabilities that do not have associated convertible features. The carrying amount of the equity components representing the conversion option are determined by deducting the fair value of the liability components from the par value of the respective Notes. These differences represent debt discounts that are amortized to interest expense over the respective terms of the Notes using the effective interest rate method. The equity components are not remeasured as long as they continue to meet the conditions for equity classification. In accounting for the issuance costs related to the Notes, the Company allocates the total amount of issuance costs incurred to the liability and equity components based on their relative values. Issuance costs attributable to the liability components are being amortized on a straight-line basis, which approximates the effective interest rate method, to interest expense over the respective terms of the Notes. The issuance costs attributable to the equity components are netted against the respective equity components in additional paid-in capital.

Research and Development

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

Software Development Costs

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

Treasury Stock

The Company is authorized to make treasury stock purchases in the open market pursuant to the share repurchase program, which was approved by its Board of Directors on August 28, 2008. The Company accounts for the purchase of treasury stock under the cost method. *For additional information on the Company's stock repurchase program, see Note 12 to the Consolidated Financial Statements.* There were no treasury stock repurchases under the program for the years ended December 31, 2020, 2019 and 2018.

Revenue Recognition

The Company derives its revenues primarily from subscriptions, services, and associated software maintenance and support services.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the customer contract(s);
- Determination of the transaction price;
- Allocation of the transaction price to each performance obligation in the customer contract(s); and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

Subscription revenue

Subscription revenue primarily consists of fees that give customers access to one or more of the Company's cloud applications with related customer support. The Company primarily recognizes subscription revenue ratably over the contractual term of the arrangement beginning with commencement of service. Subscription revenue related to certain offerings, where fees are based on a number of transactions, are recognized on a usage basis. The Company's subscription contracts do not provide customers with the right to take possession of the software supporting the service and, as a result, are accounted for as service contracts. The Company's subscription contracts are generally two to five years in length, billed annually in advance, and non-cancelable.

Maintenance and support revenue

Maintenance and support revenue includes customer support for on-premises licenses and the right to unspecified software updates and enhancements. The Company recognizes revenue from maintenance and support arrangements ratably over the period in which the services are provided. The Company's maintenance and support contracts are generally one year in length, billed annually in advance, and non-cancelable.

Services revenue

Services revenue primarily consists of fees for configuration services, consulting and training. The Company typically sells its services either on a fixed-fee or time-and-material basis. Services revenue is generally recognized as the services are performed for time and material contracts, or on a proportional performance basis for fixed-price contracts. The majority of the Company's Services contracts are on a fixed-fee basis. Training revenue is recognized as the services are rendered.

Significant judgments are required in determining whether services that are contained in the Company's customer subscription contracts are considered distinct, including whether the services are capable of being distinct and whether they are separately identifiable. Services deemed to be distinct are accounted for as a separate performance obligation and revenue is recognized as the services are performed. If determined services are not considered distinct, the services and the subscription are determined to be a single performance obligation and revenue is recognized over the contractual term of the subscription beginning on the date that subscription services are made available to the customer.

Customer contracts with multiple performance obligations

A portion of the Company's customer contracts contain multiple performance obligations. Significant judgment is required in determining whether multiple performance obligations contained in a single customer contract are capable of being distinct and are separately identifiable. An obligation determined to be distinct is accounted for as a separate performance obligation and revenue for that separate performance obligation is recognized when, or as, the Company satisfies the performance obligation. If obligations are not determined to be distinct, those obligations are accounted for as a single, combined performance obligation. The transaction price is allocated to each performance obligation on a relative standalone selling price basis.

Disaggregation of revenue

The Company categorizes revenue from external customers by geographic area based on the location of the customer's headquarters. *For additional information regarding the Company's revenue by geography, see [Note 19](#) to the Consolidated Financial Statements.*

Foreign Currency

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

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

Noncash Share-Based Compensation

The Company has two noncash share-based compensation plans, the 2007 Equity Incentive Plan ("2007 Stock Plan") and the 2017 Equity Incentive Plan ("2017 Stock Plan"), which authorize the discretionary granting of various types of stock awards to key employees, officers, directors and consultants. The 2007 Stock Plan expired in March 2017. The 2017 Stock Plan serves as the successor to the 2007 Stock Plan and was adopted in May 2017. The Company may provide noncash share-based compensation through the grant of: (i) restricted stock awards; (ii) restricted stock unit awards - time, performance and market-based ("RSUs"); (iii) stock options; (iv) stock appreciation rights ("SARs"); (v) phantom stock; and (vi) performance awards, such as market stock units ("MSUs").

To date, the Company has granted stock options, SARs, RSUs, time, performance and market-based, and MSUs. The Company issues common stock from its pool of authorized stock upon exercise of stock options, settlement of SARs and MSUs or upon vesting of RSUs.

The following table presents the number of awards outstanding for each award type as of December 31, 2020 and 2019 (in thousands):

Award type	Year Ended December 31,	
	2020	2019
Restricted stock units (time-based)	1,802	1,893
Restricted stock units (performance-based)	162	114
Stock appreciation rights	28	65
Market stock units	111	267

Stock options. The Company did not grant stock options during 2020 and 2019. The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model.

Restricted stock units. The fair value of the RSUs (time-based and performance-based) is based on the closing price of the Company's stock on the date of grant and is amortized over the vesting period. RSUs include (i) time-based awards and (ii) performance-based awards in which the number of shares that vest are based upon achievement of certain internal performance metrics set by the Company.

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

Market stock units. MSUs are performance-based awards that vest based upon the Company's relative shareholder return. The actual number of MSUs that will be eligible to vest is based on the total shareholder return of the Company relative to the total shareholder return of the Russell 2000 Index ("Index") over a 3-year period ending February 28, 2020, October 9, 2020 and December 31, 2020 ("Performance Period"), respectively. The MSUs vested on March 1, 2020 and October 9, 2020, and will vest on January 10, 2021, respectively. The maximum number of shares issuable upon vesting is 200% of the MSUs initially granted based on the average price of the Company's common stock relative to the Index during the Performance Period. The Company estimates the fair value of MSUs on the date of grant using a Monte Carlo simulation model. The determination of the fair value of the MSUs is affected by the Company's stock price and a number of assumptions including the expected volatility of the Company's stock and the Index, its risk-free interest rate and expected dividends. The Company's expected volatility at the date of grant was based on the historical volatilities of the Company and the Index over the Performance Period.

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

At December 31, 2020, there were an estimated \$55.9 million of total unrecognized compensation costs related to noncash share-based compensation arrangements. These costs will be recognized over a weighted average period of 2.5 years. *For further discussion of the Company's noncash share-based compensation plans, see [Note 14](#) to the Consolidated Financial Statements.*

Income Taxes

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

The Company accounts for uncertain income tax positions recognized in an enterprise's financial statements in accordance with the income tax topic of the ASC issued by the FASB. This interpretation requires companies to use a prescribed model for assessing the financial recognition and measurement of all tax positions taken or expected to be taken in its tax returns. This guidance provides clarification on recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. The Company recognized accrued interest and penalties related to income taxes as a component of income tax expense. *For additional information regarding the Company's income taxes, see Note 15 to the Consolidated Financial Statements.*

Segment Reporting

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

Earnings Per Share

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

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("Topic 326")*, in order to improve financial reporting of expected credit losses on financial instruments and other commitments to extend credit. Topic 326 requires that an entity measure and recognize expected credit losses for financial assets held at amortized cost and replaces the incurred loss impairment methodology in current GAAP with a methodology that requires consideration of a broader range of information to estimate credit losses. The Company adopted Topic 326 as of January 1, 2020 using the modified retrospective method and there was no material impact on the Company's unaudited condensed consolidated financial statements as of the adoption date. As of December 31, 2020, the Company has recorded allowance for doubtful accounts related to trade receivables of \$4.1 million primarily due to increased credit risk from uncertain economic conditions caused by COVID-19.

In February 2016, the FASB issued ASU 2016-02, *"Leases (Topic 842)" ("Topic 842")*, which requires the lessee to recognize most leases on the balance sheet thereby resulting in the recognition of right-of-use ("ROU") assets and lease liabilities for those leases currently classified as operating leases. Lessor accounting remains largely unchanged from current guidance, however, Topic 842 provides improvements that are intended to align lessor accounting with the lessee model and with updated revenue recognition guidance. This standard took effect in the first quarter of 2019, including interim periods within that reporting period. The Company adopted Topic 842 as of January 1, 2019 using the modified retrospective method by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balances of operating ROU assets and lease liabilities, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under the prior lease accounting rules in ASC 840, *"Leases"*. See Note 2 - *Summary of Significant Accounting Policies to the Consolidated Financial Statements included in form 10-K for the year ended December 31, 2019, regarding the impact of Topic 842 adoption on the Consolidated Financial Statements.*

In August 2018, the FASB issued ASU 2018-15, *"Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract" ("Subtopic 350-40")*. The amendment aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract with the requirements for capitalizing implementation costs incurred to develop or obtain an internal-use software. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019; early adoption is permitted. The Company early adopted Subtopic 350-40 prospectively effective January 1, 2019 and there was no impact on the Company's Consolidated Financial Statements as of the adoption date. During the years ended December 31, 2020 and 2019, the Company capitalized implementation cost in result of

adoption of the standard which affected the prepaid and other current assets and other assets, noncurrent line items in the Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, *"Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"* ("Topic 350"), which eliminates step two from the goodwill impairment test. Under the amendments in this standard, an entity should recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The standard is effective for interim and annual reporting periods beginning after December 15, 2019; earlier adoption is permitted for goodwill impairment tests performed after January 1, 2017. The Company early adopted Topic 350 effective October 1, 2019 and there was no impact on its Consolidated Financial Statements in result of the standard adoption.

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *"Revenue from Contracts with Customers (Topic 606)"* ("Topic 606"). Topic 606 replaces the prior revenue recognition requirements in ASC 605, *"Revenue Recognition"* ("Topic 605" or "Prior Guidance") with a comprehensive revenue measurement and recognition standard, and expanded disclosure requirements. The new standard also provides guidance on the recognition of costs related to obtaining customer contracts. Topic 606 took effect in the first quarter of 2018, including interim periods within that reporting period. The Company adopted Topic 606 and applied Topic 606 to those contracts which were not complete as of January 1, 2018 using the modified retrospective method by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of accumulated deficit, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting under the Prior Guidance. *See Note 2 - Summary of Significant Accounting Policies to the Consolidated Financial Statements included in form 10-K for the year ended December 31, 2018, regarding the impact of Topic 606 adoption on the Consolidated Financial Statements.*

Recent Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options ("Subtopic 470-20") and Derivatives and Hedging - Contracts in an Entity's Own Equity ("Subtopic 815-40")*, which simplifies the accounting for certain convertible instruments, amends the guidance on derivative scope exceptions for contracts in an entity's own equity, and modifies the guidance on diluted earnings per share calculations as a result of these changes. This new standard is effective for the Company's interim and annual periods beginning January 1, 2022, and earlier adoption is permitted on January 1, 2021. The Company may elect to apply the amendments on a retrospective or modified retrospective basis. The Company will early adopt the new standard effective January 1, 2021 on the modified retrospective basis. The adoption is expected to increase convertible debt, net, noncurrent by approximately \$70.6 million excluding the impact of debt issuance cost and the equity conversion component. The Company is currently continuing to assess the impact of the adoption of the standard on its financial statements.

With the exception of the new standards discussed above, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the year ended December 31, 2020, that are of significance or potential significance to the Company.

3. Business Combination

Travelaer

On August 14, 2019, the Company acquired Travelaer SAS ("Travelaer"), a privately held company based near Nice, France, for a total cash consideration, net of cash acquired, of approximately \$10.5 million. Travelaer is a digital innovator for the travel industry with a focus on improving the customer experience across all phases of travel, and brings an internet booking engine and New Distribution Capability platform to the Company's portfolio. The Company has included the financial results of Travelaer in the Consolidated Financial Statements from the date of the acquisition, which have not been material to date. The transaction cost associated with the acquisition was \$0.5 million for the year ended December 31, 2019.

The Company accounted for the transaction as a business combination and all of the assets acquired and the liabilities assumed in the transaction have been recognized at their acquisition date fair values. The Company recorded approximately \$2 million for developed technology and customer relationships with estimated useful lives of seven years and five years, respectively. The Company recorded approximately \$11 million of goodwill which is primarily related to the assembled workforce and expanded market opportunities from integrating Travelaer's technology with the Company's solutions. The goodwill balance is not deductible for U.S. income tax purposes.

4. Trade and Other Receivables, Net

Accounts receivable at December 31, 2020 and 2019, consists of the following (in thousands):

	December 31,	
	2020	2019
Accounts receivable	\$ 50,257	\$ 59,606
Unbilled receivables and contract assets	3,443	5,682
Total receivables	53,700	65,288
Less: Allowance for doubtful accounts	(4,122)	(214)
Trade and other receivables, net	\$ 49,578	\$ 65,074

The bad debt expense reflected in general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2020, 2019 and 2018, totaled approximately \$4.8 million, \$(0.6) million and \$0.2 million, respectively. However, as a result of the ongoing and uncertain economic conditions caused by COVID-19, the amount of bad debt expense recognized by the Company could vary in the near term depending on the ongoing impact of COVID-19 on the Company's customers and inherently the related receivables.

5. Deferred Costs

Deferred costs, which primarily consist of deferred sales commissions, were \$18.5 million and \$21.2 million as of December 31, 2020 and December 31, 2019, respectively. Amortization expense for the deferred costs was \$5.9 million, \$4.8 million and \$3.0 million for the year ended December 31, 2020, 2019 and 2018, respectively. There was no impairment loss in relation to the costs capitalized for the periods presented.

6. Deferred Implementation Costs

Deferred implementation costs, which related to certain customer contract fulfillment costs, were \$2.9 million and \$4.4 million as of December 31, 2020 and December 31, 2019, respectively. Amortization expense for the deferred implementation costs was \$1.8 million, \$1.4 million and \$0.6 million for the year ended December 31, 2020, 2019 and 2018, respectively. Deferred implementation costs are included in prepaid and other current assets and other assets, noncurrent in the Consolidated Balance Sheets. Amortization of deferred implementation costs is included in cost of subscription and cost of services revenues in the Consolidated Statements of Comprehensive Income (Loss). There was no impairment loss in relation to the costs capitalized for the periods presented.

7. Property and Equipment, Net

Property and equipment, net as of December 31, 2020 and 2019 consists of the following:

	Estimated useful life	December 31,	
		2020	2019
Furniture and fixtures	5-10 years	\$ 6,248	\$ 3,227
Computers and equipment	3-5 years	17,333	15,388
Software	3-6 years	7,646	7,302
Capitalized internal-use software development costs	3 years	12,217	10,194
Leasehold improvements	Shorter of lease term or useful life	20,709	5,591
Construction in progress		147	794
Property and equipment, gross		64,300	42,496
Less: Accumulated depreciation and amortization		(27,796)	(27,702)
Property and equipment, net		\$ 36,504	\$ 14,794

Depreciation and amortization was approximately \$8.0 million, \$7.1 million and \$5.5 million for the years ended December 31, 2020, 2019 and 2018, respectively. During the years ended December 31, 2020, 2019 and 2018, the Company disposed of approximately \$8.3 million, \$7.4 million and \$0.5 million, respectively, of fully depreciated assets. During the year ended December 31, 2020, the Company recognized no loss on disposal of assets and during the years ended 2019 and 2018, the Company recognized immaterial amounts of loss on disposal of certain non-fully depreciated assets, respectively. As of December 31, 2020 and 2019, the Company had approximately \$10.7 million and \$12.2 million, respectively, of fully depreciated assets in use.

During the years ended December 31, 2020 and 2019, the Company capitalized internal-use software development costs of approximately \$1.7 million and \$1.4 million, respectively, related to its subscription solutions. As of December 31, 2020 and 2019, \$12.2 million and \$9.6 million, respectively, of capitalized internal-use software development costs were subject to amortization and \$7.3 million and \$4.1 million, respectively, of capitalized internal-use software development costs were included in accumulated depreciation and amortization for the years ended December 31, 2020 and 2019.

No impairment was recorded for the years ended December 31, 2020, 2019 and 2018.

8. Leases

The Company has operating leases for data centers, computer infrastructure, corporate offices and certain equipment. These leases have remaining lease terms ranging from 1 year to 13 years. Some of these leases include options to extend for up to 15 years, and some include options to terminate within 1 year. The Company includes options in the lease terms when it is reasonably certain that the Company will exercise that option.

As of December 31, 2020, the Company did not have any finance leases.

The components of operating lease expense were as follows (in thousands):

	Year Ended December 31, 2020	Year Ended December 31, 2019
Operating lease cost	\$ 11,632	\$ 10,109
Variable lease cost	1,717	1,810
Sublease income	(375)	(332)
Total lease cost	\$ 12,974	\$ 11,587

Operating lease expense was \$4.3 million for the year ended December 31, 2018 under Topic 840, the predecessor of Topic 842.

Supplemental information related to leases was as follows (in thousands):

	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liability:		
Cash paid for operating lease liabilities	\$ 7,562	\$ 5,883
Right-of-use asset obtained in exchange for operating lease liability (1)	\$ 12,599	\$ 34,418

(1) For the year ended December 31, 2019, the balance included \$26.9 million for operating leases existing on January 1, 2019 upon adoption of ASU 842.

	December 31, 2020	December 31, 2019
Weighted average remaining lease term:		
Operating leases	8.6 years	7.1 years
Weighted average discount rate:		
Operating leases	7.12 %	7.26 %

As of December 31, 2020, maturities of lease liabilities were as follows (in thousands):

Year Ending December 31,	Amount
2021	\$ 9,580
2022	10,374
2023	11,378
2024	5,418
2025	4,265
2026 and thereafter	31,867
Total operating lease payments	72,882
Less: Imputed interest	(21,461)
Less: Anticipated lease incentive	(1,385)
Total operating lease liabilities	<u>\$ 50,036</u>

9. Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the years ended December 31, 2020 and 2019, was as follows (in thousands):

Balance as of December 31, 2018	\$ 38,231
Goodwill acquired	11,077
Foreign currency translation adjustments	(204)
Balance as of December 31, 2019	49,104
Foreign currency translation adjustments	940
Balance as of December 31, 2020	<u>\$ 50,044</u>

The goodwill balance related to PROS France and Traveleer is denominated in Euro and the goodwill balance related to PROS Travel Commerce, Inc. (formerly Vayant Travel Technologies, Inc.) ("Vayant") is denominated in the U.S. dollar.

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

	Weighted average useful life (years)	December 31, 2020		
		Gross Carrying Amount	Accumulated Amortization*	Net Carrying Amount
Developed technology	7	\$ 27,700	\$ 22,077	\$ 5,623
Maintenance relationships	8	3,608	3,259	349
Customer relationships	6	12,513	10,144	2,369
Acquired technology	2	1,925	1,925	—
Total		<u>\$ 45,746</u>	<u>\$ 37,405</u>	<u>\$ 8,341</u>

*Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, increased total intangible assets by approximately \$0.1 million as of December 31, 2020.

	Weighted average useful life (years)	December 31, 2019		
		Gross Carrying Amount	Accumulated Amortization*	Net Carrying Amount
Developed technology	7	\$ 26,839	\$ 17,653	\$ 9,186
Maintenance relationships	8	3,451	2,790	661
Customer relationships	6	12,439	8,478	3,961
Acquired technology	2	1,925	1,128	797
Total		<u>\$ 44,654</u>	<u>\$ 30,049</u>	<u>\$ 14,605</u>

*Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, decreased total intangible assets by approximately \$0.1 million as of December 31, 2019.

Intangible asset amortization expense for the years ended December 31, 2020, 2019 and 2018 was \$6.3 million, \$6.8 million and \$7.6 million, respectively. As of December 31, 2020, the expected future amortization expense for the acquired intangible assets for each of the five succeeding years and thereafter was as follows (in thousands):

Year Ending December 31,	Amount
2021	\$ 3,391
2022	2,180
2023	1,547
2024	971
2025	156
2026 and thereafter	96
Total amortization expense	<u>\$ 8,341</u>

10. Fair Value Measurements

The Company adopted fair value measurements guidance for financial and nonfinancial assets and liabilities. The guidance defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements.

The guidance defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. The guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices for similar assets or liabilities in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A portion of the Company's existing cash and cash equivalents are invested in short-term interest bearing obligations with original maturities less than 90 days, principally various types of money market funds. The Company does not enter into investments for trading or speculative purposes.

At December 31, 2020 and 2019, the Company had approximately \$301.3 million and \$273.1 million invested in treasury money market funds. The fair value of the treasury money market funds is determined based on quoted market prices, which represents level 1 in the fair value hierarchy as defined by Accounting Standard Codification ("ASC") 820, "Fair Value Measurement and Disclosure."

The fair value of the Company's Notes is classified in the level 2 hierarchy. See *Note 16* for further detail regarding the Notes.

As of December 31, 2020 and 2019, the Company had \$2.6 million and \$2.3 million, respectively, of equity securities in privately held companies. These investments are accounted for at cost, less impairment and adjusted for subsequent observable price changes obtained from orderly transactions for identical or similar investments issued by the same investee. The Company estimates the fair value of its equity investments by considering available information such as pricing in recent rounds of financing and any other readily available market data, which represents level 3 in the fair value hierarchy. An impairment charge to current earnings is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary. As of December 31, 2020, 2019 and 2018 the Company determined there were no other-than-temporary impairments on its equity investments.

11. Deferred Revenue and Performance Obligations

Deferred Revenue

For the year ended December 31, 2020 and 2019, the Company recognized approximately \$120.9 million and \$96.4 million, respectively, in each case of revenue that was included in the deferred revenue balances at the beginning of the respective periods and primarily related to subscription services, maintenance and support, and other services.

Performance Obligations

As of December 31, 2020, the Company expects to recognize approximately \$389.7 million of revenue from remaining performance obligations. The Company expects to recognize revenue on approximately \$178.9 million of these performance obligations over the next 12 months, with the balance recognized thereafter. However, as a result of the ongoing and uncertain economic conditions caused by COVID-19, the amount of revenue recognized from the Company's contractual remaining performance obligations could vary and be less than what the Company expects as revenue recognized could be delayed or not occur depending on the ongoing impact of COVID-19.

12. Stockholders' equity

Equity Offering

In August 2018, the Company completed a follow-on public offering of 3,800,000 shares of the Company's common stock at an offering price of \$34 per share (the "Secondary Offering"). Additionally, as part of the Secondary Offering the underwriters exercised, in full, their over-allotment option to purchase an additional 570,000 shares of the Company's common stock at the offering price of \$34 per share. The aggregate gross proceeds from the Secondary Offering, including the exercise of the over-allotment, were \$148.6 million, and net proceeds received after underwriting fees and offering expenses were approximately \$142.0 million.

Stock Repurchase

On August 25, 2008, the Company's Board of Directors approved a stock repurchase program that authorized the Company to purchase up to \$15.0 million of the Company's outstanding shares of common stock. Under the board-approved repurchase program, share purchases may be made from time to time in the open market or through privately negotiated transactions depending on market conditions, share price, trading volume and other factors, and such purchases, if any, will be made in accordance with applicable insider trading and other securities laws and regulations. These repurchases may be commenced or suspended at any time or from time to time without prior notice.

The Company did not repurchase any shares under this plan for the years ended December 31, 2020 and 2019. The remaining amount available to purchase common stock under this plan was \$10.0 million as of December 31, 2020.

13. Earnings Per Share

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

	For the Year Ended December 31,		
	2020	2019	2018
Numerator:			
Net loss	\$ (76,984)	\$ (69,081)	\$ (64,246)
Denominator:			
Weighted average shares (basic)	43,301	40,232	34,465
Dilutive effect of stock options, SARs, RSUs, MSUs and convertible notes	—	—	—
Weighted average shares (diluted)	43,301	40,232	34,465
Basic earnings per share	\$ (1.78)	\$ (1.72)	\$ (1.86)
Diluted earnings per share	\$ (1.78)	\$ (1.72)	\$ (1.86)

Dilutive potential common shares consist of shares issuable upon the exercise of stock options, settlement of SARs, and the vesting of RSUs and MSUs. Potential common shares determined to be antidilutive and excluded from diluted weighted average shares outstanding were approximately 1.4 million, 2.1 million and 2.1 million for the years ended December 31, 2020, 2019 and 2018, respectively. Potential common shares related to the Notes determined to be antidilutive and excluded from diluted weighted average shares outstanding were 5.8 million and 2.2 million for the year ended December 31, 2020 and 2019.

14. Noncash Share-Based Compensation

Employee Noncash Share-based Compensation Plans

The Company has two noncash share-based compensation plans, the 2007 Stock Plan and the 2017 Stock Plan (collectively the "Stock Plans"). These plans authorize the discretionary granting of various types of stock awards to key employees, officers, directors and consultants. The discretionary issuance of stock awards generally contains vesting provisions ranging from one to four years.

2007 Stock Plan. The Company's 2007 Stock Plan expired in March 2017 for purposes of granting future equity awards. As of December 31, 2020, the Company had outstanding equity awards to acquire 175,733 shares of its common stock held by the Company's employees, directors and consultants under the 2007 Stock Plan (assuming MSU performance at 100% of the MSUs initially granted), and inclusive of zero stock options, 147,733 RSUs, 28,000 SARs and zero MSUs.

2017 Stock Plan. The Company's 2017 Stock Plan provides for the issuance of awards to employees, officers, directors and certain other individuals providing services to the Company are eligible to receive awards. The 2017 Stock Plan reserved an aggregate amount of 4,550,000 shares for issuance. The Company may provide these incentives through the grant of: (i) restricted stock awards; (ii) RSUs (time, performance and market-based); (iii) stock options; (iv) SARs; (v) phantom stock; and (vi) performance awards, such as MSUs.

As of December 31, 2020, the Company had outstanding equity awards to acquire 1,927,109 shares of its common stock held by the Company's employees, directors and consultants under the 2017 Stock Plan (assuming MSU performance at 100% of the MSUs initially granted), and inclusive of 1,816,383 RSUs and 110,726 MSUs. As of December 31, 2020, 1,745,900 shares remain available for grant under the 2017 Stock Plan. As of December 31, 2020, there were no options, SARs, restricted stock awards or phantom stock issued under the 2017 Stock Plan.

Noncash share-based compensation expense for all noncash share-based payment awards granted is determined based on the grant date fair value of the award. The Company recognizes compensation expense, net of estimated forfeitures, which represents noncash share-based awards expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term. Noncash share-based awards typically vest over four years. Stock options are generally granted for a ten-year term. The Company estimates forfeiture rates based on its historical experience for grant years where the majority of the vesting terms have been satisfied. Changes in estimated forfeiture rates are recognized through a cumulative catch-up adjustment in the period of change and thus impact the amount of noncash share-based compensation expense to be recognized in future periods.

Noncash share-based compensation expense is allocated to expense categories on the Consolidated Statements of Comprehensive Income (Loss). The following table summarizes noncash share-based compensation expense, net of amounts capitalized, for the years ended December 31, 2020, 2019 and 2018 (in thousands).

	For the Year Ended December 31,		
	2020	2019	2018
Share-based compensation:			
Cost of revenue	\$ 2,132	\$ 2,025	\$ 1,721
Operating expenses:			
Selling and marketing	6,536	5,995	4,396
General and administrative	9,670	11,451	10,717
Research and development	6,061	5,209	4,619
Total included in operating expenses	22,267	22,655	19,732
Total share-based compensation expense	\$ 24,399	\$ 24,680	\$ 21,453

At December 31, 2020, there was an estimated \$55.9 million of total unrecognized compensation costs related to noncash share-based compensation arrangements. These costs will be recognized over a weighted average period of 2.5 years.

Stock Options

For the years ended December 31, 2020 and 2019, respectively, the Company did not grant any stock options and had no stock options outstanding. The total intrinsic value of stock options exercised for the years ended December 31, 2020, 2019 and 2018 was zero, zero and \$2.5 million, respectively.

RSUs (time-based)

The Company has granted time-based RSUs under the Stock Plans. Time-based RSUs granted to employees, directors and consultants vest in equal annual installments over a one to four-year period from the grant date.

The following table summarizes the Company's unvested time-based RSUs as of December 31, 2020, and changes during the year then ended (number of shares and intrinsic value in thousands):

	Number of shares	Weighted average grant date fair value	Weighted average remaining contractual term (year)	Aggregate intrinsic value (1)
Unvested at December 31, 2019	1,893	\$ 27.83		
Granted	976	52.62		
Vested	(814)	23.88		
Forfeited	(253)	39.25		
Unvested at December 31, 2020	1,802	\$ 41.44	2.03	\$ 91,476
Expected to vest at December 31, 2020	1,653	\$ 40.80	2.00	\$ 83,909

(1) The aggregate intrinsic value was calculated based on the fair value of the Company's common stock on December 31, 2020 of \$50.77.

The weighted average grant-date fair value of the time-based RSUs granted during the years ended December 31, 2020, 2019 and 2018 was \$52.62, \$35.38 and \$27.61, respectively.

RSUs (performance-based)

During 2020 and 2019, the Company granted performance-based RSUs ("PRSUs") under the 2017 Stock Plan to certain executive employees. These PRSUs vest on January 13, 2023 and January 15, 2022 respectively, and the actual number of PRSUs that will be eligible to vest is based upon achievement of certain internal performance metrics, as defined by each award's plan documents or individual award agreements. The maximum number of shares issuable upon vesting is 200% of the PRSUs initially granted. The following table summarizes the Company's unvested PRSUs as of December 31, 2020, and changes during the year then ended (number of shares and intrinsic value in thousands):

	Number of shares	Weighted average grant date fair value	Weighted average remaining contractual term (year)	Aggregate intrinsic value (1)
Unvested at December 31, 2019	114	\$ 33.05		
Granted	76	54.23		
Vested	—	—		
Forfeited	(28)	39.46		
Unvested at December 31, 2020	162	\$ 41.89	1.46	\$ 8,243
Expected to vest at December 31, 2020	74	\$ 33.05	1.04	\$ 3,744

(1) The aggregate intrinsic value was calculated based on the fair value of the Company's common stock on December 31, 2020 of \$50.77.

SARs

The Company has granted SARs under the 2007 Stock Plan. These SARs will be settled in stock at the time of exercise and vest four years from the date of grant subject to the recipient's continued employment with the Company. The number of shares issued upon the exercise of the SARs is calculated as the difference between the share price of the Company's stock on the date of exercise and the date of grant multiplied by the number of SARs divided by the share price on the exercise date. The Company did not grant SARs in 2020, 2019 and 2018. The following table summarizes the Company's SARs activity for the year ended December 31, 2020 (number of shares and intrinsic value in thousands):

	Stock appreciation rights	Weighted average exercise price	Weighted average remaining contractual term (year)	Aggregate intrinsic value (1)
Outstanding, December 31, 2019	65	\$ 10.38		
Granted	—	—		
Exercised	(37)	9.59		
Forfeited	—	—		
Expired	—	—		
Outstanding, December 31, 2020	28	\$ 11.42	0.16	\$ 1,102
Exercisable at December 31, 2020	28	\$ 11.42	0.16	\$ 1,102
Vested and expected to vest at December 31, 2020	28	\$ 11.42	0.16	\$ 1,102

(1) The aggregate intrinsic value was calculated based on the positive difference between the estimated fair value of the Company's common stock on December 31, 2020 of \$50.77 and the exercise price of the underlying SARs.

MSUs

In 2018 and 2017, the Company granted MSUs to certain executive employees under the Stock Plans. The MSUs are performance-based awards that vest based upon the Company's relative shareholder return. The actual number of MSUs that will be eligible to vest is based on the total shareholder return of the Company relative to the total shareholder return of the Index over the 3-year Performance Period. The MSUs vested on March 1, 2020 and October 9, 2020 and will vest on January 10, 2021, respectively. The MSUs maximum number of shares issuable upon vesting is 200% of the MSUs initially granted. The Company did not grant any MSUs in 2020 and 2019. The following table summarizes the Company's MSUs activity for the year ended December 31, 2020 (number of shares and intrinsic value in thousands):

	Number of unvested awards	Weighted average grant date fair value	Weighted average remaining contractual term (year)	Aggregate intrinsic value (1)
Unvested at December 31, 2019	267	\$ 32.54		
Granted	—	—		
Vested	(150)	28.03		
Forfeited	(6)	38.18		
Expired	—	—		
Unvested at December 31, 2020	111	\$ 38.18	0.03	\$ 5,622

(1) The aggregate intrinsic value was calculated based on the positive difference between the estimated fair value of the Company's common stock on December 31, 2020 of \$50.77 and the grant date fair value of the underlying MSUs.

The Company estimates the fair value of MSUs on the date of grant using a Monte Carlo simulation model. The determination of the fair value of the MSUs is affected by the Company's stock price and a number of assumptions including the expected volatilities of the Company's stock and the Index, its risk-free interest rate and expected dividends. The Company's expected volatility at the date of grant was based on the historical volatilities of the Company and the Index over the Performance Period. The Company did not estimate a forfeiture rate for the MSUs due to the limited size, the vesting period and nature of the grantee population and the lack of history of granting this type of award. Significant assumptions used in the Monte Carlo simulation model for MSUs granted during the year ended December 31, 2018 are as follows:

	For the Year Ended December 31,
	2018
Volatility	43.67%
Risk-free interest rate	2.12%
Expected option life in years	2.97
Dividend yield	—

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan ("ESPP") provides for eligible employees to purchase shares on an after-tax basis in an amount between 1% and 10% of their annual pay: (i) on June 30 of each year at a 15% discount of the fair market value of the Company's common stock on January 1 or June 30, whichever is lower, and (ii) on December 31 of each year at a 15% discount of the fair market value of the Company's common stock on July 1 or December 31, whichever is lower. An employee may not purchase more than \$5,000 in either of the six-month measurement periods described above or more than \$10,000 annually. During the year ended December 31, 2020, the Company issued 65,457 shares under the ESPP. As of December 31, 2020, 74,794 shares remain authorized and available for issuance under the ESPP. As of December 31, 2020, the Company held approximately \$1.6 million on behalf of employees for future purchases under the ESPP and this amount was recorded in accrued liabilities in the Company's Consolidated Balance Sheet.

15. Income Taxes

The income tax provision consisted of the following for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Current:			
Federal	\$ —	\$ —	\$ (252)
State and Foreign	676	624	663
	676	624	411
Deferred:			
Federal	—	—	(211)
State	—	—	—
Income tax provision	<u>\$ 676</u>	<u>\$ 624</u>	<u>\$ 200</u>

The differences between the effective tax rates reflected in the total provision for income taxes and the U.S. federal statutory rate of 21% for the years ended December 31, 2020, 2019 and 2018, respectively, were as follows (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Provision at the U.S. federal statutory rate	\$ (16,035)	\$ (14,491)	\$ (13,464)
Increase (decrease) resulting from:			
State income taxes, net of federal taxes	—	17	46
Nondeductible expenses	482	468	414
Statutory to GAAP income adjustment	109	(640)	(221)
Noncash share-based compensation	(3,268)	(570)	(394)
Other	460	(368)	(153)
Incremental benefits for tax credits	(2,391)	(990)	(1,656)
Change in tax rate/income subject to lower tax rates	(2,385)	788	(1,824)
Change related to prior tax years	(553)	4,006	(4,800)
Change related to US tax reform	—	—	1,835
Change in valuation allowance	24,257	12,404	20,417
Income tax provision	<u>\$ 676</u>	<u>\$ 624</u>	<u>\$ 200</u>

The Company's effective tax rate was (0.9)%, (0.9)% and (0.3)% for the years ended December 31, 2020, 2019 and 2018, respectively. During the year ended December 31, 2020, the Company's effective tax rate was impacted primarily by changes in valuation allowance, partially offset by changes in tax rates and benefits of noncash shared based compensation.

The Company reviewed its offshore earnings and profits as of December 31, 2020, has no additional earnings to repatriate, and has provided for no repatriation tax. Based on the current accumulated loss in the foreign jurisdictions, the Company has no global intangible low-taxed income ("GILTI") to report for December 31, 2020. The Company is under the revenue requirements to be subject to the base erosion and avoidance tax ("BEAT"), however, it has reviewed the transactions with foreign affiliates and does not believe there are payments that qualify under BEAT. The Tax Cuts and Jobs Act of 2017 ("TCJA") created the foreign derived intangible income ("FDII") which allows for a deduction for certain types of foreign income. However, since the Company is in a current net operating loss position, no deduction for FDII is allowable for the current year.

The tax effects of temporary differences and other tax attributes that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2020 and 2019 are as follows (in thousands):

	Year Ended December 31,	
	2020	2019
Noncurrent deferred taxes:		
Property and equipment	\$ (104)	\$ (158)
Noncash share-based compensation	2,878	2,534
Disallowed interest expense	8,174	5,871
Capitalized software	(2,097)	(1,905)
Amortization	(1,831)	(2,971)
Operating lease right-of-use assets	(5,645)	(4,431)
Operating lease liabilities	9,833	5,068
R&E tax credit carryforwards	12,620	11,594
Deferred revenue	2,441	2,264
Federal Net Operating Losses ("NOLs")	81,745	69,673
State NOLs	2,697	2,254
State Credits	3,987	2,005
Foreign NOLs	14,090	11,808
Foreign tax credit carryforward	2,168	2,168
Other	(93)	821
Total noncurrent deferred tax assets	130,863	106,595
Less: Valuation allowance	(130,733)	(106,476)
Total net deferred tax asset	\$ 130	\$ 119

The net deferred tax asset is classified as other assets, noncurrent in the accompanying Consolidated Balance Sheets.

As of December 31, 2014, the Company determined it was more likely than not that it would be unable to fully utilize the majority of its U.S. and state deferred tax assets. As a result, the Company had recorded a valuation allowance against those assets to the extent that they cannot be realized through net operating loss carrybacks to prior years. This valuation allowance is evaluated periodically and will be reversed partially or in whole if business results and the economic environment have sufficiently improved to support realization of some or all of the Company's deferred tax assets. In performing the analysis throughout 2020, the Company determined that there was no sufficient positive evidence to outweigh the current and historic negative evidence to determine that it was more likely than not that the deferred assets would not be realized. Therefore, the Company continues to have a valuation allowance against net deferred tax assets as of December 31, 2020 and 2019.

The Company has federal and state net operating loss carryforwards related to current and prior year operations and acquisitions. Internal Revenue Code Section 382 ("Section 382") places certain limitations on the annual amount of U.S. net operating loss carryforwards that can be utilized when a change of ownership occurs. The Company believes the past acquisitions were changes in ownership pursuant to Section 382, subjecting federal acquired net operating losses to limitations. According to French tax law, the net operating loss carryforwards are not subject to ownership change limitations.

The U.S. federal net operating losses and R&E tax credit carryforward amount available to be used in future periods, taking into account the Section 382 annual limitation and current year losses, is approximately \$389.5 million and \$16.6 million, respectively. The Company's net operating losses will begin to expire in 2024, R&E credits will begin to expire in 2031, and foreign tax credits will begin to expire in 2022. The U.S. net operating losses generated after January 1, 2018 have no expiration. Also included in foreign net operating losses are \$50.3 million of French carryforwards which have no expiration.

Undistributed earnings of the Company's foreign subsidiaries are considered permanently reinvested and, accordingly, no provision for U.S. federal or state income taxes or non-U.S. withholding taxes has been provided thereon. The cumulative amount of positive undistributed earnings of the Company's non-U.S. subsidiaries, if any, was minimal for the years ended December 31, 2020 and 2019. The Company is presently investing in international operations located in Europe, North America, the United Arab Emirates, and Australia. The Company is funding the working capital needs of its foreign operations

through its U.S. operations. In the future, the Company plans to utilize its foreign undistributed earnings, as well as continued funding from its U.S. operations, to support its continued foreign investment.

For the years ended December 31, 2020 and 2019, the Company had approximately zero unrecognized tax benefits, and \$0.2 million of net unrecognized tax benefits in 2018 which, if recognized, would impact the Company's effective tax rate. The Company recorded immaterial amounts for interest and penalties to tax expense as of December 31, 2020, 2019 and 2018, respectively. During 2019, the Company determined that the statute of limitations concluded for positions and removed these positions from the uncertain tax positions. The Company believes the remaining position will be removed from the schedule during the next twelve months as the statute expires on that position. The Company continually monitors tax positions and will evaluate if any new positions need to be added during the next twelve months.

The Company is currently under an income tax audit in Germany for the calendar tax years 2014-2016. No material taxes are expected to arise from the audit. The Company files tax returns in the U.S. and various foreign jurisdictions. The Company may be subject to U.S. federal income tax examination for the calendar tax years 2019, 2018, 2017, 2016, 2015 and 2014 and state and foreign income tax examination for various years depending on the statutes of limitation of those jurisdictions.

The following table sets forth the changes to the Company's unrecognized tax benefit for the year ended December 31, 2020, 2019 and 2018 (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Beginning balance	\$ 14	\$ 183	\$ 183
Changes based on tax positions related to prior year	—	—	—
Changes due to settlement	—	(169)	—
Ending balance	<u>\$ 14</u>	<u>\$ 14</u>	<u>\$ 183</u>

The table above has been updated to reflect gross tax liability, exclusive of interest and penalties and other offsetting amounts.

16. Convertible Senior Notes

The Company issued \$143.8 million principal amount of the 2019 Notes in December 2014, \$106.3 million principal amount of the 2047 Notes in June 2017, \$143.8 million principal amount of the 2024 Notes in May 2019 and \$150.0 million principal amount of the 2027 Notes in September 2020. As of December 31, 2020 and 2019, there was no principal amount of either the 2019 Notes or the 2047 Notes outstanding. The interest rate for the 2024 Notes is fixed at 1% per annum and the effective interest rate related to the amortization of the liability component is 6.6%, interest is payable semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2019. The interest rate for the 2027 Notes is fixed at 2.25% per year and the effective interest rate related to the amortization of the liability component is 8.5%, interest is payable semiannually in arrears in cash on March 15 and September 15 of each year, beginning on March 15, 2021. The 2024 Notes mature on May 15, 2024 and the 2027 Notes mature on September 15, 2027, unless redeemed or converted in accordance with their terms prior to such date.

Each \$1,000 of principal of the 2019 Notes were initially convertible into 29.5972 shares of the Company's common stock, which is equivalent to an initial conversion price of approximately \$33.79 per share. Each \$1,000 of principal of the 2024 Notes will initially be convertible into 15.1394 shares of the Company's common stock, which is equivalent to an initial conversion price of approximately \$66.05 per share. Each \$1,000 of principal of the 2027 Notes will initially be convertible into 23.9137 shares of the Company's common stock, which is equivalent to an initial conversion price of approximately \$41.82 per share. Each \$1,000 of principal amount at maturity of the 2047 Notes had an issue price of \$880 and were initially convertible into 20.5624 shares of the Company's common stock, which is equivalent to an initial conversion price of approximately \$48.63 per share. The initial conversion price for each of the Notes is subject to adjustment upon the occurrence of certain specified events.

The Notes are each general unsecured obligations and rank senior in right of payment to all of the Company's indebtedness that is expressly subordinated in right of payment to the Notes, rank equally in right of payment with all of the Company's existing and future liabilities that are not so subordinated, are effectively junior to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness and are structurally subordinated to all

indebtedness and other liabilities of the Company's subsidiaries (including trade payables but excluding intercompany obligations owed to the Company or its subsidiaries).

On or after February 15, 2024 and June 15, 2027, respectively, to the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their 2024 and 2027 Notes, respectively, regardless of the contingent conversion conditions described herein. Upon conversion, the Company will pay or deliver cash, shares of its common stock or a combination of cash and shares of its common stock, at its election, as described in the indenture governing the 2024 and 2027 Notes.

Holders may convert their 2024 and 2027 Notes at their option at any time prior to the close of business on the business day immediately preceding February 15, 2024 and June 15, 2027, respectively, only under the following circumstances:

- during the five consecutive business day period immediately following any five consecutive trading day period (the "Measurement Period") in which the trading price per 2024 and 2027 Note, respectively, for each day of that Measurement Period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day;
- during any calendar quarter commencing after the calendar quarter ending on June 30, 2019 and December 31, 2020, respectively, if the last reported sale price of the common stock for 20 or more trading days (whether or not consecutive) in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; or
- upon the occurrence of specified corporate events.

If a fundamental change (as defined in the relevant indenture governing the applicable series of Notes) occurs prior to the maturity date, holders of each of the Notes may require the Company to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount at maturity of the Notes, plus any accrued and unpaid interest to, but excluding, the repurchase date.

In accordance with accounting guidance on embedded conversion features, the Company valued and bifurcated the conversion options associated with each of the Notes from the respective host debt instrument, which is referred to as debt discount, and recorded the conversion option of each of the Notes in stockholders' equity. The equity component for each Note is not remeasured as long as such Note continues to meet the conditions for equity classification.

In accounting for the transaction costs for each of the Notes issuances, the Company allocated the costs incurred to the liability and equity components in proportion to the allocation of the proceeds from issuance to the liability and equity components. Issuance costs attributable to the liability component, totaling \$3.4 million for the 2024 Notes and \$2.8 million for the 2027 Notes, are being amortized to expense over the expected life of each Note using the effective interest method. Issuance costs attributable to the equity component related to the conversion option, totaling \$1.1 million for the 2024 Notes and \$1.3 million for the 2027 Notes, were netted with the equity component in stockholders' equity.

In May 2019, in accordance with the Exchange Transactions, the Company used a portion of the net proceeds of the offering of the 2024 Notes to exchange and retire approximately \$122.1 million in aggregate principal of the 2019 Notes for an aggregate cash consideration of \$76.0 million and approximately 2.2 million shares of the Company's common stock. The Company recorded a \$2.3 million loss on debt extinguishment related to the Exchange Transactions. The loss on extinguishment is included in the other (expense) income, net in the Consolidated Statements of Comprehensive Income (Loss). In the fourth quarter of 2019, at maturity, the Company settled the remaining principal of the 2019 Notes in cash and distributed approximately 0.3 million shares of its common stock to the notes holders, which represented the conversion value in excess of the principal amount.

In August 2019, the Company issued a notice of redemption to the holders of its outstanding 2047 Notes and during the third and fourth quarter of 2019, the Company converted the entire aggregate principal of \$106.3 million of the 2047 Notes and delivered approximately 2.3 million shares of its common stock upon conversion. The Company recorded a \$3.4 million loss on debt extinguishment related to the Redemption. The loss on extinguishment is included in the other (expense) income, net in the Consolidated Statements of Comprehensive Income (Loss).

As of December 31, 2020, the 2024 and 2027 Notes are not yet convertible, and their remaining life is approximately 40 months and 80 months, respectively.

As of December 31, 2020 and December 31, 2019, the fair value of the principal amount of the Notes was \$363.8 million and \$163.2 million, respectively. The estimated fair value was determined based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, including the Company's stock price and interest rates, which represents level 2 in the fair value hierarchy.

The Notes consist of the following (in thousands):

	December 31, 2020	December 31, 2019
Liability component:		
Principal	\$ 293,750	\$ 143,750
Less: debt discount, net of amortization	(75,722)	(33,046)
Net carrying amount	<u>\$ 218,028</u>	<u>\$ 110,704</u>
Equity component ⁽¹⁾	<u>\$ 80,098</u>	<u>\$ 32,883</u>

(1) Recorded within additional paid-in capital in the Consolidated Balance Sheet. As of December 31, 2020, it included \$32.9 million and \$47.2 million related to the 2024 and 2027 Notes, respectively, net of \$1.1 million and \$1.3 million issuance cost in equity, respectively. As of December 31, 2019, it included \$32.9 million related to the 2024 Notes, net of \$1.1 million issuance cost in equity.

The following table sets forth total interest expense recognized related to the Notes (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Coupon	\$ 2,422	\$ 3,691	\$ 5,000
Amortization of debt issuance costs	733	1,157	1,419
Amortization of debt discount	7,970	9,917	10,567
Total	<u>\$ 11,125</u>	<u>\$ 14,765</u>	<u>\$ 16,986</u>

Note Hedge and Warrant Transactions

Concurrently with the offering of the 2019 Notes, the Company entered into separate convertible note hedge (the "Note Hedges") and warrant (the "Warrants") transactions. Taken together, the purchase of the Note Hedges and the sale of the Warrants were intended to offset any actual dilution from the conversion of the 2019 Notes and to effectively increase the overall conversion price of the 2019 Notes from \$33.79 to \$45.48 per share. The total cost of the Note Hedges was \$29.4 million. The Company received \$17.1 million in cash proceeds from the sale of the Warrants. The Warrants were not part of the 2019 Notes or Note Hedges. Both the Note Hedges and Warrants have been accounted for as part of additional paid-in capital.

In May 2019, in connection with the Exchange Transactions, the Company entered into certain note hedge termination agreements (the "Note Hedge Termination Agreements") and warrant termination agreements (the "Warrant Termination Agreements"). The Note Hedge Termination Agreements terminated certain of the Note Hedges, and the Warrant Termination Agreements terminated certain of the Warrants. The Company received cash proceeds of \$64.8 million related to the Note Hedge Termination Agreements, and paid \$45.2 million related to the Warrant Termination Agreements.

During the fourth quarter 2019, the Company received approximately 0.3 million shares of its common stock from the exercise of the remaining Note Hedges related to the 2019 Notes. These shares were recorded as treasury stock, at cost. The remaining warrants expired in August 2020.

Capped Call Transactions

In May 2019 and in September 2020, in connection with the offering of the 2024 and 2027 Notes, respectively, the Company entered into privately negotiated capped call transactions (collectively, the "Capped Call") with certain option counterparties. The Capped Call transactions cover, subject to customary anti-dilution adjustments, the number of shares of the Company's common stock initially underlying the Notes, at a strike price that corresponds to the initial conversion price of the Notes, also subject to adjustment, and are exercisable upon conversion of the Notes. The Capped Call transactions are intended to reduce potential dilution to the Company's common stock and/or offset any cash payments the Company will be required to make in excess of the principal amounts upon any conversion of Notes, and to effectively increase the overall conversion price of the 2024 Notes from \$66.05 to \$101.62 per share and for the 2027 Notes from \$41.82 to \$78.90 per share. As the Capped

Call transactions meet certain accounting criteria, they are recorded in stockholders' equity and are not accounted for as derivatives. The cost of the Capped Call was \$16.4 million and \$25.3 million for the 2024 and 2027 Notes, respectively, and was recorded as part of additional paid-in capital.

17. Credit Facility

In July 2012, the Company, through its wholly owned subsidiary PROS, Inc., entered into a secured Revolver with a bank lender with a borrowing capacity of up to \$50 million, with interest paid at the end of the applicable one month, three month or six month interest period at a rate per annum equal to LIBOR plus an applicable margin of 1.5% to 2.25% or the Federal Funds Rate plus an applicable margin of 1.5% to 2.25%. As of December 31, 2020, the Company had no outstanding borrowings under the Revolver, which expires in July 2022.

Borrowings under the Revolver are collateralized by a first priority interest in and lien on all of the Company's material assets. The Revolver contains affirmative and negative covenants, including covenants which restrict the ability of the Company to, among other things, create liens, incur additional indebtedness and engage in certain other transactions, in each case subject to certain exclusions. In addition, the Revolver contains certain financial covenants which become effective in the event the Company's liquidity falls below \$50 million or upon the occurrence of an event of default. As of December 31, 2020, the Company was in compliance with all financial covenants in the Revolver.

As of both December 31, 2020 and 2019, \$0.1 million of unamortized debt issuance costs related to the Revolver is included in prepaid and other current assets and other assets, noncurrent in the Consolidated Balance Sheets. For the years ended December 31, 2020, 2019 and 2018, the Company recorded an immaterial amount of amortization of debt issuance cost which is included in other income (expense), net in the Consolidated Statements of Comprehensive Income (Loss).

18. Commitments and Contingencies

Litigation

The Company is involved in various legal proceedings, claims and litigation which arise in the ordinary course of the business. The Company makes a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. The Company is not currently involved in any outstanding litigation that it believes, individually or in the aggregate, will have a material adverse effect on its business, financial condition, results of operations or cash flows.

Purchase Commitments

In the ordinary course of business, the Company enters into various purchase commitments for goods and services.

In March 2019, the Company entered into a noncancelable agreement with a computing infrastructure vendor that amended the existing agreement dated June 2017. The amended agreement has purchase commitments of \$37.6 million remaining as of December 31, 2020, and expires in March 2022.

Contractual Obligations

In September 2018, the Company entered into an agreement of limited partnership related to a venture fund, pursuant to which the Company committed to make a capital contribution within the next five years. As of December 31, 2020, there was \$1.6 million remaining under the commitment.

Indemnification

The Company's software agreements generally include certain provisions for indemnifying customers against liabilities if the Company's software solutions infringe a third party's intellectual property rights. To date, the Company has not incurred any losses as a result of such indemnifications and has not accrued any liabilities related to such obligations in the Company's Consolidated Financial Statements.

19. Segment and Geographic Information

The Company operates as one segment with a single reporting unit. Operating segments are the components of an enterprise where separate financial information is evaluated regularly by the chief operating decision-maker, who is the Company's Chief Executive Officer, in deciding how to allocate resources and assessing financial performance. The Company's chief operating decision maker allocates resources and assesses performance based upon discrete financial information at the consolidated level.

Revenue by Geography

The Company presents financial information on a consolidated basis and does not assess the profitability of its geographic regions. Accordingly, the Company does not attempt to comprehensively assign or allocate costs to these regions and does not produce reports for, or measure the performance of, its geographic regions based on any asset-based metrics.

International revenue for the years ended December 31, 2020, 2019 and 2018, amounted to approximately \$170.1 million, \$164.4 million and \$128.5 million, respectively, representing 67%, 66% and 65%, respectively, of annual revenue.

The following geographic information is presented for the years ended December 31, 2020, 2019 and 2018. The Company categorizes geographic revenues based on the location of the customer's headquarters.

	Year Ended December 31,					
	2020		2019		2018	
	Revenue	Percent	Revenue	Percent	Revenue	Percent
The Americas:						
United States of America	\$ 82,299	32 %	\$ 85,963	34 %	\$ 68,482	35 %
Other	25,123	10 %	29,129	12 %	18,378	9 %
Subtotal	107,422	42 %	115,092	46 %	86,860	44 %
Germany	21,587	9 %	18,526	7 %	20,171	10 %
The Rest of Europe	53,349	21 %	55,388	22 %	40,776	21 %
Asia Pacific	47,416	19 %	43,908	18 %	32,090	16 %
The Middle East	21,825	9 %	16,170	6 %	15,092	8 %
Africa	825	— %	1,250	— %	2,035	1 %
Total revenue	<u>\$ 252,424</u>	100 %	<u>\$ 250,334</u>	100 %	<u>\$ 197,024</u>	100 %

20. Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and trade accounts receivable. The Company's deposits exceed federally insured limits. For the year ended December 31, 2020, no customer accounted for 10% or more of trade accounts receivables. For the years ended December 31, 2020, 2019 and 2018, no single customer accounted for 10% or more of revenue.

21. Related-Party Transactions

The Company currently has employment agreements with its executive officers. In the event of termination of employment other than for cause, the employment agreements provide separation benefits, including twelve to eighteen months of salary, as well as the vesting of certain equity awards.

22. Employee Retirement Savings Plan

The Company has a 401(k) savings plan for all eligible employees in the United States. Historically, the Company's matching contribution has been 50% of the first 6% of employee contributions, and the Company may also make discretionary contributions. As of January 1, 2020, the Company changed the matching contributions to be 50% of the first 8% of employee contributions, and the Company may also make discretionary contributions. Matching contributions by the Company in 2020, 2019 and 2018 totaled approximately \$4.3 million, \$2.5 million and \$2.4 million, respectively.

23. Quarterly Results (Unaudited)

The following table presents certain unaudited quarterly financial data for the years ended December 31, 2020 and 2019. This information has been prepared on the same basis as the accompanying Consolidated Financial Statements and all necessary adjustments have been included in the amounts below to state fairly the selected quarterly information when read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto.

	Quarter Ended			
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Total revenue	\$ 60,858	\$ 61,508	\$ 63,747	\$ 66,311
Gross profit	\$ 35,539	\$ 36,871	\$ 37,797	\$ 37,584
Loss from operations	\$ (13,426)	\$ (16,163)	\$ (15,139)	\$ (21,352)
Net loss attributable to PROS Holdings, Inc.	\$ (18,184)	\$ (18,857)	\$ (17,208)	\$ (22,735)
Net loss attributable to common stockholders per share:				
Basic	\$ (0.42)	\$ (0.44)	\$ (0.40)	\$ (0.53)
Diluted	\$ (0.42)	\$ (0.44)	\$ (0.40)	\$ (0.53)

	Quarter Ended			
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Total revenue	\$ 66,175	\$ 64,150	\$ 63,878	\$ 56,131
Gross profit	\$ 37,814	\$ 37,767	\$ 40,295	\$ 35,341
Loss from operations	\$ (15,071)	\$ (12,512)	\$ (12,145)	\$ (13,610)
Net loss attributable to PROS Holdings, Inc.	\$ (17,300)	\$ (17,347)	\$ (17,517)	\$ (16,917)
Net loss attributable to common stockholders per share:				
Basic	\$ (0.41)	\$ (0.42)	\$ (0.44)	\$ (0.45)
Diluted	\$ (0.41)	\$ (0.42)	\$ (0.44)	\$ (0.45)

Schedule II
Valuation and Qualifying Accounts

	Balance at beginning of period	Additions charged to costs and expenses	Deductions (1)	Other (2)	Balance at end of period
Allowance for doubtful accounts					
2020	\$ 214	\$ 5,870	\$ (1,962)	\$ —	\$ 4,122
2019	\$ 978	\$ —	\$ (760)	\$ (4)	\$ 214
2018	\$ 760	\$ 223	\$ —	\$ (5)	\$ 978
Valuation allowance					
2020	\$ 106,476	\$ 24,375	\$ —	\$ (118)	\$ 130,733
2019	\$ 94,231	\$ 12,404	\$ —	\$ (159)	\$ 106,476
2018	\$ 74,153	\$ 20,417	\$ —	\$ (339)	\$ 94,231

(1) Deductions column represents the reversal of additions previously charged to costs and expenses and uncollectible accounts written off, net of recoveries.

(2) Other column represents the cumulative translation adjustment impact on the allowance.

Exhibit Index

Exhibit No.	Description	Provided Herewith	Incorporated by Reference	
			Form	Filing Date
3.1	Amended and Restated Certificate of Incorporation.		S-1/A	6/15/2007
3.2	Amended and Restated Bylaws.		8-K	4/29/2020
4.1	Specimen certificate for shares of common stock.		S-1/A	6/11/2007
4.2	Indenture, dated May 7, 2019 between Registrant and Wilmington Trust, National Association, as trustee.		8-K	5/7/2019
4.3	Global Note, dated May 7, 2019 between Registrant and Wilmington Trust, National Association, as trustee.		8-K	5/7/2019
4.4	Indenture, dated September 15, 2020 between Registrant and Wilmington Trust, National Association, as trustee.		8-K	9/16/2020
4.5	Global Note, dated September 15, 2020 between Registrant and Wilmington Trust, National Association, as trustee.		8-K	9/16/2020
4.6	Description of Registered Securities.		10-K	2/19/2020
10.1+	2007 Equity Incentive Plan.		S-1/A	6/11/2007
10.2+	Form of Stock Appreciation Rights Agreement under the 2007 Equity Incentive Plan.		10-K	2/22/2013
10.3+	Form of Restricted Stock Units Agreement under the 2007 Equity Incentive Plan.		10-K	2/22/2013
10.4+	Amended and Restated 2017 Equity Incentive Plan.		DEF-14A	3/25/2019
10.5+	Form of Notice of Grant of Market Stock Units and Award Agreement under the 2017 Equity Incentive Plan (Form adopted in 2021).	X		
10.6+	Form of Notice of Grant of Market Stock Units and Award Agreement under the 2017 Equity Incentive Plan.		10-Q	8/3/2017
10.7 +	Form of Notice of Grant of Stock Option and Award Agreement under the 2017 Equity Incentive Plan.		10-Q	8/3/2017
10.8+	Form of Notice of Grant of Performance Restricted Stock Units and Award Agreement under the 2017 Equity Incentive Plan.		10-Q	8/3/2017
10.9+	Form of Notice of Grant of Restricted Stock Units and Award Agreement under the 2017 Equity Incentive Plan.		10-Q	8/3/2017
10.10+	Form of Notice of Grant of Restricted Stock Units and Award Agreement under the 2017 Equity Incentive Plan (Form adopted in 2021).	X		
10.11+	Form of Notice of Grant of Stock Appreciation Rights and Award Agreement under the 2017 Equity Incentive Plan.		10-Q	8/3/2017
10.12+	Form of Performance Restricted Stock Unit Agreement.		8-K	1/18/2019
10.13+	2013 Employee Stock Purchase Plan.		8-K	6/7/2013
10.14	Office Lease Agreement, dated November 30, 2018, by and between PROS, Inc., and Thor Kirby 3 Group, LLC.		8-K	12/4/2018
10.15+	Second Amended and Restated Employment Agreement, dated December 3, 2018, by and between PROS, Inc., Registrant, and Andres D. Reiner.		8-K	12/4/2018
10.16+	Amended and Restated Employment Agreement, dated December 3, 2018, by and between PROS, Inc., Registrant, and Stefan B. Schulz.		8-K	12/4/2018
10.17+	Offer Letter, dated May 12, 2020, by and between PROS Canada Operations, Ltd. and Les Rechan.		8-K	5/13/2020
10.18+	Employment Agreement, dated as of May 13, 2020 by and between PROS Canada Operations, Ltd., PROS Holdings, Inc. and Les Rechan.		8-K	5/13/2020

10.19+	Amended and Restated Employment Agreement, dated as of November 7, 2019, by and between PROS, Inc., PROS Holdings, Inc. and Roberto Reiner.	8-K	11/8/2019
10.20+	Form of Indemnification Agreement to be entered into among Registrant, its affiliates and its directors and officers.	10-K	2/15/2017
10.21	Credit Agreement, dated July 2, 2012, by and among PROS, Inc., Wells Fargo Bank, National Association, as administrative agent, and the Lenders party thereto.	8-K	7/9/2012
10.21.1	Tenth Amendment to Credit Agreement, dated April 30, 2019, by and among PROS, Inc., Wells Fargo Bank, National Association, as administrative agent, and the Lenders party thereto.	8-K	5/2/2019
10.21.2	Waiver, Consent and Eleventh Amendment to Credit Agreement, dated July 15, 2019, by and among PROS, Inc., Wells Fargo Bank, National Association, as administrative agent, and the Lenders party thereto.	X	
10.21.3	Twelfth Amendment to Credit Agreement, dated November 1, 2019, by and among PROS, Inc., Wells Fargo Bank, National Association, as administrative agent, and the Lenders party thereto.	X	
10.21.4	Thirteenth Amendment to Credit Agreement, dated January 11, 2021, by and among PROS, Inc., Wells Fargo Bank, National Association, as administrative agent, and the Lenders party thereto.	X	
10.22	Form of Base Capped Call Confirmation.	8-K	5/7/2019
10.23	Form of Additional Capped Call Confirmation.	8-K	5/7/2019
10.24	Form of Form of Base Capped Call Confirmation. Capped Call Confirmation.	8-K	9/16/2020
21.1	List of Subsidiaries.	X	
23.1	Consent of PricewaterhouseCoopers LLP.	X	
24.1*	Power of Attorney.	X	
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).	X	
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/ 15d-14(a).	X	
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.	X	

Exhibit No.	Description
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
*	Reference is made to page F-38 of this Annual Report on Form 10-K.
**	This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Act of 1934, or otherwise subject to the liability of that Section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.
+	Indicates a management contract or compensatory plan or arrangement.

Item 16. *Form 10-K summary*

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. The Registrant has elected not to include such summary information.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 12, 2021.

PROS Holdings, Inc.

By: /s/ Andres Reiner

Andres Reiner

President and Chief Executive Officer

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

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

Signatures	Title	Date
<u>/s/ Andres Reiner</u> Andres Reiner	President, Chief Executive Officer, and Director (Principal Executive Officer)	February 12, 2021
<u>/s/ Stefan Schulz</u> Stefan Schulz	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 12, 2021
<u>/s/ Scott Cook</u> Scott Cook	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 12, 2021
<u>/s/ William Russell</u> William Russell	Chairman of the Board	February 12, 2021
<u>/s/ Carlos Dominguez</u> Carlos Dominguez	Director	February 12, 2021
<u>/s/ Raja Hammoud</u> Raja Hammoud	Director	February 12, 2021
<u>/s/ Penelope Herscher</u> Penelope Herscher	Director	February 12, 2021
<u>/s/ Catherine Lesjak</u> Catherine Lesjak	Director	February 12, 2021
<u>/s/ Greg B. Petersen</u> Greg B. Petersen	Director	February 12, 2021
<u>/s/ Timothy V. Williams</u> Timothy V. Williams	Director	February 12, 2021
<u>/s/ Mariette M. Woestemeyer</u> Mariette M. Woestemeyer	Director	February 12, 2021



Corporate Information

EXECUTIVE OFFICERS

Andres D. Reiner

President, Chief Executive Officer and Director

Stefan B. Schulz

Executive Vice President and Chief Financial Officer

Leslie Rechan

Chief Operating Officer

Roberto Reiner

Executive Vice President and Chief Technology Officer

For additional listing of PROS senior management, visit: <https://pros.com/about-pros/leadership-team/>

BOARD OF DIRECTORS

William Russell (2) (3)

Non-Executive Chairman

Andres D. Reiner

President, Chief Executive Officer and Director

Carlos Dominguez (1)

Director

Catherine Lesjak (1)

Director

Raja Hammoud (2)

Director

Greg B. Petersen (1) (2)

Director

Penelope Herscher (2) (3)

Director

Timothy V. Williams (1) (3)

Director

Mariette M. Woestemeyer

Director and Co-Founder

1 Audit Committee

2 Compensation and Leadership Development Committee

3 Nominating and Corporate Governance Committee



Stockholder Information

CORPORATE OFFICES

PROS Holdings, Inc.
3200 Kirby Dr., Suite 600
Houston, TX 77098
713.335.5151
www.PROS.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Pricewaterhouse Coopers, LLP
488 Almaden Boulevard, Suite 1800
San Jose, CA 95110
408.817.3700
www.pwc.com

COMMON STOCK LISTING

Our Common Stock is traded on the New York Stock Exchange under the symbol "**PRO**".

ANNUAL MEETING

Our 2021 annual stockholders meeting will be held virtually at 9:30 a.m. Central Daylight Time on Wednesday, May 12, 2021. Attend by accessing:
www.virtualshareholdermeeting.com/PRO2021
Only stockholders of record at the close of business on March 25, 2021 will be entitled to vote at the annual meeting.

TRANSFER AGENT AND REGISTRAR

Stockholders with inquiries regarding address corrections, lost certificates or changes in registered ownership should contact our stock transfer agent:

Broadridge Corporate Issuer Solutions
P.O. Box 1342
Brentwood, NY 11717
www.shareholder.broadridge.com/bcis

CONTACTS

Investor Relations
713.335.5151
IR@PROS.com



2020 ANNUAL REPORT

About PROS

PROS Holdings, Inc. (NYSE: PRO) provides AI-powered solutions that optimize selling in the digital economy. PROS solutions make it possible for companies to price, configure and sell their products and services in an omnichannel environment with speed, precision and consistency. Our customers, who are leaders in their markets, benefit from decades of data science expertise infused into our industry solutions.

To learn more, visit pros.com.

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