PROS Holdings, Inc.
Form DEF 14A
April 22, 2013

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
(Amendment No.)

Filed by the Registrant þ 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))
þ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

PROS HOLDINGS, INC.
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.
o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JUNE 4, 2013

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders (Annual Meeting) of PROS Holdings, Inc. on Tuesday, June 4, 2013 at 8:00 a.m., local time, at 3100 Main Street, 9th Floor, Houston, Texas 77002 for the following purposes:

1 To elect two (2) Class III directors to the Board of Directors of PROS Holdings, Inc. (Board of Directors), each to serve for a three-year term until the Annual Meeting to be held in the year 2016;

2 To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013;

3 To conduct an advisory vote on executive compensation;

4 To approve adoption of the 2013 Employee Stock Purchase Plan which provides for the issuance of up to 500,000 shares of our common stock to our employees; and

5 To transact such other business as may properly come before the Annual Meeting or any adjournment or postponements thereof.

The above matters are fully described in the Proxy Statement. We have not received notice of any other matters that may be properly presented at the Annual Meeting.

We are pleased to take advantage of the U.S. Securities and Exchange Commission rules that allow companies to furnish their proxy materials over the Internet. As a result, we are mailing to our stockholders a Notice of Internet Availability of Proxy Materials (Notice), instead of a paper copy of this Proxy Statement and our Annual Report to Stockholders for the Year Ended December 31, 2012 (2012 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 2012 Annual Report and a form of proxy card or voting instruction card. As a result of the Notice, not all stockholders will receive a paper copy of our proxy materials.

Only stockholders of record at the close of business on April 11, 2013 will be entitled to vote at the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection by any stockholder at our offices, 3100 Main Street, Suite 900, Houston, TX 77002, during ordinary business hours, for 10 days prior to the Annual Meeting. If you would like to review the stockholder list, please call our Corporate Secretary at 713-335-5151 to schedule an appointment.

To ensure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the Annual Meeting. You are urged to vote in one of the following three ways whether or not you plan to attend the Annual Meeting: (1) via the Internet, (2) by completing your proxy using the toll-free number listed on the proxy card or (3) by completing, signing and dating the accompanying proxy card and returning it in the postage-prepaid envelope enclosed for that purpose. For further details, see the section entitled “Voting Instructions” in this Proxy Statement and your proxy card or the email you received for electronic delivery of this Proxy Statement. If you have Internet access, we encourage you to record your vote via the Internet, as it is convenient and saves us significant postage and processing costs.

By Order of the Board of Directors,

Damian Olthoff
General Counsel and Secretary
Houston, Texas
April 22, 2013

PROS HOLDINGS, INC.
PROXY STATEMENT
2013 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JUNE 4, 2013

General

The enclosed proxy is solicited on behalf of the Board of Directors of PROS Holdings, Inc. (Board of Directors) for use at the Annual Meeting of Stockholders (Annual Meeting) to be held June 4, 2013 at 8:00 a.m., local time, at 3100 Main Street, 9th Floor, Houston, Texas 77002, or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. Only stockholders of record at the close of business on April 11, 2013 (Record Date) are entitled to notice of and to vote at the Annual Meeting.

These proxy solicitation materials and our Annual Report to Stockholders for the year ended December 31, 2012 (2012 Annual Report), including financial statements, were first mailed or made available on or about April 25, 2013 to stockholders entitled to vote at the Annual Meeting. References in this Proxy Statement to the “Company,” “we,” “our,” and “us” refer to PROS Holdings, Inc. and its consolidated subsidiaries.

The purposes of the Annual Meeting are:

1 To elect two (2) Class III directors to the Board of Directors, each to serve for a three-year term until the Annual Meeting to be held in the year 2016;

2 To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013;

3 To conduct an advisory vote on executive compensation;

4 To approve adoption of the 2013 Employee Stock Purchase Plan which provides for the issuance of up to 500,000 shares of common stock of the Company, par value $0.001 (Common Stock) to employees of the Company; and

5 To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Record date and shares outstanding

Stockholders of record at the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting. As of the Record Date, 27,915,120 shares of Common Stock were outstanding. Each stockholder of record as of the Record Date is entitled to one vote for each share of Common Stock held by such stockholder.

Vote required

If a quorum is present, a plurality vote of the holders of our Common Stock entitled to vote and present or represented by proxy at the Annual Meeting is required for the election of a director. The affirmative vote of the holders of a majority of the shares of Common Stock present or represented by proxy and voting at the Annual Meeting is required to approve the ratification of the selection of our independent auditors, the advisory vote on executive compensation, and the 2013 Employee Stock Purchase Plan. We will not count abstentions as either for or against a director, so abstentions have no effect on the election of a director. A properly executed proxy marked “abstain” with respect to any matter is considered entitled to vote, and thus, will have the effect of a vote against a matter, except for the election of directors.

Our bylaws provide that a majority of the outstanding shares of our stock entitled to vote, whether present in person or represented by proxy, shall constitute a quorum for the transaction of business at the Annual Meeting. Votes for and against, abstentions and “broker non-votes” (shares held by a broker or nominee that does not have the authority, either express or discretionary, to vote on a particular matter) will each be counted as present for purposes of determining the presence of a quorum.

Effect of not casting your vote

The New York Stock Exchange (NYSE) prohibits banks, brokers and other intermediaries from voting shares held in their clients' accounts on elections of directors unless the client has provided voting instructions. Therefore, if you hold your shares in street name through a broker, it is important that you cast your vote if you want it to count in the election of directors (Proposal One of this Proxy Statement).

Attending the Annual Meeting

The Annual Meeting will be held at 8:00 a.m., local time, on Tuesday, June 4, 2013, at 3100 Main Street, 9th Floor, Houston, Texas 77002. When you arrive, signs will direct you to the meeting room. Please note that the doors to the meeting room will not be open until 8:00 a.m. You do not need to attend the Annual Meeting to vote. Even if you plan to attend the Annual Meeting, please submit your vote in advance as instructed below.

Revocability of proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted at the Annual Meeting. Proxies may be revoked by:

- Filing with our Corporate Secretary, at or before the taking of the vote at the Annual Meeting, a written notice of revocation bearing a later date than the proxy;
- Duly executing a later-dated proxy relating to the same shares and delivering it to our Corporate Secretary at or before the taking of the vote at the Annual Meeting; or
- Attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not in and of itself constitute a revocation of a proxy).

Any written notice of revocation or subsequent proxy should be delivered to PROS Holdings, Inc. at our headquarters located at 3100 Main Street, Suite 900, Houston, Texas 77002, Attention: Corporate Secretary, or hand-delivered to our Corporate Secretary before the taking of the vote at the Annual Meeting.

Electronic delivery of stockholder communications

We are pleased to take advantage of the U.S. Securities and Exchange Commission (SEC), rules that allow companies to furnish their proxy materials over the Internet. As a result, we are mailing to our stockholders a Notice of Internet Availability of Proxy Materials (Notice), instead of a paper copy of this Proxy Statement and our 2012 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 2012 Annual Report and a form of proxy card or voting instruction card. As a result of the Notice, not all stockholders will receive a paper copy of our proxy materials.

Voting instructions

To ensure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the Annual Meeting in person. Most stockholders have three options for submitting their votes: (1) via the Internet, (2) by telephone or (3) by mail using the paper proxy card. If you have Internet access, we encourage you to record your vote via the Internet. It is convenient and saves us significant postage and processing costs. In addition, when you vote via the Internet or by telephone prior to the meeting date, your vote is recorded immediately and there is no risk that postal delays will cause your vote to arrive late and therefore not be counted. If you attend the Annual Meeting, you may also submit your vote in person, and any previous votes that you submitted, whether by Internet, telephone or mail, will be superseded by the vote that you cast at the Annual Meeting.

- Vote by Internet. You can vote via the Internet. The website address for Internet voting is www.PROXYVOTE.com. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. You can use the Internet to transmit your voting instructions up until 11:59 P.M. Eastern Time on June 3, 2013. Internet voting is available 24 hours a day. If you vote via the Internet you do NOT need to vote by telephone or return a proxy card.
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Vote by Telephone. You can vote by telephone by calling the toll-free telephone number provided on your proxy card. Have your proxy card in hand when you call and then follow the instructions. You may transmit your voting instructions from any touch-tone telephone up until 11:59 P.M. Eastern Time on June 3, 2013. Telephone voting is available 24 hours a day. If you vote by telephone you do NOT need to vote over the Internet or return a proxy card.

- Vote by Mail. If you received a printed copy of the proxy card, you can vote by marking, dating and signing it, and returning it in the postage-paid envelope provided to PROS Holdings, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. Please promptly mail your proxy card to ensure that it is received prior to the closing of the polls at the Annual Meeting. If you vote by mail you do NOT need to vote over the Internet or vote by telephone.

If you are a beneficial owner, or you hold your shares in "street name," please check your voting instruction card or contact your bank, broker or nominee to determine whether you will be able to vote by Internet or telephone.
Householding Matters

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of this notice and Proxy Statement may have been sent to multiple stockholders in your household. If you would prefer to receive separate copies of a proxy statement either now or in the future, please contact our Corporate Secretary by writing to our principal office at 3100 Main Street Suite 900, Houston, Texas 77002. Upon written request, we will provide separate copies of this notice or this Proxy Statement to each stockholder at that address. In addition, stockholders sharing an address and receiving multiple copies can request delivery of a single copy of proxy statements upon written request to our Corporate Secretary at the address stated above.

PROPOSAL ONE
ELECTION OF DIRECTORS

Our Board of Directors consists of seven members, which is divided into three classes, each of whose members serve for a staggered three-year term. The term of office of one class of directors expires each year in rotation so that one class is elected at each annual meeting for a full three-year term. Andres D. Reiner and Ronald F. Woestemeyer have been nominated by the Board of Directors as Class III Directors, each to hold office until the Annual Meeting to be held in the year 2016 and until a successor has been duly elected and qualified or until the earlier of their death, resignation or removal.

The Board of Directors is also composed of three (3) Class I directors, whose terms expire upon the election and qualification of directors at the Annual Meeting to be held in 2014, and two (2) Class II directors, whose terms expire upon the election and qualification of directors at the Annual Meeting to be held in 2015.

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

Vote required

Election of a director requires the plurality vote of the holders of our Common Stock entitled to vote and present or represented at the Annual Meeting. 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. We will not count abstentions as either for or against a director, so abstentions have no effect on the election of a director.

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

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING “FOR” THE ELECTION OF THE NOMINEES LISTED BELOW.

The name of and certain information regarding each Class III director nominee is set forth below, together with information regarding our Class I and Class II directors remaining in office. The business address for each nominee for matters regarding PROS Holdings, Inc. is 3100 Main Street, Suite 900, Houston, TX 77002.

Nominee's or Director's Name and Year First Became a Director	Position(s) with the Company	Current Term Will Expire	Current Class of Director
Nominees for Class III Directors:			
Andres D. Reiner — 2010	President and Chief Executive Officer	2013	III
Ronald F. Woestemeyer — 1985	Executive Vice-President, Strategic Business Planning and Director	2013	III
Continuing Directors:			
Greg B. Petersen — 2007	Director	2014	I
Timothy V. Williams—2007	Director	2014	I
Mariette M. Woestemeyer—1985	Director	2014	I
Ellen Keszler — 2008	Director	2015	II
William Russell — 2008	Non-Executive Chairman of the Board	2015	II

PROPOSAL TWO

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of our Board of Directors (Audit Committee) has selected the independent registered public accounting firm of PricewaterhouseCoopers LLP to audit our consolidated financial statements for the fiscal year ending December 31, 2013 and recommends that stockholders vote for ratification of such appointment.

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. In the event of a negative vote on ratification, the Audit Committee will reconsider, but might not change, its selection.

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

Vote required

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

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

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING "FOR" THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2013.

PROPOSAL THREE

ADVISORY VOTE ON EXECUTIVE COMPENSATION

As required pursuant to Section 14A of the Securities Exchange Act of 1934, we are providing our stockholders with the opportunity to vote to approve, on an advisory or non-binding basis, the compensation of our named executive officers (NEOs) as disclosed in this Proxy Statement in accordance with SEC rules. We currently conduct this advisory vote on an annual basis and expect to conduct the next advisory vote at our Annual Meeting to be held in 2014.

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As described in the “Compensation Discussion and Analysis” section of this Proxy Statement, our executive compensation program is designed to attract, retain, and motivate talented individuals with the executive experience and leadership skills necessary for us to manage our business and meet our long-term objectives. We seek to provide executive compensation that is competitive with companies that are similar to us. We also seek to provide near-term and long-term financial incentives that reward well-performing executives when strategic corporate objectives designed to increase long-term stockholder value are achieved. We believe that executive compensation should include base salary, cash incentives and equity awards. We also believe that our executive officers’ base salaries should be set at levels relative to comparable companies, and cash and equity incentives should generally be set at levels that give executives the opportunity to achieve above-average total compensation reflecting above-average Company performance. In particular, our executive compensation philosophy is to promote long-term value creation for our stockholders by rewarding improvement in selected financial metrics, and by using equity incentives. Please see our “Compensation Discussion and Analysis” (beginning on page 21) and related compensation tables for detailed information about our executive compensation programs, including information about the fiscal year 2012 compensation of our NEOs.

This vote is advisory and therefore not binding. However, the Compensation Committee of our Board of Directors (Compensation Committee) values the opinions of our stockholders and to the extent there is any significant vote against the NEO compensation as disclosed in this Proxy Statement, we will consider those stockholders’ concerns, and the Compensation Committee will evaluate whether any actions are necessary to address those concerns. Stockholders should realize that because the advisory vote on executive compensation occurs well after the beginning of the compensation year, in most cases it may not be feasible to change any executive compensation program in consideration of any one year’s advisory vote on executive compensation.

Vote required

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

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

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

PROPOSAL FOUR

APPROVAL OF ADOPTION OF 2013 EMPLOYEE STOCK PURCHASE PLAN

At the Annual Meeting, the stockholders will be asked to approve our adoption of the PROS 2013 Employee Stock Purchase Plan (ESPP). In April 2013, the Board of Directors adopted the ESPP, subject to stockholder approval, to become effective on January 1, 2014 (Effective Date). The ESPP will be implemented through six month offerings at the end of which participants will acquire from PROS, shares of our Common Stock with amounts accumulated through payroll deductions. A total of 500,000 shares of Common Stock will be reserved for issuance under the ESPP. The Board of Directors believes that adopting the ESPP will benefit the Company by attracting, retaining, and motivating valued employees through the opportunity to purchase shares of Common Stock pursuant to the ESPP.

DESCRIPTION OF THE PROS 2013 EMPLOYEE STOCK PURCHASE PLAN

The following summary of the ESPP is qualified in its entirety by the specific language of the ESPP, a copy of which is available to any stockholder upon request by writing to our Corporate Secretary, PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002. The ESPP may also be viewed without charge on the SEC website at www.SEC.gov.

General. The ESPP is intended to qualify as an “employee stock purchase plan” under section 423 of the Internal Revenue Code (Code). 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.

Shares Authorized. A maximum of 500,000 of our authorized but unissued or reacquired shares of Common Stock may be issued 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.

Plan Administration. Our Compensation Committee will administer the ESPP. Our Compensation Committee 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.

Eligibility. Generally, all of our employees are eligible to participate if they are employed by us, or any participating subsidiary, for at least 20 hours per week. However, an employee may not be granted a Purchase Right if such employee immediately after the grant would own stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock or that of any related corporation.

Offering Periods. 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 administrator may, in its discretion, modify the terms of future offering periods, provided that no offering period may exceed 27 months.

Payroll Deductions. 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 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.

Exercise of Purchase Right. Amounts deducted and accumulated by the participant are used to purchase shares of our Common Stock at the end of each six-month offering period. The purchase price of the shares generally will be 95% 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. The closing price of a share of our Common Stock on the NYSE on April 10, 2013 was $23.74. 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.

Change in control. 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. The administrator will notify each ESPP participant 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, termination. Our ESPP will continue indefinitely until we terminate it. Our Board of Directors 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.

Summary of United States 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.

New Plan Benefits

Because benefits under the ESPP will depend on employees' elections to participate and the fair market value of our Common Stock at various future dates, it is not possible to determine the benefits that will be received by executive officers and other employees if adoption of the ESPP is approved by the stockholders.

Equity Compensation Plan Information

Plan Category	Number of securities to be	Weighted-average exercise price of	Number of securities

	issued upon exercise of outstanding options and rights	outstanding options and rights ($)	remaining available for future issuance under plans
Equity compensation plans approved by security holders	3,652,191	10.82	699,359
Equity compensation plans not approved by security holders	—	—	—
Total	3,652,191	10.82	699,359

Vote Required

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

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

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING “FOR” APPROVAL OF THIS PROPOSAL TO ADOPT THE 2013 EMPLOYEE STOCK PURCHASE PLAN WITH AN INITIAL SHARE RESERVE OF 500,000.

MANAGEMENT

Directors and Executive Officers

The following table sets forth the director nominees to be elected at the Annual Meeting, the directors, executive officers and key employees of the Company, their ages, and the positions currently held by each such person with the Company immediately prior to the Annual Meeting:

Name	Age	Position
Directors and Executive Officers:		
Andres D. Reiner	42	Chief Executive Officer, President and Director (Nominee)
Charles H. Murphy	68	Executive Vice President and Chief Financial Officer
Ronald F. Woestemeyer	67	Executive Vice-President, Strategic Business Planning and Director (Nominee)
Ellen Keszler (1)(3)	50	Director
Greg B. Petersen (1)(2)(3)	50	Director
William Russell (2)(3)	61	Director
Timothy V. Williams (1)(2)(3)	64	Director
Mariette M. Woestemeyer	61	Director
Other Key Employees:		
Tim Girgenti	43	Chief Marketing Officer
Chris Jones	49	Chief Sales Officer
Oscar Moreno	40	Senior Vice President, Product Development
Damian Olthoff	38	General Counsel and Secretary
Julie Rich	59	Chief People Officer
Wagner Williams	34	Senior Vice President, Professional Services
Benson Yuen	52	Senior Vice President, Travel
Craig Zawada	42	Chief Innovation Officer

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Nominating and Corporate Governance Committee.

Andres D. Reiner has served as a director and as our President and Chief Executive Officer since 2010. Mr. Reiner joined the Company in 1999, and prior to his appointment as President and Chief Executive Officer, held a series of positions with successively increasing responsibility, including Senior Vice President of Product Development and Executive Vice President of Product and Marketing. Prior to becoming our President and Chief Executive Officer, he was responsible for global marketing and alliances, product management, science research, and development of our next generation software products. Mr. Reiner was also instrumental in our European growth and the expansion of the Company’s sales and marketing efforts worldwide. Prior to joining us, Mr. Reiner held various technical and management positions in technology companies including Platinum Technology, ADAC Healthcare Information Systems, and Kinesix. Mr. Reiner holds a Bachelor of Science in Computer Science with a minor in Mathematics from the University of Houston. Mr. Reiner has familiarity with all of the Company’s key day to day operations and has leadership, management and operating experience. In addition, Mr. Reiner has in-depth experience in the development of our products, services and the markets in which we compete.

Charles H. Murphy joined the Company in 1998 and has served as our Executive Vice President and Chief Financial Officer since March 2001. Prior to joining the Company, Mr. Murphy held chief financial officer positions with Expert Software, a publicly traded software company, Merchant International, a software company, and Packaging Machinery Company, a publicly traded manufacturer of packaging machinery. Mr. Murphy holds a Bachelor of

Science from Bentley College.

Ronald F. Woestemeyer co-founded the Company in 1985 with his wife, Mariette Woestemeyer, has served as a director since our founding, and has served as Executive Vice President, Strategic Business Planning since 1997. From 1985 to 1997, Mr. Woestemeyer served as our Chief Executive Officer. Mr. Woestemeyer holds a Bachelor of Business Administration from the

University of Houston. As co-founder of the Company, Mr. Woestemeyer brings continuity and direct relevant industry experience to the Board of Directors, and has unique familiarity with our business, structure, culture, history, goals, strategies and markets.

Ellen Keszler has served as a director since 2008. Mrs. Keszler currently serves as president and chief executive officer of Clear Sky Associates, a management and strategy consulting firm focused on the technology and travel industries. Previously, Mrs. Keszler served as president of Travelocity Business from 2003 to 2007, a technology-focused corporate travel management company. From 2000 to 2003, Mrs. Keszler served as senior vice president—North American Division of Sabre Travel Network, a travel technology and services business. From 1987 to 2000, Mrs. Keszler held various finance roles at Sabre Holdings, American Airlines and JCPenney. Mrs. Keszler sits on the board of directors of two privately held technology companies. Mrs. Keszler holds a Bachelor of Science in Civil Engineering from Texas A&M University and a Master of Business Administration from the University of Texas at Austin. Mrs. Keszler has extensive business and leadership experience, including experience in managing financial reporting, sales, operations, strategy, marketing and advertising. Mrs. Keszler also has significant expertise in travel and travel technology industries, which we serve.

Greg B. Petersen has served as a director since 2007. Mr. Petersen has been the chief financial officer of several software and technology companies, including Activant Solutions, a $400 million provider of business management solutions to retail and wholesale distribution businesses from 2001 to 2007; and Lombardi Software, a business process management software provider, which was sold to IBM in 2010. After earning an MBA from Duke University in 1989, Mr. Petersen began his career with American Airlines, Inc. where he held increasing responsible executive positions over eight years, the most recent being as managing director of corporate development where he led a project to create Sabre Holdings, Inc. and complete its initial IPO. Mr. Petersen has also served as an executive in finance and treasury roles with Trilogy Software, a provider of enterprise software and business services, and in planning and development roles with RailTex, a publicly traded short-line and regional rail service provider.
Mr. Petersen also serves on the board of directors of Kit digital, Inc., where he is chairman of the audit committee.
Mr. Petersen holds a Bachelor of Arts in Economics from Boston College and a Master of Business Administration from the Fuqua School of Business at Duke University. Mr. Petersen has business and leadership experience in software companies, merger and acquisition experience, and extensive financial planning, accounting and risk management knowledge.

William Russell has served as a director since 2008 and also serves as the non-executive chairman of the Board of Directors. Mr. Russell has held a number of senior-level roles in his more than 20 years at Hewlett-Packard, including vice president and general manager of the multi-billion-dollar Enterprise Systems Group. Mr. Russell serves on the board of directors of SABA Software, Inc., a publicly traded provider of talent management services, and several privately held companies. Mr. Russell has served in a variety of roles on both public and private technology company boards and previously served on the boards of webMethods and Cognos. 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, Mr. Russell has broad knowledge of large-scale software operations, including sales, marketing, development, finance, strategic planning and leadership.

Timothy V. Williams has served as a director since 2007. Mr. Williams most recently served as senior vice president and chief financial officer of Blackbaud, Inc., a publicly-traded provider of software and services to non-profit organizations, from January 2001 until his retirement in November 2011. Mr. Williams previously served as executive vice president and chief financial officer of both Mynd (now a subsidiary of Computer Sciences Corporation), a provider of software and services to the insurance industry and Holiday Inn Worldwide, a subsidiary of Bass PLC.
Mr. Williams holds a Bachelor of Arts in business from the University of Northern Iowa. Mr. Williams has extensive financial, business, management and public software company expertise. Mr. Williams also serves on the board of directors and as chairman of each of the respective audit committees of three privately held software firms; he was appointed to these boards at various dates in 2011 and 2012. Through his experience as a chief financial officer, including with another software and services firm, Mr. Williams brings to the Board of Directors extensive knowledge of accounting, risk management, general management of software companies, and public company reporting

requirements and processes.
Mariette M. Woestemeyer co-founded the Company in 1985 with her husband, Ronald F. Woestemeyer, and has served as a director since our founding. Mrs. Woestemeyer was the chief financial officer of Metro Networks, a broadcasting company, from 1983 to 1985 and held various financial roles with Continental Airlines and its predecessor, Texas International Airlines, prior to 1983. Mrs. Woestemeyer holds a Bachelor of Business Administration and a Master of Business Administration from the University of Houston. As co-founder of the Company, Mrs. Woestemeyer brings continuity and history of current and past management and direct relevant industry experience. Mrs. Woestemeyer also has familiarity with all of the Company's key operations as a result of serving as our director since 1985. Mrs. Woestemeyer also has experience as our Chief Financial Officer for many years and related operational expertise.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Audit Committee

The current members of our Audit Committee are Messrs. Petersen, Williams and Mrs. Keszler. Our Board of Directors has determined that each member meets the independence requirements of the NYSE listing standards and Rule 10A-3(b) of the Securities Exchange Act of 1934, as amended (Exchange Act), and that each qualifies as an Audit Committee financial expert within the meaning of the SEC regulations and the rules of the NYSE. In arriving at this determination, the Board of Directors has examined each member's scope of experience and the nature of their employment in the corporate finance sector.

The Audit Committee oversees our accounting and financial reporting processes and the audits of our financial statements. Primary responsibilities of our Audit Committee include:

- reviewing and providing oversight over the qualification, independence and performance of our independent auditor and determining whether to retain or terminate its services;
- approving the terms of engagement of our independent auditor and pre-approving the engagement of our independent auditor to perform permissible non-audit services;
- reviewing and discussing with management and our independent auditor the results of the annual audit and the independent auditor's review of our annual and quarterly financial statements and reports;
- reviewing and discussing with management all press releases regarding our financial results and any other financial information and earnings guidance provided to securities analysts and rating agencies, including any non-generally accepted accounting principles (non-GAAP) financial measures;
- reviewing with management and our independent auditor matters that have a significant impact on our financial statements;
- conferring with management and our independent auditors regarding the scope, adequacy and effectiveness of our internal control over financial reporting;
- establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal control or auditing matters and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters; and
- reviewing and approving all related party transactions.

Our Audit Committee operates under a written charter, a copy of which is available under the Corporate Governance – Investor Relations section of our website at www.PROS.com. A printed copy of our Audit Committee charter may be obtained by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. In 2012, the Audit Committee held four in-person meetings and six telephonic meetings. The report of the Audit Committee begins on page 37.

Compensation Committee

The current members of our Compensation Committee are Messrs. Petersen, Russell and Williams. Each member of our Compensation Committee is a non-employee director, as defined in Rule 16b-3 promulgated under the Exchange Act, and an outside director, as defined pursuant to Section 162(m) of the Code. Our Board of Directors has determined that each member of our Compensation Committee meets the independence requirements of the NYSE listing standards and federal securities laws.

The Compensation Committee discharges the responsibilities of our Board of Directors relating to the compensation and benefits for our executive officers and directors. Primary responsibilities of our Compensation Committee include:

- determining and reviewing all forms of compensation for our executive officers and directors, including, among other things, annual salaries, bonuses, equity awards, severance arrangements, change in control protections and other compensatory arrangements;
- reviewing and approving corporate performance goals and objectives relevant to such compensation;
- administering our equity incentive plans and granting awards of options and other share-based awards to our executive officers, directors and employees;

- reviewing our compensation discussion and analysis and Compensation Committee report required by the rules of the SEC; and
- evaluating and recommending to our Board of Directors the compensation plans and programs advisable for us, and evaluating and recommending the modification or termination of existing plans and programs.

Our Compensation Committee operates under a written charter, a copy of which is available under the Corporate Governance – Investor Relations section of our website at www.PROS.com. A printed copy of our Compensation Committee charter may be obtained by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. In 2012, the Compensation Committee held four in-person meetings and four telephonic meetings. The report of the Compensation Committee begins on page 30.

Nominating and Corporate Governance Committee

The current members of the Nominating and Corporate Governance Committee are Messrs. Petersen, Russell, Williams and Mrs. Keszler. The Board of Directors has determined that each member meets the independence requirements of the NYSE listing standards and federal securities laws. Primary responsibilities of our Nominating and Corporate Governance Committee include:

- identifying, evaluating and recommending to our Board of Directors candidates to serve as members of our Board of Directors and considering the nomination of our incumbent directors for reelection;
- evaluating stockholder nominations of candidates for election to our Board of Directors;
- reviewing our general policy relating to selection of director candidates and members of committees of our Board of Directors, including an assessment of the performance of our Board of Directors; and
- reviewing and making recommendations to our Board of Directors regarding corporate governance principles.

Our Nominating and Corporate Governance Committee operates under a written charter, a copy of which is available under the Corporate Governance – Investor Relations section of our website at www.PROS.com. A printed copy of our Nominating and Corporate Governance Committee charter may be obtained by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. In 2012, the Nominating and Corporate Governance Committee held three in-person meetings.

CORPORATE GOVERNANCE MATTERS

Independence of Directors

The Board of Directors has adopted categorical standards or guidelines to assist our Board of Directors in making its independence determinations with respect to each director. These standards are published in our Corporate Governance Guidelines and are available under the Corporate Governance – Investor Relations section of our website at www.PROS.com. The Board of Directors has determined that the following directors are independent within the meaning of the NYSE listing standards and federal securities laws: Messrs. Petersen, Russell, Williams and Mrs. Keszler. As part of such determination of independence, our Board of Directors has affirmatively determined that none of these four directors has a relationship with us that would interfere with the exercise of independent judgment in carrying out his or her responsibilities as a director. A majority of our Board of Directors is independent, and our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee is comprised of all independent directors.

Meeting Attendance

During 2012, our Board of Directors held six meetings, the Audit Committee held ten meetings, the Compensation Committee held eight meetings, and the Nominating and Corporate Governance Committee held three meetings. The incumbent directors attended each meeting of our Board of Directors and the committees on which he or she served during 2012. The Board of Directors encourages all directors to attend annual meetings of the stockholders. All directors attended the 2012 meeting of the stockholders.

Director Nomination

The Nominating and Corporate Governance Committee of our Board of Directors has the responsibility for establishing the criteria for recommending which directors should stand for reelection to our Board of Directors and the selection of new directors to serve on our Board of Directors. In addition, the Nominating and Corporate Governance Committee is responsible for establishing the procedures for our stockholders to nominate candidates to our Board of Directors. Although the Nominating and Corporate Governance Committee has not formulated any specific minimum qualifications for director candidates, it has determined that desirable characteristics include, but are not limited to, business experience, mature judgment, personal and professional ethics, and integrity. The Company does not have a formal policy with respect to consideration of diversity in identifying director nominees; however, in the process of selecting a director nominee, the Nominating and Corporate Governance Committee assesses backgrounds and expected contributions of the individuals to the Board of Directors. These and other standards are published in our Corporate Governance Guidelines. We will provide copies of our Corporate Governance Guidelines without charge upon request. A printed copy of our Corporate Governance Guidelines may be obtained by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. Our

Corporate Governance Guidelines are also available under the Corporate Governance - Investor Relations section of our website at www.PROS.com.

Our bylaws permit any stockholder of record to nominate directors. Stockholders who wish to submit nominees for election at an annual or special meeting of stockholders should follow the procedure described on page 39. The Nominating and Corporate Governance Committee applies the same standards in considering candidates submitted by stockholders as it does in evaluating candidates submitted by members of the Board of Directors.

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

The Board of Directors recognizes that there is no single, generally accepted approach to providing board leadership, and the board leadership structure may vary in the future as circumstances warrant. If the Board of Directors determines it is in the best interests of our stockholders to combine the positions of chairman and Chief Executive Officer, the independent directors will designate a lead independent director.

Our non-executive chairman oversees the planning of the annual Board of Directors' calendar, and, with the Chief Executive Officer, in consultation with the other directors, schedules and sets the agenda for meetings of the Board of Directors and leads the discussion at such meetings. The chairman also presides at executive sessions, serves as a liaison between the Chief Executive Officer and the independent directors, sees that directors receive appropriate and timely information, assists the chairmen of the committees of the Board of Directors in preparing agendas for the respective committee meetings, chairs our annual meetings of stockholders, is available in appropriate circumstances to speak on behalf of the Board of Directors, and performs such other functions and responsibilities as set forth in our Corporate Governance Guidelines or as requested by the Board of Directors from time to time. The chairman also encourages direct dialogue between all directors and management and provides leadership to the Board of Directors in its oversight function.

Executive Sessions

Executive sessions, which are meetings of the non-employee members of the Board of Directors, are regularly scheduled throughout the year. Non-employee directors meet by themselves, without management or employee-directors present, at every regularly scheduled in-person Board of Directors meeting. Non-employee directors and independent directors may hold other such sessions at the request of any non-employee director or independent director. Non-employee and independent directors may notify the non-executive chairman of the Board of Directors if they would like to hold such a session, and the non-executive chairman of the Board of Directors will facilitate the scheduling of such a session. Executive sessions (whether of the non-employee directors or independent directors) are led by non-executive chairman of the board of directors.

The Board's Role in Risk Oversight

The Board of Directors oversees the Company's risk management process. Management reviews the process, including identification of key risks and steps taken to address them, with the full Board of Directors on a periodic basis. Although the full Board of Directors is responsible for this oversight function, the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee assist the Board of Directors in discharging its oversight duties.

The Compensation Committee reviews risks related to the subject matters enumerated in its charter, including risks associated with the Company's compensation programs. The Nominating and Corporate Governance Committee considers risks related to the subject matters for which it is responsible as identified in its charter, including risks associated with corporate governance. Similarly, the Audit Committee considers risks related to the subject matters enumerated in its charter, including risks relating to internal controls, disclosure, and financial reporting.

Accordingly, while each of the three committees contributes to the risk management oversight function by assisting the Board of Directors in the manner outlined above, the Board of Directors itself remains responsible for the oversight of the Company's risk management program.

Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee and none of our executive officers has any relationships that would constitute an interlocking relationship with executive officers and directors of any another entity.

Corporate Governance Guidelines

We believe in sound corporate governance practices and have adopted formal Corporate Governance Guidelines to enhance our effectiveness. Our Board of Directors adopted these Corporate Governance Guidelines in order to ensure that it has the necessary authority and practices in place to review and evaluate our business operations as needed and to make decisions that are independent of our management. The Corporate Governance Guidelines are also intended to align the interests of directors and management with those of our stockholders. The Corporate Governance Guidelines set forth the practices our Board of Directors follows, including, but not limited to, the Board of Directors and committee composition and selection, director responsibilities, director access to officers and employees and Chief Executive Officer performance evaluation and succession planning. A printed copy of our Corporate Governance Guidelines may be obtained by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. A copy of our Corporate Governance Guidelines is also available under the Corporate Governance – Investor Relations section of our website at www.PROS.com.

Code of Business Conduct and Ethics

Our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to all of our directors and employees. We will provide copies of our Code of Business Conduct and Ethics without charge upon request. A printed copy of our Code of Business Conduct and Ethics may be obtained by any stockholder upon sending a written request to PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002, Attn: Corporate Secretary. Our Code of Business Conduct and Ethics is also available under the Corporate Governance – Investor Relations section of our website at www.PROS.com.

Communications with our Board of Directors

Stockholders or interested parties who wish to communicate with members of our Board of Directors, including the independent directors individually or as a group, may send correspondence to them in care of our Corporate Secretary at 3100 Main Street, Suite 900, Houston, TX 77002. Such communication will be forwarded to the intended recipient(s). We currently do not intend to have our Corporate Secretary screen this correspondence, but we may change this policy if directed by our Board of Directors due to the nature or volume of the correspondence. Communications that are intended specifically for the non-executive chairman of the Board of Directors should be sent to the street address noted above, to the attention of the non-executive chairman of the Board of Directors.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since January 1, 2012, there has not been (nor is there currently proposed), any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded or exceeds $120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons, had or will have a direct or indirect material interest, other than compensation arrangements with directors and executive officers, and the transactions described below.

Relationship with Management, Founders and Investors

Ownership. Ronald F. Woestemeyer, our executive vice president, member of the Board of Directors and one of our founders, and Mariette Woestemeyer, who is married to Mr. Woestemeyer and also serves on our Board of Directors, each hold more than 5% of our Common Stock.

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

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

Procedures for Related Party Transactions

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

SECURITY OWNERSHIP OF MANAGEMENT
AND CERTAIN BENEFICIAL OWNERS

The following table sets forth information regarding the beneficial ownership of our Common Stock as of the Record Date, unless otherwise noted below, for the following:

- each person or entity known to own beneficially more than 5% of the outstanding Common Stock as of the date indicated in the corresponding footnote;
- each director and director nominee;
- each of the persons named in the Summary Compensation table, both individually and as a group.

Applicable percentage of ownership is based on 27,915,120 shares of our Common Stock outstanding as of the Record Date, unless otherwise noted below, together with applicable options for each stockholder. Beneficial ownership is determined under the rules and regulations of the SEC and does not necessarily indicate beneficial ownership for any other purpose. Under these rules, beneficial ownership includes those shares of Common Stock over which the stockholder has sole or shared voting or investment power. It also includes shares of Common Stock that the stockholder has a right to acquire within 60 days of the Record Date through the exercise of any option or other right. Unless otherwise indicated, the principal address of each of the stockholders below is c/o PROS Holdings, Inc., 3100 Main Street, Suite 900, Houston, Texas 77002.

Name of Beneficial Owner	Shares Beneficially Owned (1)	Percentage	
Andres D. Reiner (2)	497,661	1.7	%
Charles H. Murphy (3)	463,670	1.6	%
Ronald F. Woestemeyer (4)	4,196,123	14.7	%
Ellen Keszler (5)	63,500	*	
Greg B. Petersen (6)	73,500	*	
William Russell	67,000	*	
Timothy V. Williams (7)	73,000	*	
Mariette M. Woestemeyer (4)	4,196,123	14.7	%
BlackRock, Inc. (8)	2,356,745	8.2	%
Brown Capital Management, LLC (9)	4,578,076	16.0	%
All named executive officers, directors and director nominee as a group	5,434,954	19.0	%

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

(1) Includes shares held and stock options, restricted stock units (RSUs) and stock appreciation rights (SARs) exercisable within 60 days of the Record Date.

(2) Includes 345,779 shares issuable pursuant to stock options and SARs that are immediately exercisable or exercisable with 60 days of the Record Date. Also includes 8,750 shares issuable pursuant to RSUs that will vest

within 60 days of the Record Date.

(3) Includes 201,498 shares issuable pursuant to stock options and SARs that are immediately exercisable or exercisable with 60 days of the Record Date. Also includes 6,250 shares issuable pursuant to RSUs that will vest within 60 days of the Record Date and 17,000 shares held by Mr. Murphy’s wife, Emily L. Murphy.
(4) Includes 4,166,123 shares held by various trusts for the benefit of certain family members. Also includes 30,000 shares issuable pursuant to stock options held by Mrs. Woestemeyer that are immediately exercisable.
(5) Includes 30,000 shares issuable pursuant to stock options which are immediately exercisable.
(6) Includes 30,000 shares issuable pursuant to stock options which are immediately exercisable.
(7) Includes 30,000 shares issuable pursuant to stock options which are immediately exercisable.
(8) Information regarding Blackrock, Inc. is based solely upon a Schedule 13G filed by Blackrock, Inc. with the SEC on January 30, 2013. The address of Blackrock, Inc. is 40 East 52nd Street, New York, NY 10022.
(9) Information regarding Brown Capital Management, LLC is based solely upon a Schedule 13G/A filed by Brown Capital Management, Inc. with the SEC on February 14, 2013, which indicates that Brown Capital Management, Inc. or certain of its affiliates beneficially owned 4,578,076 shares of our Common Stock as of December 31, 2012, and they had (a) sole voting power to direct the vote of 2,545,358 shares of our Common Stock and (b) sole dispositive power with respect to 4,578,076 shares of our Common Stock. The address of Brown Capital Management, LLC is 1201 N. Calvert Street, Baltimore, MD 21202.

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 2012, all of our NEOs and directors filed the required reports on a timely basis under Section 16(a).

COMPENSATION DISCUSSION AND ANALYSIS

The following discussion and analysis of compensation arrangements of our named executive officers (NEOs) should be read together with the compensation tables and related disclosures set forth below.

Executive Summary

Background

While the past year marked another period of uncertainty and challenges in the global economy, our NEOs delivered strong results and continued to demonstrate excellent execution of our key strategic initiatives, including accelerating awareness and adoption, extending our product leadership position, and expanding our global reach and scale. The following highlights some of our accomplishments in 2012:

- Record 2012 revenue of $117.8 million, a 22% increase over 2011;
- 2012 non-GAAP operating income of $17.8 million, a 14% increase over 2011[1];
- Many new customers in manufacturing, distribution, services and travel industries, including American Standard, Hewlett Packard Company, Kimberly-Clark Professional, Panduit, TE Connectivity, Volvo Group Trucks, and Zimmer among others;
- A 31% increase in total headcount to approximately 700 people as of December 31, 2012, which reflects our continued investment and build out of our sales, marketing, and professional services teams in support of our long-term growth;
- Total backlog of $146.5 million as of December 31, 2012, as compared with $124.1 million as of December 31, 2011[2]. The portion of backlog as of December 31, 2012 not reasonably expected to be recognized as revenue within the next twelve months is estimated to be approximately $38.5 million;
- Filing six new patents, introduction of Rebate Optimizer as a new product, and our release of new versions of our big data applications for pricing, revenue management and sales effectiveness;
- Participation in Microsoft Dynamics ISV Partnership Program to provide Microsoft Dynamics CRM customers with actionable, real-time customer insights that can improve sales performance; and
- New product certifications from SAP for integration of our solutions into SAP ERP and SAP CRM.

(1) A reconciliation of non-GAAP income from operations to the most directly comparable generally accepted accounting principles in the United States (GAAP) financial measure, is provided below. Non-GAAP income from operations is defined as GAAP income from operations and excludes the impact of non-cash share-based compensation expense.

	For the Year Ended December 31, 2012
Income from operations as reported	$8,180
Non-GAAP adjustment:	
GAAP share-based compensation	