Table of Contents

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

FORM 10-Q

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

For the quarterly period ended June 30, 2024

OR

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

For the transition period from to .

Commission File Number: 001-33554

PROS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0168604**
(State of Incorporation)	(I.R.S. Employer Identification No.)

3200 Kirby Drive, Suite 600 **Houston TX**	**77098**
(Address of Principal Executive Offices)	(Zip Code)

(713) 335-5151

(Registrant's telephone number, including area code)

(Former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock $0.001 par value per share	PRO	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically 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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's Common Stock, $0.001 par value, was 47,206,310 as of July 23, 2024.

PROS Holdings, Inc.
Form 10-Q
For the Quarterly Period Ended June 30, 2024

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("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 described in our Annual Report on Form 10-K and in this Quarterly Report on Form 10-Q, 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 our Annual Report on Form 10-K entitled "Risk Factors" and the section of this Quarterly Report on Form 10-Q entitled "Risk Factors." You should also carefully review the cautionary statements described in the other documents we file with the Securities and Exchange Commission, specifically the Annual Report on Form 10-K, 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. FINANCIAL INFORMATION

ITEM 1. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PROS Holdings, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2024	December 31, 2023
Assets:		
Current assets:		
Cash and cash equivalents	$ 139,086	$ 168,747
Trade and other receivables, net of allowance of $ 801 and $ 574 , respectively	47,714	49,058
Deferred costs, current	4,433	4,856
Prepaid and other current assets	11,816	12,013
Total current assets	203,049	234,674
Restricted cash	10,000	10,000
Property and equipment, net	20,892	23,051
Operating lease right-of-use assets	14,663	14,801
Deferred costs, noncurrent	10,143	10,292
Intangibles, net	9,078	11,678
Goodwill	107,572	107,860
Other assets, noncurrent	9,503	9,477
Total assets	$ 384,900	$ 421,833
Liabilities and Stockholders' (Deficit) Equity:		
Current liabilities:		
Accounts payable and other liabilities	$ 6,992	$ 3,034
Accrued liabilities	14,760	13,257
Accrued payroll and other employee benefits	19,259	32,762
Operating lease liabilities, current	4,232	5,655
Deferred revenue, current	121,628	120,955
Current portion of convertible debt, net	—	21,668
Total current liabilities	166,871	197,331
Deferred revenue, noncurrent	3,302	3,669
Convertible debt, net	271,553	272,324
Operating lease liabilities, noncurrent	25,032	25,118
Other liabilities, noncurrent	1,182	1,264
Total liabilities	467,940	499,706
Commitments and contingencies (see Note 9)		
Stockholders' (deficit) 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; 51,810,281 and 51,184,584 shares issued, respectively; 47,129,558 and 46,503,861 shares outstanding, respectively	52	51
Additional paid-in capital	617,894	604,084
Treasury stock, 4,680,723 common shares, at cost	(29,847)	(29,847)
Accumulated deficit	(665,995)	(647,252)
Accumulated other comprehensive loss	(5,144)	(4,909)
Total stockholders' (deficit) equity	(83,040)	(77,873)
Total liabilities and stockholders' (deficit) equity	$ 384,900	$ 421,833

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue:				
Subscription	$ 65,600	$ 57,304	$ 129,949	$ 113,273
Maintenance and support	3,385	5,093	6,980	10,805
Total subscription, maintenance and support	68,985	62,397	136,929	124,078
Services	13,028	13,395	25,772	24,896
Total revenue	82,013	75,792	162,701	148,974
Cost of revenue:				
Subscription	14,570	14,059	29,183	28,152
Maintenance and support	1,751	1,876	3,613	4,158
Total cost of subscription, maintenance and support	16,321	15,935	32,796	32,310
Services	12,498	12,636	24,856	25,803
Total cost of revenue	28,819	28,571	57,652	58,113
Gross profit	53,194	47,221	105,049	90,861
Operating expenses:				
Selling and marketing	23,537	24,880	46,219	50,890
Research and development	21,786	21,847	46,199	44,138
General and administrative	15,055	13,849	30,117	27,984
Loss from operations	(7,184)	(13,355)	(17,486)	(32,151)
Convertible debt interest and amortization	(1,148)	(1,576)	(2,350)	(3,152)
Other income, net	1,323	1,791	1,781	3,242
Loss before income tax provision	(7,009)	(13,140)	(18,055)	(32,061)
Income tax provision	377	149	688	230
Net loss	$ (7,386)	$ (13,289)	$ (18,743)	$ (32,291)
Net loss per share:				
Basic and diluted	$ (0.16)	$ (0.29)	$ (0.40)	$ (0.70)
Weighted average number of shares:				
Basic and diluted	47,068	46,101	46,942	46,013
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	$ (62)	$ 9	$ (235)	$ 185
Other comprehensive (loss) income, net of tax	(62)	9	(235)	185
Comprehensive loss	$ (7,448)	$ (13,280)	$ (18,978)	$ (32,106)

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

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

	Six Months Ended June 30,	
	2024	**2023**
Operating activities:		
Net loss	$ (18,743)	$ (32,291)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,395	5,752
Amortization of debt premium and issuance costs	(586)	746
Share-based compensation	22,948	20,656
Provision for credit losses	160	88
Gain on lease modification	(697)	—
Loss on disposal of assets	774	35
Changes in operating assets and liabilities:		
Accounts and unbilled receivables	1,173	(6,070)
Deferred costs	572	341
Prepaid expenses and other assets	174	(1,449)
Operating lease right-of-use assets and liabilities	(1,516)	(1,237)
Accounts payable and other liabilities	3,885	(1,252)
Accrued liabilities	2,418	1,077
Accrued payroll and other employee benefits	(13,511)	(3,688)
Deferred revenue	330	4,607
Net cash provided by (used in) operating activities	1,776	(12,685)
Investing activities:		
Purchases of property and equipment	(438)	(1,823)
Capitalized internal-use software development costs	(58)	—
Investment in equity securities	(113)	—
Net cash used in investing activities	(609)	(1,823)
Financing activities:		
Proceeds from employee stock plans	1,024	1,137
Tax withholding related to net share settlement of stock awards	(10,161)	(5,668)
Settlement of convertible debt	(21,713)	—
Net cash used in financing activities	(30,850)	(4,531)
Effect of foreign currency rates on cash	22	(21)
Net change in cash, cash equivalents and restricted cash	(29,661)	(19,060)
Cash, cash equivalents and restricted cash:		
Beginning of period	178,747	203,627
End of period	$ 149,086	$ 184,567
Reconciliation of cash, cash equivalents and restricted cash to the condensed consolidated balance sheets		
Cash and cash equivalents	$ 139,086	$ 184,567
Restricted cash	10,000	—
Total cash, cash equivalents and restricted cash	$ 149,086	$ 184,567
Supplemental disclosure of cash flow information:		
Noncash investing activities:		
Purchase of property and equipment accrued but not paid	$ 76	$ 194

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

PROS Holdings, Inc.

Condensed Consolidated Statements of Stockholders' (Deficit) Equity

(In thousands, except share data)

(Unaudited)

	Three Months Ended June 30, 2024							
	Common Stock			Treasury Stock				
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	Accumulated other comprehensive loss	Total Stockholders' (Deficit) Equity
Balance at March 31, 2024	46,968,440	$ 52	$ 609,469	4,680,723	$ (29,847)	$ (658,609)	$ (5,082)	$ (84,017)
Stock awards net settlement	161,118	—	(1,823)	—	—	—	—	(1,823)
Noncash share-based compensation	—	—	10,248	—	—	—	—	10,248
Other comprehensive (loss) income	—	—	—	—	—	—	(62)	(62)
Net loss	—	—	—	—	—	(7,386)	—	(7,386)
Balance at June 30, 2024	47,129,558	$ 52	$ 617,894	4,680,723	$ (29,847)	$ (665,995)	$ (5,144)	$ (83,040)

	Three Months Ended June 30, 2023							
	Common Stock			Treasury Stock				
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	Accumulated other comprehensive loss	Total Stockholders' (Deficit) Equity
Balance at March 31, 2023	46,031,241	$ 51	$ 596,805	4,680,723	$ (29,847)	$ (609,900)	$ (5,077)	$ (47,968)
Stock awards net settlement	109,495	—	(958)	—	—	—	—	(958)
Noncash share-based compensation	—	—	10,752	—	—	—	—	10,752
Other comprehensive (loss) income	—	—	—	—	—	—	9	9
Net loss	—	—	—	—	—	(13,289)	—	(13,289)
Balance at June 30, 2023	46,140,736	$ 51	$ 606,599	4,680,723	$ (29,847)	$ (623,189)	$ (5,068)	$ (51,454)

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

PROS Holdings, Inc.
Condensed Consolidated Statements of Stockholders' (Deficit) Equity (Continued)
(In thousands, except share data)
(Unaudited)

	Six Months Ended June 30, 2024							
	Common Stock			Treasury Stock			Accumulated	
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	other comprehensive loss	Total Stockholders' (Deficit) Equity
Balance at December 31, 2023	46,503,861	$ 51	$ 604,084	4,680,723	$ (29,847)	$ (647,252)	$ (4,909)	$ (77,873)
Stock awards net settlement	585,289	1	(10,162)	—	—	—	—	(10,161)
Proceeds from employee stock plans	40,408	—	1,024	—	—	—	—	1,024
Noncash share-based compensation	—	—	22,948	—	—	—	—	22,948
Other comprehensive (loss) income	—	—	—	—	—	—	(235)	(235)
Net loss	—	—	—	—	—	(18,743)	—	(18,743)
Balance at June 30, 2024	47,129,558	$ 52	$ 617,894	4,680,723	$ (29,847)	$ (665,995)	$ (5,144)	$ (83,040)

	Six Months Ended June 30, 2023							
	Common Stock			Treasury Stock			Accumulated	
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	other comprehensive loss	Total Stockholders' (Deficit) Equity
Balance at December 31, 2022	45,638,003	$ 50	$ 590,475	4,680,723	$ (29,847)	$ (590,898)	$ (5,253)	$ (35,473)
Stock awards net settlement	447,584	1	(5,669)	—	—	—	—	(5,668)
Proceeds from employee stock plans	55,149	—	1,137	—	—	—	—	1,137
Noncash share-based compensation	—	—	20,656	—	—	—	—	20,656
Other comprehensive (loss) income	—	—	—	—	—	—	185	185
Net loss	—	—	—	—	—	(32,291)	—	(32,291)
Balance at June 30, 2023	46,140,736	$ 51	$ 606,599	4,680,723	$ (29,847)	$ (623,189)	$ (5,068)	$ (51,454)

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

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

1. Organization and Nature of Operations

PROS Holdings, Inc., a Delaware corporation, through its operating subsidiaries (collectively, the "Company"), provides solutions that optimize shopping and selling experiences. 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 these selling, pricing, revenue optimization, distribution and retail, and digital offer marketing solutions to assess their market environments in real time to deliver customized prices and offers. The Company's solutions enable their customers to provide the buyers of their products the ability to move fluidly from one sales channel to another, whether direct, partner, online, mobile or other emerging channels, each with a personalized experience regardless of which channel is used. 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.

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial reporting and applicable quarterly reporting regulations of the Securities and Exchange Commission ("SEC"). In management's opinion, the accompanying interim unaudited condensed consolidated financial statements include all adjustments necessary for a fair statement of the financial position of the Company as of June 30, 2024, the results of operations for the three and six months ended June 30, 2024 and 2023, cash flows for the six months ended June 30, 2024 and 2023, and stockholders' (deficit) equity for the three and six months ended June 30, 2024 and 2023.

Certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with GAAP have been omitted from these interim unaudited condensed consolidated financial statements pursuant to the rules and regulations of the SEC. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023 ("Annual Report") filed with the SEC. The unaudited condensed consolidated balance sheet as of December 31, 2023 was derived from the Company's audited consolidated financial statements but does not include all disclosures required under GAAP.

Changes in accounting policies

There have been no material changes in the Company’s significant accounting policies and their application as compared to the significant accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023.

Fair value measurement

The Company's financial assets that are included in cash and cash equivalents and that are measured at fair value on a recurring basis consisted of $ 124.7 million and $ 153.2 million at June 30, 2024 and December 31, 2023, respectively, and were invested in treasury, money market funds and interest-bearing deposits in banks. The fair value of those investments is determined based on quoted market prices, which represents level 1 in the fair value hierarchy as defined by ASC 820. See Note 8 for the fair value measurement of the convertible notes.

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 also tied to the value of customer contracts acquired. Deferred costs were $ 14.6 million and $ 15.1 million as of June 30, 2024 and December 31, 2023, respectively. Amortization expense for the deferred costs was $ 1.1 million and $ 1.5 million for the three months ended June 30, 2024 and 2023, respectively, and $ 2.4 million and $ 2.9 million for the six months ended June 30, 2024 and 2023, respectively. Amortization of deferred costs is included in selling and marketing expense in the accompanying unaudited condensed consolidated statements of comprehensive loss.

Recently issued accounting pronouncements not yet adopted

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* , which is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses and other segment items on an annual and interim basis. The new standard is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The ASU is to be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* which expands disclosures in an entity's income tax rate reconciliation table and disclosures regarding income taxes paid by jurisdiction. The new standard is effective for annual periods beginning after December 15, 2024, and early adoption is permitted. The new standard is to be applied on a prospective basis, but retrospective application is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

There have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2024, as compared to the recent accounting pronouncements described in the Company's Annual Report, that are of significance or potential significance to the Company.

3. Deferred Revenue and Performance Obligations

Deferred revenue

For the three months ended June 30, 2024 and 2023, the Company recognized approximately $ 56.0 million and $ 52.0 million, respectively, and for the six months ended June 30, 2024 and 2023, the Company recognized approximately $ 90.0 million and $ 81.5 million, respectively, of revenue that was included in the deferred revenue balances at the beginning of the respective periods and related to subscription, maintenance and support, and services.

Performance obligations

As of June 30, 2024, the Company expects to recognize approximately $ 450.3 million of revenue from remaining performance obligations. The Company expects, based on the terms of the related underlying contractual arrangements, to recognize revenue on approximately $ 232.7 million of these performance obligations over the next 12 months, with the balance recognized thereafter. Remaining performance obligations represent contractually committed revenue that has not yet been recognized, which includes deferred revenue and unbilled amounts that will be recognized as revenue in future periods.

4. Disaggregation of Revenue

Revenue by geography

The geographic information in the table below is presented for the three and six months ended June 30, 2024 and 2023. The Company categorizes geographic revenues based on the location of the customer's headquarters.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024		2023		2024		2023	
(in thousands)	Revenue	Percent	Revenue	Percent	Revenue	Percent	Revenue	Percent
United States of America	$ 27,990	34 %	$ 27,224	36 %	$ 54,923	34 %	$ 53,456	36 %
Europe	25,835	32 %	24,748	33 %	51,506	32 %	47,697	32 %
The rest of the world	28,188	34 %	23,820	31 %	56,272	34 %	47,821	32 %
Total revenue	$ 82,013	100 %	$ 75,792	100 %	$ 162,701	100 %	$ 148,974	100 %

5. 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 9 years. Some of these leases include options to extend for up to 15 years, and some include options to terminate within 1 year.

As of June 30, 2024, the Company did not have any finance leases.

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Cash paid for operating lease liabilities	$ 1,782	$ 1,657	$ 4,015	$ 3,908
Right-of-use asset obtained in exchange for operating lease liability	$ 14	$ 279	$ 2,140	$ 279

In February 2024, an existing operating lease was modified due to a reduction of square footage at one of the Company's offices. The result of this modification was an increase in the related right-of-use asset of $ 2.1 million, an increase in the corresponding lease liability of $ 1.4 million, and a noncash gain of $ 0.7 million recorded as a reduction of the lease cost within cost of revenue and operating expenses . In connection with the lease modification, the Company also recorded a loss on disposal of assets of $ 0.8 million which is included in other income, net in the accompanying unaudited condensed consolidated statements of comprehensive loss.

In January 2023, an existing operating lease was modified due to a change in future payments. The result of the 2023 modification was a decrease in the related right-of-use asset and corresponding lease liability of $ 1.0 million.

As of June 30, 2024, maturities of lease liabilities were as follows (in thousands):

Year Ending December 31,	Amount
Remaining 2024	$ 3,791
2025	3,932
2026	3,893
2027	3,796
2028	3,856
2029	3,913
Thereafter	14,486
Total operating lease payments	37,667
Less: Imputed interest	(8,403)
Total operating lease liabilities	$ 29,264

6. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2024 and 2023:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2024	2023	2024	2023
Numerator:				
Net loss	$ (7,386)	$ (13,289)	$ (18,743)	$ (32,291)
Denominator:				
Weighted average shares (basic)	47,068	46,101	46,942	46,013
Dilutive effect of potential common shares	—	—	—	—
Weighted average shares (diluted)	47,068	46,101	46,942	46,013
Basic loss per share	$ (0.16)	$ (0.29)	$ (0.40)	$ (0.70)
Diluted loss per share	$ (0.16)	$ (0.29)	$ (0.40)	$ (0.70)

Dilutive potential common shares consist of shares issuable upon the vesting of restricted stock units ("RSUs") and market stock units ("MSUs"). Potential common shares determined to be antidilutive and excluded from diluted weighted average shares outstanding were approximately 1.9 million and 1.7 million for the three months ended June 30, 2024 and 2023, respectively, and 1.4 million and 1.7 million for the six months ended June 30, 2024 and 2023, respectively. In addition, potential common shares related to the convertible notes determined to be antidilutive and excluded from diluted weighted average shares outstanding were 6.5 million and 6.6 million for the three and six months ended June 30, 2024, respectively, and 5.8 million for the three and six months ended June 30, 2023.

7. Noncash Share-based Compensation

The Company's 2017 Equity Incentive Plan (as amended and restated, the "2017 Stock Plan") had an aggregate authorized limit of 7,650,000 shares for issuance. In May 2023, the Company's stockholders approved an amendment to the 2017 Stock Plan increasing the aggregate amount of shares available for issuance to 10,550,000 . As of June 30, 2024, 3,254,841 shares remain available for issuance under the 2017 Stock Plan.

The following table presents the number of shares or units outstanding for each award type as of June 30, 2024 and December 31, 2023 (in thousands):

Award type	June 30, 2024	December 31, 2023
Restricted stock units (time-based)	2,969	2,767
Market stock units	439	358

During the three months ended June 30, 2024, the Company granted 137,531 RSUs (time-based) with a weighted average grant-date fair value of $ 32.43 per share. During the six months ended June 30, 2024, the Company granted 1,333,618 RSUs (time-based) with a weighted average grant-date fair value of $ 35.35 per share.

The Company also granted 47,789 MSUs with a weighted average grant-date fair value of $ 36.87 to certain executive employees during the three months ended June 30, 2024, and 179,681 MSUs with a weighted average grant-date fair value of $ 39.95 to certain executive employees during the six months ended June 30, 2024. These MSUs vest on January 31, 2027, and the actual number of MSUs that will be eligible to vest is based on the total stockholder return of the Company relative to the total stockholder return of the Index over the performance period, as defined by each award's plan documents or individual award agreements. The maximum number of shares issuable upon vesting is 200% of the MSUs initially granted.

The Company estimates the fair value of MSUs on the date of grant using a Monte Carlo simulation model. The weighted average assumptions used to value the MSUs granted during the three and six months ended June 30, 2024 were as follows:

	Three Months Ended June 30, 2024	Six Months Ended June 30, 2024
Volatility	52.06 %	51.24 %
Risk-free interest rate	4.82 %	4.14 %
Expected award life in years	2.70	2.90
Dividend yield	— %	— %

Share-based compensation expense is allocated to expense categories in the unaudited condensed consolidated statements of comprehensive loss. The following table summarizes share-based compensation expense included in the Company's unaudited condensed consolidated statements of comprehensive loss for the three and six months ended June 30, 2024 and 2023 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Share-based compensation:				
Cost of revenue	$ 1,151	$ 985	$ 2,219	$ 1,817
Operating expenses:				
Selling and marketing	2,437	3,103	6,065	6,031
Research and development	2,114	2,673	5,645	5,023
General and administrative	4,546	3,991	9,019	7,785
Total included in operating expenses	9,097	9,767	20,729	18,839
Total share-based compensation expense	$ 10,248	$ 10,752	$ 22,948	$ 20,656

At June 30, 2024, the Company had an estimated $ 91.6 million of total unrecognized compensation costs related to share-based compensation arrangements. These costs will be recognized over a weighted average period of 2.8 years.

The Company's Employee Stock Purchase Plan (as amended, the "ESPP") permits eligible employees to purchase Company 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. In May 2021, the Company's stockholders approved an amendment to the ESPP increasing the aggregate amount of shares available for issuance under the ESPP to 1,000,000 . During the three and six months ended June 30, 2024, the Company issued zero and 40,408 shares under the ESPP, respectively. As of June 30, 2024, 242,709 shares remain authorized and available for issuance under the ESPP. As of June 30, 2024, the Company held approximately $ 1.1 million on behalf of employees for future purchases under the ESPP, and this amount was recorded in accrued payroll and other employee benefits in the Company's unaudited condensed consolidated balance sheet.

8. Convertible Senior Notes

The following is a summary of the Company's convertible senior notes as of June 30, 2024 (in thousands):

	Date of Issuance	Unpaid Principal Balance	Contractual Interest Rates
1% Convertible Notes due in 2024 ("2024 Notes")	May 2019	$ —	1 %
2.25% Convertible Notes due in 2027 ("2027 Notes")	September 2020 and October 2023	$ 266,816	2.25 %
Total Notes		$ 266,816	

The 2027 and 2024 Notes (collectively, the "Notes") are 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).

The 2027 Notes mature on September 15, 2027, unless redeemed or converted in accordance with their terms prior to such date. The 2024 Notes matured on May 15, 2024 and the Company settled the outstanding principal balance of $ 21.7 million during the quarter ended June 30, 2024.

Interest related to the 2027 Notes is payable semi-annually in arrears in cash on March 15 and September 15 of each year, beginning on March 15, 2021. Interest related to the 2024 Notes was payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2019.

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 and is subject to adjustment upon the occurrence of certain specified events. Each $1,000 of principal of the 2024 Notes was initially to be convertible into 15.1394 shares of the Company's common stock, which was equivalent to an initial conversion price of approximately $ 66.05 per share and was subject to adjustment upon the occurrence of certain specified events.

On August 23, 2023, the Company entered into legally binding exchange agreements with a limited number of existing holders of the 2024 Notes to exchange approximately $ 122.0 million aggregate principal amount of the existing 2024 Notes for a principal amount of the 2027 Notes at an exchange ratio to be determined based on the daily volume-weighted average trading price of the Company's common stock over a thirty-day trading period beginning August 24, 2023 (such exchange transactions, the "Exchange"). On October 10, 2023, the Company settled the exchange agreements for the exchange of $ 122.0 million aggregate principal amount of its outstanding 2024 Notes for newly issued $ 116.8 million aggregate principal amount of its outstanding 2027 Notes. Following the settlement of the Exchange, $ 21.7 million in aggregate principal amount of the 2024 Notes and $ 266.8 million in aggregate principal amount of the 2027 Notes remained outstanding with terms unchanged. The 2027 Notes issued in the Exchange constitute a further issuance of, and form a single series and will be fungible with, the existing 2027 Notes.

As of June 30, 2024, the 2027 Notes are not yet convertible and their remaining term is approximatel y 39 months.

As of June 30, 2024 and December 31, 2023, the fair value of the outstanding principal amount of the Notes in the aggregate was $ 256.7 million and $ 320.5 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):

	June 30, 2024	December 31, 2023
Principal	$ 266,816	$ 288,529
Debt premium, net of amortization	8,427	9,776
Debt issuance costs, net of amortization	(3,690)	(4,313)
Net carrying amount	$ 271,553	$ 293,992

The following table sets forth total interest expense recognized related to the Notes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Coupon interest	$ 1,520	$ 1,203	$ 3,075	$ 2,406
Amortization of debt issuance costs	301	373	624	746
Amortization of debt premium	(673)	—	(1,349)	—
Total	$ 1,148	$ 1,576	$ 2,350	$ 3,152

Capped call transactions

In September 2020 and in May 2019, in connection with the offering of the 2027 and 2024 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 the Notes, and to effectively increase the overall conversion price of the 2027 Notes from $ 41.82 to $ 78.90 per share, and for the 2024 Notes from $ 66.05 to $ 101.62 per share. As the Capped Call transactions meet certain accounting criteria, they are recorded in stockholders' (deficit) equity and are not accounted for as derivatives. The cost of the Capped Call was $ 25.3 million and $ 16.4 million for the 2027 and 2024 Notes, respectively, and was recorded as part of additional paid-in capital. On May 15, 2024, the 2024 Notes matured and the Capped Call associated with the 2024 Notes expired unexercised. The expiration of the 2024 Notes Capped Call did not have an impact on the unaudited condensed consolidated financial statements.

In August 2023, in connection with the Exchange, the Company entered into additional capped call transactions (the "Additional Capped Call") with certain option counterparties. The Company agreed to pay a premium to the option counterparties for the Additional Capped Call for an amount to be determined based on the volume-weighted average trading price of the Company's common stock over a thirty-day reference period beginning August 24, 2023. The conversion price of the Additional Capped Call is the same as the 2027 Notes Capped Call above. Initial funding of the Additional Capped Call occurred in the third quarter of 2023. The Additional Capped Call had a deferred premium component indexed to the Company's stock price and required to be settled in cash, and therefore the Additional Capped Call was a derivative instrument that, at inception, did not meet the qualifications for equity classification. On October 10, 2023, the Company settled the deferred premium on the Additional Capped Call resulting in a final value of $ 22.2 million. Once the deferred premium was settled, the instrument met the requirements for equity classification and the Company reclassified the Additional Capped Call to additional paid-in capital.

9. Commitments and Contingencies

Litigation

In the ordinary course of business, the Company regularly becomes involved in contract and other negotiations and, in more limited circumstances, becomes involved in legal proceedings, claims and litigation. The outcomes of these matters are inherently unpredictable. 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, mainly related to infrastructure platforms, business technology software and support, and other services. In January 2023, the Company entered into a noncancelable agreement for software support services with a four-year term. The remaining purchase commitment as of June 30, 2024 was $ 2.4 million and the agreement expires in March 2027. There were no other material changes outside the ordinary course of business to the noncancellable purchase commitments disclosed in the Annual Report.

10. Severance and Other Related Costs

In the first quarter of 2023, the Company made certain organizational changes and incurred approximately zero and $ 3.6 million of severance, employee benefits, outplacement and related costs during the three and six months ended June 30, 2023, respectively. These costs were recorded primarily as operating expenses in the unaudited condensed consolidated statements of comprehensive loss, mainly research and development, and sales and marketing. During the three and six months ended June 30, 2023 , cash payments of $ 0.6 million and $ 3.7 million, respectively, were recorded for the incurred costs. The Company settled the remaining accrued expense within 2023.

11. Other Income, Net

Other income, net consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Interest income, net	1,556	2,051	3,318	3,781
Foreign currency (loss) gain, net	(228)	(259)	(764)	(462)
Other (1)	(5)	(1)	(773)	(77)
Total other income, net	$ 1,323	$ 1,791	$ 1,781	$ 3,242

(1) Includes loss on disposal of assets of $ 0.8 million related to a lease modification in the first quarter of 2024, see Note 5.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

This management's discussion and analysis of financial condition and results of operations should be read along with the unaudited condensed consolidated financial statements and unaudited notes to unaudited condensed consolidated financial statements included in Part I, Item 1 ("*Interim Condensed Consolidated Financial Statements (Unaudited)*"), as well as the audited consolidated financial statements and notes to consolidated financial statements and management's discussion and analysis of financial condition and results of operations set forth in our Annual Report.

Q2 2024 Financial Overview

In the second quarter of 2024, we continued to grow our subscription revenue, increasing subscription revenue by 14% and 15% for the three and six months ended June 30, 2024, respectively, as compared to the same periods in 2023. Total revenue increased by 8% and 9% for the three and six months ended June 30, 2024, respectively, as compared to the same periods in 2023.

For the three and six months ended June 30, 2024, recurring revenue (which consists of subscription revenue and maintenance and support revenue) accounted for 84% of total revenue. Our gross revenue retention rates remained above 93% during the twelve months ended June 30, 2024.

In the second quarter of 2024, we continued to improve on our profitability metrics. Our subscription gross profit margin was 78% for the three and six months ended June 30, 2024 as compared to 75% for the three and six months ended June 30, 2023.

Cash provided by operating activities was $1.8 million for the six months ended June 30, 2024 as compared to cash used in operating activities of $12. million for the six months ended June 30, 2023. The improvement was primarily due to a significant reduction in our net loss and an increase in cash collections from our customers.

Factors Affecting Our Performance

Key factors and trends that have affected, and we believe will continue to affect, our operating results include:

- *Macroeconomic and Geopolitical Environment*. The companies we serve continue to navigate a difficult macroeconomic and regulatory environment impacted by inflation, higher interest rates, supply chain disruptions, tight labor markets, pricing volatility, rapid new regulations, geopolitical conflicts, including the Russia-Ukraine and Middle East conflicts, and other local and regional macroeconomic conditions. Uncertain macroeconomic, regulatory and industry conditions in the geographies where we operate create a continued challenging selling environment for enterprise technology deployments, including in some cases more complex customer review and approval cycles. For example, AI regulation, such as the EU AI Act, creates uncertainty and increases scrutiny by companies adopting AI, even where the AI utilized is compliant with applicable regulations. Despite this environment, we remain confident in our ability to help our customers drive profitable growth by optimizing their shopping and selling experiences. For example, pricing volatility and inflation can be meaningful catalysts for demand for our AI-driven price optimization and management solutions. We believe in the near term that new customers will continue to emphasize smaller scope initial purchases and fast return on their investments. We believe this emphasis will require solid execution by our teams to capitalize on these demand drivers.

- *Profitable Growth as a Priority*. We continue to focus on profitability by investing in a disciplined manner to drive revenue growth and support our long-term initiatives. This includes investments designed to accelerate our customer time-to-value, improve efficiency and operations, further leveraging AI in our business operations, provide out-of-the-box integration with third-party commerce solutions and develop new applications and technologies. We expect our product development, sales and marketing, and general and administrative expenses as a percentage of total revenues will decrease long-term as we increase our revenues and focus on profitability.

- *Artificial Intelligence*. The rapidly evolving market interest in generative AI and associated interest in all aspects of AI continues to drive businesses around the world and across industries to consider, invest in and use applications leveraging AI. For example, companies use AI to extract insights from their data, improve and customize their offerings, and drive process and operating efficiencies. Our AI-powered solutions enable buyers to move fluidly and with personalized experiences across our customers' sales channels, and our digital offer marketing solutions help our customers drive their buyers directly into their direct selling channels. The pace of change across industries helps fuel demand for our solutions as businesses look to replace manual processes with AI. We have utilized AI in our solutions for years and our deep experience in AI continues to influence our category-leading solutions. For example, our current AI uses a neural network to leverage all available data and attributes to improve prediction accuracy. We are also utilizing and considering new ways to expand AI use in our own business operations to drive efficiencies, improve knowledge management, gain insights and increase productivity.

- *Travel Industry Dynamics*. The travel industry continues to recover from the unprecedented disruption caused by the pandemic with global air passenger traffic exceeding pre-pandemic levels during 2024. Demand for air travel remains strong, and the airline industry is working to reestablish equilibrium in light of aircraft delivery issues and operational, cost and supply chain challenges. There is a growing awareness amongst airlines of the importance of competing for customers based on the total travel experience, while also improving financial performance. In some cases, this includes a renewed focus on revenue management systems. We believe our other solutions are also well-positioned, particularly as airlines look to enhance their digital marketing, booking capabilities, and ancillary offerings. However, operational challenges within the airline industry continue to impact sales cycles and approval processes.

- *Digital Purchasing Driving Technology Adoption*. We believe the long-term trends toward digital purchasing by both consumers and corporate buyers drives demand for technology that provides fast, frictionless and personalized buying experiences across direct sales, partner, online, mobile and emerging channels. Buyers often prefer not to interact with sales representatives as their primary source of research, and to buy online when they have already decided what to buy. For example, in the airline industry, the pandemic accelerated a long-term trend towards direct booking channels, and we anticipate airlines continuing to invest in technology to enhance their ability to capture a greater percentage of bookings and provide increasingly personalized offers through their own channels such as their websites. We believe companies increasingly compete based on customer experience and must adopt technologies which power consistent offers and experiences across sales channels.

Results of Operations

The following table sets forth certain items in our unaudited condensed consolidated statements of comprehensive loss as a percentage of total revenues for the three and six months ended June 30, 2024 and 2023:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue:				
Subscription	80 %	76 %	80 %	76 %
Maintenance and support	4	7	4	7
Total subscription, maintenance and support	84	82	84	83
Services	16	18	16	17
Total revenue	100	100	100	100
Cost of revenue:				
Subscription	18	19	18	19
Maintenance and support	2	2	2	3
Total cost of subscription, maintenance and support	20	21	20	22
Services	15	17	15	17
Total cost of revenue	35	38	35	39
Gross profit	65	62	65	61
Operating Expenses:				
Selling and marketing	29	33	28	34
Research and development	27	29	28	30
General and administrative	18	18	19	19
Total operating expenses	74	80	75	83
Convertible debt interest and amortization	(1)	(2)	(1)	(2)
Other income, net	2	2	1	2
Loss before income tax provision	(9)	(17)	(11)	(22)
Income tax provision	—	—	—	—
Net loss	(9)%	(18)%	(12)%	(22)%

***Revenue**:*

(Dollars in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Variance $	Variance %	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Variance $	Variance %
Subscription	$ 65,600	$ 57,304	$ 8,296	14 %	$ 129,949	$ 113,273	$ 16,676	15 %
Maintenance and support	3,385	5,093	(1,708)	(34) %	6,980	10,805	(3,825)	(35) %
Total subscription, maintenance and support	68,985	62,397	6,588	11 %	136,929	124,078	12,851	10 %
Services	13,028	13,395	(367)	(3) %	25,772	24,896	876	4 %
Total revenue	$ 82,013	$ 75,792	$ 6,221	8 %	$ 162,701	$ 148,974	$ 13,727	9 %

Subscription revenue. Subscription revenue increased primarily due to an increase in new and existing customer subscription contracts.

Maintenance and support revenue. Maintenance and support revenue decreased primarily as a result of existing maintenance customers migrating to our cloud solutions and, to a lesser extent, customer maintenance churn. We expect maintenance revenue to continue to decline as we continue to migrate maintenance customers to our cloud solutions.

Services revenue. During the three months ended June 30, 2024, services revenue decreased mainly due to the completion of several large implementations during the second quarter of 2023. During the six months ended June 30, 2024, services revenue increased primarily as a result of higher sales of professional services to our existing customers. Services revenue varies from period to period depending on different factors, including the level of professional services required to implement our solutions, which in turn can vary depending on the mix of new versus existing customer software solution sales. Services revenue is also impacted by the timing of services revenue recognition on certain subscription contracts and efficiencies in our solutions implementations requiring less professional services during a particular period.

Cost of revenue and gross profit:

(Dollars in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Variance $	Variance %	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Variance $	Variance %
Cost of subscription	$ 14,570	$ 14,059	$ 511	4 %	$ 29,183	$ 28,152	$ 1,031	4 %
Cost of maintenance and support	1,751	1,876	(125)	(7) %	3,613	4,158	(545)	(13) %
Total cost of subscription, maintenance and support	16,321	15,935	386	2 %	32,796	32,310	486	2 %
Cost of services	12,498	12,636	(138)	(1) %	24,856	25,803	(947)	(4) %
Total cost of revenue	28,819	28,571	248	1 %	57,652	58,113	(461)	(1) %
Gross profit	$ 53,194	$ 47,221	$ 5,973	13 %	$ 105,049	$ 90,861	$ 14,188	16 %

Cost of subscription. Cost of subscription increased primarily due to higher infrastructure cost to support the growth in our current subscription customer base and higher employee-related costs primarily due to an increase in headcount. These increases were partially offset by a decrease in amortization expense for intangible assets and internal-use software expense. Our subscription gross profit percentages were 78% for the three and six months ended June 30, 2024, and 75% for the three and six months ended June 30, 2023.

Cost of maintenance and support. Cost of maintenance and support decreased mainly due to lower personnel costs as our maintenance customer base declined primarily with migrations to our subscription solutions. Maintenance and support gross profit percentages were 48% for the three and six months ended June 30, 2024, and 63% and 62% for the three and six months ended June 30, 2023, respectively. Gross profit percentages decreased in 2024 as compared to prior year primarily due to lower maintenance and support revenue and the cost of maintenance and support being partially fixed.

Cost of services. Cost of services remained relatively unchanged during the three months ended June 30, 2024 as compared to the three months ended June 30, 2023. The decrease during the six months ended June 30, 2024 was primarily due to prior organizational headcount changes and other allocated overhead. Services gross profit percentages were 4% and 6% for the three months ended June 30, 2024 and 2023, respectively, and 4% and (4)% for the six months ended June 30, 2024 and 2023, respectively. Services gross profit percentages improved during the first half of 2024 compared to the same period in 2023 primarily due to an increase in services revenue as well as a decrease in cost of services. Services gross profit percentages vary period to period depending on different factors, including the level of professional services required to implement our solutions, the utilization of our employees and our effective man-day rates.

Operating expenses:

(Dollars in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Variance $	Variance %	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Variance $	Variance %
Selling and marketing	$ 23,537	$ 24,880	$ (1,343)	(5) %	$ 46,219	$ 50,890	$ (4,671)	(9) %
Research and development	21,786	21,847	(61)	— %	46,199	44,138	2,061	5 %
General and administrative	15,055	13,849	1,206	9 %	30,117	27,984	2,133	8 %
Total operating expenses	$ 60,378	$ 60,576	$ (198)	— %	$ 122,535	$ 123,012	$ (477)	— %

Selling and marketing expenses. Selling and marketing expenses decreased primarily due to a decrease in employee-related costs. The decrease in selling and marketing expense for the six months ended June 30, 2024 also included the impact from severance cost in prior year as well as a decrease in sales and marketing events and initiatives year-over-year.

Research and development expenses. Research and development expenses remained relatively unchanged for the three months ended June 30, 2024. During the six months ended June 30, 2024, research and development expenses increased primarily due to higher employee-related expenses mainly due to higher headcount, an increase in contract labor and noncash share-based compensation expense.

General and administrative expenses. General and administrative expenses increased primarily due to higher employee-related expenses, including noncash share-based compensation.

Non-operating expenses:

(Dollars in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Variance $	Variance %	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Variance $	Variance %
Convertible debt interest and amortization	$ (1,148)	$ (1,576)	$ 428	(27) %	$ (2,350)	$ (3,152)	$ 802	(25) %
Other income, net	$ 1,323	$ 1,791	$ (468)	(26) %	$ 1,781	$ 3,242	$ (1,461)	(45) %

Convertible debt interest and amortization. Our convertible debt expense consisted of coupon interest and amortization of debt premium and debt issuance costs attributable to our Notes. The decrease in expense was related to the exchange of approximately 85% of PROS outstanding convertible notes that were due in May 2024 for newly issued convertible notes now due in September 2027. See Note 8 for more information.

Other income, net. The decrease in other income, net for the three months ended June 30, 2024 was primarily due to a decrease in interest income as compared to the same period in 2023. During the six months ended June 30, 2024, the change in other income, net was primarily related to loss on disposal of assets associated with a lease modification in the first quarter of 2024, see Note 5 for more information. The decrease was also due to lower interest income during the period as well as the impact of foreign currency fluctuations.

Income tax provision:

(Dollars in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Variance $	Variance %	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Variance $	Variance %
Effective tax rate	(5) %	(1) %	n/a	n/a	(4) %	(1) %	n/a	n/a
Income tax provision	$ 377	$ 149	$ 228	153 %	$ 688	$ 230	$ 458	199 %

Income tax provision. The tax provision for the three and six months ended June 30, 2024 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 effective tax rate was (5)% and (1)% for the three months ended June 30, 2024 and 2023, respectively, and (4)% and (1)% for the six months ended June 30, 2024 and 2023, respectively. The income tax rate varies from the 21% federal statutory rate primarily due to the valuation allowances on our deferred tax assets. While our expected tax rate would be 0% due to the full valuation allowance on our deferred tax assets, the income tax provision and related effective tax rates was due to foreign income and withholding taxes.

Jurisdictions with a projected loss for the year where no tax benefit can be recognized due to the valuation allowances on our deferred tax assets are excluded from the estimated annual federal effective tax rate. The impact of such an exclusion could result in a higher or lower effective tax rate during a particular quarter depending on the mix and timing of actual earnings versus annual projections.

Liquidity and Capital Resources

At June 30, 2024, we had $139.1 million of cash and cash equivalents and $36.2 million of working capital as compared to $168.7 million of cash and cash equivalents and $37.3 million of working capital at December 31, 2023. The decrease in cash and cash equivalents was primarily related to the settlement of the outstanding principal of our 2024 Notes of $21.7 million, which matured in May 2024.

Our principal sources of liquidity are our cash and cash equivalents, cash flows generated from operations and potential borrowings under our $50 million credit agreement (the "Credit Agreement"). In addition, we could access capital markets to supplement our liquidity position. Our material drivers or variants of operating cash flow are net income (loss) and the timing of invoicing and cash collections from our customers. Our operating cash flows are also impacted by the timing of payments to our vendors and the payments of other liabilities.

We believe we will have adequate liquidity and capital resources to meet our operational requirements, anticipated capital expenditures, and coupon interest of our 2027 Notes for the next twelve months. Our future working capital requirements depend on many factors, including the operations of our existing business, growth of our customer subscription services, future acquisitions we might undertake, expansion into complementary businesses, timing of adoption and implementation of our solutions and customer churn. Capital markets have tightened in response to the macroeconomic environment making new financing more difficult and/or expensive and we may not be able to obtain such financing on terms acceptable to us or at all.

The following table presents key components of our unaudited condensed consolidated statements of cash flows for the six months ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
(Dollars in thousands)	**2024**	**2023**
Net cash provided by (used in) operating activities	$ 1,776	$ (12,685)
Net cash used in investing activities	(609)	(1,823)
Net cash used in financing activities	(30,850)	(4,531)
Effect of foreign currency rates on cash	22	(21)
Net change in cash, cash equivalents and restricted cash	$ (29,661)	$ (19,060)

Operating activities

Net cash provided by operating activities for the six months ended June 30, 2024 was $1.8 million. The improvement was primarily due to a significant reduction in our net loss and an increase in cash collections from our customers.

Investing activities

Net cash used in investing activities for the six months ended June 30, 2024 was $0.6 million. The decrease was mainly due to higher capital expenditures in 2023, primarily related to a third-party software license renewal.

Financing activities

Net cash used in financing activities for the six months ended June 30, 2024 was $30.9 million. The increase year-over-year was primarily due to the $21.7 million settlement of our 2024 Notes as they matured in May 2024 and higher tax withholding payments of $4.5 million related to the vesting of employee share-based awards.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material. We do not have any relationships with unconsolidated entities or financial partnerships, such as variable interest entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations and Commitments

Other than changes described in Note 9 above and noted below, there have been no material changes to our contractual obligations and commitments disclosed in our Annual Report.

Credit facility

As of June 30, 2024, there were no outstanding borrowings under our Credit Agreement. As of June 30, 2024, $0.6 million of unamortized debt issuance costs related to the Credit Agreement is included in prepaid and other current assets and other assets, noncurrent in the unaudited condensed consolidated balance sheets. For the three and six months ended June 30, 2024, we recorded an immaterial amount of amortization of debt issuance costs which is included in other income, net in the unaudited condensed consolidated statements of comprehensive loss.

The Credit Agreement also has a depository condition which requires us to maintain a cash balance of at least $10.0 million with the administrative agent throughout the term of the Credit Agreement. This amount has been included in restricted cash in the unaudited condensed consolidated balance sheets.

Recent Accounting Pronouncements

See "*Recently issued accounting pronouncements not yet adopted*" in Note 2 above for discussion of recent accounting pronouncements including the respective expected dates of adoption, if any.

Critical accounting policies and estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these unaudited condensed 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. Actual results could differ from those estimates. The complexity and judgment required in our 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 credit losses, operating lease right-of-use assets and operating lease liabilities, useful lives of assets, depreciation, income taxes and deferred tax asset valuation, valuation of stock awards, other current liabilities and accrued liabilities. Numerous internal and external factors can affect estimates. Our critical accounting policies related to the estimates and judgments are discussed in our Annual Report under management's discussion and analysis of financial condition and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risks from those disclosed in Part II, Item 7A, of our Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) as of June 30, 2024. Based on our evaluation of our disclosure controls and procedures as of June 30, 2024, our chief executive officer and chief financial officer 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 chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are a party to legal proceedings and claims arising in the ordinary course of business. We are not currently aware of any such proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A, of our Annual Report.

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 AWS, all of which must interoperate 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. 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 hurricanes, earthquakes, floods, fires, power loss, telecommunications and human 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, disruptions to the supply chain necessary to maintain these third-party systems or to run our business could impact our service availability and performance. 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 customers' 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.

We have experienced, and may experience in the future, system disruptions, outages and other performance problems due to third-party data centers, software, data and other service providers, many of which are shared by other SaaS providers. These disruptions could impair the delivery of our service and negatively affect our business, damage our reputation, negatively impact our future sales and/or cash flows and lead to legal liability and other costs, and the full impact of which may not be immediately known.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

None.

ITEM 5. OTHER INFORMATION

Securities Trading Plans of Directors and Executive Officers

None of our directors or officers adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K during the three months ended June 30, 2024.

ITEM 6. EXHIBITS

Index to Exhibits

		Provided	Incorporated by Reference	
Exhibit No.	**Description**	**Herewith**	**Form**	**Filing Date**
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.

* 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.

SIGNATURES

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

		PROS HOLDINGS, INC.
July 30, 2024	By:	/s/ Andres Reiner
		Andres Reiner President and Chief Executive Officer (Principal Executive Officer)
July 30, 2024	By:	/s/ Stefan Schulz
		Stefan Schulz Executive Vice President and Chief Financial Officer (Principal Financial Officer)

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andres Reiner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PROS Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

July 30, 2024	/s/ Andres Reiner
	Andres Reiner
	President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stefan Schulz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PROS Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

July 30, 2024

/s/ Stefan Schulz

Stefan Schulz

Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Andres Reiner, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the quarterly report of PROS Holdings, Inc., on Form 10-Q for the period ended June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of PROS Holdings, Inc.

July 30, 2024	/s/ Andres Reiner
	Andres Reiner
	President and Chief Executive Officer

I, Stefan Schulz, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the quarterly report of PROS Holdings, Inc., on Form 10-Q for the period ended June 30, 2024 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of PROS Holdings, Inc.

July 30, 2024	/s/ Stefan Schulz
	Stefan Schulz
	Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to PROS Holdings, Inc. and will be retained by PROS Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. This certification "accompanies" the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.