PROS Holdings, Inc.
Form 10-Q
May 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

For the Transition Period from __________ to __________

Commission File Number: 001-33554

PROS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0168604**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

3100 Main Street, Suite 900, Houston, TX 77002
(713) 335-5151

(Address and telephone number of principal executive offices)

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 þ No o

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

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

Large Accelerated Filer o	Accelerated Filer þ	Non-Accelerated Filer o (do no check if a smaller reporting company)	Smaller Reporting Company o

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

The number of shares outstanding of the Registrant s Common Stock, $0.001 par value, was 26,778,476 as of May 2, 2011.

PROS Holdings, Inc.
Form 10-Q for the Three Months Ended March 31, 2011
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Cautionary Statement

Except for the historical financial information contained herein, the matters discussed in this report on Form 10-Q (as well as documents incorporated herein by reference) may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include declarations regarding the intent, belief or current expectations of PROS Holdings, Inc. and its management and may be signified by the words expects, anticipates, target, project, goals, estimates, potential, predicts, may, might, could, intends, believes or sin cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. Actual results could differ materially from those indicated by such forward-looking statements. Factors that could cause or contribute to such differences include those discussed under Risk Factors and elsewhere in this report. PROS Holdings, Inc. disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. Financial Information

Item 1. Unaudited Condensed Consolidated Financial Statements

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

	March 31, 2011	December 31, 2010
Assets:		
Current assets:		
Cash and cash equivalents	$ 61,499	$ 55,845
Short-term investments	365	73
Accounts and unbilled receivables, net of allowance of $900 and $1,020, respectively	22,875	27,402
Prepaid and other current assets	7,237	6,170
Total current assets	91,976	89,490
Restricted cash	329	293
Property and equipment, net	3,298	3,248
Other long term assets, net	5,269	5,097
Total assets	$ 100,872	$ 98,128
Liabilities and Stockholders Equity:		
Current liabilities:		
Accounts payable	$ 1,163	$ 2,131
Accrued liabilities	1,321	1,998
Accrued payroll and other employee benefits	3,937	4,606
Deferred revenue	30,309	28,429
Total current liabilities	36,730	37,164
Long-term deferred revenue	1,297	1,461
Total liabilities	38,027	38,625
Commitments and contingencies (Note 4)		
Stockholders equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized none issued		
Common stock, $0.001 par value, 75,000,000 shares authorized, 31,190,587 and 30,777,000 shares issued, respectively, 26,773,002 and 26,359,415 shares outstanding, respectively	31	31
Additional paid-in capital	72,330	69,844
Treasury stock, 4,417,585 common shares, at cost	(13,938)	(13,938)
Accumulated other comprehensive loss	(11)	(11)

Retained earnings	4,433	3,577
Total stockholders equity	62,845	59,503
Total liabilities and stockholders equity	$ 100,872	$ 98,128

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

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PROS Holdings, Inc.

Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)
(Unaudited)

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Revenue:		
License and implementation	$ 13,793	$ 10,372
Maintenance and support	7,613	6,955
Total revenue	21,406	17,327
Cost of revenue:		
License and implementation	4,623	3,220
Maintenance and support	1,710	1,495
Total cost of revenue	6,333	4,715
Gross profit	15,073	12,612
Operating expenses:		
Selling, general and administrative	7,871	6,632
Research and development	5,960	5,214
Income from operations	1,242	766
Other income:		
Interest income	18	11
Income before income tax provision	1,260	777
Income tax provision	404	306
Net income	$ 856	$ 471
Net earnings attributable to common stockholders per share:		
Basic	$ 0.03	$ 0.02
Diluted	$ 0.03	$ 0.02
Weighted average number of shares:		
Basic	26,594,083	25,912,444
Diluted	27,447,436	26,551,166

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

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PROS Holdings, Inc.

Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	For the Three Months Ended March 31, 2011	2010
Operating activities:		
Net income	$ 856	$ 471
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	367	330
Share-based compensation	1,756	1,419
Excess tax benefits on vesting of restricted stock units	(852)	(532)
Deferred taxes, net	(201)	
Provision for doubtful accounts	38	
Amortization of capitalized costs		37
Changes in operating assets and liabilities:		
Accounts receivable	5,013	(6,189)
Unbilled receivables	(542)	(792)
Prepaid expenses and other	(203)	309
Accounts payable, accrued liabilities and accrued payroll	(2,016)	(627)
Deferred revenue	1,716	5,189
Net cash provided by (used in) operating activities	5,932	(385)
Investing activities:		
Purchases of property and equipment	(697)	(240)
Increase in restricted cash	(36)	(293)
Increase in short-term investments	(292)	
Net cash used in investing activities	(1,025)	(533)
Financing activities:		
Exercise of stock options	1,066	76
Excess tax benefits on vesting of restricted stock units	852	532
Tax withholding related to net share settlement of restricted stock units	(1,171)	(804)
Net cash provided by (used in) financing activities	747	(196)
Net increase (decrease) in cash and cash equivalents	5,654	(1,114)
Cash and cash equivalents:		
Beginning of period	55,845	62,449
End of period	$ 61,499	$ 61,335

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

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PROS Holdings, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements
(Unaudited)

1. Organization and summary of significant accounting policies

Nature of operations

PROS Holdings, Inc., a Delaware corporation and subsidiaries, or the Company, is a provider of pricing and margin optimization software products, an emerging category of enterprise applications designed to allow companies to improve financial performance by implementing pricing excellence best-practices. Customers use the Company s software products to gain insight into their pricing strategies, identify detrimental pricing activities, optimize their pricing decision making and improve their business processes and financial performance. The Company s software products incorporate advanced pricing science, which includes operations research, forecasting and statistics. These innovative science based software products analyze, execute and optimize pricing strategies using data elements determined using advanced pricing science, including the pocket price, pocket margin, customer willingness-to-pay, customer cost-to-serve, win-loss ratios, market price, stretch price and other relevant information as well as data from traditional enterprise applications, often augmenting it with real-time and historical data and external market data sources. The Company also provides a range of services that include analyzing a company s current pricing processes and implementing the Company s software products to improve pricing performance. The Company provides its software products to enterprises across a range of industries, including manufacturing, distribution, services and travel.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial reporting and applicable quarterly reporting regulations of the Securities and Exchange Commission, or SEC. In management s opinion, the accompanying interim unaudited condensed consolidated financial statements include all adjustments necessary for a fair presentation of the financial position of the Company as of March 31, 2011, the results of operations for the three months ended March 31, 2011 and cash flows for the three months ended March 31, 2011. 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 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 for the fiscal year ended December 31, 2010, which are included in the Company s 2010 Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2010 was derived from the Company s audited consolidated financial statements and does not include all disclosures required by GAAP.

Basis of consolidation

The unaudited condensed consolidated financial statements include the accounts of PROS Holdings, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Dollar amounts

The dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands of dollars, except per unit amounts, or as noted within the context of each footnote disclosure.

Use of estimates

The Company s management makes estimates and assumptions in the preparation of its unaudited condensed consolidated financial statements in conformity with GAAP. These estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expense during the reporting periods. Actual results could differ from those estimates. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the percentage-of-completion method of revenue recognition affects the amount of revenue, expenses, unbilled receivables and deferred revenue. Numerous internal and external factors can affect estimates. Estimates are also used for, but not limited to, receivables, allowance for doubtful accounts, useful lives of assets, depreciation, income taxes and deferred tax asset valuation, valuation of stock options, other current liabilities and accrued liabilities.

Fair value measurements

At March 31, 2011, the Company s financial assets that are measured at fair value on a recurring basis consisted of $45.1 million invested in diversified money market funds and $14.5 million invested in treasury money market funds. At December 31, 2010, the Company had $40.7 million invested in diversified money market funds and $14.5 million invested in treasury money market funds. The Company had $0.4 million and $0.1 million invested in certificates of deposits at March 31, 2011 and December 31, 2010, respectively. The fair value of these accounts is determined based on quoted market prices, which represents level 1 in the fair value hierarchy as defined by Accounting Standard Codification, or ASC, 820, *Fair Value Measurement and Disclosure*. Our diversified money market funds, treasury money market funds and short term investments have a fair value that is not materially different from its carrying amount.

Deferred revenue and unbilled receivables

Software license and implementation services that have been performed, but for which the Company has not invoiced the customer, are recorded as unbilled receivables, and invoices that have been issued before the software license and implementation services have been performed are recorded as deferred revenue in the accompanying unaudited condensed consolidated balance sheets. The Company generally invoices for maintenance and support services on a monthly, a quarterly or an annual basis through the maintenance and support period.

Foreign currency

The Company has contracts denominated in foreign currencies and therefore a portion of the Company s revenue is subject to foreign currency risks. Gains and losses from foreign currency transactions, such as those resulting from the settlement of receivables, are included in license and implementation cost of revenue in the accompanying unaudited condensed consolidated statements of operations.

The Company translates assets and liabilities of its foreign subsidiaries, whose functional currency is their local currency, at exchange rates in effect at the balance sheet date. The Company translates revenue and expenses at the monthly average exchange rates. The Company includes accumulated net translation adjustments in stockholders equity as a component of accumulated other comprehensive loss.

Income taxes

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. The estimated effective income tax rate includes U.S. federal, state and foreign income taxes and is based on the application of a forecasted annual income tax rate applied to the current quarter s year-to-date pre-tax income. This estimated effective income tax rate is used in providing income taxes on a year-to-date basis and may change in subsequent interim periods. Our effective tax rate for the three months ended March 31, 2011 and 2010 was 32% and 39%, respectively. The difference between our effective tax rate and the federal statutory rate of 34% for the three months ended March 31, 2011 was primarily attributable to the Company s application of the Research and Experimentation, or R&E, tax credit.

Recent accounting pronouncements

There have been no new accounting pronouncements during the three months ended March 31, 2011, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, that are of significance, or potential significance, to the Company.

2. Earnings per share

The Company computes basic earnings per share by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares and dilutive potential common shares then outstanding. Diluted earnings per share reflect the assumed conversion of all dilutive securities, using the treasury stock method. Dilutive potential common shares consist of shares issuable upon the exercise of stock options, shares of non-vested restricted stock units, and settlement of stock appreciation rights.

Approximately 960,000 and 1,270,000 of potential common shares have not been considered in the diluted earnings per share calculation for the three months ended March 31, 2011 and 2010, respectively, as the effect would be anti-dilutive.

The following tables set forth the computation of basic and diluted earnings per share:

	For the Three Months Ended March 31,	
	2011	**2010**
Numerator:		
Net income attributable to common stockholders	$ 856	$ 471
Denominator:		
Weighted average shares (basic)	26,594	25,912
Dilutive effect of stock options, restricted stock units and stock appreciation rights	853	639
Weighted average shares (diluted)	27,447	26,551
Basic earnings per share	$ 0.03	$ 0.02
Diluted earnings per share	$ 0.03	$ 0.02

3. Share-based compensation

The Company maintains incentive share-based plans to provide long-term incentives to its key employees, officers, directors and consultants. The Company issues or has issued three types of share-based awards under its incentive share-based plans: stock options, restricted stock units and stock appreciation rights. The discretionary issuance of share-based awards generally contains vesting provisions ranging from one to four years.

In February 2011, the Company increased the number of shares available for issuance by 900,000 to 4,568,000 under an evergreen provision in the Company s 2007 equity incentive plan. As of March 31, 2011, 726,749 shares remained available for issuance under this plan. At March 31, 2011, 1,676,514 stock options were outstanding with a weighted average exercise price of $11.23, 1,122,817 restricted stock units were outstanding and 859,625 stock appreciation rights were outstanding. The Company granted 216,800 shares of restricted stock units with a grant date fair value of $11.42 and 191,000 shares of stock appreciation rights with a weighted average grant date fair value of $5.12 during the three months ended March 31, 2011. At March 31, 2011, there was an estimated $13.7 million of total unrecognized compensation costs related to share-based compensation arrangements. These costs will be recognized over a weighted average period of 1.8 years.

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Share-based compensation expense is allocated to expense categories on the unaudited condensed consolidated statements of operations. The following table summarizes share-based compensation expense for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,	
	2011	2010
Share-based compensation:		
Cost of revenue:		
License and implementation	$ 334	$ 233
Total included in cost of revenue	334	233
Operating expense:		
Selling, general and administrative	1,072	796
Research and development	350	390
Total included in operating expenses	1,422	1,186
Total share-based compensation expense	$ 1,756	$ 1,419

4. Commitments and contingencies

Litigation

In the ordinary course of the Company s 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 Company periodically assesses its liabilities and contingencies in connection with these matters, based upon the latest information available. Should it be probable that the Company has incurred a loss and the loss, or range of loss, can be reasonably estimated, the Company will record reserves in the unaudited condensed consolidated financial statements. In other instances, because of the uncertainties related to the probable outcome and/or amount or range of loss, the Company is unable to make a reasonable estimate of a liability, and therefore no reserve will be recorded. As additional information becomes available, the Company will adjust its assessment and estimates of such liabilities accordingly. It is possible that the ultimate resolution of the Company s liabilities and contingencies could be at amounts that are different from any recorded reserves and that such differences could be material.

5. Subsequent events

The Company accounts for subsequent events by applying general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Company does not believe there are any material subsequent events that require disclosure.

Item 2. Management s discussion and analysis of financial condition and results of operations

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

Cautionary statement

The following discussion should be read along with the unaudited condensed consolidated financial statements and unaudited notes to condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, 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 for the year ended December 31, 2010 set forth in our Annual Report on Form 10-K and filed with the Securities and Exchange Commission, or SEC. This management s discussion and analysis of financial condition and results of operations 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. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts and projections, and the beliefs and assumptions of our management including, without limitation, our expectations regarding the following: the sales of our software products and services; the impact of our revenue recognition policies; our belief that our current assets, including cash, cash equivalents, and expected cash flows from operating activities, will be sufficient to fund our operations; our anticipated additions to property, plant and equipment; our belief that our facilities are suitable and adequate to meet our current operating needs; our belief that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates**.** Words such as we expect, anticipate, target, project, believe, goals, estimate, potential, might, could, intend, and variations of these types of words and similar expressions are intended to identify these forward-looking statements. Readers are cautioned that these forward-looking statements are predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements.

Overview

We are a leading provider of enterprise pricing and margin optimization software, an emerging category of enterprise applications designed to allow companies to improve financial performance by implementing pricing excellence best practices through the use of our software products. By using our software products, our customers gain insight into their pricing strategies, identify detrimental pricing practices, optimize their pricing decision-making and improve their business processes and financial performance. Our software products incorporate advanced pricing science, which includes operations research, forecasting and statistics. Our innovative science-based software products analyze, execute and optimize pricing strategies using data from traditional enterprise applications, often augmenting it with real-time and historical data. Our software also uses data elements that are determined using advanced pricing science and are stored in our database. Our high performance software architecture supports real-time high volume transaction processing and allows us to handle the processing and database requirements of the most sophisticated and largest customers, including customers with hundreds of simultaneous users and sub-second electronic transactions. We provide professional services to configure, integrate and customize our solutions to meet the specific pricing needs of each customer. We provide our software products to enterprises across a range of industries, including manufacturing, distribution, services, hotel and cruise, and airline.

Many of our customers process large volumes of individually priced business-to-consumer and business-to-business transactions every day. Our high-performance, real-time, dynamic pricing products differ from static retail pricing products by delivering the relevant pricing information at the time the price is quoted, the deal is negotiated and the sale transaction is made. Our software products are also used to provide optimized price lists and goal-driven price guidance. While companies in our target industries differ in the wide range of business-to-business and business-to-customer products and services that they provide, many are similar in their need to improve pricing agility in dynamic markets, improve control of their pricing processes, and optimally price each individual transaction. Since inception, we have implemented over 500 solutions across a range of industries in 50 countries.

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Trends and uncertainties

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

Difficult Economic Conditions. We believe the market for pricing and margin optimization software is underpenetrated. Market interest for our software has increased over the past several years. While there appears to be some improvement in the economy, the current economic conditions continue to be challenging and have had and may continue to have a negative impact on the adoption of pricing and margin optimization software and may increase the volatility in our business. Due to the difficult economic conditions, we have experienced longer sales times, increased scrutiny on purchasing decisions and overall cautiousness taken by customers. In response to the challenging economic environment, some customer prospects have changed their purchasing strategies, including, requesting changes to our contract terms that, in some instances, have affected the timing of revenue recognition or have resulted in an increase in the number of limited term license agreements. We believe our solutions provide value to our customers during periods of growth as well as in recessions, but it is uncertain the extent to which the difficult economic conditions will further affect our business.

Variability in revenue among industries and geography. We sell our products to customers in the manufacturing, distribution, services, and travel industries. From a geographical standpoint, approximately 60% and 56% of our consolidated revenues were derived from customers outside the United States for the three months ended March 31, 2011 and 2010, respectively. The current economic environment and current political situation in the Middle East could change our trends of revenue within industries and across geographies if certain industries or geographies are more impacted than others.

Critical accounting policies and estimates

We prepare our unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP. We make estimates and assumptions in the preparation of our unaudited condensed consolidated financial statements, and our estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The complexity and judgment of our estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the percentage-of-completion method of accounting affect the amounts of revenue, expenses, unbilled receivables and deferred revenue. Estimates are also used for, but not limited to, receivables, allowance for doubtful accounts, useful lives of assets, depreciation, income taxes and deferred tax asset valuation, valuation of stock options, other current liabilities and accrued liabilities. Numerous internal and external factors can affect estimates. The critical accounting policies related to the estimates and judgments are discussed in our Annual Report on Form 10-K for the year ended December 31, 2010 under management s discussion and analysis of financial condition and results of operations. There have been no significant changes to our critical accounting policies during the first quarter of 2011.

We recognize a substantial majority of our license and implementation revenue on a percentage-of-completion basis because we consider implementation services to be essential to our customers usability of our licensed software. Under this recognition policy, the revenue we recognize during a reporting period is based on the total man-days expended on an implementation of our software products during the reporting period as a percentage of the total man-days estimated to be necessary to complete the implementation of our software products. As a result of our revenue recognition policy, revenue from license arrangements is recognized over the implementation period, which typically ranges from six months to several years.

For arrangements that include hosting services we allocate the arrangement consideration between the hosting service and other elements based on a relative fair value allocation and recognize the hosting fee ratably beginning on the date the customer commences use of our services and continuing through the end of the customer hosting term.

We also license software products under term licenses agreements that typically include maintenance during the license term. The term license agreements range from two to five years. Revenue and the associated costs are deferred until the delivery of the product and recognized ratably over the remaining license term. Revenue from term licenses, which is included in license and implementation revenue in the unaudited condensed consolidated statements of operations, represented approximately 5.4% and 4.2% of total revenue for the three months ended March 31, 2011 and 2010, respectively.

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Our revenue recognition policy provides visibility into a significant portion of our revenue in the near-term quarters, although the actual timing of recognition of revenue will vary based on the nature and requirements of our contracts. For the substantial majority of our arrangements we have not historically recognized license revenue upon signing a contract with a customer and delivery of the software because we consider the implementation services to be essential to our customers usability of our licensed software. We evaluate the contract terms and conditions and implementation performance obligations in making our revenue recognition determination for each contract. As the market for pricing and margin optimization software evolves and the capabilities of third party system integrators to independently deploy our software products increases the nature and scope of our implementation performance obligations may change which could materiality impact the timing of recognition of our license revenue and our results of operations.

Results of operations

Comparison of three months ended March 31, 2011 with three months ended March 31, 2010

Revenue:

	For the Three Months Ended March 31,					
	2011		2010			
(Dollars in thousands)	Amount	As a percentage of total revenue	Amount	As a percentage of total revenue	Variance $	Variance %
License and implementation	$ 13,793	64%	$ 10,372	60%	$ 3,421	33%
Maintenance and support	7,613	36%	6,955	40%	658	9%
Total	$ 21,406	100%	$ 17,327	100%	$ 4,079	24%

License and implementation. License and implementation revenue increased $3.4 million to $13.8 million for the three months ended March 31, 2011 from $10.4 million for the three months ended March 31, 2010, representing a 33% increase. The increase in license and implementation revenue is principally due to an increase of 39% in implementations generating license and implementation revenue from 56 implementations in 2010 to 78 implementations in 2011.

Generally, license and implementation revenue is recognized using the percentage-of-completion method over the implementation period, which typically ranges from six months to several years. Implementation periods can vary depending on numerous factors including, but not limited to, the number of licensed software products and the scope and complexity of the implementation requirements.

Maintenance and support. Maintenance and support revenue increased $0.7 million to $7.6 million for the three months ended March 31, 2011 from $7.0 million for the three months ended March 31, 2010, representing a 9% increase. The increase in maintenance and support revenue is principally the result of an increase in the number of customers for which we are providing maintenance services.

Cost of revenue and gross profit:

	For the Three Months Ended March 31,					
	2011		2010			
(Dollars in thousands)	Amount	As a percentage of related revenue	Amount	As a percentage of related revenue	Variance $	Variance %
Cost of license and implementation	$ 4,623	34%	$ 3,220	31%	$ 1,403	44%
	1,710	22%	1,495	21%	215	14%

Cost of maintenance and support						
Total cost of revenue	$ 6,333	30%	$ 4,715	27%	$ 1,618	34%
Gross profit	$ 15,073	70%	$ 12,612	73%	$ 2,461	20%

Cost of license and implementation. Cost of license and implementation increased $1.4 million to $4.6 million for the three months ended March 31, 2011 from $3.2 million for the three months ended March 31, 2010, representing a 44% increase. The increase in cost of license and implementation is principally attributable to an increase of $1.2 million of personnel and overhead expenses as a result of an increase in headcount and compensation expenses, $0.2 million of system integrator expenses, $0.2 million of travel costs, and $0.1 million of share-based compensation expense. These increases were partially offset by

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decreases of $0.2 million for third party deployment software costs and $0.1 million related to a favorable change in foreign currency. License and implementation gross margins were 66% for the three months ended March 31, 2011 as compared to 69% for the three months ended March 31, 2010. The increased utilization of system integrators providing implementation services increased implementation costs which reduced gross margins for the three months ended March 31, 2011 and 2010 by approximately two percentage points and one percentage point, respectively. License and implementation costs may vary from period to period depending on factors, including the amount of implementation services required to deploy our products relative to the total contract price.

Cost of maintenance and support. Cost of maintenance and support increased $0.2 million to $1.7 million for the three months ended March 31, 2011 from $1.5 million for the three months ended March 31, 2010, representing a 14% increase. The increase in cost of maintenance and support is principally attributable to the increased levels of effort required to support our expanding installed customer base. Maintenance and support gross margins were 78% for the three months ended March 31, 2011 as compared to 79% for the three months ended March 31, 2010.

Gross profit. Gross profit increased $2.5 million to $15.1 million for the three months ended March 31, 2011 from $12.6 million for the three months ended March 31, 2010, representing a 20% increase. The increase in gross profit was principally attributed to a $4.1 million increase in total revenue offset by a $1.6 million increase in total cost of revenue.

Operating expenses:

	For the Three Months Ended March 31,	
	2011	**2010**