

PROS Holdings, Inc.
Form 10-Q
August 06, 2009

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**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, 2009

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: 333-141884
PROS HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

76-0168604

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

**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) had been subject to such filing requirements for the past 90 days. Yes No
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 post 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 No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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 25,710,057 as of August 3, 2009.

PROS Holdings, Inc.
 Form 10-Q for the Three Months Ended June 30, 2009
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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 similar. PROS Holdings, Inc. cautions 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.

Table of Contents**PART I. Financial Information****Item 1. Unaudited Condensed Consolidated Financial Statements**

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

	June 30, 2009	December 31, 2008
Assets:		
Current assets:		
Cash and cash equivalents	\$ 53,746	\$ 51,979
Accounts and unbilled receivables, net of allowance of \$1,900	17,672	16,552
Prepaid and other current assets	3,909	3,238
Total current assets	75,327	71,769
Property and equipment, net	2,972	2,901
Other long term assets, net	2,260	2,297
Total assets	\$ 80,559	\$ 76,967
Liabilities and Stockholders Equity:		
Current liabilities:		
Accounts payable	\$ 1,013	\$ 1,088
Accrued liabilities	2,446	3,293
Accrued payroll and other employee benefits	3,454	4,493
Deferred revenue	16,405	16,288
Other current liabilities	4,866	4,866
Total current liabilities	28,184	30,028
Long-term deferred revenue	2,516	3,187
Commitments and contingencies (Note 4)		
Stockholders equity:		
Common stock, \$0.001 par value, 75,000,000 shares authorized, 30,124,735 and 30,095,846 shares issued, respectively, 25,707,150 and 25,678,261 shares outstanding, respectively	30	30
Additional paid-in capital	60,249	57,668
Treasury stock 4,417,585 common shares, at cost	(13,938)	(13,938)
Retained earnings (deficit)	3,518	(8)
Total stockholders equity	49,859	43,752
Total liabilities and stockholders equity	\$ 80,559	\$ 76,967

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		For the Six Months	
	Ended June 30,		Ended June 30,	
	2009	2008	2009	2008
Revenue:				
License and implementation	\$ 11,204	\$ 13,375	\$ 23,128	\$ 26,181
Maintenance and support	6,122	5,237	12,224	10,351
Total revenue	17,326	18,612	35,352	36,532
Cost of revenue:				
License and implementation	3,765	3,596	7,357	7,009
Maintenance and support	1,154	1,059	2,380	2,239
Total cost of revenue	4,919	4,655	9,737	9,248
Gross profit	12,407	13,957	25,615	27,284
Operating expenses:				
Selling, general and administrative	5,561	5,593	11,065	10,718
Research and development	4,774	5,159	9,822	9,831
Income from operations	2,072	3,205	4,728	6,735
Other income:				
Interest income	57	302	147	724
Income before income tax provision	2,129	3,507	4,875	7,459
Income tax provision	594	1,266	1,349	2,646
Net income	\$ 1,535	\$ 2,241	3,526	4,813
Net earnings attributable to common stockholders per share:				
Basic	\$ 0.06	\$ 0.09	\$ 0.14	\$ 0.18
Diluted	\$ 0.06	\$ 0.08	\$ 0.13	\$ 0.18
Weighted average number of shares:				
Basic	25,697,856	26,215,014	25,694,933	26,188,225
Diluted	26,488,540	26,511,933	26,413,376	26,588,661

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 Six Months Ended June 30,	
	2009	2008
Operating activities:		
Net income	\$ 3,526	\$ 4,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	624	642
Stock based compensation	2,551	1,893
Provision for doubtful accounts	36	14
Changes in operating assets and liabilities:		
Accounts receivable	54	(868)
Unbilled receivables	(1,167)	(1,268)
Prepaid expenses and other	(633)	738
Accounts payable, accrued liabilities and accrued payroll	(2,320)	(2,044)
Deferred revenue	(554)	1,082
Net cash provided by operating activities	2,117	5,002
Investing activities:		
Purchases of property and equipment	(380)	(805)
Net cash used in investing activities	(380)	(805)
Financing activities:		
Proceeds from the exercise of stock options	30	241
Net cash provided by financing activities	30	241
Net increase in cash and cash equivalents	1,767	4,438
Cash and cash equivalents:		
Beginning of period	51,979	44,378
End of period	\$ 53,746	\$ 48,816

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. Summary of business and basis of presentation

Nature of operations

PROS Holdings, Inc., a Delaware corporation and its wholly-owned subsidiaries (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 its software products to improve pricing performance. The Company provides its software products to enterprises across a range of industries, including manufacturing, distribution, services, hotel and cruise, and airline.

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 (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 includes all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position of the Company as of June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and cash flows for the six months ended June 30, 2009. 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 statement for the fiscal year ended December 31, 2008, which are included in the Company's 2008 Annual Report on Form 10-K filed with the SEC. The condensed consolidated balance sheet as of December 31, 2008 was derived from the Company's audited consolidated financial statements and does not include all disclosures required by GAAP. We have revised the December 31, 2008 balance sheet to reflect an increase in accrued liabilities and accounts receivable of \$0.4 million. Such increase represents an accrual of legal fees, and the corresponding receivable balance for reimbursement of those legal fees by the Company's insurance carrier, associated with ongoing litigation. This revision had no impact to the Company's consolidated statement of operations or consolidated statement of cash flows as of or for the year ended December 31, 2008.

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

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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.

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, quarterly or on 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.

Income taxes

The Company's federal effective tax rate historically has been lower than the statutory rate of 35% largely due to the application of general business tax credits. In October 2008, Congress reinstated the research and experimentation (R&E) tax credit until December 2009. As a result of the reinstatement, the Company recorded the full benefit of the R&E tax credit for 2008 in the fourth quarter of 2008.

Recent accounting pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events* (SFAS No. 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued and requires the disclosure of the date through which a company has evaluated subsequent events. SFAS No. 165 is effective for fiscal years and interim periods ending after June 15, 2009. The Company adopted SFAS No. 165 during quarter ended June 30, 2009 and has evaluated subsequent events through August 6, 2009, the date on which this Quarterly Report on Form 10-Q was filed with the SEC. The Company does not believe there are any material subsequent events that require disclosure. The adoption of SFAS No. 165 did not have any material impact to the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162* (SFAS No. 168). SFAS No. 168 establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The Company does not believe the adoption of SFAS No. 168 will have a material impact on the Company's consolidated financial statements.

Table of Contents**2. Earnings per share**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Numerator:				
Net income	\$ 1,535	\$ 2,241	\$ 3,526	\$ 4,813
Denominator:				
Weighted average shares (basic)	25,698	26,215	25,695	26,188
Dilutive effect of stock options, and restricted stock units	791	297	718	401
Weighted average shares (diluted)	26,489	26,512	26,413	26,589
Basic earnings per share	\$ 0.06	\$ 0.09	\$ 0.14	\$ 0.18
Diluted earnings per share	\$ 0.06	\$ 0.08	\$ 0.13	\$ 0.18

The Company has excluded 2,296,592 and 1,552,875 of shares of common stock issuable upon exercise of options from the computation of the dilutive earning per share for the three and six months ended June 30, 2009 and 2008, respectively, because the inclusion of such would have been antidilutive.

3. Stock-based compensation

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

In February 2009, the Company increased the number of shares available for issuance by 898,000 to 3,668,000 under an evergreen provision in the Company's 2007 equity incentive plan. As of June 30, 2009, 121,847 shares remained available for issuance under this plan. At June 30, 2009, 2,421,259 stock options were outstanding with a weighted average exercise price of \$10.25 and 1,220,500 restricted stock units were outstanding with a weighted average grant date fair value of \$5.00. The Company granted 372,000 restricted stock units during the three months ended June 30, 2009 with a weighted average grant date fair value of \$5.49. For the six months ended June 30, 2009, the Company granted 870,500 restricted stock units with a weighted average grant date fair value of \$4.80. At June 30, 2009, there were an estimated \$14.7 million of total unrecognized compensation costs related to stock-based compensation arrangements. These costs will be recognized over a weighted average period of 2.2 years.

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 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.

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In April 2008, a customer brought suit against the Company alleging that the Company failed to deliver contracted-for software. The customer's claims include breach of contract, fraud and negligent misrepresentation. In May 2008, the Company filed an answer and brought counterclaims for breach of contract and for violation of the duty of good faith and fair dealing. The Company believes the customer's attempted termination of the contract is wrongful, and the Company is vigorously defending this matter and seeking payment of remaining amounts owed under the contract. Certain management and key personnel in the Company are devoting significant time to this matter. Given the inherent uncertainties in any litigation, the Company is unable to make any predictions as to the ultimate outcome and no provision for loss or other costs has been recorded. The Company had \$1.1 million of capitalized implementation costs included in other assets, \$0.2 million in accounts receivable and \$6.1 million of long-term deferred revenue related to this customer's contract as of March 31, 2008. In April 2008, these amounts were netted and \$4.9 million was classified as other current liabilities. This amount has not changed since April 2008 and will continue to be presented in the accompanying unaudited condensed consolidated balance sheet as other current liabilities until the matter is resolved. Unless the matter is resolved earlier, the trial date is currently scheduled for the third quarter of 2010.

Based on the Company's review of the latest information available, it does not believe any liability, in connection with current contracts and other negotiations or pending or threatened legal proceedings, claims and litigation would have a material adverse effect on the Company's unaudited condensed consolidated financial statements.

Insurance recovery

In September 2008, a Gulf Coast storm affected our business operations. As a result, the Company filed a business interruption claim which is still pending as of June 30, 2009. To the extent the Company is able to receive any proceeds from the business interruption insurance claim; it will be recorded as other income in the period it is received.

5. Fair value measurements

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, effective January 1, 2008 for financial assets and financial liabilities measured on a recurring basis. On January 1, 2009, the Company adopted Financial Accounting Standards Board (FASB) Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which required the fair value measurement framework to be applied to nonfinancial assets and nonfinancial liabilities, such as goodwill, intangibles and impairment of long lived assets. The adoption of FASB Staff Position No. FAS 157-2 did not have an impact on the unaudited condensed consolidated financial statements.

At June 30, 2009, the Company had \$39.3 million invested in diversified money market funds and \$14.5 million invested in treasury money market funds and are recorded at fair value. At December 31, 2008, the Company had \$27.8 million invested in diversified money market funds and \$22.6 million invested in treasury money market funds and are recorded at fair value. These investments are required to be measured at fair value on a recurring basis. The Company has determined that the diversified money market funds and treasury money market funds investments are defined as Level 1 in the fair value hierarchy.

Table of Contents**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, 2008 set forth in our Annual Report on Form 10-K and filed with the Securities and Exchange Commission (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 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, predict, may, might, could, intend, 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 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 our software products to meet the specific pricing needs of each customer. We do not write custom code for each implementation. 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, transaction pricing products differ from fixed list retail pricing products by delivering the relevant pricing information at the time the price is quoted, the deal is negotiated and the sale transaction is made. Our software products are also used to provide optimized price lists and goal-driven price guidance. While companies in our target industries differ in the wide range of business-to-business and business-to-customer products and services that they provide, many are similar in their need to optimally and dynamically price each individual transaction. We have installed over 200 solutions for over 100 customers across a range of industries in more than 40 countries.

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Trends

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

Difficult Economic Conditions. We believe the market for pricing and margin optimization software is underpenetrated and in the early innovator stage of adoption. Market interest for our software has increased over the past several years. However the world economies are in a recession and as a result we have experienced longer sales times, increased scrutiny on purchasing decisions and overall cautiousness taken by customers. This has negatively impacted license and implementation revenue. 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 a continued economic recession will further affect our business.

Variability in revenue among industries and geography. We sell our products to customers in the manufacturing, distribution, services, hotel and cruise and airline industries. From a geographical standpoint, approximately 59% and 54% of our consolidated revenues were derived from customers outside the United States for the three months ended June 30, 2009 and 2008, respectively and approximately 58% and 54% of our consolidated revenues were derived from customers outside the United States for the six months ended June 30, 2009 and 2008, respectively. In addition, for the three and six months ended June 30, 2009 and 2008, approximately 97% of our airline revenue was generated outside the United States. The current economic environment 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 (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, 2008 under management 's discussion and analysis of financial condition and results of operations. There have been no changes to our critical accounting policies during 2009.

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. Generally, we do not recognize license and implementation revenue upon signing a new contract with a customer. Our revenue recognition only begins when efforts are expended toward implementation, which alleviates pressure to enter into license agreements by the end of any particular quarter as we would not be able to recognize the corresponding revenue during the period in which the agreement is signed except to the extent we provide implementation services during the period.

Generally, we recognize the 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.

Table of Contents**Results of operations****Comparison of three months ended June 30, 2009 with three months ended June 30, 2008***Revenue:*

(Dollars in thousands)	For the Three Months Ended June 30, 2009		2008		Variance \$	Variance %
	Amount	As a percentage of total revenue	Amount	As a percentage of total revenue		
License and implementation	\$ 11,204	65%	\$ 13,375	72%	\$ (2,171)	(16)%
Maintenance and support	6,122	35%	5,237	28%	885	17%
Total	\$ 17,326	100%	\$ 18,612	100%	\$ (1,286)	(7)%

License and implementation. License and implementation revenue decreased \$2.2 million to \$11.2 million for the three months ended June 30, 2009 from \$13.4 million for the three months ended June 30, 2008, representing a 16% decrease. Generally, revenue is recognized using the percentage-of-completion method over the implementation period. Implementation periods can vary depending on numerous factors including, but not limited to, the current mix of business. The decrease in license and implementation revenue is principally attributable to longer sales cycles, increased scrutiny on purchasing decisions and overall caution demonstrated by customers as a result of continued global economic challenges.

Maintenance and support. Maintenance and support revenue increased \$0.9 million to \$6.1 million for the three months ended June 30, 2009 from \$5.2 million for the three months ended June 30, 2008, representing a 17% increase. The increase in maintenance and support revenue is primarily the result of the completion of a number of implementations of our software products following which we recognize maintenance and support revenue, and to a lesser extent an inflationary index increase in the rate charged on maintenance renewals.

Cost of revenue and gross profit:

(Dollars in thousands)	For the Three Months Ended June 30, 2009		2008		Variance \$	Variance %
	Amount	As a percentage of related revenue	Amount	As a percentage of related revenue		
Cost of license and implementation	\$ 3,765	34%	\$ 3,596	27%	\$ 169	5%
Cost of maintenance and support	1,154	19%	1,059	20%	95	9%
Total cost of revenue	\$ 4,919	28%	\$ 4,655	25%	\$ 264	6%
Gross profit	\$ 12,407	72%	\$ 13,957	75%	\$ (1,550)	(11)%

Cost of license and implementation. Cost of license and implementation increased \$0.2 million to \$3.8 million for the three months ended June 30, 2009 from \$3.6 million for the three months ended June 30, 2008, representing a 5% increase. The increase in cost of license and implementation is primarily attributable to an increase of \$0.4 million in personnel costs resulting from research and development personnel with specific technical expertise assisting with implementation tasks during the quarter, a \$0.1 million increase in third party software deployment costs procured in

connection with certain implementations and a \$0.1 million increase in stock-based compensation expenses resulting from the increase of grants of restricted stock units and stock options. These increases were offset by a decrease of \$0.3 million in travel and other expenses resulting from management's actions to more closely manage expenses in the current global economic environment, \$0.1 million beneficial change in foreign currency exchange, and a \$0.1 million decrease in amortized costs related to subscription contracts. Due primarily to our lower license and implementation revenue for the three months ended June 30, 2009, license and implementation gross margins were 66% for the three months ended June 30, 2009 versus 73% for the three months ended June 30, 2008. License and implementation gross margins may vary from period to period depending on factors, such as the amount of implementation services required to deploy our products relative to the total contracted price and mix of business.

Cost of maintenance and support. Cost of maintenance and support increased \$0.1 million to \$1.2 million for the three months ended June 30, 2009 from \$1.1 million for the three months ended June 30, 2008, representing a 9% increase, principally from increased personnel costs. Due to an increase in maintenance and support revenue while maintaining relatively the same levels of maintenance and support costs maintenance and support gross margins were 81% for the three months ended June 30, 2009 versus 80% for the three months ended June 30, 2008. Maintenance and support gross margins may vary from period to period depending on factors, such as the cost of providing maintenance and support relative to maintenance and support revenue.

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Gross profit. Gross profit decreased \$1.6 million to \$12.4 million for the three months ended June 30, 2009 from \$14.0 million for the three months ended June 30, 2008, representing an 11% decrease. The decrease in gross profit was attributed to a decrease in license and implementation revenue and modestly higher costs of license and implementation revenue, offset by an increase in maintenance and support gross profit.

Operating expenses:

	For the Three Months Ended June 30,		For the Three Months Ended June 30,		Variance	Variance
	2009	2008	2009	2008		
(Dollars in thousands)	Amount	As a percentage of total revenue	Amount	As a percentage of total revenue	\$	%
Selling, general and administrative						