USCORP
Form 10KSB
December 23, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended September 30, 2005

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: 000-19061

USCORP
(Exact name of registrant as specified in its charter)

Nevada	87-0403330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4535 W. Sahara Ave., Suite 204, Las Vegas, NV 89102
(Address of principal executive offices)

(702) 933-4034
(Registrant's telephone number, including area code)

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

Title of Each Class	Names of each exchange on which registered
None	None

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

Common Shares, $0.01 Par Value

Indicate by check mark whether the Registrant (l) 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 [X] No [__]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

State the issuer's revenues for its most recent fiscal year. $0.0

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked price of such stock, as of a specified date within the past 60 days. As of December 15, 2005, the value of such stock was $2,032,524.

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FORM 10-KSB
September 30, 2004
USCORP

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FORWARD LOOKING STATEMENTS

Some of the information contained in this Report may constitute forward-looking statements or statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations and projections about future events. The words “estimate”, “plan”, “intend”, “expect”, “anticipate” and similar expressions are intended to identify forward-looking statements which involve, and are subject to, known and unknown risks, uncertainties and other factors which could cause Registrant’s actual results, financial or operating performance, or achievements to differ from future results, financial or operating performance, or achievements expressed or implied by such forward-looking statements. Projections and assumptions contained and expressed herein were reasonably based on information available to Registrant at the time so furnished and as of the date of this filing. All such projections and assumptions are subject to significant uncertainties and contingencies, many of which are beyond Registrant’s control, and no assurance can be given that the projections will be realized. Potential investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date hereof. Registrant undertakes no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

A. Recent Developments.

Except as set forth herein or otherwise in this Form 10-KSB, information presented here is as of September 30, 2005.

On February 14, 2005 the Company filed a Form 8-K with the Securities and Exchange Commission reporting that the Company concluded the acquisition of 2 additional gold mining claims located near Kingman, Arizona from a private corporation. In lieu of cash payment for the claims the Company entered into what is essentially a joint venture with the former owners whereby the Company is obligated to commence production on these claims within two years with the former owners entitled to receive 30% of all net smelter returns of gold, whether paid in cash or in kind.

Under the terms of the acquisition, the Company granted the former owners of the claims the choice to accept 250,000 shares of the Company’s common stock at any time within a two year period in exchange for waiving the Company’s obligation to commence production on these claims within two years. The former owners choose to accept the 250,000 shares of stock on March 23, 2005. On February 14, 2005, we issued a press release regarding this acquisition.

B. DESCRIPTION OF CURRENT BUSINESS OPERATIONS.

Registrant’s plan of operation and business objectives will be to engage in (a) the precious metals exploration, mining, and refining business, and (b) the acquisition of qualified candidates engaged in businesses that would complement Registrant’s existing or proposed operations. All of Registrant’s business operations are conducted through its subsidiaries

USMETALS - Summary of Organization and Business.

USMetals ("USMetals") was formed and organized under the laws of the State of Nevada on May 3, 2000. On or about April 2, 2002, Registrant acquired USMetals; including its 141 lode mining claims (the "Mining Claims"). The purpose of USMetals is to engage in the business of acquiring and developing mineral properties, exploring for gold, silver, and other non-ferrous metals and minerals within the contiguous United States. It is the further intention of USMetals to mine and to process any commercially-proven resources developed at its properties.

The Mining Claims of USMetals are located in West-Central Arizona, in the Eureka Mining District of Yavapai County, Arizona, approximately 42 miles west of Prescott, Arizona. Within the boundaries of USMetals' Mining Claims, more commonly referred to as the "Twin Peaks Mine," are the historic sites of the Crosby, Hayes, Swiss Belle and Glory Hole Mines, past producers of gold and silver. The claims are geographically located in the southwestern division of the Eureka Mining District, which includes many significant mines and prospects. The exceptions are the tungsten mines in the Camp Wood area, to the northeast, the existing historic gold mines and prospects, which abut USMetals' property to the southeast along the Santa Maria River, and tungsten, copper, and zinc mines to the south and southeast. The area has a long history of mining activities. Mining companies and prospectors can obtain experienced labor, affordable housing, equipment repair, and mining services within the district.

The Santa Maria River traverses the Mining Claims and USMetals is the only company that holds water rights to that section of the river, a valuable asset for a mining company in this arid country.

All of USMetals' mining properties are unpatented mining claims; consequently, Registrant has only possessory title with respect to such properties. The claims were duly transferred by official deed from the prior owner to USMetals on March 22, 2002. The real property upon which USMetals' claims are located is subject to a paramount lien by the United States of America; all of USMetals' claims are subject to the applicable rules and regulations of the United States Department of the Interior, Bureau of Land Management, which administers USMetals' use and activities on said Mining Claims. USMetals has paid all of the required fees in order to maintain the 141 Mining Claims, which USMetals owns, for the current periods. All of the necessary documents and affidavits have been filed with the Yavapai County Recorder, as was mentioned hereinabove.

Registrant and USMetals have had a number of strategic working relationships with various independent contractors in order to develop its Mining Claims. USMetals further relies on the declarations and valuations formed and given in past geological exploration and geochemical studies. USMetals has had consulting relationships with International Energy and Resources, Inc., It should be noted that if USMetals was forced to disassociate itself with one or more of the abovementioned independent contractors, it could readily secure the services of other individuals or entities to perform the work or services of equal or greater quality; the loss of any one or all of the abovementioned contractors would not cause USMetals material adverse effects; however, each of these firms has demonstrated its capability and reliability in assisting Registrant and USMetals to develop the Mining Claims, and, to date, the abovementioned companies have provided invaluable assistance to Registrant's senior executive management in evaluating the potential represented by USMetals' Mining Claims.

SOUTHWEST RESOURCE DEVELOPMENT, INC. **- Summary of Organization and Business**

Southwest Resource Development, Inc. ("Southwest") was formed and organized under the laws of the State of Nevada on April 3, 2004 as a wholly owned subsidiary of USCorp. On or about May 29, 2004, Southwest acquired 8 lode and 21 placer mining claims (the "Mining Claims") known as the Chocolate Mountain Region Claims and the Picacho Area Claims. The purpose of Southwest is to engage in the business of acquiring and developing mineral properties, exploring for gold, silver, and other non-ferrous metals and minerals within the contiguous United States. It is the further intention of Southwest to mine and to process any commercially-proven resources developed at its properties.

In lieu of cash payment for the claims the Company entered into what is essentially a joint venture with the former owners whereby the Company is obligated to commence production on these claims within two years with the former owners entitled to receive 20% of all net smelter returns of gold after expenses, whether paid in cash or in kind.

Registrant has spent the last 3 years developing a plan that would bring multiple properties under Company ownership. Through its wholly owned subsidiary, Southwest Resource Development, Inc., Registrant has acquired for development of a total of 3,520 acres of precious metal properties located in the Chocolate Mountain region of Imperial County, California: Geological testing has successfully recovered gold and silver from dry washes and feeder rills. Laboratory analysis indicates these findings warrant continued development.

The Chocolate Mountains region, located in southeastern Imperial county of California, includes the Picacho State Park and surrounding areas that has a rich history of gold mining activities dating back to 1775. This property is in a district that has been producing gold since the 1800s. In 1890 a large stamp mill was built beside the Colorado River at the town of Picacho. The Picacho Mine was opened in the Picacho Basin area and a narrow gauge railroad began hauling ore from the mine to the mill. By 1904, the town of Picacho had a population of 2,500 people. The ruins of the mill are a few miles from USCorp's newly acquired claims in the Picacho State Recreation Area. Thousands of people visit the old mill ruins each year. To the south and west of the claims there are ruins of many old placer and lode workings as well as recently producing major mining operations.

Numerous discoveries of placer gold throughout Imperial County have remained undeveloped due to a common problem encountered by small miners. Due to the lack of an adequate water supply to support placer gold recovery operations in the region, scores of small and medium size mining operations have failed to successfully recover precious metals known to exist throughout the region. Southwest believes it has located a potentially adequate water source. Southwest intends to use a state of the art gold recovery system designed and developed by the Company’s Process Engineer for the specific conditions found on these properties. Based on the recent reports of geologists and engineers, Southwest believes this property has the potential to develop into a significant gold producing operation.

Historically, mining has been carried out in the Mesquite Mining District of Imperial County using old hard rock mining and placer methods. However, in 1984, new mining methods (“heap leaching”) were used to develop and mine low-grade ore bodies, with an economically viable cut-off grade as low as .01 to .02 ounces of gold per ton. The geology and history of this area indicate it is rich in gold deposits. Test production will determine the cutoff grade and the economic viability of this property . Southwest intends to go into production as soon as possible after approvals and financing are obtained.

On February 14, 2005 the Company filed a Form 8-K with the Securities and Exchange Commission reporting that the Company concluded the acquisition of 2 additional gold mining claims located near Kingman, Arizona from a private corporation. In lieu of cash payment for the claims the Company entered into what is essentially a joint venture with the former owners whereby the Company is obligated to commence production on these claims within two years with the former owners entitled to receive 30% of all net smelter returns of gold, whether paid in cash or in kind.

Under the terms of the acquisition, the Company granted the former owners of the claims the choice to accept 250,000 shares of the Company's common stock at any time within a two year period in exchange for waiving the Company's obligation to commence production on these claims within two years. The former owners choose to accept the 250,000 shares of stock on March 23, 2005. On February 14, 2005, we issued a press release regarding this acquisition.

Property descriptions, locations and nature of ownership.

Chocolate Mountain Region Claims in the Mesquite Mining District of Imperial County, California, U.S.A., Group #1: 640 acres on four contiguous, unpatented Placer Claims. Access to these claims is by a private dirt road 2 miles north of the intersection of Highway 78 and Ogilby Road, near Glamis, California.

Chocolate Mountain Region Claims in the Mesquite Mining District of Imperial County, California, U.S.A., Group #2: 17 unpatented Placer Claims. These contiguous claims cover 2,720 acres. All of these claims are just east of the intersection of Highway 78 and Ogilby Road. Access to the property is by private dirt road.

Chocolate Mountain Region Claims in the Mesquite Mining District of Imperial County, California, U.S.A., Group #3: 8 unpatented Lode Claims covering 160 acres. Means of access to the property is by an unmarked private dirt road, south of Picacho State Park.

The 141 unpatented lode mining claims, covering 2,820 acres, which the registrant refers to as the "Twin Peaks Mine," are located in the Eureka Mining District of Yavapai County, Arizona, U.S.A. Access to the property from the west is by county maintained and private dirt roads from Highway 93 (connecting Phoenix, Arizona with Las Vegas, Nevada).

The unpatented lode and placer claims, covering just over 40 acres, which the registrant refers to as the "Kingman Area Claims" are located in the Pilgrim Mining District, Mohave County, Arizona, U.S.A. The Company, through its Southwest Resource Development, Inc., subsidiary owns the claims and pays an annual Maintenance Fee to the Bureau of Land Management. Access to the property is gained by county maintained dirt road. Proceed north on Highway 93 from Kingman, Arizona, 16 miles, to a dirt road (one mile north of the exit to Chloride, Arizona). Proceed west five miles to the site, on the north side of the road.

The Company, through its wholly owned subsidiaries, owns unpatented mining claims and pays an annual Maintenance Fee payment to the Bureau of Land Management (BLM) for each of its claims. Maintenance Fee payments of $125 per claim are due on or before August 31 each year.

Maps indicating the locations of our properties.

In the Map above “1”“2” and “3” represent the approximate locations of the company’s properties in the Mesquite Mining District of Imperial County, California. These three locations are represented by the number “2” in the map below.

History of previous operations.

Twin Peaks Mine claims group, in the Eureka Mining District of Yavapai County, Arizona: From a historical perspective, Spaniards arrived in the area over 400 years ago and used the Santa Maria River to gain access to the claims area. According to historical sources, the local Indians used to mine gold and silver in the area, which was refined and shipped to Spain. More recently, in the 1880's, John Lawler and Charles Crosby pioneered the Eureka Mining District. In 1883, John Lawler discovered the area was rich in gold, silver, lead, and zinc.

Charles Crosby first discovered the Crosby Mine and worked his claims from 1906 to 1933. His works are on a mineralized structure and flat zone. When the Crosby Mine opened in 1906, it processed 120 ounces of gold per day. It operated a 40-stamp amolotion mill until World War II. The Crosby group of claims are in the northeast corner of the Twin Peaks claims group.

From the mid-1920s to the mid-1930s, a prospector worked the Gloryhole claim, in the southwest quadrant of the Company’s Twin Peaks claims group. The ore he mined ran over 8 ounces of gold per ton. In 1941 and 1942, the claim was yielding 2.6 ounces of gold per ton. At that time, the ore was shipped to the railhead at Hillside and by train to a smelter in El Paso, Texas.

In 1885, the Hayes Silver Mine opened. The deposit at the mine was so rich - over 300 ounces of gold and silver per ton - that the owners shipped the ore directly to England for smelting and refining. The Hayes claims group are part of the Company’s Twin Peaks claims group.

Chocolate Mountain Region Claims in the Mesquite Mining District of Imperial County, California: There has been no commercial scale mining on any of the Company’s claims in this region.

Kingman Area Claims: The tailings are next to a privately owned patented mine and were mined from it in the first half of the last century.

The present condition of the property, the work we have completed on the property, our proposed program of exploration and development, and the current state of exploration and development of the property.

Twin Peaks Mine Claims Group: The Company has completed limited exploration work on the property, including drilling 3,000 feet of core samples (in addition to 10,000 feet drilled by prior owners) and road improvements to repair and create dirt road accesses to the property. The Company relies on geological work of experts performed under prior ownership in support of our reports of the presence of gold, silver, uranium and other mineralization on the property. The Company is not conducting mineral extraction operations on this property at this time.

Chocolate Mountain Region Claims Groups in the Mesquite Mining District of Imperial County: The Company has performed very limited work on the property. The Company relies on geological work of experts performed under prior ownership in support of our reports of the presence of gold and silver on the property. There are no current mineral extraction operations on this property. The proposed program is exploratory in nature.

Kingman Area Claims: The Company has performed minimal work on this property. The Company relies on geological work of experts performed under prior ownership in support of the presence of gold and silver mineralization on the property. There are no current mineral extraction operations on this property. The tailings are without proven reserves and the proposed program is exploratory in nature to establish and prove the economic viability of this property.

The physical condition of the plant and equipment and the source of power utilized with respect to each property.

At this time there are no physical plants on any of the Company's properties. The Company owns rights to water on the Santa Maria River which traverses the Twin Peaks Mine property. Power is available on properties adjacent to the Twin Peaks Mine and portable generators will be used as necessary. Power is also available on properties adjacent to our placer claims in California and portable generators will be used when necessary. There are capped wells on our California claims. We will supplement well water with trucked water as necessary.

Adequate roads exist to each of our claims groups. Some existing roads may need to be, repaired or extended.

At this time there are no physical plants on any of the Company's properties. The Company owns rights to water on the Santa Maria River which traverses the Twin Peaks Mine property. Power is available on properties adjacent to the Twin Peaks Mine and portable generators can be used as necessary. Power is also available on properties adjacent to our placer claims in California, the Kingman Area Claims and portable generators can be used when necessary. Water is available on properties adjacent to the Kingman Area Claims. There are natural wells located in several places on our California claims. We will supplement well water with trucked water as necessary.

A brief description of the rock formations and mineralization of existing or potential economic significance on the properties, including the identity of the principal metallic or other constituents.

In regards to the Twin Peaks Mine, past geologic valuations have indicated mineralized material on claims within the boundaries of the Twin Peaks on the Crosby claims, Hayes claims and Glory Hole claims as follows: 1,200,000 tons of ore at the Crosby with 0.118 ounces of gold per ton and 0.520 ounces of silver per ton; 1,200,000 tons of ore at the Hayes with 0.128 ounces of gold per ton and 0.960 ounces of silver per ton; 1,200,000 tons of ore at the Crosby with 0.258 ounces of gold per ton and 0.584 ounces of silver per ton;. The Company uses these reports in support of its determination that economically viable mineralization is present on the properties as stated in various historical reports.

According to past geologic valuations the Crosby claims are within an area of banded gray schist that is surrounded by light-colored granite and intruded by pegmatite, rhyolite-porhyry, and basic dikes. The vein strikes N10E, and dips 25 to 30 degrees E, and attains a width of up to 18 inches in the old workings. Rich ore from the oxidized zone shows brecciated quartz with abundant cellular limonite. The gold is usually found associated with the oxidized iron minerals. The Hayes and Glory Hole claims are geologically similar to the Crosby claims, and the gold is also found in association with the oxidized iron minerals. Several structural zones appear to control the mineralization within the claim group. It can be considered that an alignment of a structural trend exists, with a bearing of about N2OE between the Hayes Mine and the Crosby Mine, with the Swiss Belle Mine at midway along the trend. Another structural zone which is expressed by a dike and is reported to run from the Santa Maria River to the base of Hayes Peak, has an average bearing of about N53W. The Hayes Shaft was sunk within this dike. The dike probably passes slightly west of the Glory Hole Mine and then intersects a N2OE structural zone near the base of Hayes Peak. A sample taken at this intersection assayed 1.167 oz/ton gold and 66.37 oz/ton silver. The structural zones seem to influence wide areas adjacent to them, which is confirmed by the voluminous number of favorable assays and also by the Very Low Frequency Electromagnetic survey. Cut off grade valuations were not performed.

Chocolate Mountain Region Claims Groups in the Mesquite Mining District of Imperial County: A past geochemical sampling program has indicated mineralized material at the Goldstar placer claims; tonnage and grade valuations were not performed. The Company uses such reports in support of its determination that economically viable mineralization may be present on the properties as stated in various historical reports.

Kingman Area Claims: The tailings consist of ore that has already been processed and is now above ground. The Company at this time is not making a statement regarding the presence of "reserves" on this property. The Company has not performed any professional exploration work on the placer claim or the lode claim underlying the placer claim.

The phased nature of the exploration process, and the place in the process our current exploration activities occupy.

Phase 1 of the exploration process has been completed on a portion of the Hayes group of claims within the Twin Peaks mine. Phase I supplemented the previous exploration effort with additional geological, geochemical and geophysical surveys, drilling, excavations and road building. We also completed a scoping study. Phase I was designed to furnish pertinent data for the design of Phase II Mining Operation Plan.

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In Phase II we intend to do further exploration on our property, and design and initiate a Test Production program on selected claims within the Twin Peaks claims group. This will include an electromagnetic flyover of the entire claim group and completion of a geochemical survey using the boundaries of individual claims to establish a base grid. This sample grid would be tightened in select areas. Simultaneously, the geology will be mapped in order to determine the overall extent of pathfinder mineralization for use in planning additional drilling, gaining a more detailed understanding of the potential of the entire site, and solidifying the mineral land position.

We will then commence with drilling and assaying in the areas previously targeted in prior geological reports. The drilling program will be designed to confirm the geology and mineralization in the target areas; a broad program is not necessary due to prior geological work. Extra samples will be retained for metallurgical testing on promising zones.

The results of testing the samples will allow us to plan the conceptual mine and milling plans, including flow-sheets that will be used in the feasibility study process along with the on-going economic and cost modeling evaluation of the project. Finally when the results have been evaluated we will begin the collection of the environmental data necessary for further exploration, completion of the feasibility study and mining.

We have received a Test Production plan and budget for the Chocolate Mountain Region Claims in the Mesquite Mining District of Imperial County from our Consulting Geologist, Quantum GeoConsultants, LLC, summarized as follows:

Test Production Program Budget and Plan

To start placer testing operations we must first purchase and modify a wash plant. The pad and setup of the wash plant is next.

The dirt access road from the Highway to the site (approximately 2 miles) must be reworked/repaired. We will also need a Front End Loader (“F.E.L.”) with Back-Hoe attachment. For continuous hard work excavating trenches, digging test pits and carrying alluvial material back to the wash plant for processing on a daily basis. It would be used for the duration of the test production program.

The sampling method is standard in geological exploration and is confined to dry arroyo drainages and rills. Grab samples taken outside of the dry river beds and rills will be by prospectors pick or regular pick and shovel. Instruments to be used will be a VLF unit, an EM unit, microscopes, spectrometer, GPS unit, possibly an I.R. unit, a magnetometer and miscellaneous sieves. A 10 or 12 kW generator set will independently power the night lights and camper unit. We need to determine if the present wells go down a minimum of 400 feet to reach adequate water supply to support test production wash plant. The estimated budget for this is up to $205,000 for a 12 week program.

We will make a decision whether to proceed with each successive phase of the exploration program upon completion of the previous phase and upon analysis of the results of that program.

The cutoff grade will be determined as part of the feasibility study process.

We will follow QA/QC protocols provided by the Society for Mining, Metallurgy and Exploration Guidance on best practices for Exploration www.smenet.org.

Recent Initial Exploration and Exploitation

Although many companies and individuals are engaged in the mining business, including large established mining companies, there is a limited supply of desirable mineral lands available for claim staking, lease, or other acquisition in the United States and other areas where USCorp contemplates conducting its exploration and/or production activities. However, it has been determined by qualified geologists and mining companies that USCorp’s Arizona properties have mineralization of a variety of precious and non-precious minerals. Historically, the specific geographic region in which USCorp intends to conduct its exploratory and mining activities has been the subject of various general samplings, which were performed by the State of Arizona, the United States Department of the Interior Bureau of Mines, and the United States Department of the Interior Bureau of Land Management.

Registrant has relied upon a number of studies by companies that are not presently affiliated or associated with USCorp to determine the feasibility and valuation of USCorp’s pursuit to develop the Mining Claims. These studies are comprised of several exploration techniques, such as geological and geophysical surveys, drilling, and excavations, in order to determine the economic potential, and subsequent exploration and mining , of the Claims. These different firms, have utilized varied means to calculate the potential of the exploration and development of the Twin Peaks Mine’s Mining Claims.

Early Exploration Conducted and Valuations.

The Twin Peaks Mine: Past geological studies indicated that beginning in 1981 a geologist performed certain exploratory drillings in order to obtain samples of the contents from the Crosby Mine Site No. 6, located Yavapai County, Arizona (one of the claims in USMetals’ Twin Peaks Mine). The geologist drilled 28 core drill holes on the Crosby Mine site. His report was based on 200-foot depth cores. This area was 18,519 cubic yards, or approximately 20,000 tons of mineralized material. The total area that was drilled was 1,500’ x 600’ x 200’. A total of 744 core samples were taken from the 6,000-foot of core hole drillings. The samples were assayed for gold and silver.

The results indicated the presence of mineralization of gold and silver. The core samples also revealed quartz monzonite porphyry formations throughout the area of sampling. The many faults located in this area were of considerable importance in controlling supergene enrichment; the largest quantity and highest grade of ore occurs when these faults intersect or are closely spaced. There was significant evidence of this enrichment recorded from the samples taken from the Crosby Mine site area. And, the gold and silver that was found is natural to the formations of the enrichment zone.

Recent Exploration and Samplings

Recent geological surveys, provided by International Energy and Resources, Inc., (IERI), one of USMetals’ principal advisors have confirmed prior geological reports. It was verified that the Twin Peaks Mine is on a mineralized structure and flat zone with gold and silver carrying mineralization.

Historically, over 10,000 feet of core drillings were performed and over 1,500 fire assays were conducted. These assays showed an overall average of .14 ounces of gold per ton and .595 ounces of silver per ton, on one area covering 3 claims.

The geological, geophysical, and geochemical studies stated above were reviewed and evaluated by an independent mining, consulting, and geologic firmthat was engaged to evaluate the commercial feasibility of the claims. The report and economic study recommended the continuation of exploration and the start of production.

The geological justification for the exploration project at the Twin Peaks Mine is that numerous past geological studies have found gold and silver mineralization in economically viable quantities at various locations within the boundaries of the claims group. There are also areas within the claims group that contain uranium and areas containing complex ores.

Depreciation and amortization
967

427

Share-based compensation
3,420

2,032

Excess tax benefit on share-based compensation
—

(1,395
)
Tax benefit from share-based compensation
(10
)

1,358

Provision for doubtful accounts
(60
)

(220
)
Changes in operating assets and liabilities:

Accounts and unbilled receivables
(3,877
)

6,219

Prepaid expenses and other assets

(1,162
)

(318
)
Accounts payable
1,070

(183
)
Accrued liabilities
980

(226
)
Accrued payroll and other employee benefits
(4,549
)

(3,059
)
Deferred revenue
2,748

(2,402
)
Net cash provided by operating activities
1,261

3,424

Investing activities:

Purchases of property and equipment
(948
)

(684
)
Capitalized internal-use software development costs
(796
)

(347
)

Net cash used in investing activities
(1,744
)

(1,031
)
Financing activities:

Exercise of stock options
1,409

488

Excess tax benefits on share-based compensation
—

1,395

Tax withholding related to net share settlement of restricted stock units
(2,022
)

(1,820
)
Net cash (used in) provided by financing activities
(613
)

63

Net (decrease) increase in cash and cash equivalents
(1,096
)

2,456

Cash and cash equivalents:

Beginning of period
83,558

68,457

End of period

$
82,462

$
70,913

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

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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 (the “Company”), provides big data software applications designed to help companies outperform in their markets by using big data to sell more effectively. The Company applies data science to unlock buying patterns and preferences within transaction data to reveal which opportunities are most likely to close, which offers are most likely to sell and which prices are most likely to win. The Company offers big data software applications to analyze, execute, and optimize sales, pricing, quoting, rebates and revenue management. The Company also provides professional services to implement its software applications as well as business consulting. In addition, the Company provides product maintenance and support to its customers to receive unspecified upgrades, maintenance releases and bug fixes during the term of the support period on a when-and-if-available basis. The Company provides its big data software applications to enterprises across a range of industries, including manufacturing, distribution, services and travel.

2. Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements reflect the application of significant accounting policies as described below and elsewhere in these notes to the condensed consolidated financial statements.

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 include all adjustments necessary for a fair statement of the financial position of the Company as of March 31, 2013, the results of operations for the three months ended March 31, 2013 and cash flows for the three months ended March 31, 2013. 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, 2012 (“Annual Report”) filed with the SEC. The condensed consolidated balance sheet as of December 31, 2012 was derived from the Company’s audited consolidated financial statements, but does not include all disclosures required by GAAP.

Basis of consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All 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 prepares the unaudited condensed consolidated financial statements in accordance with GAAP. The Company makes estimates and assumptions in the preparation of its unaudited condensed consolidated financial statements, and its 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 required in the Company’s 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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 under

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management’s discussion and analysis of financial condition and results of operations. There have been no significant changes to the Company’s critical accounting policies as described in the Company’s Annual Report.

Revenue recognition

The Company derives its revenue from the licensing and implementation of software solutions and associated software maintenance and support. To a lesser extent, the Company's revenue includes nonsoftware related hosting services. The Company's arrangements with customers typically include: (a) license fees paid for the use of our solutions either in perpetuity or over a specified term and implementation fees for configuration, implementation and training services and (b) maintenance and support fees related to technical support and software updates. If there is significant uncertainty about contract completion or collectability is not reasonably assured, revenue is deferred until the uncertainty is sufficiently resolved or collectability is reasonably assured. In addition, revenue is recognized when persuasive evidence of an arrangement exists and fees are fixed or determinable. For certain arrangements, we engage independent contractors to assist in the implementation of our software solutions. These arrangements are analyzed based on numerous factors to determine the amount of revenue to be recognized.

In determining whether implementation services revenue should be accounted for separately from license revenue, the Company evaluates whether the professional services are considered essential to the functionality of the software using factors such as: the nature of its software products; whether they are ready for use by the customer upon receipt; the nature of its implementation services; the availability of services from other vendors; whether the timing of payments for license revenue is coincident with performance of services; and whether milestones or acceptance criteria exist that affect the realizability of the software license fee.

The Company's software license arrangements typically include implementation services that can be considered essential to the customer's usability of the licensed software solutions and accordingly do not qualify for separate accounting treatment. The license and implementation services revenues and software license revenues are generally recognized together with the implementation services using the percentage-of-completion method or completed contract method. The completed contract method is used for contracts where there is a risk over final acceptance by the customer or for contracts that are short term in nature.

The percentage-of-completion computation is measured by the percentage of man-days incurred during the reporting period as compared to the estimated total man-days necessary for each contract for implementation of the software solutions. The Company measures performance under the percentage-of-completion method using total man-day method based on current estimates of man-days to complete the project. The Company believes that for each such project, man-days expended in proportion to total estimated man-days at completion represents the most reliable and meaningful measure for determining a project's progress toward completion. Under our fixed-fee arrangements, should a loss be anticipated on a contract, the full amount is recorded when the loss is determinable.

The Company also licenses software solutions under term license agreements that typically include maintenance during the license term. When maintenance is included for the entire term of the license, there is no renewal rate and the Company has not established vendor specific objective evidence (“VSOE”) of fair value for the maintenance on term licenses. For term license agreements, revenue and the associated costs are deferred until the delivery of the solution and recognized ratably over the remaining license term.

For arrangements that include hosting services we allocate the arrangement consideration between the hosting service and other elements 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 term.

The Company's customer arrangements typically contain multiple elements that include software license, implementation services and post-implementation maintenance and support. In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB Accounting Standards Codification ("ASC")) Topic 605, Revenue Recognition), which amended the accounting standards for certain multiple deliverable revenue arrangements that contain nonsoftware related elements to:

- provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;
- require an entity to allocate revenue in an arrangement using best estimated selling price, ("BESP") of deliverables if a vendor does not have VSOE of selling price; and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

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For multiple element arrangements containing our nonsoftware services, the Company must (1) determine whether and when each element has been delivered; (2) determine fair value of each element using the selling price hierarchy of VSOE of fair value, third party evidence ("TPE"), or BESP, as applicable, and (3) allocate the total price among the various elements based on the relative selling price method.

For multiple-element arrangements that contain software and nonsoftware elements such as the Company's hosting service offerings, we allocate revenue between the software and software related elements as a group and any nonsoftware elements based on a relative fair value allocation. We determine fair value for each deliverable using this hierarchy and utilize VSOE of fair value if it exists.

In certain instances, the Company may not be able to establish VSOE for all deliverables in an arrangement with multiple elements. This may be due to infrequently selling each element separately, not pricing solutions or services within a narrow range, or only having a limited sales history. In addition, TPE may not be available. When the Company is unable to establish selling prices using VSOE or TPE, it uses BESP in the allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. For transactions that only include software and software-related elements, the Company continues to account for such arrangements under the software revenue recognition standards which require it to establish VSOE of fair value to allocate arrangement consideration to multiple deliverables.

Maintenance and support revenue includes post-implementation customer support and the right to unspecified software updates and enhancements on a when and if available basis. The Company generally invoices for maintenance and support services on a monthly, quarterly or on an annual basis through the maintenance and support period. The Company recognizes revenue from maintenance arrangements ratably over the period in which the services are provided.

Software license and implementation revenue that has been recognized, but for which the Company has not invoiced the customer, is recorded as unbilled receivables. Invoices that have been issued before software license, implementation and maintenance and support revenue has been recognized are recorded as deferred revenue in the accompanying unaudited condensed consolidated balance sheets.

Internal-use software

Costs incurred to develop internal-use software during the application development stage are capitalized, stated at cost, and depreciated using the straight-line method over the estimated useful lives of the assets. Application development stage costs generally include salaries and personnel costs and third party contractor expenses associated with internal-use software configuration, coding, installation and testing. During the three months ended March 31, 2013 and 2012, the Company capitalized internal-use software development costs of $0.9 million and $0.3 million, respectively, related to its cloud-based offerings. Capitalized software for internal use is included in property and equipment, net in the unaudited condensed consolidated balance sheets.

Noncash share-based compensation

The Company measures all share-based payments to its employees based on the grant date fair value of the awards and recognizes expense in the Company's unaudited consolidated statement of comprehensive income on a straight-line basis over the period during which the recipient is required to perform service (generally over the vesting period of the awards). To date, the Company has granted Stock Options, Stock Appreciation Rights ("SARs"), Restricted Stock Units ("RSUs") and Market Stock Units ("MSUs"). The MSUs are performance-based awards that vest based upon the Company's relative shareholder return.

The following table presents the number of shares or units outstanding for each award type as of March 31, 2013 and December 31, 2012, respectively.

Award type	March 31, 2013	December 31, 2012
Stock options	1,343,710	1,474,828
Restricted stock units	1,662,751	1,182,726
Stock appreciation rights	746,225	789,637
Market share units	456,000	205,000

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Stock options, SARs and RSUs vest ratably between three and four years. The actual number of MSUs that will be eligible to vest is based on the total shareholder return of the Company relative to the total shareholder return of the Russell 2000 Index (“Index”) over the Performance Period, as defined by each awards plan documents.

The fair value of the RSUs is based on the closing price of the Company’s stock on the date of grant.

The Company estimates the fair value of MSUs on the date of grant using a Monte Carlo simulation model. The determination of fair value of the MSUs is affected by the Company’s stock price and a number of assumptions including the expected volatilities of the Company’s stock and the Index, its risk-free interest rate and expected dividends. The Company’s expected volatility at the date of grant was based on the historical volatilities of the Company and the Index over the Performance Period. The Company did not estimate a forfeiture rate for the MSUs due to the limited size, the vesting period, nature of the grantee population and the lack of history of granting this type of award.

The assumptions used to value the MSUs granted during the three months ended March 31, 2013 were as follows:

	For the three months ended March 31, 2013
Volatility	57%
Risk-free interest rate	0.35%
Expected option life in years	2.84
Dividend yield	—

Earnings per share

The Company computes basic earnings per share by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares then outstanding. Potential common shares consist of shares issuable upon the exercise of stock options and SARs or the vesting of share-based awards. Diluted earnings per share reflect the assumed conversion of all dilutive share-based awards using the treasury stock method.

Fair value measurement

The Company’s financial assets that are measured at fair value on a recurring basis consisted of $58.0 million invested in treasury money market funds at both March 31, 2013 and December 31, 2012, 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 ASC 820, “Fair Value Measurement and Disclosure.”

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.

Credit Facility

As of March 31, 2013, $0.2 million of unamortized debt issuance costs related to the revolving credit facility ("Revolver") is included in other long term assets in the unaudited condensed consolidated balance sheets. For the three months ended March 31, 2013, $13,000 of debt issuance cost amortization is included in interest expense in the unaudited condensed consolidated statements of comprehensive income.

As of March 31, 2013, the Company had no outstanding borrowings under the Revolver.

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Income taxes

At the end of each interim reporting period, the Company estimates its annual effective tax rate to calculate its income tax provision. The estimated effective tax rate includes U.S. federal, state and foreign income taxes and is based on the application of an estimated annual income tax rate applied to the current quarter's year-to-date pre-tax income. This estimated effective tax rate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim reporting periods.

The effective tax rate (benefit) for the three months ended March 31, 2013 and 2012 was (196)% and 45%, respectively. The difference between the effective tax rate and the federal statutory rate of 34% for the three months ended March 31, 2013 was due primarily to a $1.4 million discrete benefit attributed to the 2012 Research and Experimentations ("R&E") tax credit that was retroactively reinstated in the first quarter of 2013, partially offset by a rate increase attributable to nondeductible share-based compensation expense.

3. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2013 and 2012:

	For the three months ended March 31,	
	2013	2012
Numerator:		
Net income	$1,734	$1,191
Denominator:		
Weighted average shares (basic)	27,757	27,167
Dilutive effect of potential common shares	1,608	1,117
Weighted average shares (diluted)	29,365	28,284
Basic earnings per share	$0.06	$0.04
Diluted earnings per share	$0.06	$0.04

Dilutive potential common shares consist of shares issuable upon the exercise of stock options, settlement of SARs, vesting of RSUs and MSUs. Potential common shares determined to be antidilutive and excluded from diluted weighted average shares outstanding were approximately 10,000 and 413,000 for the three months ended March 31, 2013 and 2012.

4. Noncash Share-based Compensation

During the three months ended March 31, 2013, the Company granted 779,850 shares of RSUs with a weighted average grant-date fair value of $19.60 per share. The Company granted 251,000 MSUs with a weighted average grant-date fair value of $40.58 to certain executive officers and non-executive employees during the three months ended March 31, 2013. These MSU's vest on January 1, 2016 and the actual number of MSUs that will be eligible to vest is based on the total shareholder return of the Company relative to the total shareholder return of the Index over the Performance Period, as defined by each award's plan documents. The Company did not grant any stock options or SARs during the three months ended March 31, 2013.

Share-based compensation expense is allocated to expense categories on the unaudited condensed consolidated statements of comprehensive income. The following table summarizes share-based compensation expense included in the Company's unaudited condensed consolidated statements of comprehensive income for the three months ended

March 31, 2013 and 2012:

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	For the three months ended March 31,	
	2013	2012
Share-based compensation:		
Cost of revenue:		
License and implementation	$462	$329
Total included in cost of revenue	462	329
Operating expenses:		
Selling, marketing, general and administrative	2,222	1,268
Research and development	736	435
Total included in operating expenses	2,958	1,703
Total share-based compensation expense	$3,420	$2,032

In February 2013, the Company increased the number of shares available for issuance by 900,000 to 7,268,000 under an evergreen provision in our 2007 Equity Incentive Plan ("2007 Stock Plan"). As of March 31, 2013, 433,888 shares remained available for issuance under the 2007 Stock Plan. At March 31, 2013, there was an estimated $40.7 million of total unrecognized compensation costs related to share-based compensation arrangements. These costs will be recognized over a weighted average period of 2.9 years.

5. 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 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.

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 accounting principles generally accepted in the United States of America.

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 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 set forth in our Annual Report on Form 10-K for the year ended December 31, 2012.

Overview

PROS provides big data software applications designed to help companies outperform in their markets by using big data to sell more effectively. We apply 27 years of data science experience to unlock buying patterns and preferences within transaction data to reveal which opportunities are most likely to close, which offers are most likely to sell and which prices are most likely to win. PROS offers big data software applications to analyze, execute and optimize sales, pricing, quoting, rebates and revenue management. We also provide professional services to implement our software applications, as well as business consulting. Since inception, PROS has completed over 600 implementations of our solutions across more than 30 industries in more than 50 countries.

Opportunities, Trends and Uncertainties

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

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- Growth opportunities. We believe the market for our big data software applications is underpenetrated. Market interest for our software has increased over the past several years, providing us with growth opportunities. We have and will continue to invest in our business to more effectively address these opportunities through significant investment in professional services, research and development, sales, marketing and back office. In addition to organic growth, we may acquire companies or technologies that can contribute to the strategic, operational and financial growth of our business. We expect to continue to explore both organic and other strategic growth opportunities.

- Uncertain global economic conditions. Global economic conditions have been challenging in recent years, and continue to be somewhat uncertain. The uncertain economic conditions have had and may have a negative impact on the adoption of big data software and may increase the volatility in our business. Due to the uncertain economic conditions, we continue to experience long sales cycles, increased scrutiny on purchasing decisions and overall cautiousness taken by customers. In addition, certain foreign countries are still facing significant economic and political crises and it is possible that these crises could result in economic deterioration in the markets in which we operate. We believe our solutions provide value to our customers during periods of economic growth as well as in recessions, but the extent to which the current economic conditions will further affect our business is uncertain.

- Variability in revenue. Our revenue recognition policy provides visibility into a significant portion of our revenue in the near-term quarters, although the actual timing of revenue recognition varies based on the nature and requirements of our contracts. For the majority of our arrangements, we have not historically recognized license revenue upon customer contract signature and software delivery. We evaluate our contract terms and conditions as well as our implementation performance obligations in making our revenue recognition determination for each contract. Our contractual performance obligations in the future may differ from historical periods, impacting the timing of the recognition of revenue. For example, growth in our term license and SaaS service offerings may result in the deferral of revenue over the contractual term, whereas growth in perpetual license arrangements that meet the criteria for separation may result in the recognition of license revenue on delivery, provided revenue recognition criteria are met. Our revenue could also vary based on our customer mix and customer geographic location. We sell our software solutions to customers in the manufacturing, distribution, services and travel industries. From a geographical standpoint, approximately 53% and 60% of our consolidated revenues were derived from customers outside the United States for the three months ended March 31, 2013 and 2012, respectively. Our contracts with customers outside the United States are predominately denominated in U.S. dollars. The economic and political environments around the world could change our concentration of revenue within industries and across geographies.

- Income taxes. For the three months ended March 31, 2013, our effective income tax rate (benefit) was (196)% as compared to the federal rate of 34%. In January 2013, Congress passed the American Taxpayer Relief Act of 2012 which included, among other legislation, the retroactive extension of the Research and Experimentations ("R&E") tax credit. The passage of this legislation made the R&E tax credit retroactive to January 1, 2012 and extended the R&E tax credit until December 31, 2013. As a result of the retroactive reinstatement of the R&E tax credit, we recognized a discrete tax benefit of $1.4 million for the three months ended March 31, 2013. Excluding the impact of discrete tax items, our 2013 estimated effective tax rate is expected to approximate 48%.

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Results of Operations

Comparison of three months ended March 31, 2013 with three months ended March 31, 2012

Revenue:

	For the three months ended March 31,									
	2013			2012						
(Dollars in thousands)	Amount	As a Percentage of Total Revenue		Amount	As a Percentage of Total Revenue		Variance $	Variance %	
License and implementation	$22,592	67	%	$17,796	66	%	$4,796	27	%
Maintenance and support	11,034	33	%	9,225	34	%	1,809	20	%
Total	$33,626	100	%	$27,021	100	%	$6,605	24	%

License and implementation. License and implementation revenue increased $4.8 million to $22.6 million for the three months ended March 31, 2013 from $17.8 million for the three months ended March 31, 2012, representing a 27% increase. The increase in license and implementation revenue was principally the result of a 13% increase in the number of implementations from 84 to 95, which increased the number of man-days expended by 35%, partially offset by a 6% decrease in the average revenue recognized per man-day as compared to the corresponding period in 2012.

License and implementation revenue includes revenue from both term licenses and hosting services. Revenue from term licenses represented approximately 3% and 5% of total revenue for the three months ended March 31, 2013 and 2012, respectively. Revenue from hosting services represented approximately 3% and 2% of total revenue for the three months ended March 31, 2013 and 2012, respectively.

Maintenance and support. Maintenance and support revenue increased $1.8 million to $11.0 million for the three months ended March 31, 2013 from $9.2 million for the three months ended March 31, 2012, representing a 20% increase. The increase in maintenance and support revenue is principally a result of an increase in the number of customers for which we are providing maintenance and support services.

Cost of revenue and gross profit:

	For the three months ended March 31,								
	2013			2012					
(Dollars in thousands)	Amount	As a Percentage of Related Revenue		Amount	As a Percentage of Related Revenue		Variance $	Variance %	
Cost of license and implementation	$8,471	37	%	$6,003	34	%	$2,468	41	%
Cost of maintenance and support	2,082	19	%	1,935	21	%	147	8	%
Total cost of revenue	$10,553	31	%	$7,938	29	%	$2,615	33	%
Gross profit	$23,073	69	%	$19,083	71	%	$3,990	21	%

Cost of license and implementation. Cost of license and implementation increased $2.5 million to $8.5 million for the three months ended March 31, 2013 from $6.0 million for the three months ended March 31, 2012, representing a 41% increase. The increase in cost of license and implementation revenue was principally attributable to an increase of $1.7 million of personnel costs. Personnel costs, which include our employees and third party contractors, increased primarily as a result of an increase in headcount needed to support the increased number of active and anticipated implementations. Included in the increase in personnel costs is an increase of $0.1 million of noncash share based compensation expense. In addition, there was an increase of $0.4 million of travel expenses due to the increase in the number of implementations and an increase of $0.3 million related to hosting and our cloud-based service offerings.

License and implementation gross profit percentages were 63% for the three months ended March 31, 2013 as compared to 66% for the three months ended March 31, 2012. The decrease in the license and implementation gross profit percentage was principally the result of a 41% increase in license and implementation costs due primarily to an increase in headcount needed to

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support the increased number of active and anticipated implementations. License and implementation gross margins may vary from period to period depending on different factors, including the amount of implementation services required to deploy our solutions relative to the total contract price and additional headcount needed to support anticipated future implementations.

Cost of maintenance and support. Cost of maintenance and support increased $0.1 million to $2.1 million for the three months ended March 31, 2013 from $1.9 million for the three months ended March 31, 2012, representing an 8% increase. The cost of providing maintenance and support services consists largely of personnel related expenses. The increase in cost of maintenance was principally attributable to an increase of $0.1 million of personnel costs associated with the continued growth in our customer maintenance and support function commensurate with maintenance and support revenue growth.

Maintenance and support gross profit percentages were 81% for the three months ended March 31, 2013 as compared to 79% for the three months ended March 31, 2012. The increase in maintenance and support gross profit percentages was principally the result of an increase of 20% in maintenance and support revenue.

Gross profit. Gross profit increased $4.0 million to $23.1 million for the three months ended March 31, 2013 from $19.1 million for the three months ended March 31, 2012, representing a 21% increase. The increase in overall gross profit was principally attributable to a 24% increase in total revenue.

Operating expenses:

	For the three months ended March 31,									
	2013			2012						
(Dollars in thousands)	Amount	As a Percentage of Total Revenue		Amount	As a Percentage of Total Revenue		Variance $	Variance %	
Selling, marketing, general and administrative	$14,288	42	%	$10,256	38	%	$4,032	39	%
Research and development	8,096	24	%	6,697	25	%	1,399	21	%
Total operating expenses	$22,384	66	%	$16,953	63	%	$5,431	32	%

Selling, marketing, general and administrative expenses. Selling, marketing, general and administrative expenses increased $4.0 million to $14.3 million for the three months ended March 31, 2013 from $10.3 million for the three months ended March 31, 2012, representing a 39% increase. The increase was principally attributable to an increase of $3.7 million in sales, marketing, general and administrative personnel costs as a result of an increase in headcount to support our current and future growth objectives and higher commission expenses resulting from higher revenue levels. Included in the increase in personnel costs is an increase of $1.0 million of noncash share based compensation. In addition, there was an increase of $0.4 million of overhead and other expenses, an increase of $0.2 million in travel expense primarily as a result of increase in sales activity and an increase of $0.2 million of third party professional fees. These increases were offset by a decrease of $0.3 million of marketing expenses and a decrease of $0.1 million of consultants fees related to the implementation of a new enterprise resource planning system in 2012.

Research and development expenses. Research and development expenses increased $1.4 million to $8.1 million for the three months ended March 31, 2013 from $6.7 million for the three months ended March 31, 2012, representing a 21% increase. The increase in research and development expenses was principally attributable to an increase of $2.1 million in personnel costs as a result of increased headcount to support work on new projects and initiatives, offset by $0.6 million of personnel costs that were capitalized related to the development of our cloud-based service offerings. Included in the increase in personnel costs is an increase of $0.4 million of noncash share-based compensation.

Other (expense) income, net:

	For the three months ended March 31,					
	2013		2012			
(Dollars in thousands)	Amount	As a Percentage of Total Revenue	Amount	As a Percentage of Total Revenue	Variance $	Variance %
Other (expense) income, net	$(103)	— %	$22	— %	$(125)	(568)%

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Other (expense) income, net. Other (expense) income, net consists of interest income on our cash and cash equivalents, interest expense which includes debt issuance cost amortization on the revolving credit facility ("Revolver") and foreign currency exchange gains and losses on transactions denominated in currencies other than the functional currency. Other expense for the period was primarily attributed to net increases in foreign currency losses and an increase in interest expense from the Revolver.

Income tax (benefit) provision:

	For the three months ended March 31,			
(Dollars in thousands)	2013	2012	Variance $	Variance %
Effective tax rate	(196)%	45%	n/a	(241)%
Income tax (benefit) provision	$(1,148)	$961	$(2,109)	(219)%

Income tax (benefit) provision. Our income tax provision decreased $2.1 million to a benefit of $1.1 million for the three months ended March 31, 2013 from a provision of $1.0 million for the three months ended March 31, 2012. Our effective tax rate was (196)% and 45% for the three months ended March 31, 2013 and 2012, respectively. The decrease in the effective tax rate was due primarily to a $1.4 million discrete benefit attributed to the 2012 Research and Experimentations ("R&E") tax credit that was retroactively reinstated in the first quarter of 2013, partially offset by a rate increase attributable to nondeductible share-based compensation expense.

Liquidity and Capital Resources

Liquidity

At March 31, 2013, we had $82.5 million of cash and cash equivalents and $76.0 million of working capital as compared to $83.6 million of cash and cash equivalents and $73.0 million of working capital at December 31, 2012. The majority of our cash and cash equivalents are denominated in the U.S. dollar and are held in financial institutions located in the U.S. Our principal sources of liquidity are our cash and cash equivalents, cash flows generated from operations and potential borrowings under our Revolver. Our material drivers or variants of operating cash flow are net income, noncash expenses (principally share-based compensation) and the timing of periodic billings and collections related to the sale of our software and related services. The primary source of operating cash flows is the collection of accounts receivable from our customers. Our operating cash flows are also impacted by the timing of payments to our vendors for accounts payable and other liabilities. We generally pay our vendors and service providers in accordance with the invoice terms and conditions.

Based on existing cash and cash equivalents balances, availability under our Revolver and our current estimates of revenues and expenses, we believe that we will have adequate liquidity and capital resources to meet our operational requirements and anticipated capital expenditures for the next twelve months. Our future working capital requirements will depend on many factors, including the operations of our existing business, our potential strategic expansion, future acquisitions we might undertake, and the expansion into complementary businesses. If such need arises, we may raise additional funds through equity or debt financings. At March 31, 2013, we had restricted cash of $0.3 million related to letters of credit.

The following table presents key components of our unaudited condensed consolidated statements of cash flows for the three months ended March 31, 2013 and 2012.

	For the three months ended March 31,	
(Dollars in thousands)	2013	2012

Net cash provided by operating activities	$1,261	$3,424
Net cash used in investing activities	(1,744)	(1,031)
Net cash (used in) provided by financing activities	(613)	63
Cash and cash equivalents (beginning of period)	83,558	68,457
Cash and cash equivalents (end of period)	$82,462	$70,913

Net cash provided by operating activities. Net cash provided by operating activities for the three months ended March 31, 2013 was $1.3 million, which represents a decrease of $2.2 million when compared to the corresponding period in 2012. For the three months ended March 31, 2013, our cash flows from operations were derived principally from our earnings from on-going operations prior to non-cash expenses such as depreciation and amortization, share-based compensation and related tax benefits, provision for doubtful accounts and changes in our working capital. The $2.2 million decrease was due to a decrease of $4.8 million attributed to changes in operating assets and liabilities, which are comprised of accounts receivable, unbilled receivables, prepaid and other assets, accounts payable, accrued liabilities, accrued payroll and other em ployee benefits and deferred revenue. Included in our changes in operating assets and liabilities in 2013 was $5.7 million of incentive payments paid to our employees that were earned in 2012. This decrease was partially offset by an increase of $2.1 million of noncash expenses principally as the result of the increase in share-based compensation and an increase of $0.5 million in net income.

Net cash used in investing activities. Net cash used in investing activities was $1.7 million for the three months ended March 31, 2013 compared to $1.0 million for the three months ended March 31, 2012. The increase in net cash used in investing activities for the three months ended March 31, 2013 as compared to the corresponding period in 2012 is primarily the result of purchases of property and equipment as a result of infrastructure investment and capitalized internal-use software development costs related to our cloud-based service offerings.

Net cash (used in) provided by financing activities. Net cash used in financing activities was $0.6 million for the three months ended March 31, 2013 compared to net cash provided by financing activities of $0.1 million for the three months ended March 31, 2012. The increase for the three months ended March 31, 2013 as compared to the corresponding period in 2012 is primarily the result of an increase in net cash provided by the exercise of stock options and stock appreciation rights of $0.9 million, offset by a $1.4 million decrease in excess tax benefits as a result of the vesting of restricted stock units and a $0.2 million increase in net cash used in tax withholdings related to the net share settlement of restricted stock units.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations and Commitments

There have been no material changes to our contractual obligations and commitments as disclosed in our Annual Report on SEC Form 10-K for the year ended December 31, 2012.

Credit facility

As of March 31, 2013, there were $0.2 million of unamortized debt issuance costs related to the Revolver included in other long term assets in the condensed consolidated balance sheets. For the three months ended March 31, 2013, $13,000 of debt issue cost amortization is included in interest expense in the condensed consolidated statements of comprehensive income.

There were no outstanding borrowings under the Revolver as of March 31, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

Our contracts are predominately denominated in U.S. dollars; however, we have contracts denominated in foreign currencies and therefore a portion of our revenue is subject to foreign currency risks. The primary market risk we face is from foreign currency exchange rate fluctuations. Our cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The effect of an immediate 10% adverse change in exchange rates on foreign denominated receivables as of March 31, 2013 would have resulted in a $0.3 million loss. In addition, the Company has operating subsidiaries in the United Kingdom, Canada and Germany. However, due to the relatively low volume of payments made by the Company through these foreign subsidiaries, the Company does not believe that it has significant exposure to foreign currency exchange risks. Fluctuations in currency exchange rates could harm our results of operations in the future.

We currently do not use derivative financial instruments to mitigate foreign currency exchange risks. We continue to review this issue and may consider hedging certain foreign exchange risks through the use of currency futures or options in future years.

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Exposure to Interest Rates

The Company is exposed to market risk for changes in interest rates related to the variable interest rate on borrowings under the Company's Revolver. As of March 31, 2013, the Company had no borrowings under the Revolver.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of 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 of 1934, as amended (the "Exchange Act") as of March 31, 2013. Based on our evaluation of our disclosure controls and procedures as of March 31, 2013, 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 March 31, 2013 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

There have been no material changes from the risk factors previously described under Item 1A of each of our Annual Report on Form 10-K for the year ended December 31, 2012.

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

We have an ongoing authorization from our Board of Directors to repurchase up to $15.0 million in shares of our common stock in the open market or through privately negotiated transactions. As of March 31, 2013, $10.0 million remained available for repurchase under the existing repurchase authorization.

We did not make any purchases of our common stock under this program for the three months ended March 31, 2013.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURE

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

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Number	Description
10.13(1)	Credit Agreement between PROS, Inc. and Wells Fargo Bank, National Association dated July 2, 2012.
10.15	Form of Market Stock Unit Agreement (2013) under the 2007 Stock Plan.
10.16**	Amended and Restated Employment Agreement, dated May 2, 2013, by and between PROS, Inc., Registrant and Andres Reiner - President and Chief Executive Officer.
10.17**	Amended and Restated Employment Agreement, dated May 2, 2013, by and between PROS, Inc., Registrant and Charles H. Murphy - Chief Financial Officer.
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a).
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/ 15d-14(a).
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
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

** Constitutes management contracts or compensatory arrangements.

(1) Incorporated by reference to our Current Report on Form 8-K dated July 9, 2012

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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.
Date: May 2, 2013	By:	/s/ Andres Reiner Andres Reiner President and Chief Executive Officer (Principal Executive Officer)
Date: May 2, 2013	By:	/s/ Charles H. Murphy Charles H. Murphy Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)