

PROGRESS SOFTWARE CORP /MA  
Form 10-Q  
October 10, 2017  
Table of Contents

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended August 31, 2017

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

Commission File Number: 0-19417

PROGRESS SOFTWARE CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE 04-2746201  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
14 Oak Park  
Bedford, Massachusetts 01730  
(Address of principal executive offices)(Zip code)  
Telephone Number: (781) 280-4000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No ý

As of September 27, 2017, there were 47,807,918 shares of the registrant's common stock, \$.01 par value per share, outstanding.

---

Table of Contents

PROGRESS SOFTWARE CORPORATION  
FORM 10-Q  
FOR THE NINE MONTHS ENDED AUGUST 31, 2017  
INDEX

PART I FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited)</u>	<u>3</u>
	<u>Condensed Consolidated Balance Sheets as of August 31, 2017 and November 30, 2016</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Operations for the three and nine months ended August 31, 2017 and 2016</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended August 31, 2017 and 2016</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended August 31, 2017 and 2016</u>	<u>6</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
Item 4.	<u>Controls and Procedures</u>	<u>38</u>

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>39</u>
Item 1A.	<u>Risk Factors</u>	<u>39</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
Item 6.	<u>Exhibits</u>	<u>45</u>
	<u>Signatures</u>	<u>46</u>
	<u>Exhibit Index</u>	<u>47</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## Condensed Consolidated Balance Sheets

(In thousands, except share data)	August 31, 2017	November 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 144,757	\$ 207,036
Short-term investments	46,559	42,718
Total cash, cash equivalents and short-term investments	191,316	249,754
Accounts receivable (less allowances of \$834 and \$1,143, respectively)	51,860	65,678
Other current assets	18,451	20,621
Total current assets	261,627	336,053
Property and equipment, net	43,283	50,105
Intangible assets, net	101,777	80,827
Goodwill	315,913	278,067
Deferred tax assets	1,221	6,601
Other assets	1,995	3,174
Total assets	\$ 725,816	\$ 754,827
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt	\$ 14,643	\$ 15,000
Accounts payable	6,657	12,991
Accrued compensation and related taxes	25,269	26,212
Dividends payable to shareholders	5,975	6,067
Income taxes payable	2,275	1,509
Other accrued liabilities	19,354	12,999
Short-term deferred revenue	131,932	128,960
Total current liabilities	206,105	203,738
Long-term debt	108,303	120,000
Long-term deferred revenue	8,774	8,801
Deferred tax liabilities	5,793	3,901
Other noncurrent liabilities	5,239	11,758
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.01 par value; authorized, 10,000,000 shares; issued, none	—	—
Common stock, \$0.01 par value, and additional paid-in capital; authorized, 200,000,000 shares; issued and outstanding, 47,796,793 shares in 2017 and 48,536,516 shares in 2016	246,628	239,496
Retained earnings	162,139	195,694
Accumulated other comprehensive loss	(17,165 )	(28,561 )
Total shareholders' equity	391,602	406,629
Total liabilities and shareholders' equity	\$ 725,816	\$ 754,827
See notes to unaudited condensed consolidated financial statements.		

Table of Contents

## Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	August 31, 2017	August 31, 2016	August 31, 2017	August 31, 2016
Revenue:				
Software licenses	\$28,529	\$33,624	\$78,443	\$86,366
Maintenance and services	68,781	68,394	203,050	201,251
Total revenue	97,310	102,018	281,493	287,617
Costs of revenue:				
Cost of software licenses	1,337	1,424	4,347	4,139
Cost of maintenance and services	10,970	11,825	32,724	33,217
Amortization of acquired intangibles	5,768	3,940	14,129	11,818
Total costs of revenue	18,075	17,189	51,200	49,174
Gross profit	79,235	84,829	230,293	238,443
Operating expenses:				
Sales and marketing	23,159	29,852	70,116	88,648
Product development	19,620	21,706	55,745	65,800
General and administrative	11,164	11,411	33,338	36,055
Amortization of acquired intangibles	3,319	3,186	9,721	9,556
Impairment of intangible assets	—	5,051	—	5,051
Restructuring expenses	923	(36)	18,724	229
Acquisition-related expenses	751	53	844	449
Total operating expenses	58,936	71,223	188,488	205,788
Income from operations	20,299	13,606	41,805	32,655
Other (expense) income:				
Interest expense	(1,221)	(1,174)	(3,455)	(3,244)
Interest income and other, net	239	260	717	686
Foreign currency (loss) gain, net	(418)	(374)	(1,561)	(1,916)
Total other (expense) income, net	(1,400)	(1,288)	(4,299)	(4,474)
Income before income taxes	18,899	12,318	37,506	28,181
Provision for income taxes	7,727	4,742	16,518	10,114
Net income	\$11,172	\$7,576	\$20,988	\$18,067
Earnings per share:				
Basic	\$0.23	\$0.16	\$0.43	\$0.36
Diluted	\$0.23	\$0.15	\$0.43	\$0.36
Weighted average shares outstanding:				
Basic	48,071	48,611	48,342	49,765
Diluted	48,370	49,135	48,631	50,310
Cash dividends declared per common share	\$0.125	\$—	\$0.375	\$—

See notes to unaudited condensed consolidated financial statements.

Table of Contents

## Condensed Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31, 2017	August 31, 2016	August 31, 2017	August 31, 2016
Net income	\$11,172	\$ 7,576	\$20,988	\$ 18,067
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	5,920	(1,332 )	11,291	485
Reclassification adjustment for losses included in net income, net of tax of \$0 for the third quarter and first nine months of 2016	—	—	—	256
Unrealized gains on investments, net of tax provision of \$17 and \$62 for the third quarter and first nine months of 2017, respectively and \$16 for the third quarter and first nine months of 2016	27	30	105	27
Total other comprehensive income, net of tax	5,947	(1,302 )	11,396	768
Comprehensive income	\$17,119	\$ 6,274	\$32,384	\$ 18,835

See notes to unaudited condensed consolidated financial statements.

Table of Contents

## Condensed Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended	
	August 31, 2017	August 31, 2016
Cash flows from operating activities:		
Net income	\$ 20,988	\$ 18,067
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	5,794	6,480
Amortization of intangibles and other	25,530	23,316
Stock-based compensation	9,559	19,009
Loss on disposal of property	186	364
Asset impairment	—	5,051
Deferred income taxes	3,518	(996)
Excess tax benefit from stock plans	(403)	(305)
Allowances for accounts receivable	53	(334)
Changes in operating assets and liabilities:		
Accounts receivable	15,769	11,209
Other assets	3,783	(3,866)
Accounts payable and accrued liabilities	(10,971)	(14,920)
Income taxes payable	759	2,025
Deferred revenue	(1,394)	3,810
Net cash flows from operating activities	73,171	68,910
Cash flows used in investing activities:		
Purchases of investments	(30,482)	(33,861)
Sales and maturities of investments	25,904	17,275
Purchases of property and equipment	(865)	(3,747)
Proceeds from sale of property, plant and equipment, net	1,557	—
	(77,149)	—

Payments for acquisitions, net of cash acquired				
Net cash flows used in investing activities	(81,035	)	(20,333	)
Cash flows used in financing activities:				
Proceeds from stock-based compensation plans	7,245		8,166	
Purchases of stock related to withholding taxes from the issuance of restricted stock units	(2,369	)	(2,751	)
Repurchases of common stock	(43,936	)	(71,507	)
Excess tax benefit from stock plans	403		305	
Dividend payments to shareholders	(18,151	)	—	
Payment of long-term debt	(11,250	)	(7,500	)
Net cash flows used in financing activities	(68,058	)	(73,287	)
Effect of exchange rate changes on cash	13,643		415	
Net decrease in cash and cash equivalents	(62,279	)	(24,295	)
Cash and cash equivalents, beginning of period	207,036		212,379	
Cash and cash equivalents, end of period	\$ 144,757		\$ 188,084	



Table of Contents

## Condensed Consolidated Statements of Cash Flows, continued

	Nine Months Ended	
	August 31,	August 31,
	2017	2016
Supplemental disclosure:		
Cash paid for income taxes, net of refunds of \$3,584 in 2017 and \$781 in 2016	\$10,469	\$ 11,918
Cash paid for interest	\$2,703	\$ 2,348
Non-cash investing and financing activities:		
Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested	\$13,833	\$ 12,137
Dividends declared	\$5,975	\$ —
See notes to unaudited condensed consolidated financial statements.		

Table of Contents

Notes to Condensed Consolidated Financial Statements

Note 1: Basis of Presentation

Company Overview - Progress offers the leading platform for developing and deploying mission-critical business applications. Progress empowers enterprises and independent software vendors (ISVs) to build and deliver cognitive-first applications that harness big data to derive business insights and competitive advantage. Progress offers leading technologies for easily building powerful user interfaces across any type of device, a reliable, scalable and secure backend platform to deploy modern applications, leading data connectivity to all sources, and award-winning predictive analytics that brings the power of machine learning to any organization. Over 1,700 ISVs, 100,000 enterprise customers, and 2 million developers rely on Progress to power their applications.

Our products are generally sold as perpetual licenses, but certain products also use term licensing models and our cloud-based offerings use a subscription based model. More than half of our worldwide license revenue is realized through relationships with indirect channel partners, principally application partners and original equipment manufacturers (OEMs). Application partners are ISVs that develop and market applications using our technology and resell our products in conjunction with sales of their own products that incorporate our technology. OEMs are companies that embed our products into their own software products or devices.

We operate in North America and Latin America (the Americas); Europe, the Middle East and Africa (EMEA); and the Asia Pacific region, through local subsidiaries as well as independent distributors.

Basis of Presentation and Significant Accounting Policies - We prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements and these unaudited financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2016.

We made no significant changes in the application of our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended November 30, 2016. We have prepared the accompanying unaudited condensed consolidated financial statements on the same basis as the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2016, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full fiscal year.

Recent Accounting Pronouncements - In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). ASU 2017-12 intends to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The guidance in ASU 2017-12 is required for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting (ASU 2017-09), which amends the scope of modification accounting for share-based payment awards. The guidance in ASU 2017-09 provides that modification accounting is required only if a change in the terms or conditions of an award results in a change to the fair value, the vesting conditions, or the classification of the award as equity or liability. The guidance in ASU 2017-09 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial position and results of operations.

Table of Contents

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment (ASU 2017-04). ASU 2017-04 amends Topic 350 to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This update requires the performance of an annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The guidance in ASU 2017-04 is required for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We are currently considering whether to adopt this update prior to the required adoption date.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business (ASU 2017-01). ASU 2017-01 provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. The guidance in ASU 2017-01 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently considering whether to adopt this update prior to the required adoption date and, in any event, do not expect the adoption to have a material impact on our consolidated financial position and results of operations.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The guidance in ASU 2016-15 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated statement of cash flows.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 is intended to simplify various aspects of the accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance in ASU 2016-09 is required for annual reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), which requires lessees to record most leases on their balance sheets, recognizing a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The guidance in ASU 2016-02 is required for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We currently expect that most of our operating lease commitments will be subject to the update and recognized as operating lease liabilities and right-of-use assets upon adoption. However, we are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The guidance in ASU 2015-03 is required for annual reporting periods beginning after December 15, 2015, including interim periods within the reporting period. Accordingly, upon

adoption in the first quarter of fiscal 2017, we reclassified \$1.0 million from other assets to long-term debt in our condensed consolidated balance sheet.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance provided in Topic 606 requires entities to use a five-step model to recognize revenue by allocating the consideration from contracts to performance obligations on a relative standalone selling price basis. The standard also requires new disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This new guidance was initially effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016 and early adoption was not permitted. However, in July 2015, the FASB voted to defer the effective date of this ASU by one year for reporting periods beginning after December 15, 2017, with early adoption permitted as of the original effective date. As a result, the effective date for the Company will be December 1, 2018.

Table of Contents

Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. The Company plans to adopt this ASU in accordance with the full retrospective approach, effective December 1, 2018. Fiscal year 2019 quarterly results, and comparative prior periods, will be prepared in accordance with ASC 606. The first Annual Report on Form 10-K issued in accordance with ASC 606 will be for the period ended November 30, 2019.

Management is currently assessing the impact the adoption of this standard will have on the Company's consolidated financial statements, but anticipates that the revenue recognition related to accounting for the following transactions will be most impacted:

Revenue from term licenses with extended payment terms over the term of the agreement within our Data Connectivity and Integration segment - These transactions are typically recognized when the amounts are billed to the customer under current revenue recognition guidance. In accordance with ASU 2014-09, revenue from term license performance obligations is expected to be recognized upon delivery and revenue from maintenance performance obligations is expected to be recognized over the contract term. To the extent the Company enters into future term licenses with extended payment terms after the adoption of ASU 2014-09, revenue from term licenses with extended payment terms will be recognized prior to the customer being billed and the Company will recognize a net contract asset on the balance sheet. Accordingly, license revenue will be accelerated under ASU 2014-09 as the Company currently does not recognize revenue until the amounts have been billed to the customer.

Revenue from transactions with multiple elements within our Application Development and Deployment segment (i.e., sales of perpetual licenses with maintenance and/or support) - These transactions are currently recognized ratably over the associated maintenance period as the Company does not have vendor specific objective evidence (VSOE) for maintenance or support. Under ASU 2014-09, the requirement to have VSOE for undelivered elements that exists under current guidance is eliminated. Accordingly, the Company will recognize a portion of the sales price as revenue upon delivery of the license instead of recognizing the entire sales price ratably over the maintenance period.

## Note 2: Cash, Cash Equivalents and Investments

A summary of our cash, cash equivalents and available-for-sale investments at August 31, 2017 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	\$ 137,911	\$ —	\$ —	\$ 137,911
Money market funds	5,846	—	—	5,846
State and municipal bond obligations	37,690	45	—	37,735
U.S. treasury bonds	3,523	—	(17 )	3,506
Corporate bonds	6,319	—	(1 )	6,318
Total	\$ 191,289	\$ 45	\$ (18 )	\$ 191,316

A summary of our cash, cash equivalents and available-for-sale investments at November 30, 2016 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	\$ 196,863	\$ —	—\$ —	\$ 196,863
Money market funds	10,173	—	—	10,173
State and municipal bond obligations	32,831	—	(107 )	32,724

Edgar Filing: PROGRESS SOFTWARE CORP /MA - Form 10-Q

U.S. treasury bonds	6,542	—	(29	)	6,513
Corporate bonds	3,485	—	(4	)	3,481
Total	\$ 249,894	\$	—\$ (140	)	\$ 249,754

10

---

Table of Contents

Such amounts are classified on our condensed consolidated balance sheets as follows (in thousands):

	August 31, 2017		November 30, 2016	
	Cash and Equivalent	Short-Term Investments	Cash and Equivalent	Short-Term Investments
Cash	\$137,911	\$ —	\$196,863	\$ —
Money market funds	5,846	—	10,173	—
State and municipal bond obligations	1,000	36,735	—	32,724
U.S. treasury bonds	—	3,506	—	6,513
Corporate bonds	—	6,318	—	3,481
Total	\$144,757	\$ 46,559	\$207,036	\$ 42,718

The fair value of debt securities by contractual maturity is as follows (in thousands):

	August 31, 2017	November 30, 2016
Due in one year or less	\$ 20,881	\$ 21,172
Due after one year <sup>(1)</sup>	25,678	21,546
Total	\$ 46,559	\$ 42,718

Includes state and municipal bond obligations, U.S. treasury bonds, and corporate bonds, which are securities (1) representing investments available for current operations and are classified as current in the consolidated balance sheets.

We did not hold any investments with continuous unrealized losses as of August 31, 2017 or November 30, 2016.

### Note 3: Derivative Instruments

We generally use forward contracts that are not designated as hedging instruments to hedge economically the impact of the variability in exchange rates on intercompany accounts receivable and loans receivable denominated in certain foreign currencies. We generally do not hedge the net assets of our international subsidiaries.

All forward contracts are recorded at fair value on the consolidated balance sheets at the end of each reporting period and expire from 30 days to one year. At August 31, 2017, \$3.5 million was recorded in other accrued liabilities. At November 30, 2016, \$6.6 million was recorded in other noncurrent liabilities. In the three and nine months ended August 31, 2017, realized and unrealized gains of \$5.2 million and \$9.6 million, respectively, from our forward contracts were recognized in foreign currency (loss) gain, net, in the condensed consolidated statements of operations. In the three and nine months ended August 31, 2016, realized and unrealized gains of \$2.2 million and \$1.4 million, respectively, from our forward contracts were recognized in foreign currency (loss) gain, net, in the condensed consolidated statements of operations. The gains were substantially offset by realized and unrealized losses on the offsetting positions.

The table below details outstanding foreign currency forward contracts where the notional amount is determined using contract exchange rates (in thousands):

	August 31, 2017		November 30, 2016	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	\$ 117,499	\$ (3,539 )	\$ 74,690	\$ (6,597 )
Forward contracts to purchase U.S. dollars	220	(1 )	1,673	(19 )



Total \$117,719 \$ (3,540 ) \$76,363 \$ (6,616 )

11

---

Table of Contents

## Note 4: Fair Value Measurements

## Recurring Fair Value Measurements

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at August 31, 2017 (in thousands):

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Assets</b>				
Money market funds	\$ 5,846	\$5,846	\$—	\$ —
State and municipal bond obligations	37,735	—	37,735	—
U.S. treasury bonds	3,506	—	3,506	—
Corporate bonds	6,318	—	6,318	—
<b>Liabilities</b>				
Foreign exchange derivatives	\$(3,540)	\$—	\$(3,540)	\$ —

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at November 30, 2016 (in thousands):

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Assets</b>				
Money market funds	\$ 10,173	\$10,173	\$—	\$ —
State and municipal bond obligations	32,724	—	32,724	—
U.S. treasury bonds	6,513	—	6,513	—
Corporate bonds	3,481	—	3,481	—
<b>Liabilities</b>				
Foreign exchange derivatives	\$(6,616)	\$—	\$(6,616)	\$ —

When developing fair value estimates, we maximize the use of observable inputs and minimize the use of unobservable inputs. When available, we use quoted market prices to measure fair value. The valuation technique used to measure fair value for our Level 1 and Level 2 assets is a market approach, using prices and other relevant information generated by market transactions involving identical or comparable assets. If market prices are not available, the fair value measurement is based on models that use primarily market based parameters including yield curves, volatilities, credit ratings and currency rates. In certain cases where market rate assumptions are not available, we are required to make judgments about assumptions market participants would use to estimate the fair value of a financial instrument.

We did not have any nonrecurring fair value measurements during the nine months ended August 31, 2017.

Table of Contents

## Note 5: Intangible Assets and Goodwill

## Intangible Assets

Intangible assets are comprised of the following significant classes (in thousands):

	August 31, 2017			November 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	\$151,886	\$(82,245 )	\$69,641	\$109,886	\$(68,116 )	\$41,770
Customer-related	67,802	(43,632 )	24,170	67,602	(35,852 )	31,750
Trademarks and trade names	17,740	(9,774 )	7,966	15,140	(7,833 )	7,307
Total	\$237,428	\$(135,651 )	\$101,777	\$192,628	\$(111,801 )	\$80,827

The increase in intangible assets during the second and third quarters of fiscal year 2017 is related to the acquisitions of DataRPM Corporation (DataRPM) in March 2017 and Kinvey Inc. (Kinvey) in June 2017, respectively (Note 6).

In the three and nine months ended August 31, 2017, amortization expense related to intangible assets was \$9.1 million and \$23.9 million, respectively. In the three and nine months ended August 31, 2016, amortization expense related to intangible assets was \$7.1 million and \$21.4 million, respectively.

Future amortization expense for intangible assets as of August 31, 2017 is as follows (in thousands):

Remainder of 2017	\$9,096
2018	35,573
2019	34,449
2020	9,669
2021	9,550
Thereafter	3,440
Total	\$101,777

## Goodwill

Changes in the carrying amount of goodwill in the nine months ended August 31, 2017 are as follows (in thousands):

Balance, November 30, 2016	\$278,067
Additions	37,794
Translation adjustments	52
Balance, August 31, 2017	\$315,913

The additions to goodwill during the second and third quarters of fiscal year 2017 are related to the acquisitions of DataRPM in March 2017 and Kinvey in June 2017, respectively (Note 6).

Table of Contents

Changes in the goodwill balances by reportable segment in the nine months ended August 31, 2017 are as follows (in thousands):

	November 30, 2016	Additions	Translation Adjustments	August 31, 2017
OpenEdge	\$ 212,062	\$ 37,794	\$ 52	\$ 249,908
Data Connectivity and Integration	19,040	—	—	19,040
Application Development and Deployment	46,965	—	—	46,965
Total goodwill	\$ 278,067	\$ 37,794	\$ 52	\$ 315,913

During the quarter ending August 31, 2017, no triggering events have occurred that would indicate that it is more likely than not that the carrying values of any of our reporting units exceeded their fair values.

## Note 6: Business Combinations

## Kinvey Acquisition

On June 1, 2017, we acquired by merger 100% of the outstanding securities of Kinvey for an aggregate sum of \$49.2 million, which includes approximately \$0.3 million held-back from the founder of Kinvey as an incentive to remain with the Company for at least two years following the acquisition. The \$0.3 million held-back will be recorded to expense over the service period. Kinvey is a privately-held company providing Backend-as-a-Service (BaaS), which allows developers to set up, use, and operate a cloud backend for any native, hybrid, web, or IoT app built using any development tools. This acquisition, in combination with our existing frontend technologies, cognitive capabilities from DataRPM, our strong business logic and rules capabilities, and our strong data connectivity technologies, enables us to offer a premier platform for building and delivering cognitive business applications. The acquisition was accounted for as a business combination, and accordingly, the results of operations of Kinvey are included in our operating results as part of the OpenEdge business segment from the date of acquisition. We paid the purchase price in cash from available funds.

The total consideration, less the \$0.3 million held-back discussed above, which is considered to be a compensation arrangement, has been preliminarily allocated to Kinvey's tangible assets, identifiable intangible assets and assumed liabilities based on their estimated fair values. The preliminary fair value estimates of the net assets acquired are based upon preliminary calculations and valuations, and those estimates and assumptions are subject to change as we obtain additional information for those estimates during the measurement period (up to one year from the acquisition date). The areas of the preliminary estimates that are not yet finalized relate to identifiable intangible assets and deferred taxes. The excess of the total consideration, less the amount held-back from the founder, over the tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill.

The preliminary allocation of the purchase price is as follows (in thousands):

	Total	Life
Net working capital	\$(891 )	
Property, plant and equipment	26	
Purchased technology	22,100	5 Years
Trade name	1,800	5 Years
Customer relationships	100	5 Years
Net deferred tax assets	533	
Goodwill	25,211	
Net assets acquired	\$48,879	

The preliminary fair value of the intangible assets has been estimated using the income approach in which the after-tax cash flows are discounted to present value. The cash flows are based on estimates used to price the acquisition, and the discount rates applied were benchmarked with reference to the implied rate of return from the transaction model as well as the weighted average cost of capital.

Table of Contents

Deferred taxes include deferred tax liabilities resulting from the tax effects of fair value adjustments related to identifiable intangible assets, partially offset by the value of deferred tax assets acquired from Kinvey. Tangible assets acquired and assumed liabilities were recorded at fair value.

We recorded the excess of the purchase price over the identified tangible and intangible assets as goodwill. We believe that the investment value of the future enhancement of our product and solution offerings created as a result of this acquisition has principally contributed to a purchase price that resulted in the recognition of \$25.2 million of goodwill, which is not deductible for tax purposes.

Acquisition-related transaction costs (e.g., legal, due diligence, valuation, and other professional fees) are not included as a component of consideration paid, but are required to be expensed as incurred. We incurred \$0.4 million of acquisition-related costs, which are included in acquisition-related expenses in our condensed consolidated statement of operations for the three months ended August 31, 2017.

We have not disclosed the amount of revenues and earnings of Kinvey since acquisition, nor pro forma financial information, as those amounts are not significant to our condensed consolidated financial statements.

## Data RPM Acquisition

On March 1, 2017, we acquired by merger 100% of the outstanding securities of DataRPM for an aggregate sum of \$30.0 million. Approximately \$1.7 million of the purchase price was paid to DataRPM's founders in the form of restricted stock units, subject to a two-year vesting schedule and continued employment. This will be recorded as stock-based compensation over the vesting term. DataRPM is a privately-held company and leader in cognitive predictive maintenance for the industrial IoT (IIoT) market. This acquisition is a key part of the Company's strategy to provide the best platform to build and deliver cognitive-first applications. The acquisition was accounted for as a business combination, and accordingly, the results of operations of DataRPM are included in our operating results as part of the OpenEdge business segment from the date of acquisition. We paid the purchase price in cash from available funds.

The total consideration, less the fair value of the granted restricted stock units discussed above, which are considered compensation arrangements, has been allocated to DataRPM's tangible assets, identifiable intangible assets and assumed liabilities based on their estimated fair values. The preliminary fair value estimates of the net assets acquired are based upon preliminary calculations and valuations, and those estimates and assumptions are subject to change as we obtain additional information for those estimates during the measurement period (up to one year from the acquisition date). The areas of the preliminary estimates that are not yet finalized relate to identifiable intangible assets and deferred taxes. The excess of the total consideration, less the fair value of the restricted stock units, over the tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill.

The preliminary allocation of the purchase price is as follows (in thousands):

	Total	Life
Net working capital	\$(174 )	
Property, plant and equipment	68	
Purchased technology	19,900	5 Years
Trade name	800	5 Years
Customer relationships	100	5 Years
Deferred taxes	(5,006 )	
Goodwill	12,583	
Net assets acquired	\$28,271	

The preliminary fair value of the intangible assets has been estimated using the income approach in which the after-tax cash flows are discounted to present value. The cash flows are based on estimates used to price the acquisition, and the discount rates applied were benchmarked with reference to the implied rate of return from the transaction model as well as the weighted average cost of capital.

Deferred taxes include deferred tax liabilities resulting from the tax effects of fair value adjustments related to identifiable intangible assets, partially offset by the fair value of deferred tax assets acquired from DataRPM. Tangible assets acquired and assumed liabilities were recorded at fair value.

Table of Contents

We recorded the excess of the purchase price over the identified tangible and intangible assets as goodwill. We believe that the investment value of the future enhancement of our product and solution offerings created as a result of this acquisition has principally contributed to a purchase price that resulted in the recognition of \$12.6 million of goodwill, which is not deductible for tax purposes.

As discussed above, approximately \$1.7 million of the total consideration was paid to DataRPM's founders in restricted stock units, subject to a vesting schedule and continued employment. We concluded that the restricted stock units are compensation arrangements and we have been recognizing stock-based compensation expense in accordance with the vesting schedule over the service period of the awards, which is 2 years. We recorded \$0.2 million of stock-based compensation expense related to these restricted stock units as operating expenses in our condensed consolidated statement of operations for the three and nine months ended August 31, 2017.

Acquisition-related transaction costs (e.g., legal, due diligence, valuation, and other professional fees) are not included as a component of consideration transferred, but are required to be expensed as incurred. We incurred \$0.3 million and \$0.4 million of acquisition-related costs during the three and nine months ended August 31, 2017, respectively, which are included in acquisition-related expenses in our condensed consolidated statement of operations.

We have not disclosed the amount of revenues and earnings of DataRPM since acquisition, nor pro forma financial information, as those amounts are not significant to our condensed consolidated financial statements.

Note 7: Term Loan and Line of Credit

Our credit agreement provides for a \$150 million secured term loan and a \$150 million secured revolving credit facility, which may be made available in U.S. Dollars and certain other currencies. The revolving credit facility may be increased by up to an additional \$75 million if the existing or additional lenders are willing to make such increased commitments. We borrowed the \$150 million term loan included in our credit agreement to partially fund our acquisition of Telerik AD in December 2014. The revolving credit facility has sublimits for swing line loans up to \$25.0 million and for the issuance of standby letters of credit in a face amount up to \$25.0 million. We expect to use the revolving credit facility for general corporate purposes and may also use it for working capital.

The credit facility matures on December 2, 2019, when all amounts outstanding will be due and payable in full. The revolving credit facility does not require amortization of principal. The outstanding balance of the \$150 million term loan as of August 31, 2017 was \$123.8 million, with \$15.0 million due in the next 12 months. The term loan requires repayment of principal at the end of each fiscal quarter, beginning with the fiscal quarter ended February 28, 2015. The first eight payments were in the principal amount of \$1.9 million each, the following eight payments are in the principal amount of \$3.8 million each, the next three payments are in the principal amount of \$5.6 million each, and the last payment is of the remaining principal amount. Any amounts outstanding under the term loan thereafter would be due on the maturity date. The term loan may be prepaid before maturity in whole or in part at our option without penalty or premium. As of August 31, 2017, the carrying value of the term loan approximates the fair value, based on Level 2 inputs (observable market prices in less than active markets), as the interest rate is variable over the selected interest period and is similar to current rates at which we can borrow funds. The interest rate of the credit facility as of August 31, 2017 was 3.00%.

Costs incurred to obtain our long-term debt of \$1.8 million are being amortized over the term of the debt agreement using the effective interest rate method. Amortization expense related to debt issuance costs of \$0.1 million for the three months ended August 31, 2017 and August 31, 2016 and \$0.3 million for the nine months ended August 31, 2017 and August 31, 2016, respectively, is recorded within interest expense in our condensed consolidated statements of operations. The unamortized portion of debt issuance costs of \$0.8 million is recorded as a direct deduction from



the carrying value of the debt liability in our condensed consolidated balance sheet as of August 31, 2017, with \$0.4 million deducted from the current portion of long-term debt balance and \$0.4 million deducted from the long-term debt balance. Prior to fiscal year 2017 and the adoption of ASU 2015-03, the unamortized portion of debt issuance costs were recorded in other assets in our condensed consolidated balance sheet (Note 1).

Revolving loans may be borrowed, repaid and reborrowed until December 2, 2019, at which time all amounts outstanding must be repaid. As of August 31, 2017, there were no amounts outstanding under the revolving line and \$1.4 million of letters of credit.

Table of Contents

As of August 31, 2017, aggregate principal payments of long-term debt for the remainder of the contract term are (in thousands):

Remainder of 2017	\$3,750
2018	15,000
2019	16,875
2020	88,125
Total	\$123,750

## Note 8: Common Stock Repurchases

We repurchased and retired 0.6 million shares of our common stock for \$19.0 million in the three months ended August 31, 2017 and 1.5 million shares for \$43.9 million in the nine months ended August 31, 2017. In the three and nine months ended August 31, 2016, we repurchased and retired 0.4 million shares for \$11.5 million and 2.8 million shares for \$71.5 million, respectively. The shares were repurchased in all periods as part of our Board of Directors authorized share repurchase program.

In March 2016, our Board of Directors authorized a \$100.0 million share repurchase program, which increased the total authorization to \$214.5 million. As of August 31, 2017, there was \$91.4 million remaining under this authorization. In September 2017, our Board of Directors increased the total share repurchase authorization from the \$91.4 million remaining under the previous authorization to \$250 million.

## Note 9: Stock-Based Compensation

Stock-based compensation expense reflects the fair value of stock-based awards, less the present value of expected dividends, measured at the grant date and recognized over the relevant service period. We estimate the fair value of each stock-based award on the measurement date using the current market price of the stock or the Black-Scholes option valuation model.

In addition, during each fiscal year from 2014 through 2017 we granted performance-based restricted stock units that include a three-year market condition under a Long-Term Incentive Plan ("LTIP") where the performance measurement period is three years. Vesting of the LTIP awards is based on our level of attainment of specified total shareholder return (TSR) targets relative to the percentage appreciation of a specified index of companies for the respective three year periods and is also subject to the continued employment of the grantees. In order to estimate the fair value of such awards, we used a Monte Carlo Simulation valuation model.

The Black-Scholes and Monte Carlo Simulation valuation models incorporate assumptions as to stock price volatility, the expected life of options or awards, a risk-free interest rate and dividend yield. We recognize stock-based compensation expense related to options and restricted stock units on a straight-line basis over the service period of the award, which is generally 4 years for options and 3 years for restricted stock units. We recognize stock-based compensation expense related to performance stock units and our employee stock purchase plan using an accelerated attribution method.

The following table provides the classification of stock-based compensation as reflected in our condensed consolidated statements of operations (in thousands):

Three Months	Nine Months
Ended	Ended

Edgar Filing: PROGRESS SOFTWARE CORP /MA - Form 10-Q

	August 31, 2017	August 31, 2016	August 31, 2017	August 31, 2016
Cost of maintenance and services	\$239	\$ 223	\$790	\$ 599
Sales and marketing	808	751	1,371	2,792
Product development	1,645	2,524	2,699	7,600
General and administrative	1,604	2,281	4,699	8,018
Total stock-based compensation	\$4,296	\$ 5,779	\$9,559	\$ 19,009

17

---

Table of Contents

## Note 10: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated balances of other comprehensive loss during the nine months ended August 31, 2017 (in thousands):

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Loss
Balance, December 1, 2016	\$ (28,425 )	\$ (136 )	\$ (28,561 )
Other comprehensive loss before reclassifications, net of tax	11,291	105	11,396
Balance, August 31, 2017	\$ (17,134 )	\$ (31 )	\$ (17,165 )

The tax effect on accumulated unrealized gains (losses) on investments was minimal as of August 31, 2017 and November 30, 2016.

## Note 11: Restructuring Charges

The following table provides a summary of activity for all of the restructuring actions, the most significant of which are detailed further below (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2016	\$ 107	\$ 1,443	\$ 1,550
Costs incurred	2,426	16,298	18,724
Cash disbursements	(1,194 )	(15,677 )	(16,871)
Asset impairment	(762 )	—	(762 )
Translation adjustments and other	24	335	359
Balance, August 31, 2017	\$ 601	\$ 2,399	\$ 3,000

## 2017 Restructuring

During the first quarter of fiscal year 2017, we undertook certain operational restructuring initiatives intended to significantly reduce annual costs. As part of this action, management committed to a new strategic plan highlighted by a new product strategy and a streamlined operating approach. To execute these operational restructuring initiatives, we reduced our global workforce by approximately 20%. These workforce reductions commenced in the first fiscal quarter of 2017 and were substantially completed by the end of the second fiscal quarter of 2017. These workforce reductions occurred in substantially all functional units and across all geographies in which we operate. We also consolidated offices in various locations during the first three quarters of fiscal year of 2017 and expect additional expenses related to facility closures during the remainder of fiscal year 2017. We do not expect these additional costs to be material.

Restructuring expenses are related to employee costs, including severance, health benefits and outplacement services (but excluding stock-based compensation), facilities costs, which include fees to terminate lease agreements and costs for unused space, net of sublease assumptions, and other costs, which include asset impairment charges.

As part of this first quarter of fiscal year 2017 restructuring, for the three and nine months ended August 31, 2017, we incurred expenses of \$0.9 million and \$18.6 million, respectively, which are recorded as restructuring expenses in the

consolidated statements of operations.

18

---

Table of Contents

A summary of the first nine months of fiscal year 2017 activity for this restructuring action is as follows (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2016	\$ —	\$ —	\$—
Costs incurred	2,334	16,298	18,632
Cash disbursements	(1,015 )	(14,543 )	(15,558)
Asset impairment	(762 )	—	(762 )
Translation adjustments and other	24	335	359
Balance, August 31, 2017	\$ 581	\$ 2,090	\$2,671

Cash disbursements for expenses incurred to date under this restructuring are expected to be made through the third quarter of fiscal year 2018. The short-term portion of the restructuring reserve of \$2.4 million is included in other accrued liabilities and the long-term portion of \$0.3 million is included in other noncurrent liabilities on the condensed consolidated balance sheet at August 31, 2017.

## 2016 Restructuring

During the fourth quarter of fiscal year 2016, our management approved, committed to and initiated plans to make strategic changes to our organization as a result of the appointment of our new Chief Executive Officer during the period. In connection with the new organizational structure, we eliminated the positions of Chief Product Officer and Chief Revenue Officer.

Restructuring expenses are related to employee costs, including severance, health benefits and outplacement services (but excluding stock-based compensation).

As part of this fourth quarter of fiscal year 2016 restructuring, for the three and nine months ended August 31, 2017, we incurred no additional expenses.

A summary of the first nine months of fiscal year 2017 activity for this restructuring action is as follows (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2016	\$ —	\$ 1,415	\$1,415
Cash disbursements	—	(1,114 )	(1,114 )
Balance, August 31, 2017	\$ —	\$ 301	\$301

Cash disbursements for expenses incurred to date under this restructuring are expected to be made through the fourth quarter of fiscal year 2017. As a result, the total amount of the restructuring reserve of \$0.3 million is included in other accrued liabilities on the consolidated balance sheet at August 31, 2017.

## Note 12: Income Taxes

Our income tax provision for the third quarter of fiscal years 2017 and 2016 reflects our estimates of the effective tax rates expected to be applicable for the full fiscal years, adjusted for any discrete events which are recorded in the period they occur. The estimates are reevaluated each quarter based on our estimated tax expense for the full fiscal

year.

Our effective income tax rate was 44% in the first nine months of fiscal year 2017 compared to 36% in the same period last year. The increase in our effective tax rate in the nine months ended August 31, 2017 compared to the same period in the prior year is primarily because during the preparation of our condensed consolidated financial statements for the three months ended May 31, 2016, we identified an error in our prior year income tax provision in which income tax expense was overstated for the year ended November 30, 2015 by \$2.7 million related to our tax treatment of an intercompany gain. We determined that the error was not material to the prior year financial statements. We also concluded that recording an out-of-period correction would not be material and therefore corrected this error by recording an out-of-period \$2.7 million tax benefit in our interim financial statements for the period ended May 31, 2016.

19

---

Table of Contents

Our federal income tax returns have been examined or are closed by statute for all years prior to fiscal year 2015. Our state income tax returns have been examined or are closed by statute for all years prior to fiscal year 2012.

Tax authorities for certain non-U.S. jurisdictions are also examining returns, none of which are material to our consolidated balance sheets, cash flows or statements of income. With some exceptions, we are generally no longer subject to tax examinations in non-U.S. jurisdictions for years prior to fiscal year 2012.

## Note 13: Earnings Per Share

We compute basic earnings per share using the weighted average number of common shares outstanding. We compute diluted earnings per share using the weighted average number of common shares outstanding plus the effect of outstanding dilutive stock options, restricted stock units and deferred stock units, using the treasury stock method. The following table sets forth the calculation of basic and diluted earnings per share on an interim basis (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	August 31, 2017	August 31, 2016	August 31, 2017	August 31, 2016
Net income	\$11,172	\$ 7,576	\$20,988	\$ 18,067
Weighted average shares outstanding	48,071	48,611	48,342	49,765
Dilutive impact from common stock equivalents	299	524	289	545
Diluted weighted average shares outstanding	48,370	49,135	48,631	50,310
Basic earnings per share	\$0.23	\$ 0.16	\$0.43	\$ 0.36
Diluted earnings per share	\$0.23	\$ 0.15	\$0.43	\$ 0.36

We excluded stock awards representing approximately 905,000 shares and 648,000 shares of common stock from the calculation of diluted earnings per share in the three and nine months ended August 31, 2017, respectively, because these awards were anti-dilutive. In the three and nine months ended August 31, 2016, we excluded stock awards representing 287,000 shares and 423,000 shares of common stock, respectively, from the calculation of diluted earnings per share as they were anti-dilutive.



Table of Contents

## Note 14: Business Segments and International Operations

Operating segments are components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and assess performance. Our chief operating decision maker is our Chief Executive Officer.

The changes made to our organization during the fourth quarter of fiscal year 2016 and first quarter of fiscal year 2017, as discussed in Note 11, did not change our determination of the three reportable segments as our organizational structure maintains the focus of the three business segments.

We do not manage our assets or capital expenditures by segment or assign other income (expense) and income taxes to segments. We manage and report such items on a consolidated company basis.

The following table provides revenue and contribution from our reportable segments and reconciles to the consolidated income before income taxes:

(In thousands)	Three Months Ended		Nine Months Ended	
	August	August	August	August
	31, 2017	31, 2016	31, 2017	31, 2016
Segment revenue:				
OpenEdge	\$68,135	\$67,534	\$198,533	\$198,595
Data Connectivity and Integration	8,987	14,251	22,911	30,852
Application Development and Deployment	20,188	20,233	60,049	58,170
Total revenue	97,310	102,018	281,493	287,617
Segment costs of revenue and operating expenses:				
OpenEdge	18,374	18,180	52,538	53,539
Data Connectivity and Integration	2,200	2,828	6,531	8,863
Application Development and Deployment	6,369	11,021	19,896	29,555
Total costs of revenue and operating expenses	26,943	32,029	78,965	91,957
Segment contribution:				
OpenEdge	49,761	49,354	145,995	145,056
Data Connectivity and Integration	6,787	11,423	16,380	21,989
Application Development and Deployment	13,819	9,212	40,153	28,615
Total contribution	70,367	69,989	202,528	195,660
Other unallocated expenses (1)	50,068	56,383	160,723	163,005
Income from operations	20,299	13,606	41,805	32,655
Other (expense) income, net	(1,400 )	(1,288 )	(4,299 )	(4,474 )
Income before income taxes	\$18,899	\$12,318	\$37,506	\$28,181

(1) The following expenses are not allocated to our segments as we manage and report our business in these functional areas on a consolidated basis only: product development, corporate marketing, administration, amortization of acquired intangibles, stock-based compensation, restructuring, and acquisition related expenses.

Table of Contents

Our revenues are derived from licensing our products and from related services, which consist of maintenance, hosting services, and consulting and education. Information relating to revenue from customers by revenue type is as follows (in thousands):

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31,		August 31,	
	2017	2016	2017	2016
Software licenses	\$28,529	\$33,624	\$78,443	\$86,366
Maintenance	60,536	60,368	179,572	178,189
Professional services	8,245	8,026	23,478	23,062
Total	\$97,310	\$102,018	\$281,493	\$287,617

In the following table, revenue attributed to North America includes sales to customers in the U.S. and sales to certain multinational organizations. Revenue from Europe, the Middle East and Africa (EMEA), Latin America and the Asia Pacific region includes sales to customers in each region plus sales from the U.S. to distributors in these regions. Information relating to revenue from external customers from different geographical areas is as follows (in thousands):

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31,		August 31,	
	2017	2016	2017	2016
North America	\$55,703	\$58,275	\$157,438	\$160,732
EMEA	31,830	32,719	92,320	95,517
Latin America	5,009	4,667	15,669	12,749
Asia Pacific	4,768	6,357	16,066	18,619
Total	\$97,310	\$102,018	\$281,493	\$287,617

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. This Form 10-Q, and other information provided by us or statements made by our directors, officers or employees from time to time, may contain "forward-looking" statements and information, which involve risks and uncertainties. Actual future results may differ materially. Statements indicating that we "expect," "estimate," "believe," "are planning" or "plan to" are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are various factors that could cause actual results or events to differ materially from those anticipated by the forward-looking statements, including but not limited to the following: (1) Economic, geopolitical and market conditions, including the continued difficult economic environment in Brazil, and the continued slow economic recovery in Europe, parts of the U.S. and other parts of the world, can adversely affect our business, results of operations and financial condition, including our revenue growth and profitability, which in turn could adversely affect our stock price. (2) We may fail to achieve our financial forecasts due to such factors as delays or size reductions in transactions, fewer large transactions in a particular quarter, fluctuations in currency exchange rates, or a decline in our renewal rates for contracts. (3) Our ability to successfully manage transitions to new business models and markets, including an increased emphasis on a cloud and subscription strategy, may not be successful. (4) If we are unable to develop new or sufficiently differentiated products and services, or to enhance and improve our existing products and services in a timely manner to meet

market demand, partners and customers may not purchase new software licenses or subscriptions or purchase or renew support contracts. (5) We depend upon our extensive partner channel and we may not be successful in retaining or expanding our relationships with channel partners. (6) Our international sales and operations subject us to additional risks that can adversely affect our operating results, including risks relating to foreign currency gains and losses. (7) If the security measures for our software, services or other offerings are compromised or subject to a successful cyber-attack, or if such offerings contain significant coding or configuration errors, we may experience reputational harm, legal claims and financial exposure. (8) We have made acquisitions, and may make acquisitions in the future, and those acquisitions may not be successful, may involve unanticipated costs or other integration issues or may disrupt our existing operations and those factors discussed in Part II, Item 1A (Risk Factors) in this Quarterly Report on Form 10-Q, and in Part I, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the fiscal year ended November 30, 2016. Although we have sought to identify the most significant risks to our business, we

## Table of Contents

cannot predict whether, or to what extent, any of such risks may be realized. We also cannot assure you that we have identified all possible issues which we might face. We undertake no obligation to update any forward-looking statements that we make.

### Use of Constant Currency

Revenue from our international operations has historically represented a substantial portion of our total revenue. As a result, our revenue results have been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. For example, if the local currencies of our foreign subsidiaries strengthen, our consolidated results stated in U.S. dollars are positively impacted.

As exchange rates are an important factor in understanding period to period comparisons, we believe the presentation of revenue growth rates on a constant currency basis enhances the understanding of our revenue results and evaluation of our performance in comparison to prior periods. The constant currency information presented is calculated by translating current period results using prior period weighted average foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with accounting principles generally accepted in the United States of America (GAAP).

### Overview

Progress offers the leading platform for developing and deploying mission-critical business applications. Progress empowers enterprises and independent software vendors (ISVs) to build and deliver cognitive-first applications that harness big data to derive business insights and competitive advantage. Progress offers leading technologies for easily building powerful user interfaces across any type of device, a reliable, scalable and secure backend platform to deploy modern applications, leading data connectivity to all sources, and award-winning predictive analytics that brings the power of machine learning to any organization. Over 1,700 ISVs, 100,000 enterprise customers, and 2 million developers rely on Progress to power their applications. We operate as three distinct segments: OpenEdge, Data Connectivity and Integration, and Application Development and Deployment.

Beginning in late October 2016, with the appointment of Yogesh Gupta as our new Chief Executive Officer, our Board of Directors and executive management team undertook a comprehensive review of our strategy and operations, including our expectations for fiscal year 2017 results.

On January 16, 2017, we announced a new strategic plan highlighted by a new product strategy and a streamlined operating approach with a tighter focus on areas of strength to more efficiently drive revenue. The key tenets of the new strategic plan are as follows:

**Streamlined Operating Approach.** In fiscal year 2017, we adapted our organization and operating principles to focus primarily on customer and partner retention and success for many of our core products. For selected products that have new customer acquisition potential, we are also strengthening our demand generation and high volume, low touch e-commerce capabilities.

**New Product Strategy.** As part of the new strategic plan, we undertook a new product strategy to provide the platform and tools enterprises need to build next generation applications that drive their businesses, known as “Cognitive Applications.” Our platform for Cognitive Applications will make it easy for developers to build machine learning into their applications, and it will include:

Our leading UI development tools which enable organizations to easily build engaging user interfaces for any device or front end;

Our NativeScript offering, which allows developers to use JavaScript to build native applications across multiple mobile platforms;

A mission-critical back-end-as-a-service platform that runs on any cloud, is secure, high-performing, and highly-scalable while supporting all modern user interfaces;

Automated and intuitive machine learning capabilities for accelerating the creation and delivery of Cognitive Applications;

Our data connectivity and integration capabilities; and

Our business logic and rules capabilities.

• Restructuring. With the adoption of our new product strategy, we discontinued our investment in our Digital Factory strategy and re-aligned our resources consistent with our core operating approach. To that end, during the first quarter

Table of Contents

of fiscal year 2017, we began to implement restructuring efforts including the consolidation of facilities, implementation of a simplified organizational structure and a reduction of marketing and other external expenses. In addition, we began to reduce headcount by approximately 400 employees, totaling over 20% of our workforce. Initial headcount reductions commenced in the fiscal first quarter of 2017 and were substantially completed by the end of the fiscal second quarter of 2017. After investments in our core business and our newly acquired businesses, we expect to reduce our full year expenses by approximately \$28 million by the end of fiscal year 2017.

As of August 31, 2017, there was \$91.4 million remaining under the \$214.5 million Board of Directors-authorized share repurchase program. In September 2017, our Board of Directors increased the total share repurchase authorization from the \$91.4 million remaining on the previous authorization to \$250 million. The timing and amount of any shares repurchased will be determined by management based on its evaluation of market conditions and other factors, and the Board of Directors may choose to suspend, expand or discontinue the repurchase program at any time.

In September 2016, our Board of Directors approved the initiation of a quarterly cash dividend to Progress shareholders. Through August 31, 2017, the Board of Directors has declared a quarterly cash dividend of \$0.125 per share of common stock, which has been paid quarterly since inception. On September 6, 2017, our Board of Directors increased our quarterly dividend by 12% and declared a quarterly cash dividend of \$0.14 per share of common stock that will be paid on December 15, 2017 to shareholders of record as of the close of business on December 1, 2017. We expect this dividend to continue in subsequent quarters.

We derive a significant portion of our revenue from international operations, which are primarily conducted in foreign currencies. As a result, changes in the value of these foreign currencies relative to the U.S. dollar have significantly impacted our results of operations and may impact our future results of operations. During much of the past two years, the value of the U.S. dollar has strengthened in comparison to certain foreign currencies, including in Europe, Brazil and Australia. Since approximately one-third of our revenue is denominated in foreign currency, our revenue results during those periods were negatively impacted. Recent weakening of the U.S. dollar, however, resulted in a small positive impact during the third quarter of fiscal year 2017. We expect that we will continue to be impacted by fluctuations in foreign currency exchange rates.

On March 1, 2017, we acquired DataRPM for an aggregate sum of \$30.0 million, which includes approximately \$1.7 million of restricted stock units. DataRPM is a privately-held company and leader in cognitive predictive maintenance for the industrial IoT (IIoT) market. This acquisition is a key part of the Company's strategy to provide the best platform to build and deliver cognitive-first applications.

On June 1, 2017, we acquired Kinvey for an aggregate sum of \$49.2 million, which includes approximately \$0.3 million held-back for the founder of Kinvey as an incentive for the founder to remain with the Company for at least two years following the acquisition. Kinvey is the leading Backend-as-a-Service (BaaS) provider and allows developers to set up, use, and operate a cloud backend for any native, hybrid, web, or IoT app built using any development tools. This acquisition, in combination with our leading frontend technologies, including NativeScript and Kendo UI, along with cognitive capabilities from DataRPM, our strong business logic and rules capabilities, and our strong data connectivity technologies, enables us to offer the premier platform for building and delivering cognitive business applications to both new customers and partners as well as our existing OpenEdge partner and customer ecosystems.

We expect to continue to evaluate possible acquisitions and other strategic transactions designed to expand our business and/or add complementary products and technologies to our existing product sets. As a result, our expected uses of cash could change, our cash position could be reduced and we may incur additional debt obligations to the extent we complete additional acquisitions.

However, we believe that existing cash balances, together with funds generated from operations and amounts available under our credit facility, will be sufficient to finance our operations and meet our foreseeable cash requirements, including quarterly cash dividends and stock repurchases to Progress shareholders, through at least the next twelve months.

Table of Contents

## Results of Operations

## Revenue

	Three Months Ended	August 31, 2017	August 31, 2016	Percentage Change	As Reported	Constant Currency
(In thousands)						
Revenue	\$97,310	\$102,018	(5)%	(5)%		
	Nine Months Ended	August 31, 2017	August 31, 2016	Percentage Change	As Reported	Constant Currency
(In thousands)						
Revenue	\$281,493	\$287,617	(2)%	(2)%		

The total revenue decrease in all periods was primarily a result of a decrease in license revenue as further described below. Changes in prices from fiscal year 2016 to 2017 did not have a significant impact on our revenue.

## License Revenue

	Three Months Ended	August 31, 2017	August 31, 2016	Percentage Change	As Reported	Constant Currency
(In thousands)						
License	\$28,529	\$33,624	(15)%	(16)%		
As a percentage of total revenue	29%	33%				
	Nine Months Ended	August 31, 2017	August 31, 2016	Percentage Change	As Reported	Constant Currency
(In thousands)						
License	\$78,443	\$86,366	(9)%	(9)%		
As a percentage of total revenue	28%	30%				

License revenue decreased in all periods primarily due to decreases in license revenue in North America from products included in our Data Connectivity and Integration segment, due to the timing of certain OEM renewal agreements. In the third quarter of fiscal year 2016, we had a multi-million dollar deal for one of our largest OEMs.

## Maintenance and Services Revenue

	Three Months Ended	August 31, 2017	August 31, 2016	Percentage Change	As Reported	Constant Currency
(In thousands)						
Maintenance	\$60,536	\$60,368	—%	—%		
As a percentage of total revenue	62%	59%				
Services	8,245	8,026	3%	2%		
As a percentage of total revenue	8%	8%				
Total maintenance and services revenue	\$68,781	\$68,394	1%	—%		
As a percentage of total revenue	71%	67%				





Table of Contents

(In thousands)	Nine Months Ended		Percentage Change	
	August 31, 2017	August 31, 2016	As Reported	Constant Currency
Maintenance	\$179,572	\$178,189	1 %	1 %
As a percentage of total revenue	64 %	62 %		
Services	23,478	23,062	2 %	2 %
As a percentage of total revenue	8 %	8 %		
Total maintenance and services revenue	\$203,050	\$201,251	1 %	2 %
As a percentage of total revenue	72 %	70 %		

Maintenance revenue increased in the third quarter and first nine months of fiscal year 2017 as compared to the same quarter and first nine months last year primarily due to higher maintenance revenue from our DevTools and Sitefinity products included in our Application Development and Deployment segment. The increase in services revenue in the third quarter and first nine months of fiscal year 2017 as compared to the same quarter and first nine months last year is primarily due to higher professional services revenue generated by our Application Development and Deployment segment.

## Revenue by Region

(In thousands)	Three Months Ended		Percentage Change	
	August 31, 2017	August 31, 2016	As Reported	Constant Currency
North America	\$55,703	\$58,275	(4 )%	(4 )%
As a percentage of total revenue	57 %	57 %		
EMEA	\$31,830	\$32,719	(3 )%	(3 )%
As a percentage of total revenue	33 %	32 %		
Latin America	\$5,009	\$4,667	7 %	5 %
As a percentage of total revenue	5 %	5 %		
Asia Pacific	\$4,768	\$6,357	(25)%	(26 )%
As a percentage of total revenue	5 %	6 %		

  

(In thousands)	Nine Months Ended		Percentage Change	
	August 31, 2017	August 31, 2016	As Reported	Constant Currency
North America	\$157,438	\$160,732	(2 )%	(2 )%
As a percentage of total revenue	56 %	56 %		
EMEA	\$92,320	\$95,517	(3 )%	— %
As a percentage of total revenue	33 %	33 %		
Latin America	\$15,669	\$12,749	23 %	14 %
As a percentage of total revenue	5 %	4 %		
Asia Pacific	\$16,066	\$18,619	(14)%	(15 )%
As a percentage of total revenue	6 %	6 %		

Total revenue generated in North America decreased \$2.6 million, and total revenue generated outside North America decreased \$2.1 million, in the third quarter of fiscal year 2017 as compared to the same quarter last year. Total revenue generated in North America decreased \$3.3 million, and total revenue generated outside North America decreased \$2.8 million, in the first nine months of fiscal year 2017 as compared to the same period last year. The

decrease in all periods in North America was primarily due to license revenue decreases in our Data Connectivity and Integration segment. The decrease in all periods in EMEA was primarily due to maintenance revenue decreases in our OpenEdge segment, partially offset by an increase in maintenance revenue from our DevTools and Sitefinity products included in our Application Development and Deployment segment. The increase in all periods in Latin America was primarily due to license and maintenance increases in our OpenEdge segment. The decrease in all periods in Asia Pacific was primarily due to maintenance revenue decreases in our OpenEdge segment. The decrease in Asia Pacific in the first nine months of fiscal year 2017 was also related to a large deal in our Data Connectivity and Integration segment with a customer in Japan that occurred in the second quarter of fiscal year 2016.

Table of Contents

Total revenue generated in markets outside North America represented 44% of total revenue in each of the first nine months of fiscal years 2017 and 2016. If exchange rates had remained constant in the first nine months of fiscal year 2017 as compared to the exchange rates in effect in the same period of fiscal year 2016, total revenue generated in markets outside North America would have remained at 44% of total revenue.

## Revenue by Segment

(In thousands)	Three Months Ended		Percentage Change	
	August 31, 2017	August 31, 2016	As Reported	Constant Currency
OpenEdge segment	\$68,135	\$67,534	1 %	— %
Data Connectivity and Integration segment	8,987	14,251	(37)%	(37)%
Application Development and Deployment segment	20,188	20,233	— %	— %
Total revenue	\$97,310	\$102,018	(5)%	(5)%

  

(In thousands)	Nine Months Ended		Percentage Change	
	August 31, 2017	August 31, 2016	As Reported	Constant Currency
OpenEdge segment	\$198,533	\$198,595	— %	1 %
Data Connectivity and Integration segment	22,911	30,852	(26)%	(25)%
Application Development and Deployment segment	60,049	58,170	3 %	3 %
Total revenue	\$281,493	\$287,617	(2)%	(2)%

Revenue in the OpenEdge segment increased in the third quarter of fiscal year 2017 primarily due to an increase in Corticon license sales offset by a decrease in OpenEdge maintenance revenue. OpenEdge maintenance revenue decreased in all periods, largely due to the negative impact of exchange rate fluctuations. Data Connectivity and Integration revenue decreased in all periods primarily due to the timing of certain OEM renewals. Application Development and Deployment revenue remained flat in the third quarter of fiscal year 2017 as compared to the same period last year. Application Development and Deployment revenue increased in the first nine months of fiscal year 2017 primarily as a result of higher maintenance revenue from our DevTools and Sitefinity products.

## Cost of Software Licenses

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Cost of software licenses	\$1,337	\$1,424	(6)%	\$4,347	\$4,139	5%
As a percentage of software license revenue	5 %	4 %		6 %	5 %	
As a percentage of total revenue	1 %	1 %		2 %	1 %	

Cost of software licenses consists primarily of costs of royalties, electronic software distribution, duplication, and packaging. Cost of software licenses as a percentage of software license revenue varies from period to period depending upon the relative product mix.

## Cost of Maintenance and Services

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31, 2017	August 31, 2016	As Reported	Constant Currency

Edgar Filing: PROGRESS SOFTWARE CORP /MA - Form 10-Q

	August 31, 2017	August 31, 2016	Change	August 31, 2017	August 31, 2016	Percentage Change
Cost of maintenance and services	\$10,970	\$11,825	(7 )%	\$32,724	\$33,217	(1 )%
As a percentage of maintenance and services revenue	16	% 17	%	16	% 17	%
As a percentage of total revenue	11	% 12	%	12	% 12	%

27

---

Table of Contents

Cost of maintenance and services consists primarily of costs of providing customer support, consulting, and education. The decrease in both periods is primarily due to lowered compensation-related costs resulting from a decrease in headcount.

## Amortization of Acquired Intangibles

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Amortization of acquired intangibles	\$5,768	\$3,940	46 %	\$14,129	\$11,818	20 %
As a percentage of total revenue	6	% 4	%	5	% 4	%

Amortization of acquired intangibles included in costs of revenue primarily represents the amortization of the value assigned to technology-related intangible assets obtained in business combinations. Amortization of acquired intangibles increased in all periods due to the addition of intangible assets associated with the technology obtained in connection with the acquisition of DataRPM in the second quarter of fiscal year 2017 and technology obtained in connection with the acquisition of Kinvey in the third quarter of fiscal year 2017, partially offset by the impairment of intangible assets associated with the technology obtained in connection with the acquisition of Modulus as well as the completion of amortization of certain intangible assets acquired in prior years.

## Gross Profit

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Gross profit	\$79,235	\$84,829	(7 )%	\$230,293	\$238,443	(3 )%
As a percentage of total revenue	81	% 83	%	82	% 83	%

Our gross profit decreased in the third quarter and first nine months of fiscal year 2017 primarily due to the decreases of license revenue and increases of amortization of acquired intangibles as described above.

## Sales and Marketing

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Sales and marketing	\$23,159	\$29,852	(22 )%	\$70,116	\$88,648	(21 )%
As a percentage of total revenue	24	% 29	%	25	% 31	%

Sales and marketing expenses decreased in the third quarter and first nine months of fiscal year 2017 primarily due to lower compensation-related and travel costs as a result of the headcount reduction actions which occurred in the first quarter of fiscal year 2017, as well as a decrease in spending on marketing programs.

## Product Development

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change

Edgar Filing: PROGRESS SOFTWARE CORP /MA - Form 10-Q

Product development costs	\$19,620	\$21,706	(10 )%	\$55,745	\$65,800	(15 )%
As a percentage of total revenue	20	% 21	%	20	% 23	%

Product development expenses decreased in the third quarter and first nine months of fiscal year 2017 primarily due to lower compensation-related costs as a result of the headcount reduction actions which occurred in the first quarter of fiscal year 2017.

28

---

Table of Contents

## General and Administrative

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
General and administrative	\$11,164	\$11,411	(2 )%	\$33,338	\$36,055	(8 )%
As a percentage of total revenue	11	% 11	%	12	% 13	%

General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses decreased in the third quarter and first nine months of fiscal year 2017 primarily due to lower compensation-related costs as a result of the headcount reduction actions which occurred in the first quarter of fiscal year 2017.

## Amortization of Acquired Intangibles

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Amortization of acquired intangibles	\$3,319	\$3,186	4 %	\$9,721	\$9,556	2 %
As a percentage of total revenue	3	% 3	%	3	% 3	%

Amortization of acquired intangibles included in operating expenses primarily represents the amortization of value assigned to intangible assets obtained in business combinations other than assets identified as purchased technology. Amortization of acquired intangibles increased slightly in the third quarter and first nine months of fiscal year 2017 due to the addition of intangible assets obtained in connection with the acquisitions of DataRPM and Kinvey, which occurred in the second and third quarters of fiscal year 2017, respectively.

## Impairment of Intangible Assets

(In thousands)	Three Months Ended		Nine Months Ended			
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Impairment of intangible assets	\$—	\$5,051	(100 )%	\$—	\$5,051	(100 )%
As a percentage of total revenue	—	% 5	%	—	% 2	%

During the third quarter of fiscal year 2016, we evaluated the ongoing value of the intangible assets associated with the technology obtained in connection with the acquisition of Modulus. As a result of our decision to abandon the related assets due to a change in our expected ability to use the technology internally, we determined that the intangible assets were fully impaired. As a result, we incurred an impairment charge of \$5.1 million in the third quarter of fiscal year 2016.

## Restructuring Expenses

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Restructuring expenses	\$923	\$ (36 )	2,664 %	\$18,724	\$ 229	8,076 %
As a percentage of total revenue	1	% —	%	7	% —	%



Restructuring expenses recorded in the third quarter and first nine months of fiscal year 2017 relate to the restructuring activities occurring in the first fiscal quarter of 2017. See Note 11 to the condensed consolidated financial statements for additional details, including types of expenses incurred and the timing of future expenses and cash payments. See also the Liquidity and Capital Resources section of this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

## Acquisition-Related Expenses

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Acquisition-related expenses	\$751	\$ 53	1,317 %	\$844	\$ 449	88 %
As a percentage of total revenue	1 %	— %		— %	— %	

Acquisition-related costs are expensed as incurred and include those costs incurred as a result of a business combination. These costs consist of professional service fees, including third-party legal and valuation-related fees, as well as retention fees, including earn-out payments treated as compensation expense. Acquisition-related expenses in the third quarter and first nine months of fiscal year 2017 relate to the acquisitions of DataRPM and Kinvey, which occurred in the second and third quarters of fiscal year 2017, respectively. Acquisition-related expenses in the third quarter and first nine months of fiscal year 2016 were minimal.

## Income from Operations

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Income from operations	\$20,299	\$13,606	49 %	\$41,805	\$32,655	28 %
As a percentage of total revenue	21 %	13 %		15 %	11 %	

Income from operations increased in the third quarter of fiscal year 2017 as compared to the same quarter last year primarily due to lower compensation and benefits costs, as well as decreased facilities costs, both the result of the headcount reduction actions that occurred in the first quarter of fiscal year 2017, partially offset by the decreases of license revenue and increases of amortization of acquired intangibles as described above. Income from operations increased in the first nine months of fiscal year 2017 as compared to the same period last year also as a result of the headcount reduction actions that occurred in the first quarter of fiscal year 2017, partially offset by the restructuring expenses recorded in the first quarter of fiscal year 2017 as well as the decreases of license revenue and increases of amortization of acquired intangibles as described above.

## Income from Operations by Segment

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
OpenEdge segment	\$49,761	\$49,354	1 %	\$145,995	\$145,056	1 %
Data Connectivity and Integration segment	6,787	11,423	(41) %	16,380	21,989	(26) %
Application Development and Deployment segment	13,819	9,212	50 %	40,153	28,615	40 %
Other unallocated expenses (1)	(50,068)	(56,383)	(11) %	(160,723)	(163,005)	(1) %
Income from operations	\$20,299	\$13,606	49 %	\$41,805	\$32,655	28 %

(1) Note that the following expenses are not allocated to our segments as we manage and report our business in these functional areas on a consolidated basis only: product development, corporate marketing, general and administration, amortization of acquired intangibles, stock-based compensation, restructuring, and acquisition-related expenses.



Table of Contents

## Other (Expense) Income, Net

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Interest expense	\$(1,221)	\$(1,174)	4 %	\$(3,455)	\$(3,244)	7 %
Interest income and other, net	239	260	(8) %	717	686	5 %
Foreign currency (loss) gain, net	(418 )	(374 )	12 %	(1,561 )	(1,916 )	(19) %
Total other (expense) income, net	\$(1,400)	\$(1,288)	(9) %	\$(4,299)	\$(4,474)	4 %
As a percentage of total revenue	(1) %	(1) %		(2) %	(2) %	

Other (expense) income, net increased \$0.1 million in the third quarter of fiscal year 2017 as compared to the same quarter last year primarily due to an increase to interest expense and foreign currency loss. Other (expense) income, net decreased \$0.2 million in the first nine months of fiscal year 2017 as compared to the same period last year primarily due to the decrease of the foreign currency loss in the first nine months of fiscal year 2017 compared to the foreign currency loss in the first nine months of fiscal year 2016. The change in foreign currency gains/losses is a result of movements in exchange rates and the impact in the first, second, and third quarters of fiscal year 2017 on our intercompany receivables and payables denominated in currencies other than local currencies.

## Provision for Income Taxes

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Provision for income taxes	\$7,727	\$4,742	63 %	\$16,518	\$10,114	63 %
As a percentage of total revenue	8 %	5 %		6 %	4 %	

Our effective income tax rate was 41% in the third quarter of fiscal year 2017 compared to 38% in the third quarter of fiscal year 2016, and 44% in the first nine months of fiscal year 2017 compared to 36% in the same period last year. The increase in the effective rate is primarily due to our identification of an error in our prior year income tax provision during the preparation of our condensed consolidated financial statements for the three months ended May 31, 2016, in which income tax expense was overstated for the year ended November 30, 2015 by \$2.7 million related to our tax treatment of an intercompany gain. We determined that the error is not material to the prior year financial statements. We also concluded that recording an out-of-period correction would not be material and therefore corrected this error by recording an out-of-period \$2.7 million tax benefit in our interim financial statements for the period ended May 31, 2016.

## Net Income

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2017	August 31, 2016	Percentage Change	August 31, 2017	August 31, 2016	Percentage Change
Net income	\$11,172	\$7,576	47 %	\$20,988	\$18,067	16 %
As a percentage of total revenue	11 %	7 %		7 %	6 %	

Table of Contents

## Liquidity and Capital Resources

## Cash, Cash Equivalents and Short-Term Investments

(In thousands)	August 31, 2017	November 30, 2016
Cash and cash equivalents	\$ 144,757	\$ 207,036
Short-term investments	46,559	42,718
Total cash, cash equivalents and short-term investments	\$ 191,316	\$ 249,754

The decrease in cash, cash equivalents and short-term investments of \$58.4 million from the end of fiscal year 2016 was primarily due to payments for acquisitions of \$77.1 million, cash outflows for repurchases of common stock of \$43.9 million, dividend payments of \$18.2 million, and payments of debt obligations in the amount of \$11.3 million, partially offset by cash inflows from operations of \$73.2 million, the effect of exchange rates on cash of \$13.6 million, and \$7.2 million in cash received from the issuance of common stock. Except as described below, there are no limitations on our ability to access our cash, cash equivalents and short-term investments.

As of August 31, 2017, \$37.0 million of our cash, cash equivalents and short-term investments was held by our foreign subsidiaries. Foreign cash includes unremitted foreign earnings, which are invested indefinitely outside of the U.S. As such, it is not available to fund our domestic operations. If we were to repatriate these earnings, they would be subject to taxation in the U.S., but would be offset by foreign tax credits. We do not believe this has a material adverse impact on our liquidity.

## Share Repurchase Program

In March 2016, our Board of Directors authorized a \$100.0 million share repurchase program. Under this authorization, we repurchased and retired 0.6 million shares of our common stock for \$19.0 million in the three months ended August 31, 2017 and 1.5 million shares for \$43.9 million in the nine months ended August 31, 2017. As of August 31, 2017, there was \$91.4 million remaining under this authorization. In September 2017, our Board of Directors increased the total share repurchase authorization from the \$91.4 million remaining under the previous authorization to \$250 million. The timing and amount of any shares repurchased will be determined by management based on its evaluation of market conditions and other factors, and the Board of Directors may choose to suspend, expand or discontinue the repurchase program at any time.

## Dividends

On September 27, 2016, our Board of Directors approved the initiation of a quarterly cash dividend to Progress shareholders. The first quarterly dividend of \$0.125 per share of common stock was paid on December 15, 2016 to shareholders of record as of the close of business on December 1, 2016. The total amount of cash dividends paid on December 15, 2016 was \$6.1 million.

On January 11, 2017, our Board of Directors declared a quarterly dividend of \$0.125 per share of common stock that was paid on March 15, 2017 to shareholders of record as of the close of business on March 1, 2017. The total amount of cash dividends paid on March 15, 2017 was \$6.0 million.

On March 24, 2017, our Board of Directors declared a quarterly dividend of \$0.125 per share of common stock that was paid on June 15, 2017 to shareholders of record as of the close of business on June 1, 2017. The total amount of cash dividends paid on June 15, 2017 was \$6.0 million.

On June 21, 2017, our Board of Directors declared a quarterly dividend of \$0.125 per share of common stock that was paid on September 15, 2017 to shareholders of record as of the close of business on September 1, 2017. The total amount of cash dividend paid on September 15, 2017 was \$6.0 million.

On September 6, 2017, our Board of Directors increased the quarterly dividend by 12% and declared a quarterly dividend of \$0.14 per share of common stock that will be paid on December 15, 2017 to shareholders of record as of the close of business on December 1, 2017.

## Table of Contents

### Restructuring Activities

During the fourth quarter of fiscal year 2016, our management approved, committed to and initiated plans to make strategic changes to our organization as a result of the appointment of our new Chief Executive Officer during the period. In connection with the new organizational structure, we eliminated the positions of Chief Product Officer and Chief Revenue Officer.

As part of this fourth quarter restructuring, for the fiscal year ended November 30, 2016, we incurred expenses of \$1.5 million. The expenses were recorded as restructuring expenses in the consolidated statements of operations. For the nine months ended August 31, 2017, we incurred no additional expenses under this plan. Cash disbursements for expenses incurred to date under this restructuring are expected to be made through the fourth quarter of fiscal year 2017. As a result, the total amount of the restructuring reserve of \$0.3 million and \$1.4 million is included in other accrued liabilities on the consolidated balance sheet at August 31, 2017 and November 30, 2016, respectively.

During the first quarter of fiscal year 2017, we announced certain operational restructuring initiatives intended to significantly reduce annual costs. To execute these operational restructuring initiatives, we reduced our global workforce by approximately 20%. These workforce reductions commenced in the first fiscal quarter of 2017 and were substantially completed by the end of the second fiscal quarter of 2017. These workforce reductions occurred in substantially all functional units and across all geographies in which we operate. We also consolidated offices in various locations and expect additional expenses related to facility closures during fiscal year 2017. We do not expect these additional costs to be material.

As part of this first quarter of fiscal year 2017 restructuring, for the nine months ended August 31, 2017, we incurred expenses of \$18.6 million, which are recorded as restructuring expenses in the condensed consolidated statements of operations. Cash disbursements for expenses incurred to date under this restructuring are expected to be made through the third quarter of fiscal year 2018. The short-term portion of the restructuring reserve of \$2.4 million is included in other accrued liabilities and the long-term portion of \$0.3 million is included in other noncurrent liabilities on the condensed consolidated balance sheet at August 31, 2017.

### Credit Facility

Our credit agreement provides for a \$150 million secured term loan and a \$150 million secured revolving credit facility, which may be made available in U.S. Dollars and certain other currencies. The revolving credit facility may be increased by up to an additional \$75 million if the existing or additional lenders are willing to make such increased commitments. We borrowed the \$150 million term loan included in our credit agreement to partially fund our acquisition of Telerik in December 2014. The revolving credit facility has sublimits for swing line loans up to \$25.0 million and for the issuance of standby letters of credit in a face amount up to \$25.0 million. We expect to use the revolving credit facility for general corporate purposes and may also use it for working capital.

The credit facility matures on December 2, 2019, when all amounts outstanding will be due and payable in full. The revolving credit facility does not require amortization of principal. The outstanding balance of the \$150 million term loan as of August 31, 2017 was \$123.8 million, with \$15.0 million due in the next 12 months. The term loan requires repayment of principal at the end of each fiscal quarter, beginning with the fiscal quarter ended February 28, 2015. The first eight payments were in the principal amount of \$1.9 million each, the following eight payments are in the principal amount of \$3.8 million each, the next three payments are in the principal amount of \$5.6 million each, and the last payment is of the remaining principal amount. The term loan may be prepaid before maturity in whole or in part at our option without penalty or premium. As of August 31, 2017, the carrying value of the term loan approximates the fair value, based on Level 2 inputs (observable market prices in less than active markets), as the interest rate is variable over the selected interest period and is similar to current rates at which we can borrow funds.

The interest rate of the credit facility as of August 31, 2017 was 3.00%.

Revolving loans may be borrowed, repaid and reborrowed until December 2, 2019, at which time all amounts outstanding must be repaid. As of August 31, 2017, there were no amounts outstanding under the revolving line and \$1.4 million of letters of credit.

The credit facility contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, grant liens, make investments, make acquisitions, incur indebtedness, merge or consolidate, dispose of assets, pay dividends or make distributions, repurchase stock, change the nature of the business, enter into certain transactions with affiliates and enter into burdensome agreements, in each case subject to customary exceptions for a credit facility of this size and type. We are also required to maintain compliance with a consolidated fixed charge coverage ratio, a consolidated total leverage ratio and a consolidated senior secured leverage ratio. We are in compliance with these covenants as of August 31, 2017.



Table of Contents

## Cash Flows from Operating Activities

(In thousands)	Nine Months Ended	
	August 31, 2017	August 31, 2016
Net income	\$20,988	\$ 18,067
Non-cash reconciling items included in net income	44,237	52,585
Changes in operating assets and liabilities	7,946	(1,742 )
Net cash flows from operating activities	\$73,171	\$ 68,910

The increase in cash generated from operations in the first nine months of fiscal year 2017 as compared to the first nine months of fiscal year 2016 was primarily due to changes in operating assets and liabilities as well as lower operating costs due to our restructuring activities. Our gross accounts receivable as of August 31, 2017 decreased by \$14.1 million from the end of fiscal year 2016, which is primarily due to higher collections than billings during the period. Days sales outstanding (DSO) in accounts receivable was 48 days compared to 49 days in the fiscal third quarter of 2016.

## Cash Flows used in Investing Activities

(In thousands)	Nine Months Ended	
	August 31, 2017	August 31, 2016
Net investment activity	\$(4,578 )	\$(16,586 )
Purchases of property and equipment	(865 )	(3,747 )
Payments for acquisitions, net of cash acquired	(77,149 )	—
Proceeds from sale of property, plant and equipment, net	1,557	—
Net cash flows used in investing activities	\$(81,035)	\$(20,333 )

Net cash outflows and inflows of our net investment activity are generally a result of the timing of acquisitions and our purchases and maturities of securities, which are classified as cash equivalents or short-term securities. In addition, we purchased \$0.9 million of property and equipment in the first nine months of fiscal year 2017, as compared to \$3.7 million in the first nine months of fiscal year 2016. Most significantly, however, we acquired DataRPM during the second quarter of fiscal year 2017 and Kinvey during the third quarter of fiscal year 2017 for a net cash amount of \$77.1 million and did not complete any acquisitions during the first nine months of fiscal year 2016.

## Cash Flows used in Financing Activities

(In thousands)	Nine Months Ended	
	August 31, 2017	August 31, 2016
Proceeds from stock-based compensation plans	\$7,245	\$ 8,166
Repurchases of common stock	(43,936 )	(71,507 )
Payment of long-term debt	(11,250 )	(7,500 )
Dividend payments to shareholders	(18,151 )	—
Other financing activities	(1,966 )	(2,446 )
Net cash flows used in financing activities	\$(68,058)	\$(73,287 )

During the first nine months of fiscal year 2017, we received \$7.2 million from the exercise of stock options and the issuance of shares under our employee stock purchase plan as compared to \$8.2 million in the first nine months of fiscal year 2016. In addition, in the first nine months of fiscal year 2017, we repurchased \$43.9 million of our common stock under our share repurchase plan compared to \$71.5 million in the same period of the prior year. Furthermore, we made principal payments of our long-term debt of \$11.3 million in the first nine months of fiscal year 2017 compared to \$7.5 million in the same period of the prior year. We also made dividend payments of \$18.2 million to our shareholders during the first nine months of fiscal

Table of Contents

2017, as compared to no payments in the first nine months of fiscal 2016, which was prior to our initiation of a quarterly cash dividend.

## Indemnification Obligations

We include standard intellectual property indemnification provisions in our licensing agreements in the ordinary course of business. Pursuant to our product license agreements, we will indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally business partners or customers, in connection with certain patent, copyright or other intellectual property infringement claims by third parties with respect to our products. Other agreements with our customers provide indemnification for claims relating to property damage or personal injury resulting from the performance of services by us or our subcontractors. Historically, our costs to defend lawsuits or settle claims relating to such indemnity agreements have been insignificant. Accordingly, the estimated fair value of these indemnification provisions is immaterial.

## Liquidity Outlook

We believe that existing cash balances, together with funds generated from operations and amounts available under our credit facility, will be sufficient to finance our operations and meet our foreseeable cash requirements through at least the next twelve months. We do not contemplate a need for any foreign repatriation of the earnings which are invested indefinitely outside of the U.S. Our foreseeable cash needs include our planned capital expenditures, debt repayment, quarterly cash dividends, share repurchases, acquisitions, if any, lease commitments, restructuring obligations and other long-term obligations.

## Revenue Backlog

(In thousands)	August 31, 2017	August 31, 2016
Deferred revenue, primarily related to unexpired maintenance and support contracts	\$ 140,706	\$ 137,883
Multi-year licensing arrangements <sup>(1)</sup>	19,834	31,101
Total revenue backlog \$	160,540	\$ 168,984

Our backlog of orders not included on the balance sheet is not subject to our normal accounting controls for information that is either reported in or derived from our basic financial statements. Note that approximately \$18.1 (1) million and \$29.4 million of the multi-year licensing arrangements as of August 31, 2017 and August 31, 2016, respectively, relate to OEM arrangements in our Data Connectivity and Integration business segment, while the remaining amount relates to arrangements in our OpenEdge business segment.

We typically fulfill most of our software license orders within 30 days of acceptance of a purchase order. Assuming all other revenue recognition criteria have been met, we recognize software license revenue upon shipment of the product, or if delivered electronically, when the customer has the right to access the software. Because there are many elements governing when revenue is recognized, including when orders are shipped, credit approval obtained, completion of internal control processes over revenue recognition and other factors, management has some control in determining the period in which certain revenue is recognized. In addition, there is no industry standard for the definition of backlog and there may be an element of estimation in determining the amount. As such, direct comparisons with other companies may be difficult or potentially misleading.

#### Legal and Other Regulatory Matters

See discussion regarding legal and other regulatory matters in Part II, Item 1. Legal Proceedings.

#### Off-Balance Sheet Arrangements

Our only significant off-balance sheet commitments relate to operating lease obligations. Future annual minimum rental lease payments are detailed in Note 9 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended November 30, 2016. We have no “off-balance sheet arrangements” within the meaning of Item 303(a)(4) of Regulation S-K.

## Table of Contents

### Contractual Obligations

There have been no material changes to our contractual obligations disclosed in tabular format in our Annual Report on Form 10-K for the fiscal year ended November 30, 2016.

### Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2017-12, Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). ASU 2017-12 intends to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The guidance in ASU 2017-12 is required for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting (ASU 2017-09), which amends the scope of modification accounting for share-based payment awards. The guidance in ASU 2017-09 provides that modification accounting is required only if a change in the terms or conditions of an award results in a change to the fair value, the vesting conditions, or the classification of the award as equity or liability. The guidance in ASU 2017-09 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial position and results of operations.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment (ASU 2017-04). ASU 2017-04 amends Topic 350 to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This update requires the performance of an annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The guidance in ASU 2017-04 is required for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We are currently considering whether to adopt this update prior to the required adoption date.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business (ASU 2017-01). ASU 2017-01 provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. The guidance in ASU 2017-01 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently considering whether to adopt this update prior to the required adoption date and, in any event, do not expect the adoption to have a material impact on our consolidated financial position and results of operations.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to

eliminate the diversity in practice related to such classifications. The guidance in ASU 2016-15 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated statement of cash flows.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 is intended to simplify various aspects of the accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance in ASU 2016-09 is required for annual reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

## Table of Contents

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), which requires lessees to record most leases on their balance sheets, recognizing a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The guidance in ASU 2016-02 is required for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We currently expect that most of our operating lease commitments will be subject to the update and recognized as operating lease liabilities and right-of-use assets upon adoption. However, we are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The guidance in ASU 2015-03 is required for annual reporting periods beginning after December 15, 2015, including interim periods within the reporting period. Accordingly, upon adoption in the first quarter of fiscal 2017, we reclassified \$1.0 million from other assets to long-term debt in our condensed consolidated balance sheet.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance provided in Topic 606 requires entities to use a five-step model to recognize revenue by allocating the consideration from contracts to performance obligations on a relative standalone selling price basis. The standard also requires new disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This new guidance was initially effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016 and early adoption was not permitted. However, in July 2015, the FASB voted to defer the effective date of this ASU by one year for reporting periods beginning after December 15, 2017, with early adoption permitted as of the original effective date. As a result, the effective date for the Company will be December 1, 2018.

Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. The Company plans to adopt this ASU in accordance with the full retrospective approach, effective December 1, 2018. Fiscal year 2019 quarterly results, and comparative prior periods, will be prepared in accordance with ASC 606. The first Annual Report on Form 10-K issued in accordance with ASC 606 will be for the period ended November 30, 2019.

Management is currently assessing the impact the adoption of this standard will have on the Company's consolidated financial statements, but anticipates that the revenue recognition related to accounting for the following transactions will be most impacted:

Revenue from term licenses with extended payment terms over the term of the agreement within our Data Connectivity and Integration segment - These transactions are typically recognized when the amounts are billed to the customer under current revenue recognition guidance. In accordance with ASU 2014-09, revenue from term license performance obligations is expected to be recognized upon delivery and revenue from maintenance performance obligations is expected to be recognized over the contract term. To the extent the Company enters into future term licenses with extended payment terms after the adoption of ASU 2014-09, revenue from term licenses with extended payment terms will be recognized prior to the customer being billed and the Company will recognize a net contract asset on the balance sheet. Accordingly, license revenue will be accelerated under ASU 2014-09 as the Company currently does not recognize revenue until the amounts have been billed to the customer.

Revenue from transactions with multiple elements within our Application Development and Deployment segment (i.e., sales of perpetual licenses with maintenance and/or support) - These transactions are currently recognized ratably over the associated maintenance period as the Company does not have vendor specific objective evidence (VSOE) for maintenance or support. Under ASU 2014-09, the requirement to have VSOE for undelivered elements that exists under current guidance is eliminated. Accordingly, the Company will recognize a portion of the sales price as revenue upon delivery of the license instead of recognizing the entire sales price ratably over the maintenance period.



Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the third quarter of fiscal year 2017, there were no significant changes to our quantitative and qualitative disclosures about market risk. Please refer to Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk included in our Annual Report on Form 10-K for our fiscal year ended November 30, 2016 for a more complete discussion of the market risks we encounter.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Our management maintains disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), as appropriate, to allow for timely decisions regarding required disclosure.

Our management, including the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed in the reports filed or submitted by us under the Securities Exchange Act of 1934 was recorded, processed, summarized and reported within the requisite time periods and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated our “internal control over financial reporting” as defined in Exchange Act Rule 13a-15(f) to determine whether any changes in our internal control over financial reporting occurred during the fiscal quarter ended August 31, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there were no changes in our internal control over financial reporting during the fiscal quarter ended August 31, 2017 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves certain risks and uncertainties, some of which are beyond our control. There have been no material changes in our assessment of our risk factors from those set forth in our Annual Report on Form 10-K for the fiscal year ended November 30, 2016. For convenience, all of our risk factors are included below. The risks discussed below could materially affect our business, financial condition and future results. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may materially and adversely affect our business, financial condition or operating results in the future.

Our revenue and quarterly results may fluctuate, which could adversely affect our stock price. We have experienced, and may in the future experience, significant fluctuations in our quarterly operating results that may be caused by many factors. These factors include:

- changes in demand for our products;
- introduction, enhancement or announcement of products by us or our competitors;
- market acceptance of our new products;
- the growth rates of certain market segments in which we compete;
- size and timing of significant orders;
- a high percentage of our revenue is generated in the third month of each fiscal quarter and any failure to receive, complete or process orders at the end of any quarter could cause us to fall short of our revenue targets;
- budgeting cycles of customers;
- mix of distribution channels;
- mix of products and services sold;
  - mix of international and North American revenues;
- fluctuations in currency exchange rates;
- changes in the level of operating expenses;
- the amount of our stock-based compensation;
- changes in management;
- restructuring programs;
- changes in our sales force;
- completion or announcement of acquisitions by us or our competitors;
- customer order deferrals in anticipation of new products announced by us or our competitors; and
- general economic conditions in regions in which we conduct business.

Revenue forecasting is uncertain, and the failure to meet our forecasts could result in a decline in our stock price. Our revenues, particularly new software license revenues, are difficult to forecast. We use a pipeline system to forecast revenues and trends in our business. Our pipeline estimates may prove to be unreliable either in a particular quarter or over a longer period of time, in part because the conversion rate of the pipeline into contracts can be difficult to

estimate and requires management judgment. A variation in the conversion rate could cause us to plan or budget incorrectly and materially adversely impact our business or our planned results of operations. Furthermore, most of our expenses are relatively fixed, including costs of personnel and facilities, and are not easily reduced. Thus, an unexpected reduction in our revenue, or failure to achieve the anticipated rate of growth, would have a material adverse effect on our profitability. If our operating results do not meet our publicly stated guidance or the expectations of investors, our stock price may decline.

The addition of a subscription model to augment our traditional perpetual licensing model may negatively impact our license growth in the near term. Under a subscription model, downturns or upturns in sales may not be immediately reflected in our results of operations. Subscription pricing allows customers to use our products at a lower initial cost when compared to the sale of a perpetual license. Although the subscription model is designed to increase the number of customers who purchase our products and services and create a recurring revenue stream that is more predictable, it creates certain risks related to the timing of revenue recognition and reduced cash flows. A decline in new or renewed subscriptions in any period may not be immediately reflected in our results for that period, but may result in a decline in our revenue in future quarters. If we were to

## Table of Contents

experience significant downturns in subscription sales and renewal rates, our results of operations might not reflect such downturns until future periods. Further, any increases in sales under our subscription sales model could result in decreased revenues over the short term if they are offset by a decline in sales from perpetual license customers.

We recognize a substantial portion of our revenue from sales made through third parties, including our application partners, distributors/resellers, and OEMs, and adverse developments in the businesses of these third parties or in our relationships with them could harm our revenues and results of operations. Our future results depend upon our continued successful distribution of our products through our application partner, distributor/reseller, and OEM channels. The activities of these third parties are not within our direct control. Our failure to manage our relationships with these third parties effectively could impair the success of our sales, marketing and support activities. A reduction in the sales efforts, technical capabilities or financial viability of these parties, a misalignment of interest between us and them, or a termination of our relationship with a major application partner, distributor/reseller, or OEM could have a negative effect on our sales and financial results. Any adverse effect on the application partners', distributors'/resellers', or OEMs' businesses related to competition, pricing and other factors could also have a material adverse effect on our business, financial condition and operating results.

Weakness in the U.S. and international economies may result in fewer sales of our products and may otherwise harm our business. We are subject to the risks arising from adverse changes in global economic conditions, especially those in the U.S., Europe and Latin America. The past five years have been characterized by weak global economic conditions, tightening of credit markets and instability in the financial markets. If these conditions continue or worsen, customers may delay, reduce or forego technology purchases, both directly and through our application partners and OEMs. This could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition. Further, deteriorating economic conditions could adversely affect our customers and their ability to pay amounts owed to us. Any of these events would likely harm our business, results of operations, financial condition or cash flows.

Our international operations expose us to additional risks, and changes in global economic and political conditions could adversely affect our international operations, our revenue and our net income. Approximately 45% of our total revenue is generated from sales outside North America. Political and/or financial instability, oil price shocks and armed conflict in various regions of the world can lead to economic uncertainty and may adversely impact our business. If customers' buying patterns, decision-making processes, timing of expected deliveries and timing of new projects unfavorably change due to economic or political conditions, there would be a material adverse effect on our business, financial condition and operating results.

Other potential risks inherent in our international business include:

- longer payment cycles;
- credit risk and higher levels of payment fraud;
- greater difficulties in accounts receivable collection;
- varying regulatory requirements;
- compliance with international and local trade, labor and export control laws;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting bribery and corrupt payments to government officials;
- restrictions on the transfer of funds;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- reduced or minimal protection of intellectual property rights in some countries;
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses;
- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;

economic instability in emerging markets; and  
potentially adverse tax consequences.

Any one or more of these factors could have a material adverse effect on our international operations, and, consequently, on our business, financial condition and operating results.

Risk Relating to the Referendum of the United Kingdom's Membership of the European Union. The announcement of the Referendum of the United Kingdom's (or the U.K.) Membership of the European Union (E.U.) (referred to as Brexit), advising for the exit of the United Kingdom from the European Union, resulted in significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. As described elsewhere in this 10-Q, we translate revenue denominated in foreign currency into U.S. dollars for our financial statements. During periods of a strengthening dollar, our reported international revenue is reduced because

40

---

## Table of Contents

foreign currencies translate into fewer U.S. dollars. The announcement of Brexit has created global economic uncertainty, which may cause our customers to closely monitor their costs and reduce their spending budget on our products and services.

The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. The measures could potentially disrupt the markets we serve and may cause us to lose customers, and employees. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate.

Any of these effects of Brexit, among others, could materially adversely affect our business, results of operations and financial condition.

Fluctuations in foreign currency exchange rates could have an adverse impact on our financial condition and results of operations. Changes in the value of foreign currencies relative to the U.S. dollar have adversely affected our results of operations and financial position. During recent years, the value of the U.S. dollar strengthened in comparison to certain foreign currencies, including in Europe, Brazil and Australia. As approximately one-third of our revenue is denominated in foreign currency, our revenue results have been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates.

We seek to reduce our exposure to fluctuations in exchange rates by entering into foreign exchange forward contracts to hedge certain actual and forecasted transactions of selected currencies (mainly in Europe, Brazil, India and Australia). Our currency hedging transactions may not be effective in reducing any adverse impact of fluctuations in foreign currency exchange rates. Further, the imposition of exchange or price controls or other restrictions on the conversion of foreign currencies could have a material adverse effect on our business.

Technology and customer requirements evolve rapidly in our industry, and if we do not continue to develop new products and enhance our existing products in response to these changes, our business could be harmed. Ongoing enhancements to our product sets will be required to enable us to maintain our competitive position. We may not be successful in developing and marketing enhancements to our products on a timely basis, and any enhancements we develop may not adequately address the changing needs of the marketplace. Overlaying the risks associated with our existing products and enhancements are ongoing technological developments and rapid changes in customer requirements. Our future success will depend upon our ability to develop and introduce in a timely manner new products that take advantage of technological advances and respond to new customer requirements. We may not be successful in developing new products incorporating new technology on a timely basis, and any new products may not adequately address the changing needs of the marketplace. Failure to develop new products and product enhancements that meet market needs in a timely manner could have a material adverse effect on our business, financial condition and operating results.

We are substantially dependent on our Progress OpenEdge products. We derive a significant portion of our revenue from software license and maintenance revenue attributable to our Progress OpenEdge product set. Accordingly, our future results depend on continued market acceptance of OpenEdge. If new technologies emerge that are superior to, or more responsive to customer requirements, than OpenEdge such that we are unable to maintain OpenEdge's competitive position within its marketplace, this will have a material adverse effect on our business, financial condition and operating results.

The increased emphasis on a cloud strategy may give rise to risks that could harm our business. We are devoting significant resources to the development of cloud-based technologies and service offerings where we have a limited operating history. Our cloud strategy requires continued investment in product development and cloud operations as well as a change in the way we price and deliver our products. Many of our competitors may have advantages over us

due to their larger presence, larger developer network, deeper experience in the cloud-based computing market, and greater sales and marketing resources. It is uncertain whether these strategies will prove successful or whether we will be able to develop the infrastructure and business models more quickly than our competitors. Our cloud strategy may give rise to a number of risks, including the following:

- if new or current customers desire only perpetual licenses, we may not be successful in selling subscriptions;
- although we intend to support our perpetual license business, the increased emphasis on a cloud strategy may raise concerns among our installed customer base;
- we may be unsuccessful in achieving our target pricing;
- our revenues might decline over the short or long term as a result of this strategy;
- our relationships with existing partners that resell perpetual licenses may be damaged; and
- we may incur costs at a higher than forecasted rate as we enhance and expand our cloud operations.

## Table of Contents

We may make additional acquisitions or investments in new businesses, products or technologies that involve additional risks, which could disrupt our business or harm our financial condition, results of operations or cash flows. We may make acquisitions of businesses or investments in companies that offer complementary products, services and technologies. Any acquisitions that we do complete involve a number of risks, including the risks of assimilating the operations and personnel of acquired companies, realizing the value of the acquired assets relative to the price paid, distraction of management from our ongoing businesses and potential product disruptions associated with the sale of the acquired company's products. In addition, an acquisition may not further our business strategy as we expected, we may not integrate an acquired company or technology as successfully as we expected or we may overpay for, or otherwise not realize the expected return on, our investments, which could adversely affect our business or operating results and potentially cause impairment to assets that we recorded as a part of an acquisition including intangible assets and goodwill. These factors could have a material adverse effect on our business, financial condition, operating results and cash flows. The consideration we pay for any future acquisitions could include our stock. As a result, future acquisitions could cause dilution to existing shareholders and to earnings per share.

The segments of the software industry in which we participate are intensely competitive, and our inability to compete effectively could harm our business. We experience significant competition from a variety of sources with respect to the marketing and distribution of our products. Many of our competitors have greater financial, marketing or technical resources than we do and may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than we can. Increased competition could make it more difficult for us to maintain our market presence or lead to downward pricing pressure.

In addition, the marketplace for new products is intensely competitive and characterized by low barriers to entry. For example, an increase in market acceptance of open source software may cause downward pricing pressures. As a result, new competitors possessing technological, marketing or other competitive advantages may emerge and rapidly acquire market share. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing their ability to deliver products that better address the needs of our prospective customers. Current and potential competitors may also be more successful than we are in having their products or technologies widely accepted. We may be unable to compete successfully against current and future competitors, and our failure to do so could have a material adverse effect on our business, prospects, financial condition and operating results.

We rely on the experience and expertise of our skilled employees, and must continue to attract and retain qualified technical, marketing and managerial personnel in order to succeed. Our future success will depend in a large part upon our ability to attract and retain highly skilled technical, managerial, sales and marketing personnel. There is significant competition for such personnel in the software industry. We may not continue to be successful in attracting and retaining the personnel we require to develop new and enhanced products and to continue to grow and operate profitably.

The loss of technology licensed from third parties could adversely affect our ability to deliver our products. We utilize certain technology that we license from third parties, including software that is integrated with internally developed software and used in our products to perform key functions. This technology, or functionally similar technology, may not continue to be available on commercially reasonable terms in the future, or at all. The loss of any significant third-party technology license could cause delays in our ability to deliver our products or services until equivalent technology is developed internally or equivalent third-party technology, if available, is identified, licensed and integrated.

Privacy concerns and laws, evolving regulation of cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations may limit the use and adoption of our products and solutions and adversely affect our



business. Regulation related to the provision of services on the Internet is increasing, as federal, state and foreign governments continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information. In some cases, foreign data privacy laws and regulations, such as the European Union's Data Protection Directive, and the country-specific laws and regulations that implement that directive, also govern the processing of personal information. Further, laws are increasingly aimed at the use of personal information for marketing purposes, such as the European Union's e-Privacy Directive, and the country-specific regulations that implement that directive. Such laws and regulations are subject to new and differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our products and solutions or restrict our ability to store and process data or, in some cases, impact our ability to offer our products and solutions in certain locations or our customers' ability to deploy our solutions globally.

For example, the European Court of Justice recently invalidated the U.S.-EU Safe Harbor framework that had been in place since 2000, which allowed companies to meet certain European legal requirements for the transfer of personal data from the European Economic Area to the United States. While other adequate legal mechanisms to lawfully transfer such data remain, the invalidation of the U.S.-EU Safe Harbor framework may result in different European data protection regulators applying

Table of Contents

differing standards for the transfer of personal data, which could result in increased regulation, cost of compliance and limitations on data transfer for us and our customers. The costs of compliance with and other burdens imposed by laws, regulations and standards may limit the use and adoption of our services, reduce overall demand for our services, lead to significant fines, penalties or liabilities for noncompliance, or slow the pace at which we close sales transactions, any of which could harm our business.

Furthermore, concerns regarding data privacy may cause our customers' customers to resist providing the data necessary to allow our customers to use our products and solutions effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products or solutions, and could limit adoption of our cloud-based solutions.

If our products contain software defects or security flaws, it could harm our revenues and expose us to litigation. Our products, despite extensive testing and quality control, may contain defects or security flaws, especially when we first introduce them or when new versions are released. We may need to issue corrective releases of our software products to fix any defects or errors. The detection and correction of any security flaws can be time consuming and costly. Errors in our software products could affect the ability of our products to work with other hardware or software products, delay the development or release of new products or new versions of products, adversely affect market acceptance of our products and expose us to potential litigation. If we experience errors or delays in releasing new products or new versions of products, such errors or delays could have a material adverse effect on our revenue.

We could incur substantial cost in protecting our proprietary software technology or if we fail to protect our technology, which would harm our business. We rely principally on a combination of contract provisions and copyright, trademark, patent and trade secret laws to protect our proprietary technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation could result in substantial costs and diversion of resources, whether or not we ultimately prevail on the merits. The steps we take to protect our proprietary rights may be inadequate to prevent misappropriation of our technology; moreover, others could independently develop similar technology.

We could be subject to claims that we infringe intellectual property rights of others, which could harm our business, financial condition, results of operations or cash flows. Third parties could assert infringement claims in the future with respect to our products and technology, and such claims might be successful. This litigation could result in substantial costs and diversion of resources, whether or not we ultimately prevail on the merits. This litigation could also lead to our being prohibited from selling one or more of our products, cause reluctance by potential customers to purchase our products, or result in liability to our customers and could have a material adverse effect on our business, financial condition, operating results and cash flows.

If our security measures are breached, our products and services may be perceived as not being secure, customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure. Our products and services involve the storage and transmission of our customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation, and potential liability. Our security measures may be breached due to the actions of outside parties, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to our data or our customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, increased costs to defend litigation or damage to our reputation, and a loss of confidence in the security of our products and services that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these

techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose customers.

We may have exposure to additional tax liabilities. As a multinational corporation, we are subject to income taxes in the U.S. and various foreign jurisdictions. Significant judgment is required in determining our global provision for income taxes and other tax liabilities. In the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. Our income tax returns are routinely subject to audits by tax authorities. Although we regularly assess the likelihood of adverse outcomes resulting from these examinations to determine our tax estimates, a final determination of tax audits or tax disputes could have an adverse effect on our financial condition, results of operations and cash flows.

Table of Contents

We are also subject to non-income taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes in the U.S. and various foreign jurisdictions. We are regularly under audit by tax authorities with respect to these non-income taxes and may have exposure to additional non-income tax liabilities, which could have an adverse effect on our results of operations, financial condition and cash flows.

In addition, our future effective tax rates could be favorably or unfavorably affected by changes in tax rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws or their interpretation. Such changes could have a material adverse impact on our financial results.

We are required to comply with certain financial and operating covenants under our credit facility and to make scheduled debt payments as they become due; any failure to comply with those covenants or to make scheduled payments could cause amounts borrowed under the facility to become immediately due and payable or prevent us from borrowing under the facility. In December 2014, we entered into a credit facility, which consists of a \$150 million term loan and a \$150 million revolving loan (and may be increased by an additional \$75 million in the form of revolving loans or term loans, or a combination thereof if the existing or additional lenders are willing to make such increased commitments). This facility matures in December 2019, at which time any amounts outstanding will be due and payable in full. We may wish to borrow additional amounts under the facility in the future to support our operations, including for strategic acquisitions and share repurchases.

We are required to comply with specified financial and operating covenants and to make scheduled repayments of our term loan, which may limit our ability to operate our business as we otherwise might operate it. Our failure to comply with any of these covenants or to meet any payment obligations under the facility could result in an event of default which, if not cured or waived, would result in any amounts outstanding, including any accrued interest and unpaid fees, becoming immediately due and payable. We might not have sufficient working capital or liquidity to satisfy any repayment obligations in the event of an acceleration of those obligations. In addition, if we are not in compliance with the financial and operating covenants at the time we wish to borrow funds, we will be unable to borrow funds.

Our common stock price may continue to be volatile, which could result in losses for investors. The market price of our common stock, like that of other technology companies, is volatile and is subject to wide fluctuations in response to quarterly variations in operating results, announcements of technological innovations or new products by us or our competitors, changes in financial estimates by securities analysts or other events or factors. Our stock price may also be affected by broader market trends unrelated to our performance. As a result, purchasers of our common stock may be unable at any given time to sell their shares at or above the price they paid for them.

Table of Contents

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Items 2(a) and 2(b) are not applicable.

## (c) Stock Repurchases

Information related to the repurchases of our common stock by month in the third quarter of fiscal year 2017 is as follows (in thousands, except per share and share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs <sup>(1)</sup>
June 2017	31,560	\$ 31.00	31,560	\$ 109,406
July 2017	400,208	31.56	400,208	96,769
August 2017	169,600	31.62	169,600	91,403
Total	601,368	\$ 31.55	601,368	\$ 91,403

In March 2016, our Board of Directors authorized a \$100.0 million share repurchase program. As of August 31, 2017, there was \$91.4 million remaining under this authorization. In September 2017, our Board of Directors <sup>(1)</sup> increased the total share repurchase authorization from the \$91.4 million remaining under the previous authorization to \$250 million.

## Item 6. Exhibits

The following exhibits are filed or furnished as part of this Quarterly Report on Form 10-Q:

Exhibit No.	Description
31.1*	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Yogesh K. Gupta
31.2*	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Paul A. Jalbert
32.1**	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
101	The following materials from Progress Software Corporation's Quarterly Report on Form 10-Q for the three and nine months ended August 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of August 31, 2017 and November 30, 2016; (ii) Condensed Consolidated Statements of Income for the three and nine months ended August 31, 2017 and 2016; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended August 31, 2017 and 2016; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended August 31, 2017 and 2016; and (v) Notes to Condensed Consolidated Financial

Statements.

\* Filed herewith

\*\*Furnished herewith

45

---

Table of Contents

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.

PROGRESS SOFTWARE CORPORATION  
(Registrant)

Dated: October 9, 2017 /s/ YOGESH K. GUPTA  
Yogesh K. Gupta  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: October 9, 2017 /s/ PAUL A. JALBERT  
Paul A. Jalbert  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit No. Description

31.1\* Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Yogesh K. Gupta

31.2\* Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Paul A. Jalbert

32.1\*\* Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

101 The following materials from Progress Software Corporation’s Quarterly Report on Form 10-Q for the three and nine months ended August 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of August 31, 2017 and November 30, 2016; (ii) Condensed Consolidated Statements of Income for the three and nine months ended August 31, 2017 and 2016; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended August 31, 2017 and 2016; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended August 31, 2017 and 2016; and (v) Notes to Condensed Consolidated Financial Statements.

\* Filed herewith

\*\*Furnished herewith