

PROGRESS SOFTWARE CORP /MA

Form 10-Q

April 09, 2014

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 February 28, 2014

☐ 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)

MASSACHUSETTS

(State or other jurisdiction of  
incorporation or organization)

14 Oak Park

Bedford, Massachusetts 01730

(Address of principal executive offices)(Zip code)

Telephone Number: (781) 280-4000

04-2746201

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

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, or a smaller reporting company. See the definitions "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

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

Yes ☐ No ☒

As of March 28, 2014, there were 51,367,065 shares of the registrant's common stock, \$.01 par value per share, outstanding.

Table of Contents

PROGRESS SOFTWARE CORPORATION  
FORM 10-Q  
FOR THE THREE MONTHS ENDED FEBRUARY 28, 2014  
INDEX

PART I FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (Unaudited)</u>	<u>3</u>
	<u>Condensed Consolidated Balance Sheets as of February 28, 2014 and November 30, 2013</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Income for the three months ended February 28, 2014 and 2013</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended February 28, 2014 and 2013</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended February 28, 2014 and 2013</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>18</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
Item 4.	<u>Controls and Procedures</u>	<u>31</u>

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>32</u>
Item 1A.	<u>Risk Factors</u>	<u>32</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>32</u>
Item 6.	<u>Exhibits</u>	<u>33</u>
	<u>Signatures</u>	<u>34</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## Condensed Consolidated Balance Sheets

(In thousands, except share data)	February 28, 2014	November 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$219,356	\$198,818
Short-term investments	28,693	32,622
Total cash, cash equivalents and short-term investments	248,049	231,440
Accounts receivable (less allowances of \$2,795 and \$3,153, respectively)	58,960	66,784
Other current assets	29,845	30,716
Deferred tax assets	10,837	8,871
Total current assets	347,691	337,811
Property and equipment, net	60,871	57,030
Intangible assets, net	9,257	9,950
Goodwill	224,185	224,286
Deferred tax assets	19,768	20,386
Investments in auction rate securities	25,110	24,761
Other assets	3,552	7,963
Total assets	\$690,434	\$682,187
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	8,480	9,560
Accrued compensation and related taxes	16,016	26,697
Income taxes payable	3,424	2,584
Other accrued liabilities	27,732	29,345
Short-term deferred revenue	106,482	96,393
Total current liabilities	162,134	164,579
Long-term deferred revenue	745	1,144
Deferred tax liabilities	338	340
Other noncurrent liabilities	2,543	2,470
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.01 par value; authorized, 1,000,000 shares; issued, none	—	—
Common stock, \$0.01 par value, and additional paid-in capital; authorized, 200,000,000 shares; issued and outstanding, 51,350,598 shares in 2014 and 51,512,595 shares in 2013	208,771	205,307
Retained earnings, including accumulated other comprehensive loss of \$11,285 in 2014 and \$11,659 in 2013	315,903	308,347
Total shareholders' equity	524,674	513,654
Total liabilities and shareholders' equity	\$690,434	\$682,187
See notes to unaudited condensed consolidated financial statements.		

Table of Contents

## Condensed Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended	
	February 28, 2014	February 28, 2013
Revenue:		
Software licenses	\$22,264	\$29,907
Maintenance and services	52,274	53,826
Total revenue	74,538	83,733
Costs of revenue:		
Cost of software licenses	2,007	2,090
Cost of maintenance and services	5,345	7,650
Amortization of acquired intangibles	529	139
Total costs of revenue	7,881	9,879
Gross profit	66,657	73,854
Operating expenses:		
Sales and marketing	24,509	28,642
Product development	15,113	13,622
General and administrative	11,727	14,666
Amortization of acquired intangibles	164	171
Restructuring expenses	196	960
Acquisition-related expenses	946	—
Total operating expenses	52,655	58,061
Income from operations	14,002	15,793
Other income (expense):		
Interest income and other	513	531
Foreign currency loss, net	(507	) (1,079
Total other income (expense), net	6	(548
Income from continuing operations before income taxes	14,008	15,245
Provision for income taxes	2,908	5,432
Income from continuing operations	11,100	9,813
Income from discontinued operations, net	—	21,305
Net income	\$11,100	\$31,118
Earnings per share:		
Basic:		
Continuing operations	\$0.22	\$0.17
Discontinued operations	—	0.37
Net income per share	\$0.22	\$0.54
Diluted:		
Continuing operations	\$0.21	\$0.17
Discontinued operations	—	0.36
Net income per share	\$0.21	\$0.53
Weighted average shares outstanding:		
Basic	51,494	57,901
Diluted	52,165	58,752

See notes to unaudited condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended	
	February 28, 2014	February 28, 2013
Net income	\$11,100	\$31,118
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	149	(445 )
Unrealized gains on investments, net of tax provision of \$131 and \$48 in 2014 and 2013, respectively	225	82
Total other comprehensive income (loss), net of tax	374	(363 )
Comprehensive income	\$11,474	\$30,755

See notes to unaudited condensed consolidated financial statements.

Table of Contents

## Condensed Consolidated Statements of Cash Flows

(In thousands)	Three Months Ended	
	February 28, 2014	February 28, 2013
Cash flows from operating activities:		
Net income	\$11,100	\$31,118
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	2,410	2,418
Amortization of acquired intangibles and other	1,064	983
Stock-based compensation	5,545	4,906
Loss on disposal of property	14	—
Gain on dispositions	—	(35,106)
Asset impairment	—	111
Deferred income taxes	(1,508)	(1,899)
Tax benefit (deficiency) from stock plans	69	(481)
Excess tax benefit from stock plans	(152)	(508)
Allowances for accounts receivable	86	(150)
Changes in operating assets and liabilities:		
Accounts receivable	8,027	12,622
Other assets	2,303	(4,833)
Accounts payable and accrued liabilities	(13,412)	(22,867)
Income taxes payable and uncertain tax positions	639	(21,627)
Deferred revenue	9,239	10,254
Net cash flows from (used in) operating activities	25,424	(25,059)
Cash flows from investing activities:		
Purchases of investments	(1,900)	—
Sales and maturities of investments	5,600	10,860
Redemptions and sales of auction rate securities	—	25
Purchases of property and equipment	(5,697)	(898)
Capitalized software development costs	(821)	—
Proceeds from divestitures, net	3,300	73,381
Increase in other noncurrent assets	(108)	(53)
Net cash flows from investing activities	374	83,315
Cash flows from financing activities:		
Proceeds from stock-based compensation plans	3,890	29,233
Purchases of common stock related to withholding taxes from the issuance of restricted stock units	(5)	(431)
Repurchases of common stock	(9,789)	(109,302)
Excess tax benefit from stock plans	152	508
Net cash flows used in financing activities	(5,752)	(79,992)
Effect of exchange rate changes on cash	492	(839)
Net increase (decrease) in cash and cash equivalents	20,538	(22,575)
Cash and cash equivalents, beginning of period	198,818	301,792
Cash and cash equivalents, end of period	\$219,356	\$279,217



Table of Contents

## Condensed Consolidated Statements of Cash Flows, continued

	Three Months Ended	
	February 28, 2014	February 28, 2013
Supplemental disclosure:		
Cash paid for income taxes, net of refunds of \$53 in 2014 and \$126 in 2013	\$2,581	\$47,290
Non-cash financing activities:		
Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested	\$1,152	\$2,576
Unsettled repurchases of common stock	\$—	\$4,041
See notes to unaudited condensed consolidated financial statements.		



Table of Contents

Notes to Condensed Consolidated Financial Statements

Note 1: Basis of Presentation

Company Overview - We are a global software company that simplifies the development, deployment and management of business applications on-premise or in the cloud, on any platform or device, to any data source, with enhanced performance, minimal IT complexity and low total cost of ownership. Our comprehensive portfolio of products provides leading solutions for rapid application development, broad data integration and efficient data analysis. Our solutions are used across a variety of industries.

Our products are generally sold as perpetual licenses, but certain products and business activities also use term licensing models and our new Progress Pacific platform offering uses 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 independent software vendors (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.

During fiscal years 2012 and 2013, we completed divestitures of the eleven product lines which were not considered core product lines of our business. The divestitures were part of our strategic plan announced during fiscal year 2012. After the closing of all these divestitures, we now operate as one reportable segment. In addition, the revenues and direct expenses of the product lines divested are included in discontinued operations in our condensed consolidated statements of income, including prior period amounts which have been revised to reflect the presentation.

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, 2013.

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, 2013. 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, 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 July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 clarifies guidance and eliminates diversity in practice on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance is effective on a prospective basis for fiscal years and interim reporting periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 is not expected to have a material impact on our financial position, results of operations or cash flows.

In March 2013, the FASB issued Accounting Standards Update No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05). ASU 2013-05 provides guidance on releasing cumulative translation adjustments when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or a business within a foreign entity. ASU 2013-05 is effective on a prospective basis for fiscal years and interim reporting periods within those years, beginning after December 15, 2013. Early adoption is permitted. The adoption of ASU 2013-05 is not expected to have a material impact on our financial position, results of operations or cash flows.

Table of Contents

## Note 2: Cash, Cash Equivalents and Investments

A summary of our cash, cash equivalents and available-for-sale investments at February 28, 2014 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	\$ 160,799	\$—	\$—	\$ 160,799
Money market funds	58,557	—	—	58,557
State and municipal bond obligations	28,522	171	—	28,693
Auction rate securities – municipal bonds	25,250	—	(3,017)	22,233
Auction rate securities – student loans	3,500	—	(623)	2,877
Total	\$ 276,628	\$ 171	\$ (3,640)	\$ 273,159

A summary of our cash, cash equivalents and available-for-sale investments at November 30, 2013 is as follows (in thousands):

	Amortized Cost Basis	Realized Losses	Unrealized Gains	Unrealized Losses	Fair Value
Cash	\$ 144,305	\$—	\$—	\$—	\$ 144,305
Money market funds	54,513	—	—	—	54,513
State and municipal bond obligations	30,938	—	164	—	31,102
Auction rate securities – municipal bonds	27,150	(380)	—	(3,317)	23,453
Auction rate securities – student loans	3,500	—	—	(672)	2,828
Total	\$ 260,406	\$ (380)	\$ 164	\$ (3,989)	\$ 256,201

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

	February 28, 2014			November 30, 2013		
	Cash and Equivalents	Short-Term Investments	Long-Term Investments	Cash and Equivalents	Short-Term Investments	Long-Term Investments
Cash	\$ 160,799	\$—	\$—	\$ 144,305	\$—	\$—
Money market funds	58,557	—	—	54,513	—	—
State and municipal bond obligations	—	28,693	—	—	31,102	—
Auction rate securities – municipal bonds	—	—	22,233	—	1,520	21,933
Auction rate securities – student loans	—	—	2,877	—	—	2,828
Total	\$ 219,356	\$ 28,693	\$ 25,110	\$ 198,818	\$ 32,622	\$ 24,761

For each of our ARS for which the issuer is not in default, we evaluated the risks related to the structure, collateral and liquidity of the investment, and forecasted the probability of issuer default, auction failure and a successful auction at par or a redemption at par for each future auction period. The weighted average cash flow for each period was then discounted back to present value for each security. Based on this methodology, we determined that the fair value of our ARS investments is \$25.1 million and \$24.8 million at February 28, 2014 and November 30, 2013, respectively.

The temporary impairment recorded in accumulated other comprehensive loss to reduce the value of our available-for-sale ARS investments was \$3.6 million and \$4.0 million at February 28, 2014 and November 30, 2013, respectively. We will not be able to access the funds associated with our ARS investments until future auctions for these ARS are successful, we sell the securities in a secondary market, or they are redeemed by the issuer. As such, these remaining investments currently lack short-term liquidity and are therefore classified as long-term investments on the condensed consolidated balance sheets at February 28, 2014 and November 30, 2013.

During the fourth quarter of fiscal year 2013, the exit bankruptcy plan for an issuer of one of our ARS, which was in default and on whose behalf the underlying bond insurer was making interest payments, was approved by a federal bankruptcy judge in federal court. The exit bankruptcy plan included a settlement provision with the holders of the ARS, which were given the option to receive 80% of the par value of their holdings, but renounce their claim with the bond issuer, or receive 65% of the

# Table of Contents

par value of their holdings and retain their insurance rights. We accepted the 80% settlement offer and as a result we adjusted the fair value of this ARS to the amount of the settlement as of November 30, 2013. The previously recorded unrealized loss associated with this ARS has been recorded as a realized loss in fiscal year 2013 due to the settlement. As this investment no longer lacked short-term liquidity, it was classified as a short-term investment on our consolidated balance sheet at November 30, 2013. We received the settlement in December 2013 and the related ARS is no longer held and, accordingly, is not included in our ARS investments as of February 28, 2014.

Based on our cash, cash equivalents and short-term investments balance of \$248.0 million, expected operating cash flows and the availability of funds under our revolving credit facility, we do not anticipate that the lack of liquidity associated with our ARS will adversely affect our ability to conduct business and believe we have the ability to hold the affected securities throughout the currently estimated recovery period. Therefore, the impairment of these securities is considered only temporary in nature. If the credit rating of either the security issuer or the third-party insurer underlying the investments deteriorates significantly, we may be required to adjust the carrying value of the ARS through an other-than-temporary impairment charge to earnings.

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

	February 28, 2014	November 30, 2013
Due in one year or less <sup>(1)</sup>	\$41,899	\$42,198
Due after one year <sup>(2)</sup>	11,904	15,185
Total	\$53,803	\$57,383

Includes ARS which are tendered for interest-rate setting purposes periodically throughout the year. Beginning in (1) February 2008, auctions for these securities began to fail, and therefore these investments currently lack short-term liquidity. The remaining contractual maturities of these securities range from 10 to 29 years.

(2) Includes state and municipal bond obligations, which are securities representing investments available for current operations and are classified as current in the consolidated balance sheets.

Investments with continuous unrealized losses and their related fair values are as follows at February 28, 2014 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Auction rate securities – municipal bonds	—	—	22,233	(3,017	) 22,233	(3,017 )
Auction rate securities – student loans	—	—	2,877	(623	) 2,877	(623 )
Total	\$—	\$—	\$25,110	\$(3,640	) \$25,110	\$(3,640 )

Investments with continuous unrealized losses and their related fair values are as follows at November 30, 2013 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Auction rate securities – municipal bonds	—	—	21,933	(3,317	) 21,933	(3,317 )

Auction rate securities –	—	—	2,828	(672	)	2,828	(672	)
student loans								
Total	\$—	\$—	\$24,761	\$(3,989	)	\$24,761	\$(3,989	)

The unrealized losses associated with ARS are discussed above. Any unrealized losses associated with state and municipal bond obligations are attributable to changes in interest rates. Management does not believe any unrealized losses associated with state and municipal bond obligations represent other-than-temporary impairments based on our evaluation of available evidence as of February 28, 2014 and November 30, 2013.

Table of Contents

## 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 accounts receivable and collections 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 in other current assets or other current liabilities on the condensed consolidated balance sheets at the end of each reporting period and expire within 90 days. In the three months ended February 28, 2014 and February 28, 2013, realized and unrealized losses of \$0.3 million and \$1.1 million, respectively, from our forward contracts were recognized in other income (expense) in the condensed consolidated statements of income. These losses were substantially offset by realized and unrealized gains 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):

	February 28, 2014		November 30, 2013	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	\$17,628	\$18	\$26,016	\$79
Forward contracts to purchase U.S. dollars	17,169	(134	) 22,483	92
Total	\$34,797	\$(116	) \$48,499	\$171

## 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 February 28, 2014 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	Level 1	Level 2	Level 3
Assets				
Money market funds	\$58,557	\$58,557	\$—	\$—
State and municipal bond obligations	28,693	—	28,693	—
Auction rate securities – municipal bonds	22,233	—	—	22,233
Auction rate securities – student loans	2,877	—	—	2,877
Foreign exchange derivatives	(116 )	—	(116 )	—
Liabilities				
Contingent consideration	\$(393 )	\$—	\$—	\$(393 )

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at November 30, 2013 (in thousands):

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets				
Money market funds	\$54,513	\$54,513	\$—	\$—
State and municipal bond obligations	31,102	—	31,102	—
Auction rate securities – municipal bonds	23,453	—	1,520	21,933

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Auction rate securities – student loans	2,828	—	—	2,828
Foreign exchange derivatives	171	—	171	—
Liabilities				
Contingent consideration	(388	) —	—	(388 )

11

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Table of Contents

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.

The valuation technique used to measure fair value for our Level 3 assets, which consists of ARS, is primarily an income approach, where the expected weighted average future cash flows are discounted back to present value for each asset. The significant unobservable inputs used in the fair value measurement of our ARS are the probability of earning the maximum rate until maturity, the probability of principal return prior to maturity, the probability of default, the liquidity risk premium and the recovery rate in default. Generally, interrelationships are such that a change in the assumptions used for the probability of principal return prior to maturity is accompanied by a directionally opposite change in one or more the following assumptions: the probability of earning the maximum rate until maturity, the probability of default and the liquidity risk premium. The recovery rate in default is somewhat independent and based upon the ARS' specific underlying assets and published recovery rate studies.

The following table provides additional quantitative information about the unobservable inputs used in our Level 3 asset valuations as of February 28, 2014:

	Valuation Technique	Unobservable Input	Range (Weighted Average)
Auction rate securities	Discounted cash flow	Probability of earning the maximum rate until maturity	0.2% - 10.8% (1.9%)
		Probability of principal return prior to maturity	75.1% - 94.7% (86.5%)
		Probability of default	4.3% - 24.7% (11.6%)
		Liquidity risk premium	3.5%
		Recovery rate in default	50% - 70% (56.5%)

Significant increases or decreases in the underlying assumptions used to value the ARS could significantly increase or decrease the fair value estimates recorded in the consolidated balance sheets.

The following table reflects the activity for our financial assets measured at fair value using Level 3 inputs for each period presented (in thousands):

	Three Months Ended	
	February 28, 2014	February 28, 2013
Balance, beginning of period	\$24,761	\$26,321
Redemptions and sales	—	(25 )
Transfer to Level 2 fair value measurement	—	—
Unrealized gains included in accumulated other comprehensive loss	349	146
Balance, end of period	\$25,110	\$26,442

We have also classified contingent consideration related to the Rollbase, Inc. acquisition (Rollbase), which occurred in the second quarter of fiscal year 2013, within Level 3 of the fair value hierarchy because the fair value is derived using significant unobservable inputs, which include discount rates and probability-weighted cash flows. We determined the fair value of our contingent consideration obligations based on a probability-weighted income approach derived from probability assessments of the attainment of certain milestones. We establish discount rates to be utilized in our valuation models based on the cost to borrow that would be required by a market participant for similar instruments. In determining the probability of attaining certain milestones, we utilize data regarding similar milestone events from our own experience. On a quarterly basis, we reassess the probability factors associated with the milestones for our contingent consideration obligations. Significant

Table of Contents

judgment is employed in determining the appropriateness of these key assumptions as of the acquisition date and for each subsequent period.

The key assumptions as of February 28, 2014 related to the contingent consideration for the acquisition of Rollbase used in the model are probabilities in excess of 95% that the milestones associated with the contingent consideration will be achieved and a discount rate of 4.8%. A decrease in the probabilities of achievement could result in a decrease to the estimated fair value of the contingent consideration liability. During the three months ended February 28, 2014, the change in the fair value of the liability was minimal.

We did not have any nonrecurring fair value measurements as of February 28, 2014 and November 30, 2013.

## Note 5: Intangible Assets and Goodwill

## Intangible Assets

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

	February 28, 2014			November 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	\$44,780	\$(37,226)	) \$7,554	\$44,793	\$(36,712)	) \$8,081
Customer-related and other	19,546	(17,843)	) 1,703	19,543	(17,674)	) 1,869
Total	\$64,326	\$(55,069)	) \$9,257	\$64,336	\$(54,386)	) \$9,950

In the first quarter of fiscal years 2014 and 2013, amortization expense related to intangible assets was \$0.7 million and \$0.3 million, respectively.

Future amortization expense for intangible assets as of February 28, 2014, is as follows (in thousands):

Remainder of 2014	\$1,944
2015	2,409
2016	1,906
2017	1,906
2018	1,092
Thereafter	—
Total	\$9,257

## Goodwill

Changes in the carrying amount of goodwill in the three months ended February 28, 2014 are due to foreign currency translations. During the first quarter of fiscal year 2014, we completed our annual testing for impairment of goodwill and, based on those tests, concluded that no impairment of goodwill existed as of December 15, 2013. Through the date and time our condensed consolidated financial statements were issued, no triggering events have occurred that would indicate a potential impairment of goodwill exists.

## Note 6: Divestitures

During fiscal years 2012 and 2013, we completed divestitures of the eleven product lines which were not considered core product lines of our business: Actional, Apama, Artix, DataXtend, FuseSource, ObjectStore, Orbacus, Orbix, Savvion, Shadow and Sonic. The FuseSource and Shadow product lines were divested in fiscal year 2012. The remaining product lines, excluding Apama, were divested in the first quarter of fiscal year 2013. The Apama product line was divested in the third quarter of fiscal year 2013. The divestitures were part of our strategic plan announced during fiscal year 2012.

Table of Contents

Revenues and direct expenses of the divested product lines have been reclassified as discontinued operations for all periods presented. Specifically, the fiscal year 2013 income from discontinued operations now includes the revenues and direct expenses of the product lines which had not been divested prior to the start of fiscal year 2013.

The components included in discontinued operations on the condensed consolidated statements of income are as follows (in thousands):

	Three Months Ended	
	February 28, 2014	February 28, 2013
Revenue	\$—	\$11,175
Income (loss) before income taxes	—	1,685
Income tax (benefit) provision	—	137
Gain on sale, net of tax	—	19,757
Income (loss) from discontinued operations, net	\$—	\$21,305

## Note 7: Business Combinations

On May 24, 2013, we acquired 100% of the equity interests in Rollbase, Inc. (Rollbase), a privately held software vendor based in Saratoga, California, for \$9.9 million. The purchase consideration consisted of \$9.5 million in cash paid and \$0.4 million of contingent consideration, expected to be paid out over a two year period. The fair value of the contingent consideration was estimated to be \$0.4 million at the date of acquisition. Rollbase provides application development software technology that allows the rapid design, development and deployment of on-demand business applications. The purpose of the acquisition was to further our strategic plan in which we intend to become a leading provider of a next-generation, context-aware application development and deployment platform in the cloud for the platform-as-a-service (PaaS) market. The acquisition was accounted for as a business combination, and accordingly, the results of operations of Rollbase are included in our operating results from the date of acquisition. We paid the purchase price in cash from available funds.

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

	Total	Life
Cash	\$50	
Acquired intangible assets	7,960	1 to 5 years
Goodwill	4,798	
Deferred taxes	(2,921)	)
Accounts payable and other liabilities	(8)	)
Net assets acquired	\$9,879	

The stock purchase agreement included contingent earn-out provisions requiring us to make payments to former Rollbase owners now employed by the Company. We have concluded that the earn-out provisions for the individuals now employed by the Company, which total approximately \$5.0 million, are compensation arrangements and we will accrue the maximum payouts ratably over the two year performance period, as we believe it is probable that the criteria will be met. We have incurred \$0.9 million of expense related to the contingent earn-out provisions for the three months ended February 28, 2014. This amount is recorded as acquisition-related expense in our consolidated statement of operations.

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 \$4.8 million of goodwill, which is not deductible for tax purposes. The allocation of the purchase price was completed in the third quarter of fiscal year 2013 upon the finalization of our valuation of identifiable intangible assets and acquired deferred tax liabilities.

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

Table of Contents

## Note 8: Line of Credit

Our credit facility provides for a revolving line of credit in the amount of \$150.0 million, with a sublimit for the issuance of standby letters of credit in a face amount up to \$25.0 million and swing line loans up to \$20.0 million. The credit facility also permits us to increase the revolving line of credit by up to an additional \$75.0 million subject to receiving further commitments from lenders and certain other conditions. As of February 28, 2014, there were no amounts outstanding under the revolving line and \$0.8 million of letters of credit.

## Note 9: Common Stock Repurchases

We repurchased and retired 0.4 million shares of our common stock for \$9.8 million in the three months ended February 28, 2014. The shares were repurchased as part of our Board of Directors authorized \$100.0 million share repurchase program. In the three months ended February 28, 2013, we repurchased 4,783,000 shares of our common stock for \$106.3 million.

## Note 10: Stock-Based Compensation

Stock-based compensation expense reflects the fair value of stock-based awards 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 the first quarter of fiscal year 2014, we granted performance-based restricted stock units that include a three-year market condition. 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 on a straight-line basis over the service period of the award, which is generally 4 or 5 years for options and 3 years for restricted stock units and restricted stock awards.

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

	Three Months Ended	
	February 28, 2014	February 28, 2013
Cost of maintenance and services	152	209
Sales and marketing	1,199	1,039
Product development	1,353	1,463
General and administrative	2,841	1,778
Stock-based compensation from continuing operations	5,545	4,489
Income from discontinued operations	—	417
Total stock-based compensation	\$5,545	\$4,906

## Note 11: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated balances of other comprehensive loss during the three months ended February 28, 2014 (in thousands):

Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on investments	Accumulated Other Comprehensive Loss
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Balance, December 1, 2013	\$ (9,249	) \$ (2,410	) \$ (11,659	)
Other comprehensive income before reclassifications, net of tax	149	225	374	
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	
Balance, February 28, 2014	\$ (9,100	) \$ (2,185	) \$ (11,285	)

The tax effect on accumulated unrealized losses on investments was \$1.3 million and \$1.4 million as of February 28, 2014 and November 30, 2013, respectively.



Table of Contents

## Note 12: Restructuring Charges

## 2013 Restructuring

During the third quarter of fiscal year 2013, our management approved, committed to and initiated plans to restructure and improve efficiencies in our operations as a result of the sale of the Apama product line and the divestitures completed during the fourth quarter of fiscal year 2012 and the first quarter of fiscal year 2013. We reduced our global workforce primarily within the administrative and sales organizations. This workforce reduction was conducted across all geographies and also resulted in the closing of certain facilities.

Restructuring expenses relate to employee costs, including severance, health benefits, outplacement services and transition divestiture arrangements (but excluding stock-based compensation), and facilities costs, which include fees to terminate lease agreements and costs for unused space, net of sublease assumptions. Other costs include costs to terminate automobile leases of employees included in the workforce reduction, asset impairment charges for assets no longer deployed as part of cost reduction strategies, costs for unused software licenses as part of the workforce reduction and other costs directly associated with the restructuring actions taken.

As part of the 2013 restructuring, for the three months ended February 28, 2014, we incurred expenses totaling \$0.2 million, of which the majority represents excess facilities and other costs. The expenses are recorded as restructuring expenses in the condensed consolidated statements of income. We do not expect to incur additional material costs with respect to the 2013 restructuring.

A summary of activity for the 2013 restructuring action is as follows (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2013	\$569	\$1,077	\$1,646
Costs incurred	152	7	159
Cash disbursements	(250)	) (981	) (1,231
Translation adjustments and other	(7	) 4	(3
Balance, February 28, 2014	\$464	\$107	\$571

Cash disbursements for expenses incurred to date under the 2013 restructuring are expected to be made through fiscal year 2017. The short-term portion of the restructuring reserve of \$0.4 million is included in other accrued liabilities and the long-term portion of \$0.2 million is included in other noncurrent liabilities on the condensed consolidated balance sheet at February 28, 2014.

## 2012 Restructuring

In the second quarter of fiscal year 2012, our management approved, committed to and initiated certain operational restructuring initiatives to reduce annual costs, including the simplification of our organizational structure and the consolidation of facilities. In addition, as part of the strategic plan announced during fiscal year 2012, we have divested the product lines not considered core to our business. Our restructuring actions include both our cost reduction efforts and qualifying costs associated with our divestitures.

As part of the 2012 restructuring, for the three months ended February 28, 2014, we incurred minimal expenses. The expenses are recorded as restructuring expenses in the condensed consolidated statements of income for the three

months ended February 28, 2014. We do not expect to incur additional material costs with respect to the 2012 restructuring.

Table of Contents

A summary of activity for the 2012 restructuring action during the three months ended February 28, 2014, is as follows (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2013	\$615	\$291	\$906
Costs incurred	82	(45)	) 37
Cash disbursements	(192)	) (175)	) (367)
Translation adjustments and other	(6)	) 2	(4)
Balance, February 28, 2014	\$499	\$73	\$572

Cash disbursements under the 2012 restructuring are expected to be made through fiscal year 2016. The short-term portion of the restructuring reserve of \$0.5 million is included in other accrued liabilities and the long-term portion of \$0.1 million is included in other noncurrent liabilities on the condensed consolidated balance sheet at February 28, 2014.

## Note 13: Income Taxes

Our income tax provision for the first quarter of fiscal year 2014 and 2013 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.

The research and development credit provisions in the tax code expired as of December 31, 2013 and have not been extended at this time. There is no assurance that the credit provisions will be extended during 2014.

Our Federal income tax returns have been examined or are closed by statute for all years prior to fiscal year 2011, and we are no longer subject to audit for those periods. Our state income tax returns have been examined or are closed by statute for all years prior to fiscal year 2009, and we are no longer subject to audit for those periods.

Tax authorities for certain non-U.S. jurisdictions are also examining returns affecting unrecognized tax benefits, none of which are material to our condensed 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 2008.

## Note 14: 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 from continuing operations on an interim basis (in thousands, except per share data):

	Three Months Ended	
	February 28, 2014	February 28, 2013
Income from continuing operations	\$11,100	\$9,813
Weighted average shares outstanding	51,494	57,901

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Dilutive impact from common stock equivalents	671	851
Diluted weighted average shares outstanding	52,165	58,752
Basic earnings per share from continuing operations	\$0.22	\$0.17
Diluted earnings per share from continuing operations	\$0.21	\$0.17

We excluded stock awards representing approximately 298,000 shares and 1,393,000 shares of common stock from the calculation of diluted earnings per share in the three months ended February 28, 2014 and 2013, respectively, because these awards were anti-dilutive.

Table of Contents

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: the receipt and shipment of new orders; the timely release and market acceptance of new products and/or enhancements to our existing products; the growth rates of certain market segments; the positioning of our products in those market segments; the customer demand and acceptance of any new product initiative; variations in the demand for professional services and technical support; pricing pressures and the competitive environment in the software industry; the continued uncertainty in the U.S. and international economies, which could result in fewer sales of our products and may otherwise harm our business; business and consumer use of the Internet; our ability to complete and integrate acquisitions; our ability to realize the expected benefits and anticipated synergies from acquired businesses; our ability to penetrate international markets and manage our international operations; our ability to execute on the strategic and operational initiatives we are currently undertaking, including any resulting disruption to our business, employees, customers and the manner in which we finance our operations; our ability to absorb allocated costs, primarily general and administrative, into our operations subsequent to the divestitures occurring; 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, 2013. Although we have sought to identify the most significant risks to our business, we 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 more than half 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 weaken, our consolidated results stated in U.S. dollars are negatively 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).

Revised Prior Period Amounts

Our financial results for prior periods have been revised, in accordance with GAAP, to reflect certain changes to the business. Prior period amounts have been revised for the impact of discontinued operations due to the sale of our Apama product line. Refer to Note 6 of Item 1 of this Quarterly Report on Form 10-Q for an additional description of this item.

## Overview

We are a global software company that simplifies the development, deployment and management of business applications on-premise or in the cloud, on any platform or device, to any data source, with enhanced performance, minimal IT complexity and low total cost of ownership. In 2013, we introduced the Progress Pacific platform-as-a-service (PaaS) that is the foundation of a strategic plan (the "Plan") we announced in April 2012. In April 2012, we announced our intention to become a leading provider of next-generation application development and deployment capabilities in the cloud for the PaaS market by investing in our OpenEdge, DataDirect, and Corticon product lines and integrating components of those products into a single, cohesive offering.

In fiscal year 2012 and the first quarter of fiscal year 2013, we entered into definitive purchase and sale agreements to divest the product lines which we did not consider core to our business. All divestitures were completed by the end of the first

## Table of Contents

quarter of fiscal year 2013. The aggregate purchase price was approximately \$130.0 million. As a result of the divestitures of all the product lines not considered core to our business, we ceased reporting the results of those operations as a separate reportable segment. Beginning in fiscal year 2013, we now operate as one reportable segment.

In June 2013, we entered into a definitive purchase and sale agreement to divest our Apama product line to Software AG. The target market, deployment and sales model for the Apama product line differed significantly from those of our core strategy and the divestiture allowed us to focus entirely on providing leading cloud and mobile application development and integration solutions. The sale closed in July 2013 for a purchase price of \$44.3 million. Our operating performance was adversely impacted by temporarily higher expense levels and restructuring costs as we transitioned away from the product lines we divested.

In furtherance of the Plan, we began to unify the product capabilities of our core product lines with the goal of refining and enhancing our next generation, feature-rich application development and deployment solution targeting the new market category of PaaS. To that end, during fiscal year 2013, we added new functionalities to our existing products. We also completed the acquisition of Rollbase, Inc., a provider of application development software technology that allows the rapid design, development and deployment of on-demand business applications. Lastly, in July 2013, we announced the release of Progress Pacific, which provides users with the freedom to choose the development environment tools, data sources, deployment environments and devices that best fit business and user needs. It is comprised of Rollbase and DataDirect Cloud, together with assets from our OpenEdge, DataDirect and Corticon products.

As a result of our renewed focus on our core products, the enhancements to our existing products and improvement in our cost structure, we experienced improved financial performance during fiscal year 2013. However, we are still in the early stages of our transition to becoming a leading vendor in the cloud-based PaaS market. As a result, we anticipate continued reinvestment in our products will be necessary and sustainable increases in revenue may not be foreseeable in the near term. Overall, our investments to improve our product lines require time to impact performance.

In addition, our new business focus and new strategy has required us to restructure our organization and the way we go to market, how we implement product roadmaps and how we operate and report our financial results, all of which caused additional disruption and could cause further disruption in the future as we implement our new go to market plans. Our cloud strategy will require continued investment in product development and cloud operations as well as a change in the way we price and deliver our products.

In the first quarter of fiscal year 2014, we experienced a significant decrease in license revenue, primarily due to lower revenues related to our DataDirect and Corticon products in the North America and EMEA regions. We are in the process of making changes to our go to market sales coverage for DataDirect and Corticon and believe these changes will result in increasing our pipeline opportunities as well as our conversion to revenue. These changes may take time to impact performance.

As part of the Plan, in April 2012 our Board of Directors authorized us to repurchase \$350.0 million of our common stock through fiscal year 2013, and in October 2012, under the authorization, we announced the adoption of a Rule 10b5-1 plan to repurchase up to \$250.0 million of our common stock through June 30, 2013, or earlier. We completed the plan in May 2013, having repurchased 11.7 million shares for \$250.0 million. In July 2013, our Board of Directors increased the authorization to \$360.0 million, and we launched a new Rule 10b5-1 plan to repurchase up to \$100.0 million of our common stock through December 31, 2013, or earlier. We completed this plan in October 2013, having repurchased 4.0 million shares for \$100.0 million. Through November 30, 2013, we repurchased a total of 16.1 million shares for \$357.9 million under the authorization.

In January 2014, our Board of Directors authorized a new \$100.0 million share repurchase program. Under this authorization, we have repurchased 0.4 million shares for \$9.8 million during the first quarter of fiscal year 2014.

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.

We believe that existing cash balances, together with funds generated from operations and amounts available under our revolving credit line will be sufficient to finance our operations and meet our foreseeable cash requirements through at least the next twelve months.



Table of Contents

## Results of Operations

The following table sets forth certain income and expense items as a percentage of total revenue, and the percentage change in dollar amounts of such items compared with the corresponding period in the previous fiscal year:

	Percentage of Total Revenue		Percentage Change	
	Three Months Ended		2014 to 2013	
	February 28, 2014	February 28, 2013		
Revenue:				
Software licenses	30	% 36	% (26	)%
Maintenance and services	70	64	(3	)
Total revenue	100	100	(11	)
Costs of revenue:				
Cost of software licenses	3	3	(4	)
Cost of maintenance and services	7	9	(30	)
Amortization of acquired intangibles	1	—	281	
Total costs of revenue	11	12	(20	)
Gross profit	89	88	(10	)
Operating expenses:				
Sales and marketing	33	34	(14	)
Product development	20	16	11	
General and administrative	16	18	(20	)
Amortization of acquired intangibles	—	—	(4	)
Restructuring expenses	—	1	(80	)
Acquisition-related expenses	1	—	100	
Total operating expenses	71	69	(9	)
Income from operations	18	19	(11	)
Other (expense) income	—	(1	) 101	
Income from continuing operations before income taxes	19	18	(8	)
Provision for income taxes	4	6	(46	)
Income from continuing operations	15	12	13	
Income (loss) from discontinued operations, net	—	25	100	
Net income	15	% 37	% (64	)%

## Revenue

(In thousands)	Three Months Ended		Percentage Change	
	February 28, 2014	February 28, 2013	As Reported	Constant Currency
Revenue	\$74,538	\$83,733	(11 )%	(10 )%

Total revenue decreased \$9.2 million, or 11%, in the first quarter of fiscal year 2014 as compared to the same quarter last year. Revenue would have decreased by 10% if exchange rates had been constant in fiscal year 2014 as compared to exchange rates in fiscal year 2013. The decrease was primarily a result of a decrease in license revenue as further described below.

Changes in prices from fiscal year 2013 to 2014 did not have a significant impact on our revenue. Changes in foreign currency exchange rates did not significantly impact our reported revenues on a consolidated basis.

Table of Contents

## License Revenue

(In thousands)	Three Months Ended		Percentage Change	
	February 28, 2014	February 28, 2013	As Reported	Constant Currency
License	\$22,264	\$29,907	(26)	)% (25)
As a percentage of total revenue	30	% 36	%	%

License revenue decreased \$7.6 million, or 26%, in the first quarter of fiscal year 2014 as compared to the same quarter last year. The decrease in license revenue was primarily in the North America and EMEA regions, mainly as a result of lower revenues related to our DataDirect and Corticon products, and, to a lesser extent, sales of OpenEdge to direct end users.

## Maintenance and Services Revenue

(In thousands)	Three Months Ended		Percentage Change	
	February 28, 2014	February 28, 2013	As Reported	Constant Currency
Maintenance	\$50,181	\$51,456	(2)	)% (2)
As a percentage of total revenue	67	% 61	%	%
Professional services	2,093	2,370	(12)	)% (12)
As a percentage of total revenue	3	% 3	%	%
Total maintenance and services revenue	\$52,274	\$53,826	(3)	)% (2)
As a percentage of total revenue	70	% 64	%	%

Maintenance and services revenue decreased \$1.6 million in the first quarter of fiscal year 2014 as compared to the same quarter last year. Maintenance revenue decreased 2% and professional services revenue decreased 12% in the first quarter of fiscal year 2014 as compared to the first quarter of fiscal year 2013. The decrease in maintenance revenue is due to the impact of moving to a distributor model in certain markets in the Latin America region, as well as the loss of revenue from non-renewing customers more than offsetting the growth in maintenance revenue associated with new license sales, primarily in our EMEA region. Professional services revenue decreased in the first quarter of fiscal year 2014 due to the timing of professional service engagements.

## Revenue by Region

(In thousands)	Three Months Ended		Percentage Change	
	February 28, 2014	February 28, 2013	As Reported	Constant Currency
North America	\$34,586	\$39,310	(12)	)% (12)
As a percentage of total revenue	47	% 47	%	%
EMEA	\$29,315	\$32,548	(10)	)% (12)
As a percentage of total revenue	39	% 39	%	%
Latin America	\$5,108	\$6,822	(25)	)% (14)
As a percentage of total revenue	7	% 8	%	%
Asia Pacific	\$5,529	\$5,053	9	% 21
As a percentage of total revenue	7	% 6	%	%

Total revenue generated in North America decreased \$4.7 million, and total revenue generated outside North America decreased \$4.5 million, in the first quarter of fiscal year 2014 as compared to the same quarter last year. The decrease

in North America was primarily related to a decrease in license revenue in the region, while the decrease in EMEA was due to lower license and maintenance revenue and the decrease in Latin America was primarily due to a decrease in maintenance revenue. Total revenue generated in markets outside North America represented 53% of total revenue in the first quarter of fiscal year 2014 and 2013. If exchange rates had remained constant in the first quarter of fiscal year 2014 as compared to the exchange

Table of Contents

rates in effect in the first quarter of fiscal year 2013, total revenue generated in markets outside North America would have been 54% of total revenue.

## Cost of Software Licenses

(In thousands)	Three Months Ended		
	February 28, 2014	February 28, 2013	Percentage Change
Cost of software licenses	\$2,007	\$2,090	(4)%
As a percentage of software license revenue	9%	7%	
As a percentage of total revenue	3%	3%	

Cost of software licenses consists primarily of costs of royalties, electronic software distribution, duplication and packaging. Cost of software licenses decreased \$0.1 million, or 4%, in the first quarter of fiscal year 2014 as compared to the same quarter last year, and increased as a percentage of software license revenue from 7% to 9%. 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		
	February 28, 2014	February 28, 2013	Percentage Change
Cost of maintenance and services	\$5,345	\$7,650	(30)%
As a percentage of maintenance and services revenue	10%	14%	
As a percentage of total revenue	7%	9%	

Cost of maintenance and services consists primarily of costs of providing customer support, consulting and education. Cost of maintenance and services decreased \$2.3 million, or 30%, in the first quarter of fiscal year 2014 as compared to the same quarter last year, and decreased as a percentage of maintenance and services revenue from 14% to 10%. The decrease in cost of maintenance and services is primarily due to lower compensation-related costs as a result of the significant decrease in headcount in this area, in addition to the decrease as a result of lower maintenance and services revenue compared to the first quarter of fiscal year 2013.

## Amortization of Acquired Intangibles

(In thousands)	Three Months Ended		
	February 28, 2014	February 28, 2013	Percentage Change
Amortization of acquired intangibles	\$529	\$139	281%
As a percentage of total revenue	1%	—%	

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 \$0.4 million, or 281%, in the first quarter of fiscal year 2014 as compared to the same quarter last year. The increase was due to amortization of intangible assets acquired with the Rollbase acquisition, which was completed in the second quarter of fiscal year 2013, partially offset by decreases due to the completion of amortization of certain intangible assets acquired in prior years.



Table of Contents

## Gross Profit

(In thousands)	Three Months Ended		
	February 28, 2014	February 28, 2013	Percentage Change
Gross profit	\$66,657	\$73,854	(10)%
As a percentage of total revenue	89%	88%	

Our gross profit decreased \$7.2 million, or 10%, in the first quarter of fiscal year 2014 as compared to the same quarter last year, and increased as a percentage of total revenue from 88% to 89%. The dollar decrease is primarily related to the decrease in license revenue while the cost of licenses remained relatively flat period over period.

## Sales and Marketing

(In thousands)	Three Months Ended		
	February 28, 2014	February 28, 2013	Percentage Change
Sales and marketing	\$24,509	\$28,642	(14)%
As a percentage of total revenue	33%	34%	

Sales and marketing expenses decreased \$4.1 million, or 14%, in the first quarter of fiscal year 2014 as compared to the same quarter last year, and decreased as a percentage of total revenue from 34% to 33%. The decrease was primarily due to lower compensation-related and travel costs in the sales function as a result of headcount reduction actions occurring subsequent to the first quarter of fiscal year 2013, as well as lower commissions expense due to the lower level of license revenue as compared to the first quarter of fiscal year 2013. Marketing expenses were relatively consistent between the two periods.

## Product Development

(In thousands)	Three Months Ended		
	February 28, 2014	February 28, 2013	Percentage Change
Product development costs	\$15,934	\$13,622	17%
Capitalized product development costs	(821)	—	100%
Total product development expense	\$15,113	\$13,622	11%
As a percentage of total revenue	20%	16%	

Product development expenses increased \$1.5 million, or 11%, in the first quarter of fiscal year 2014 as compared to the same quarter last year, and increased as a percentage of revenue from 16% to 20%. The increase was primarily due to higher costs related to our new product development strategy, including higher expenses related to building our Progress Pacific platform. The increase was partially offset by the deferral of capitalized product development costs related to certain development of our Progress Pacific platform beginning in the fourth quarter of fiscal year 2013.

## General and Administrative

(In thousands)	Three Months Ended		
	February 28, 2014	February 28, 2013	Percentage Change
General and administrative	\$11,727	\$14,666	(20)%

As a percentage of total revenue	16	%	18	%
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General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses decreased \$2.9 million, or 20%, in the first quarter of fiscal year 2014 as compared to the same quarter in the prior year, and decreased as a percentage of revenue from 18% to 16%. The

23

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Table of Contents

decrease is primarily related to lower compensation-related costs as a result of headcount reduction actions occurring subsequent to the first quarter of fiscal year 2013, as well as lower professional services costs.

## Amortization of Acquired Intangibles

(In thousands)	Three Months Ended		
	February 28, 2014	February 28, 2013	Percentage Change
Amortization of acquired intangibles	\$164	\$171	(4)%
As a percentage of total revenue	—	%	%

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 decreased 4% in the first quarter of fiscal year 2014 as compared to the same quarter last year. The decrease is due to the completion of amortization of certain intangible assets acquired in prior years, partially offset by the amortization of intangible assets associated with the Rollbase acquisition, which was completed during the second quarter of fiscal year 2013.

## Restructuring Expenses

(In thousands)	Three Months Ended		
	February 28, 2014	February 28, 2013	Percentage Change
Restructuring expenses	\$196	\$960	(80)%
As a percentage of total revenue	—	%	%

Restructuring expenses recorded in the first quarter of fiscal year 2014 relate to the restructuring activities occurring in fiscal years 2013 and 2012. See Note 12 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.

## Acquisition-Related Expenses

(In thousands)	Three Months Ended		
	February 28, 2014	February 28, 2013	Percentage Change
Acquisition-related expenses	\$946	\$—	100%
As a percentage of total revenue	1	%	%

Acquisition-related expenses increased in the first quarter of fiscal year 2014 compared to the same quarter last year due to expenses related to earn-out provisions which were part of the Rollbase acquisition completed in the second quarter of fiscal year 2013.

## Income From Operations

(In thousands)	Three Months Ended		
	February 28, 2014	February 28, 2013	Percentage Change

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Income from operations	\$ 14,002	\$ 15,793	(11	)%
As a percentage of total revenue	18	% 19	%	

Income from operations decreased \$1.8 million, or 11%, in the first quarter of fiscal year 2014 as compared to the same quarter last year. As discussed above, the decrease was primarily the result of lower revenue, partially offset by lower operating expenses during the first quarter of fiscal year 2014 compared to the same quarter last year.

Table of Contents

## Other Income (Expense)

(In thousands)	Three Months Ended		Percentage Change	
	February 28, 2014	February 28, 2013		
Interest income and other	\$513	\$531	(3	)%
Foreign currency loss, net	(507	(1,079	53	)%
Total other income (expense), net	\$6	\$(548	101	)%
As a percentage of total revenue	—	% (1	)%	

Other income (expense) increased \$0.6 million in the first quarter of fiscal year 2014 as compared to the same quarter last year primarily due to the decrease in foreign currency losses. The change in foreign currency losses is a result of movements in exchange rates and the impact in the first quarter of fiscal year 2013 on our intercompany receivables and payables denominated in currencies other than local currencies.

## Provision for Income Taxes

(In thousands)	Three Months Ended		Percentage Change	
	February 28, 2014	February 28, 2013		
Provision for income taxes	\$2,908	\$5,432	(46	)%
As a percentage of total revenue	4	% 6	%	

Our effective tax rate was 21% in the first quarter of fiscal year 2014 compared to 36% in the first quarter of fiscal year 2013. The decrease in the effective rate is primarily due to the recognition of \$2.1 million of tax benefits in the first quarter of fiscal year 2014 associated with the expected distribution from a foreign subsidiary that will occur in the foreseeable future.

## Net Income

(In thousands)	Three Months Ended		Percentage Change	
	February 28, 2014	February 28, 2013		
Income from continuing operations	\$11,100	\$9,813	13	%
Income (loss) from discontinued operations	—	21,305	100	%
Net income	\$11,100	\$31,118	(64	)%
As a percentage of total revenue	15	% 37	%	

Income (loss) from discontinued operations includes the revenues and direct expenses of the product lines we divested in fiscal year 2012 and the first quarter of fiscal year 2013 and the Apama product line, which was sold in July 2013. See Note 6 of Item 1 of this Quarterly Report for additional information related to our divested product lines.

Table of Contents

## Liquidity and Capital Resources

## Cash, Cash Equivalents and Short-Term Investments

(In thousands)	February 28, 2014	November 30, 2013
Cash and cash equivalents	\$219,356	\$198,818
Short-term investments	28,693	32,622
Total cash, cash equivalents and short-term investments	\$248,049	\$231,440

The increase in cash, cash equivalents and short-term investments of \$16.6 million from the end of fiscal year 2013 was primarily due to cash inflows from operations of \$25.4 million, partially offset by repurchases of our common stock of \$9.8 million. Except as described below, there are no limitations on our ability to access our cash, cash equivalents and short-term investments.

As of February 28, 2014, \$102.7 million of our cash, cash equivalents and short-term investments was held by our foreign subsidiaries. A significant portion of this amount relates to the net undistributed earnings of our foreign subsidiaries, which are considered to be permanently reinvested; as such, they are not available to fund our domestic operations. If we were to repatriate the 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 impact on our liquidity.

## Share Repurchase Program

In April 2012, our Board of Directors authorized us to repurchase \$350.0 million of our common stock through fiscal year 2013, and in October 2012, under the authorization, we announced the adoption of a Rule 10b5-1 plan to repurchase up to \$250.0 million of our common stock through June 30, 2013, or earlier. We completed the plan in May 2013, having repurchased 11.7 million shares for \$250.0 million. In July 2013, our Board of Directors increased the authorization to \$360.0 million, and we launched a new Rule 10b5-1 plan to repurchase up to \$100.0 million of our common stock through December 31, 2013, or earlier. We completed this plan in October 2013, having repurchased 4.0 million shares for \$100.0 million. Through November 30, 2013, we repurchased a total of 16.1 million shares for \$357.9 million under the authorization.

In January 2014, our Board of Directors authorized a new \$100.0 million share repurchase program. 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. During the first quarter of fiscal year 2014, we repurchased 0.4 million shares of our common stock for \$9.8 million.

## Divestiture of Product Lines

During fiscal years 2012 and 2013, we completed divestitures of the eleven product lines which were not considered core product lines of our business: Actional, Apama, Artix, DataXtend, FuseSource, ObjectStore, Orbacus, Orbix, Savvion, Shadow and Sonic. The FuseSource and Shadow product lines were divested in fiscal year 2012. The remaining product lines, excluding Apama, were divested in the first quarter of fiscal year 2013. The aggregate purchase price of the divestitures completed in fiscal year 2012 and by the end of the first quarter of fiscal year 2013 was approximately \$130.0 million. The Apama product line was divested in the third quarter of fiscal year 2013 for a purchase price of \$44.3 million.

The cash flows of our continuing and discontinued operations have not been segregated in our statements of cash flows. The divestitures of these product lines will reduce our cash flows in future periods, including our operating cash flows, due to the loss of revenue offset by the elimination of direct expenses associated with the divested product lines and other cost savings actions.

#### Restructuring Activities

During the third quarter of fiscal year 2013, our management approved, committed to and initiated plans to restructure and improve efficiencies in our operations as a result of the sale of the Apama product line and the divestitures completed during the fourth quarter of fiscal year 2012 and the first quarter of fiscal year 2013. We reduced our global workforce primarily within the administrative and sales organizations. This workforce reduction was conducted across all geographies and also resulted in the closing of certain facilities.

## Table of Contents

The total costs of the restructuring primarily relate to employee costs, including severance, health benefits, outplacement services and transition divestiture incentives, but excluding stock-based compensation. Facilities costs include fees to terminate lease agreements and costs for unused space, net of sublease assumptions. Other costs include costs to terminate automobile leases of employees included in the workforce reduction, asset impairment charges for assets no longer deployed as part of cost reduction strategies, costs for unused software licenses as part of the workforce reduction and other costs directly associated with the restructuring actions taken.

As part of the 2013 restructuring, for the three months ended February 28, 2014, we incurred expenses totaling \$0.2 million, of which the majority represents excess facilities and other costs. The expenses are recorded as restructuring expenses in the condensed consolidated statements of income. We do not expect to incur additional material costs with respect to the 2013 restructuring.

As of February 28, 2014, \$0.6 million of the cumulative expenses recognized under the 2013 restructuring remains unpaid. We expect to pay the majority of the restructuring liability in the next twelve months, however, excess facilities costs will continue through fiscal year 2017.

In the second quarter of fiscal year 2012, our management approved, committed to and initiated certain operational restructuring initiatives to reduce annual costs, including the simplification of our organizational structure and the consolidation of facilities.

As part of the 2012 restructuring, we incurred minimal expenses in the first three months of fiscal year 2014. We do not expect to incur additional material costs with respect to the 2012 restructuring.

As of February 28, 2014, \$0.6 million of the cumulative expenses recognized under the 2012 restructuring remains unpaid. We expect to pay the majority of the restructuring liability in the next twelve months, however, excess facilities costs will continue through fiscal year 2016.

## Revolving Credit Facility

On August 15, 2011, we entered into a credit agreement (the "Credit Agreement") for an unsecured credit facility with J.P. Morgan and other lenders that matures on August 15, 2016, at which time all amounts outstanding must be repaid. The credit facility provides for a revolving line of credit in the amount of \$150.0 million, with a sublimit for the issuance of standby letters of credit in a face amount up to \$25.0 million and swing line loans up to \$20.0 million. The credit facility also permits us to increase the revolving line of credit by up to an additional \$75.0 million subject to receiving further commitments from lenders and certain other conditions. We intend to utilize the line of credit for general corporate purposes, including acquisitions, stock repurchases and working capital.

Revolving loans accrue interest at a per annum rate based on our choice of either (i) the LIBOR rate plus a margin ranging from 1.25% to 1.75% or (ii) the base rate plus a margin ranging from 0.25% to 0.75%, both depending on our consolidated leverage ratio. The base rate is defined as the highest of (i) the administrative agent's prime rate (ii) the federal funds rate plus 1/2 of 1.00%, and (iii) the LIBOR rate for a one month interest period plus a margin equal to 1.00%. A quarterly commitment fee on the undrawn portion of the revolving credit facility is required, at a per annum rate ranging from 0.25% to 0.35%, depending on our consolidated leverage ratio. The loan origination fee and issuance costs incurred upon consummation of the Credit Agreement are being amortized through interest expense using the effective interest rate method, over the five-year term of the facility. Other customary fees and letter of credit fees may be charged and will be expensed as they are incurred.

Accrued interest on the loans is payable quarterly in arrears with respect to base rate loans and at the end of each interest rate period (or at each three month interval in the case of loans with interest periods greater than three months) with respect to LIBOR rate loans. We may prepay, terminate or reduce the loan commitments in whole or in part at any time, without premium or penalty, subject to certain conditions and reimbursement of certain costs in the case of LIBOR rate loans.

The Credit Agreement contains customary affirmative and negative covenants, including a requirement to maintain a balance of at least \$100.0 million in cash and cash equivalents while making restricted equity-related payments (e.g. cash dividend distributions or share repurchases of our common stock). We are also required to maintain compliance with a consolidated leverage ratio of no greater than 3.00 to 1.00 and a consolidated interest coverage ratio of at least 3.00 to 1.00. As of February 28, 2014, there were no amounts outstanding under the revolving line and \$0.8 million of letters of credit outstanding. We are in compliance with our covenants by a significant margin.

## Table of Contents

### Auction Rate Securities

In addition to the \$248.0 million of cash, cash equivalents and short-term investments, we had investments with a fair value of \$25.1 million related to auction rate securities (ARS). These ARS are floating rate securities with longer-term maturities that were marketed by financial institutions with auction reset dates at primarily 28 or 35 day intervals to provide short-term liquidity. The remaining contractual maturities of these securities range from 10 to 29 years. The underlying collateral of the ARS consist of municipal bonds, which are insured by monoline insurance companies, and student loans, which are supported by the federal government as part of the Federal Family Education Loan Program (FFELP) and by the monoline insurance companies.

Beginning in February 2008, auctions for these securities began to fail, and the interest rates for these ARS reset to the maximum rate per the applicable investment offering document. As of February 28, 2014, our ARS investments totaled \$28.8 million at par value. These ARS are classified as available-for-sale securities.

For each of our ARS for which the issuer is not in default, we evaluated the risks related to the structure, collateral and liquidity of the investment, and forecasted the probability of issuer default, auction failure and a successful auction at par or a redemption at par for each future auction period. The weighted average cash flow for each period was then discounted back to present value for each security. Based on these methodologies, we determined that the fair value of our ARS investments is \$25.1 million at February 28, 2014. The temporary impairment recorded in accumulated other comprehensive loss to reduce the value of our available-for-sale ARS investments was \$3.6 million. We will not be able to access the funds associated with our ARS investments until future auctions for these ARS are successful, we sell the securities in a secondary market, or they are redeemed by the issuer. As such, these remaining investments currently lack short-term liquidity and are therefore classified as long-term investments on the condensed consolidated balance sheet at February 28, 2014.

During the fourth quarter of fiscal year 2013, the exit bankruptcy plan for an issuer of one of our ARS, which was in default and on whose behalf the underlying bond insurer was making interest payments, was approved by a federal bankruptcy judge in federal court. The exit bankruptcy plan included a settlement provision with the holders of the ARS, which were given the option to receive 80% of the par value of their holdings, but renounce their claim with the bond issuer, or receive 65% of the par value of their holdings and retain their insurance rights. We accepted the 80% settlement offer and as a result we adjusted the fair value of this ARS to the amount of the settlement as of November 30, 2013. The previously recorded unrealized loss associated with this ARS has been recorded as a realized loss in fiscal year 2013 due to the settlement, which we received in December 2013. As this investment no longer lacked short-term liquidity, it was classified as a short-term investment on our consolidated balance sheet at November 30, 2013. We received the settlement in December 2013 and the related ARS is no longer held and, accordingly, is not included in our ARS investments as of February 28, 2014.

Based on our cash, cash equivalents and short-term investments balance of \$248.0 million, expected operating cash flows and the availability of funds under our revolving credit facility, we do not anticipate the lack of liquidity associated with our ARS to adversely affect our ability to conduct business and believe we have the ability to hold the affected securities throughout the currently estimated recovery period. Therefore, the impairment on these securities is considered only temporary in nature. If the credit rating of either the security issuer or the third-party insurer underlying the investments deteriorates significantly, we may be required to adjust the carrying value of the ARS through an impairment charge.

### Cash Flows from Operating Activities

Three Months Ended

(In thousands)



	February 28, 2014	February 28, 2013
Net income	\$11,100	\$31,118
Non-cash reconciling items included in net income	7,528	(29,726 )
Changes in operating assets and liabilities	6,796	(26,451 )
Net cash flows from (used in) operating activities	\$25,424	\$(25,059 )

The increase in cash generated from operations in the first three months of fiscal year 2014 as compared to the first three months of fiscal year 2013 was primarily due to \$41.7 million in payments made in the first quarter of fiscal year 2013 for income taxes related to the divestitures of the product lines discussed in Note 6, as well as an additional \$4.2 million in payments related to the restructuring activities discussed in Note 12 in the first quarter of fiscal year 2013 as compared to the

Table of Contents

first quarter of fiscal year 2014. Total net tax payments made in the first three months of fiscal year 2014 were \$2.6 million, compared to \$47.3 million in the first three months of fiscal year 2013.

Our gross accounts receivable as of February 28, 2014 decreased by \$8.2 million from the end of fiscal year 2013, which is primarily due to the decrease in license revenue during the first quarter of fiscal year 2014 compared to the prior quarter. Days sales outstanding (DSO) in accounts receivable was 71 days, up from 66 days at the end of fiscal year 2013. The increase in DSO was due to the timing of billings during the first quarter of fiscal year 2014 compared to the prior quarter. We target a DSO range of 60 to 75 days.

## Cash Flows from Investing Activities

(In thousands)	Three Months Ended	
	February 28, 2014	February 28, 2013
Net investment activity	\$3,700	\$10,885
Purchases of property and equipment	(5,697)	(898)
Capitalized software development costs	(821)	—
Proceeds from divestitures, net	3,300	73,381
Other investing activities	(108)	(53)
Net cash flows from investing activities	\$374	\$83,315

Net cash inflows and outflows of our net investment activity are generally a result of the timing of our purchases and maturities of securities which are classified as cash equivalents or short-term securities. In addition, we purchased \$5.7 million of property and equipment in the first three months of fiscal year 2014, including a \$4.5 million investment in licensed software for use in our Pacific mobility platform, as compared to \$0.9 million in the first three months of fiscal year 2013. We also received \$3.3 million in the first quarter of fiscal year 2014 from an escrow release related to the divestitures discussed in Note 6, as compared to \$73.4 million of proceeds related to the sale of divested product lines in the first quarter of fiscal year 2013, which was the primary reason for the decrease in net cash inflows from investing activities period over period.

## Cash Flows from Financing Activities

(In thousands)	Three Months Ended	
	February 28, 2014	February 28, 2013
Proceeds from stock-based compensation plans	\$3,890	\$29,233
Repurchases of common stock	(9,789)	(109,302)
Other financing activities	147	77
Net cash flows used in financing activities	\$(5,752)	\$(79,992)

We received \$3.9 million in the first three months of fiscal year 2014 from the exercise of stock options and the issuance of shares under our employee stock purchase plan as compared to \$29.2 million in the first three months of fiscal year 2013. In addition, in the first three months of fiscal year 2014, we repurchased \$9.8 million of our common stock under our share repurchase plan compared to \$109.3 million in the same period of the prior year.

## 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.

Table of Contents

## Liquidity Outlook

We believe that existing cash balances, together with funds generated from operations and amounts available under the Credit Agreement, 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 we have deemed permanently reinvested. Our foreseeable cash needs include our planned capital expenditures and share repurchases, lease commitments, restructuring obligations and other long-term obligations.

## Revenue Backlog

(In thousands)	February 28, 2014	February 28, 2013
Deferred revenue, primarily related to unexpired maintenance and support contracts <sup>(1)</sup>	\$ 107,227	\$ 118,734
Multi-year licensing arrangements <sup>(2)</sup>	10,706	18,933
Open software license orders received but not shipped <sup>(2)</sup>	—	4,015
Total revenue backlog	\$ 117,933	\$ 141,682

<sup>(1)</sup> Deferred revenue as of February 28, 2013 included the deferred revenue of the Apama product line, which we sold in the third quarter of fiscal year 2013, and \$1.9 million of contractual maintenance which had not been invoiced or included on our balance sheet. The contractual maintenance which has not been invoiced relates to a customer who changed its invoicing schedule.

<sup>(2)</sup> 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.

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. We had in the past and may have in the future open software license orders which have not shipped or have otherwise not met all the required criteria for revenue recognition. Beginning in the second quarter of 2013, we changed our processes such that the amount of open software license orders received but not shipped at the end of the quarter was reduced to \$0 at the end of the second, third, and fourth quarters of fiscal year 2013 and the first quarter of fiscal year 2014. We expect this will continue in future periods and we generally do not believe that the amount, if any, of such software license orders at the end of a particular reporting period is a reliable indicator of future performance. 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 10 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended November 30, 2013. We have no “off-balance sheet arrangements” within the meaning of Item 303(a)(4) of Regulation S-K.

#### Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 clarifies guidance and eliminates diversity in practice on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance is effective on a prospective basis for fiscal years and interim reporting periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 is not expected to have a material impact on our financial position, results of operations or cash flows.

Table of Contents

In March 2013, the FASB issued Accounting Standards Update No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05). ASU 2013-05 provides guidance on releasing cumulative translation adjustments when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or a business within a foreign entity. ASU 2013-05 is effective on a prospective basis for fiscal years and interim reporting periods within those years, beginning after December 15, 2013. Early adoption is permitted. The adoption of ASU 2013-05 is not expected to have a material impact on our financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the first quarter of fiscal year 2014, 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, 2013 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 February 28, 2014 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 February 28, 2014 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. In addition to the information provided in this report, please refer to Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended November 30, 2013 for a more complete discussion regarding certain factors that could materially affect our business, financial condition or future results.

## 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 first quarter of fiscal year 2014 is as follows (in thousands, except per 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> <sup>(2)</sup>
December 2013	—	\$ —	—	\$2,145
January 2014	210	23.96	210	94,973
February 2014	199	23.85	199	90,211
Total	409	\$23.91	409	\$90,211

(1) In April 2012, our Board of Directors authorized the repurchase of \$350.0 million of our common stock through fiscal year 2013, and in October 2012, under the authorization, we announced the adoption of a Rule 10b5-1 plan to repurchase up to \$250.0 million of our common stock through June 30, 2013, or earlier. We completed the plan in May 2013, having repurchased 11.7 million shares for \$250.0 million. In July 2013, our Board of Directors increased the authorization to \$360.0 million, and we launched a new Rule 10b5-1 plan to repurchase up to \$100.0 million of our common stock through December 31, 2013, or earlier. We completed this plan in October 2013, having repurchased 4.0 million shares for \$100.0 million. Through November 30, 2013, we have repurchased a total of 16.1 million shares for \$357.9 million under the \$360.0 million authorization.

(2) In January 2014, our Board of Directors authorized a new \$100.0 million share repurchase program. Under this authorization, we have repurchased 0.4 million shares for \$9.8 million during the first quarter of fiscal year 2014.





Table of Contents

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 – Philip M. Pead
31.2*	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Chris E. Perkins
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 months ended February 28, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of February 28, 2014 and November 30, 2013; (ii) Condensed Consolidated Statements of Income for the three months ended February 28, 2014 and February 28, 2013; (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended February 28, 2014 and February 28, 2013; (iv) Condensed Consolidated Statements of Cash Flows for the three months ended February 28, 2014 and February 28, 2013; and (v) Notes to Condensed Consolidated Financial Statements.

\* Filed herewith

\*\* Furnished herewith

\*\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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: April 9, 2014

/s/ PHILIP M. PEAD  
Philip M. Pead  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: April 9, 2014

/s/ CHRIS E. PERKINS  
Chris E. Perkins  
Senior Vice President, Finance and Administration and  
Chief Financial Officer  
(Principal Financial Officer)

Dated: April 9, 2014

/s/ PAUL A. JALBERT  
Paul A. Jalbert  
Vice President, Corporate Controller and Chief  
Accounting Officer  
(Principal Accounting Officer)