PROGRESS SOFTWARE CORP /MA
Form 10-Q
October 09, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended August 31, 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	04-2746201
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14 Oak Park
Bedford, Massachusetts 01730
(Address of principal executive offices)(Zip code)
Telephone Number: (781) 280-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý 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	ý	Accelerated filer	¨
Non-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 ý

As of September 29, 2014, there were 50,185,982 shares of the registrant’s common stock, $.01 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets

(In thousands, except share data)	August 31, 2014	November 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	$242,380	$198,818
Short-term investments	18,912	32,622
Total cash, cash equivalents and short-term investments	261,292	231,440
Accounts receivable (less allowances of $2,622 and $3,153, respectively)	57,840	66,784
Other current assets	21,505	30,716
Deferred tax assets	12,045	8,871
Total current assets	352,682	337,811
Property and equipment, net	59,176	57,030
Intangible assets, net	15,139	9,950
Goodwill	230,677	224,286
Deferred tax assets	16,172	20,386
Investments in auction rate securities	—	24,761
Other assets	2,798	7,963
Total assets	$676,644	$682,187
Liabilities and shareholders’ equity		
Current liabilities:		
Accounts payable	$7,076	$9,560
Accrued compensation and related taxes	18,539	26,697
Income taxes payable	4,841	2,584
Other accrued liabilities	24,634	29,345
Short-term deferred revenue	93,086	96,393
Total current liabilities	148,176	164,579
Long-term deferred revenue	2,193	1,144
Deferred tax liabilities	353	340
Other noncurrent liabilities	1,645	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, 50,126,351 shares in 2014 and 51,512,595 shares in 2013	200,681	205,307
Retained earnings	332,729	320,006
Accumulated other comprehensive loss	(9,133)	(11,659)
Total shareholders’ equity	524,277	513,654
Total liabilities and shareholders’ equity	$676,644	$682,187

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013
Revenue:				
Software licenses	$26,393	$25,666	$76,645	$84,920
Maintenance and services	52,881	51,912	157,994	158,096
Total revenue	79,274	77,578	234,639	243,016
Costs of revenue:				
Cost of software licenses	1,805	1,587	4,951	5,033
Cost of maintenance and services	5,222	6,403	16,276	21,043
Amortization of acquired intangibles	834	529	1,893	811
Total costs of revenue	7,861	8,519	23,120	26,887
Gross profit	71,413	69,059	211,519	216,129
Operating expenses:				
Sales and marketing	22,477	24,554	71,425	79,086
Product development	14,975	14,615	45,568	42,908
General and administrative	12,162	13,660	35,236	42,390
Amortization of acquired intangibles	116	211	428	549
Restructuring expenses	1,680	5,401	2,001	9,127
Acquisition-related expenses	572	957	3,148	2,229
Total operating expenses	51,982	59,398	157,806	176,289
Income from operations	19,431	9,661	53,713	39,840
Other income (expense):				
Interest income and other	(1,922)	371	(813)	1,146
Foreign currency loss, net	(535)	(194)	(1,768)	(1,809)
Total other income (expense), net	(2,457)	177	(2,581)	(663)
Income from continuing operations before income taxes	16,974	9,838	51,132	39,177
Provision for income taxes	5,879	2,634	16,138	14,018
Income from continuing operations	11,095	7,204	34,994	25,159
Income from discontinued operations, net	—	17,639	—	34,712
Net income	$11,095	$24,843	$34,994	$59,871
Earnings per share:				
Basic:				
Continuing operations	$0.22	$0.13	$0.69	$0.45
Discontinued operations	—	0.33	—	0.63
Net income per share	$0.22	$0.46	$0.69	$1.08
Diluted:				
Continuing operations	$0.22	$0.13	$0.68	$0.45
Discontinued operations	—	0.32	—	0.62
Net income per share	$0.22	$0.46	$0.68	$1.06
Weighted average shares outstanding:				
Basic	50,383	53,532	50,975	55,451
Diluted	50,931	54,389	51,590	56,292

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013
Net income	$11,095	$ 24,843	$34,994	$ 59,871
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(1,044)	(1,548)	93	(4,010)
Unrealized gains on investments, net of tax of $408 and $567 for the third quarter and first nine months of 2014, and $6 and $57 for the third quarter and first nine months of 2013, respectively	709	11	816	98
Reclassification adjustment for losses included in net income, net of tax of $937 for the third quarter and first nine months of 2014	1,617	—	1,617	—
Total other comprehensive income (loss), net of tax	1,282	(1,537)	2,526	(3,912)
Comprehensive income	$12,377	$ 23,306	$37,520	$ 55,959

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013
Cash flows from operating activities:		
Net income	$34,994	$59,871
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	7,337	8,402
Amortization of acquired intangibles and other	3,648	2,972
Stock-based compensation	18,194	16,360
Loss on disposal of property	47	—
Gain on dispositions	—	(70,991)
Asset impairment	—	111
Loss on sales of auction rate securities	2,554	—
Deferred income taxes	(390)	1,647
Excess tax benefit from stock plans	(434)	(1,188)
Allowances for accounts receivable	455	(123)
Changes in operating assets and liabilities:		
Accounts receivable	8,325	19,967
Other assets	10,535	(5,690)
Accounts payable and accrued liabilities	(17,049)	(17,416)
Income taxes payable and uncertain tax positions	2,123	(22,762)
Deferred revenue	(1,870)	(4,439)
Net cash flows from (used in) operating activities	68,469	(13,279)
Cash flows from investing activities:		
Purchases of investments	(1,900)	—
Sales and maturities of investments	14,935	25,685
Redemptions and sales of auction rate securities	26,196	25
Purchases of property and equipment	(7,183)	(2,989)
Capitalized software development costs	(3,008)	—
Payments for acquisitions, net of cash acquired	(12,493)	(9,450)
Proceeds from divestitures, net	3,300	111,120
Increase in other noncurrent assets	144	835
Net cash flows from investing activities	19,991	125,226
Cash flows from financing activities:		
Proceeds from stock-based compensation plans	10,714	49,109
Purchases of common stock related to withholding taxes from the issuance of restricted stock units	(3,141)	(2,823)
Repurchases of common stock	(52,604)	(241,184)
Excess tax benefit from stock plans	434	1,188
Payment of contingent consideration	(210)	—
Net cash flows used in financing activities	(44,807)	(193,710)
Effect of exchange rate changes on cash	(91)	(4,687)
Net increase (decrease) in cash and cash equivalents	43,562	(86,450)
Cash and cash equivalents, beginning of period	198,818	301,792
Cash and cash equivalents, end of period	$242,380	$215,342

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Condensed Consolidated Statements of Cash Flows, continued

	Nine Months Ended	
	August 31, 2014	August 31, 2013
Supplemental disclosure:		
Cash paid for income taxes, net of refunds of $296 in 2014 and $4,324 in 2013	$6,300	$66,596
Non-cash financing activities:		
Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested	$10,525	$9,890
Unsettled repurchases of common stock	$—	$3,301

See notes to unaudited condensed consolidated financial statements.

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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 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 began to 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 June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASU 2014-12). ASU 2014-12 brings consistency to the accounting for share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. This guidance is effective for all entities for reporting periods (including interim periods) beginning after December 15, 2015. Early adoption is permitted. In addition, all entities will have the option of applying the guidance either prospectively (i.e., only to awards granted or modified on or after the effective date of the ASU) or retrospectively. We are currently evaluating the effect that implementation of this update will have on our consolidated financial position and results of operations upon adoption.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016; early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. This update could impact the timing and amounts of revenue recognized. We are currently evaluating the effect that implementation of this update will have on our consolidated financial position and results of operations upon adoption.

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In July 2013, the 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.

Note 2: Cash, Cash Equivalents and Investments

A summary of our cash, cash equivalents and available-for-sale investments at August 31, 2014 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$173,237	$—	$—	$173,237
Money market funds	69,143	—	—	69,143
State and municipal bond obligations	18,800	112	—	18,912
Total	$261,180	$112	$—	$261,292

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):

	August 31, 2014			November 30, 2013		
	Cash and Equivalents	Short-Term Investments	Long-Term Investments	Cash and Equivalents	Short-Term Investments	Long-Term Investments
Cash	$173,237	$—	$—	$144,305	$—	$—
Money market funds	69,143	—	—	54,513	—	—
	—	18,912	—	—	31,102	—

State and municipal bond obligations						
Auction rate securities – municipal bonds	—	—	—	—	1,520	21,933
Auction rate securities – student loans	—	—	—	—	—	2,828
Total	$242,380	$18,912	$—	$198,818	$32,622	$24,761

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During the third quarter of fiscal year 2014, we received favorable offers to purchase our auction rate securities (ARS). As a result of the favorable offers we received, we sold all of our remaining ARS for $26.2 million and received the proceeds during the quarter. The previously recorded unrealized losses associated with our ARS have been adjusted based on the sale prices and recorded as a realized loss of $2.6 million during the three months ended August 31, 2014 within interest income and other in the condensed consolidated statement of operations.

During prior periods in which we held ARS, 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 was $24.8 million at November 30, 2013. The temporary impairment recorded in accumulated other comprehensive loss to reduce the value of our available-for-sale ARS investments was $4.0 million at November 30, 2013. As we determined that these investments lacked short-term liquidity as of November 30, 2013, they are classified as long-term investments on the condensed consolidated balance sheets at 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 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.

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

	August 31, 2014	November 30, 2013
Due in one year or less [(1)]	$11,664	$42,198
Due after one year [(2)]	7,248	15,185
Total	$18,912	$57,383

(1) Amounts as of November 30, 2013 include ARS which are tendered for interest-rate setting purposes periodically throughout the year.

(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.

We did not hold any investments with continuous unrealized losses as of August 31, 2014. Investments with continuous unrealized losses and their related fair values at November 30, 2013 are as follows (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 – student loans	—	—	2,828	(672)	2,828	(672)

Total	$—	$—	$24,761	$(3,989)	$24,761	$(3,989)

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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 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 and nine months ended August 31, 2014, realized and unrealized losses of $0.4 million and $1.5 million, respectively, from our forward contracts were recognized in foreign currency loss, net in the condensed consolidated statements of income. In the three and nine months ended August 31, 2013, realized and unrealized gains of $1.3 million, and $0.8 million, respectively, from our forward contracts were recognized in foreign currency loss, net 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):

	August 31, 2014		November 30, 2013	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	$25,458	$35	$26,016	$79
Forward contracts to purchase U.S. dollars	10,096	(266)	22,483	92
Total	$35,554	$(231)	$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 August 31, 2014 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	Level 1	Level 2	Level 3
Assets				
Money market funds	$69,143	$69,143	$—	$—
State and municipal bond obligations	18,912	—	18,912	—
Foreign exchange derivatives	(231)	—	(231)	—
Liabilities				
Contingent consideration	$(1,651)	$—	$—	$(1,651)

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):

		Fair Value Measurements Using		
	Total Fair Value	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

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

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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 as of November 30, 2013, which consisted of ARS, was primarily an income approach, where the expected weighted average future cash flows were discounted back to present value for each asset. The significant unobservable inputs used in the fair value measurement of ARS were 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 were such that a change in the assumptions used for the probability of principal return prior to maturity was 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 was somewhat independent and based upon the ARS' specific underlying assets and published recovery rate studies.

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		Nine Months Ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Balance, beginning of period	$25,056	$26,500	$24,761	$26,321
Redemptions and sales	(26,196)	—	(26,196)	(25)
Realized losses included in earnings	(2,554)	—	(2,554)	—
Unrealized gains included in accumulated other comprehensive loss	3,694	73	3,989	277
Balance, end of period	$—	$26,573	$—	$26,573

We have also classified contingent consideration related to the Rollbase, Inc. (Rollbase) and Modulus LLC (Modulus) acquisitions, which occurred in the second quarter of fiscal years 2013 and 2014, respectively, within Level 3 of the fair value hierarchy because the fair values are 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 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 August 31, 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%. The key assumptions as of August 31, 2014 related to the contingent consideration for the acquisition of Modulus used in the model are probabilities in excess of 75% that the milestones associated with the contingent consideration will be achieved and a discount rate of 33.0%. A decrease in the probabilities of achievement could result in a decrease to the estimated fair value of the contingent consideration liabilities. There were no changes to these assumptions during the third quarter of fiscal year 2014.

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

	Three Months Ended		Nine Months Ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Balance, beginning of period	$1,649	$379	$388	$—
Incurrence of contingent purchase price liability	—	—	1,450	379
Payments of contingent consideration	—	—	(210)	—
Changes in fair value included in operating expenses	2	4	23	4
Balance, end of period	$1,651	$383	$1,651	$383

We did not have any nonrecurring fair value measurements as of August 31, 2014 and November 30, 2013.

Note 5: Intangible Assets and Goodwill

Intangible Assets

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

	August 31, 2014			November 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	$51,979	$(38,468)	$13,511	$44,793	$(36,712)	$8,081
Customer-related and other	19,724	(18,096)	1,628	19,543	(17,674)	1,869
Total	$71,703	$(56,564)	$15,139	$64,336	$(54,386)	$9,950

As a result of the Modulus acquisition in May 2014 (Note 7), we recorded $7.3 million of purchased technology and $0.2 million of the trade name as intangible assets during the nine months ended August 31, 2014. These intangibles have a weighted average useful life of 7 years.

In the three and nine months ended August 31, 2014, amortization expense related to intangible assets was $1.0 million and $2.3 million, respectively. In the three and nine months ended August 31, 2013, amortization expense related to intangible assets was $0.7 million and $1.4 million, respectively.

Future amortization expense for intangible assets as of August 31, 2014, is as follows (in thousands):

Remainder of 2014	$898
2015	3,482
2016	2,979
2017	2,979
2018	2,162
Thereafter	2,639
Total	$15,139

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Goodwill

Changes in the carrying amount of goodwill in the nine months ended August 31, 2014, are as follows (in thousands):

Balance, November 30, 2013	$224,286
Additions	6,433
Translation adjustments	(42)
Balance, August 31, 2014	$230,677

The addition to goodwill during fiscal year 2014 is related to the acquisition of Modulus in May 2014.

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. As of August 31, 2014, 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 divestitures were part of our strategic plan announced during fiscal year 2012. The Apama product line was divested in the third quarter of fiscal year 2013.

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		Nine Months Ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Revenue	$—	$537	$—	$16,143
Loss before income taxes	—	(6,221)	—	(9,338)
Income tax benefit	—	(1,790)	—	(2,223)
Gain on sale, net of tax	—	22,070	—	41,827
Income from discontinued operations, net	$—	$17,639	$—	$34,712

Note 7: Business Combinations

Modulus Acquisition

On May 13, 2014, we acquired 100% of the membership interests in Modulus LLC (Modulus), a privately held platform-as-a-service (PaaS) provider based in Cincinnati, Ohio, for $15.0 million. The purchase consideration consisted of $12.5 million in cash paid and $2.5 million of contingent consideration, expected to be paid out over a two year period, if earned. The fair value of the contingent consideration was estimated to be $1.5 million at the date of acquisition; as such, the fair value of the purchase consideration allocated to the assets acquired totaled $14.0 million. Modulus provides a PaaS for easily hosting, deploying, scaling and monitoring data-intensive, real-time applications using powerful, rapidly growing Node.js and MongoDB technologies. The purpose of the acquisition is to capitalize on the expected market growth of the core technologies that Modulus supports and drive new revenue through the Pacific platform. The acquisition was accounted for as a business combination, and accordingly, the results of operations of Modulus are included in our operating results from the date of acquisition. We paid the purchase price in cash from available funds.

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

	Total	Life
Net working capital	$7	
Acquired intangible assets	7,320	7 Years
Trade name	190	7 Years
Goodwill	6,433	
Net assets acquired	$13,950	

The purchase consideration includes contingent earn-out provisions payable by the Company based on the achievement of certain milestones. We determined the fair value of the contingent consideration obligations by calculating the probability-weighted earn-out payments based on the assessment of the likelihood that the milestones will be achieved. The probability-weighted earn-out payments were then discounted using a discount rate based on an internal rate of return analysis using the probability-weighted cash flows. During the quarter ended August 31, 2014, the change in the fair value of the contingent consideration payable was immaterial.

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 $6.4 million of goodwill. The goodwill is deductible for tax purposes; as such, our basis in the tax goodwill and other acquired intangible assets will be amortized over a 15 year period. The allocation of the purchase price was completed in the third quarter of fiscal year 2014 upon the finalization of our valuation of identifiable intangible assets.

We incurred approximately $0.2 million of acquisition-related costs, which are included in acquisition-related expenses in our consolidated statement of operations for the nine months ended August 31, 2014. We have not disclosed the amount of revenues and earnings of Modulus since acquisition, nor pro forma financial information, as those amounts are not significant to our condensed consolidated financial statements.

Rollbase Acquisition

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, if earned. 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 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 concluded that the earn-out provisions for the individuals now employed by the Company, which total approximately $5.3 million, are compensation arrangements and we have been accruing the maximum payouts ratably over the two year performance period, as we believe it is probable that the criteria will be met. During the second quarter of fiscal year 2014, we paid the former Rollbase owners the contingent consideration related to milestones reached as of the one year anniversary of the acquisition closing date. We have incurred $0.3 million and $2.5 million of

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expense related to the contingent earn-out provisions for the three and nine months ended August 31, 2014, respectively. 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.

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 August 31, 2014, there were no amounts outstanding under the revolving line and $0.7 million of letters of credit.

Note 9: Common Stock Repurchases

We repurchased and retired 2.3 million shares of our common stock for $52.6 million in the nine months ended August 31, 2014. The shares were repurchased as part of our Board of Directors authorized $100.0 million share repurchase program. In the nine months ended August 31, 2013, we repurchased 10.3 million shares of our common stock for $237.4 million as part of our Board of Directors previously authorized $360.0 million share repurchase program.

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 related to options and restricted stock units 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. We recognize stock-based compensation expense related to performance stock units and our employee stock purchase plan using an accelerated attribution method.

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

	Three Months Ended		Nine Months Ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013

Cost of maintenance and services	$141	$133	$439	$500
Sales and marketing	1,546	748	3,736	2,668
Product development	1,407	999	4,186	3,687
General and administrative	3,846	2,720	9,833	7,215
Stock-based compensation from continuing operations	6,940	4,600	18,194	14,070
Income from discontinued operations	—	973	—	2,290
Total stock-based compensation	$6,940	$5,573	$18,194	$16,360

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Note 11: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated balances of other comprehensive loss during the nine months ended August 31, 2014 (in thousands):

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Loss
Balance, December 1, 2013	$(9,249)	$(2,410)	$(11,659)
Other comprehensive income before reclassifications, net of tax	93	816	909
Amounts reclassified from accumulated other comprehensive loss to realized losses included in earnings, net of tax	—	1,617	1,617
Balance, August 31, 2014	$(9,156)	$23	$(9,133)

The tax effect on accumulated unrealized gains (losses) on investments was minimal as of August 31, 2014 and $1.4 million as of November 30, 2013.

Note 12: Restructuring Charges

2014 Restructuring

During the third quarter of fiscal year 2014, our management approved, committed to and initiated plans to make strategic changes to our organization to provide greater focus and agility in the delivery of next generation application development, deployment and integration solutions. Effective September 1, 2014, we began to operate as three distinct business units: OpenEdge, Application Development and Deployment, and Data Connectivity and Integration, each with dedicated sales, product management and product marketing functions. In connection with the new organizational structure, we no longer have a global head of sales, as well as certain other positions within the sales and administrative organizations. The organizational changes will not result in the closing of any of our facilities.

As part of the 2014 restructuring, for the three and nine months ended August 31, 2014, we incurred expenses of $1.5 million, which are related to employee costs, including severance, health benefits, and outplacement services, but excluding stock-based compensation. 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 2014 restructuring.

Cash disbursements for expenses incurred to date under the 2014 restructuring are expected to be made during the fourth quarter of fiscal year 2014. As a result, the $1.5 million is included in other accrued liabilities on the condensed consolidated balance sheet at August 31, 2014.

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 related 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 and nine months ended August 31, 2014, we incurred minimal expenses. 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.

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A summary of activity for the 2013 restructuring action and the accrual balance 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	250	67	317
Cash disbursements	(507)	(1,146)	(1,653)
Translation adjustments and other	(2)	2	—
Balance, August 31, 2014	$310	$—	$310

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 $0.2 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 August 31, 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 and nine months ended August 31, 2014, we incurred minimal expenses. 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 2012 restructuring.

A summary of activity for the 2012 restructuring action and the accrual balance 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	219	(21)	198
Cash disbursements	(480)	(272)	(752)
Translation adjustments and other	(11)	2	(9)
Balance, August 31, 2014	$343	$—	$343

Cash disbursements under the 2012 restructuring are expected to be made through fiscal year 2016. The short-term portion of the restructuring reserve of $0.3 million is included in other accrued liabilities and the long-term portion, which is minimal, is included in other noncurrent liabilities on the condensed consolidated balance sheet at August 31, 2014.

Note 13: Income Taxes

Our income tax provision for the nine months ended August 31, 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.

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.

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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		Nine Months Ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Income from continuing operations	$11,095	$7,204	$34,994	$25,159
Weighted average shares outstanding	50,383	53,532	50,975	55,451
Dilutive impact from common stock equivalents	548	857	615	841
Diluted weighted average shares outstanding	50,931	54,389	51,590	56,292
Basic earnings per share from continuing operations	$0.22	$0.13	$0.69	$0.45
Diluted earnings per share from continuing operations	$0.22	$0.13	$0.68	$0.45

We excluded stock awards representing approximately 351,000 shares and 383,000 shares of common stock from the calculation of diluted earnings per share in the three and nine months ended August 31, 2014, respectively, because these awards were anti-dilutive. In the three and nine months ended August 31, 2013, we excluded stock awards representing 455,000 shares and 875,000 shares of common stock, respectively, from the calculation of diluted earnings per share.

Note 15: Subsequent Events

Effective September 1, 2014, we began operating as three distinct business units: OpenEdge, Application Development and Deployment, and Data Connectivity and Integration, each with dedicated sales, product management and product marketing functions. As a result of these changes, we expect to adopt segment reporting for our three business units beginning in the fourth fiscal quarter of 2014.

On October 1, 2014, we acquired 100% of the capital stock of BravePoint, Inc. (BravePoint) from Chesapeake Utilities Corporation in exchange for an aggregate sum of $12.0 million in cash. BravePoint is based in Norcross, Georgia and is a leading provider of consulting, training and application development services designed to increase customers' profitability and competitiveness through the use of technology. As a result of the timing of the close of the transaction, the initial accounting for the business combination was incomplete through the date our condensed consolidated financial statements were issued. In connection with the acquisition, we expect any resulting goodwill to be deductible for tax purposes. Results of operations for BravePoint will be included in our consolidated financial statements as part of the OpenEdge business unit from the date of acquisition.

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: market acceptance of Progress’s strategy and product development initiatives; pricing pressures and the competitive environment in the software industry and Platform-as-a-Service market; Progress's ability to successfully manage transitions to new business models and markets, including an increased emphasis on a cloud and subscription strategy; Progress's ability to make acquisitions and to realize the expected benefits and anticipated synergies from such acquisitions; the continuing uncertainty in the U.S. and international economies, which could result in fewer sales of Progress's products and may otherwise harm Progress's business; business and consumer use of the Internet and the continuing adoption of Cloud technologies; the receipt and shipment of new orders; Progress's ability to expand its relationships with channel partners and to manage the interaction of channel partners with its direct sales

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force; the timely release of enhancements to Progress's products and customer acceptance of new products; the positioning of Progress's products in its existing and new markets; variations in the demand for professional services and technical support; Progress's ability to penetrate international markets and manage its international operations; changes in exchange rates; 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).

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.

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 divestitures were part of our strategic plan announced during fiscal year 2012. The aggregate purchase price for these product lines, excluding Apama, 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. 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. (Rollbase), a provider of application development software technology that allows the rapid design, development and deployment of on-demand business applications. In addition, 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.

In fiscal year 2014, we have continued to invest in our existing product lines and also announced the release of Easyl, our latest product offering included in our Pacific platform, which is a data analysis tool that dramatically simplifies the process of accessing, blending, and reporting on organizational data. We also acquired Modulus LLC (Modulus), a PaaS provider offering a platform for easily hosting, deploying, scaling and monitoring data-intensive, real-time applications using powerful, rapidly growing Node.js and MongoDB technologies. We plan to capitalize on the expected market growth of the core technologies that Modulus supports and drive new revenue through the Pacific platform.

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.

Effective September 1, 2014, we will operate as three distinct business units: OpenEdge, Application Development and Deployment, and Data Connectivity and Integration, each with dedicated sales, product management and product marketing functions. These changes are designed to enable the business to better deliver against the fast paced requirements in the on-premise and cloud application development and data connectivity and integration markets. As a result of these changes, we expect to adopt segment reporting for our three business units beginning in the fourth fiscal quarter of 2014.

In January 2014, our Board of Directors authorized a new $100.0 million share repurchase program. Under this authorization, we have repurchased 2.3 million shares for $52.6 million during the first nine months 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 have evaluated, and expect to continue to evaluate, possible acquisitions and other strategic transactions designed to expand our business and/or add complementary products and technologies to our existing product sets. As a result, our expected uses of cash could change, our cash position could be reduced and we may incur additional debt obligations to the extent we complete additional acquisitions.

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.

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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 (due to rounding, totals may not equal the sum of the line items in the table below):

	Percentage of Total Revenue				Percentage Change	
	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013		
Revenue:						
Software licenses	33 %	33 %	33 %	35 %	3 %	(10)%
Maintenance and services	67	67	67	65	2	—
Total revenue	100	100	100	100	2	(3)
Costs of revenue:						
Cost of software licenses	2	2	2	2	14	(2)
Cost of maintenance and services	7	8	7	9	(18)	(23)
Amortization of acquired intangibles	1	1	1	—	58	133
Total costs of revenue	10	11	10	11	(8)	(14)
Gross profit	90	89	90	89	3	(2)
Operating expenses:						
Sales and marketing	28	32	30	33	(8)	(10)
Product development	19	19	19	18	2	6
General and administrative	15	18	15	17	(11)	(17)
Amortization of acquired intangibles	—	—	—	—	(45)	(22)
Restructuring expenses	2	7	1	4	(69)	(78)
Acquisition-related expenses	1	1	1	1	(40)	41
Total operating expenses	66	77	67	73	(12)	(10)
Income from operations	24	12	23	16	101	35
Other (expense) income	(3)	—	(1)	—	(1,488)	(289)
Income from continuing operations before income taxes	21	12	22	16	73	31
Provision for income taxes	7	3	7	6	123	15
Income from continuing operations	14	9	15	10	54	39
Income from discontinued operations, net	—	23	—	14	(100)	(100)
Net income	14 %	32 %	15 %	24 %	(55)%	(42)%

Revenue

	Three Months Ended		Percentage Change	
(In thousands)	August 31, 2014	August 31, 2013	As Reported	Constant Currency
Revenue	$79,274	$77,578	2 %	— %

	Nine Months Ended		Percentage Change	
(In thousands)	August 31, 2014	August 31, 2013	As Reported	Constant Currency
Revenue	$234,639	$243,016	(3)%	(4)%

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Total revenue increased $1.7 million, or 2%, in the third quarter of fiscal year 2014 as compared to the same quarter last year. Revenue would have remained flat if exchange rates had been constant in fiscal year 2014 as compared to exchange rates in fiscal year 2013. In addition, total revenue decreased $8.4 million, or 4% on a constant currency basis and 3% using actual exchange rates, in the first nine months of fiscal year 2014 as compared to the same period last year. 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.

License Revenue

(In thousands)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013	Percentage Change As Reported	Percentage Change Constant Currency
License	$26,393	$25,666	3 %	1 %
As a percentage of total revenue	33 %	33 %		

(In thousands)	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013	Percentage Change As Reported	Percentage Change Constant Currency
License	$76,645	$84,920	(10)%	(10)%
As a percentage of total revenue	33 %	35 %		

License revenue increased $0.7 million, or 3%, in the third quarter of fiscal year 2014 as compared to the same quarter last year, and decreased $8.3 million, or 10%, in the first nine months of fiscal year 2014 as compared to the same period last year. The increase in license revenue in the third quarter of fiscal year 2014 as compared to the same quarter last year was primarily in the North America and Latin America regions, mainly as a result of higher revenues related to sales of our OpenEdge products. The decrease in license revenue in the first nine months of fiscal year 2014 as compared to the same period last year was primarily in the North America and EMEA regions, mainly as a result of lower revenues related to our DataDirect product, primarily to direct end users. The decrease in DataDirect sales was primarily due to weakness in our pipeline from earlier in the year.

Maintenance and Services Revenue

(In thousands)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013	Percentage Change As Reported	Percentage Change Constant Currency
Maintenance	$50,746	$49,752	2 %	— %
As a percentage of total revenue	64 %	64 %		
Professional services	2,135	2,160	(1)%	(3)%
As a percentage of total revenue	3 %	3 %		
Total maintenance and services revenue	$52,881	$51,912	2 %	— %
As a percentage of total revenue	67 %	67 %		

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(In thousands)	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013	Percentage Change As Reported	Percentage Change Constant Currency
Maintenance	$151,231	$151,627	— %	(1)%
As a percentage of total revenue	64 %	62 %		
Professional services	6,763	6,469	5 %	1 %
As a percentage of total revenue	3 %	3 %		
Total maintenance and services revenue	$157,994	$158,096	— %	(1)%
As a percentage of total revenue	67 %	65 %		

Maintenance and services revenue increased $1.0 million, or 2%, in the third quarter of fiscal year 2014 as compared to the same quarter last year. Maintenance revenue increased $1.0 million in the third quarter of fiscal year 2014 as compared to the third quarter of fiscal year 2013, while professional services revenue remained flat.

Maintenance and services revenue decreased $0.1 million, or 0%, in the first nine months of fiscal year 2014 as compared to the same period last year. Maintenance revenue remained flat and professional services revenue increased 5% compared to the prior year. Professional services revenue increased in the first nine months of fiscal year 2014 as a result of the timing of professional services engagements.

Revenue by Region

(In thousands)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013	Percentage Change As Reported	Percentage Change Constant Currency
North America	$35,654	$34,596	3 %	3 %
As a percentage of total revenue	45 %	45 %		
EMEA	$32,995	$32,315	2 %	(2)%
As a percentage of total revenue	42 %	42 %		
Latin America	$5,695	$5,496	4 %	3 %
As a percentage of total revenue	7 %	7 %		
Asia Pacific	$4,930	$5,171	(5)%	(6)%
As a percentage of total revenue	6 %	6 %		

(In thousands)	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013	Percentage Change As Reported	Percentage Change Constant Currency
North America	$107,066	$111,446	(4)%	(4)%
As a percentage of total revenue	46 %	46 %		
EMEA	$96,008	$98,344	(2)%	(6)%
As a percentage of total revenue	41 %	40 %		
Latin America	$16,506	$18,844	(12)%	(5)%
As a percentage of total revenue	7 %	8 %		
Asia Pacific	$15,058	$14,382	5 %	11 %
As a percentage of total revenue	6 %	6 %		

Total revenue generated in North America during the third quarter of fiscal year 2014 increased $1.1 million, or 3%, as compared to the same quarter last year, and represented 45% of total revenue in both the third quarter of fiscal years 2014 and 2013. Total revenue generated in markets outside North America increased $0.6 million, an increase of 1% using actual exchange rates, and decreased 2% on a constant currency basis, in the third quarter of fiscal year 2014 as compared to the same quarter last year, and represented 55% of total revenue in both the third quarter of fiscal years 2014 and 2013. If exchange rates had remained constant in the third quarter of fiscal year 2014 as compared to the exchange rates in effect in the third quarter of fiscal year 2013, total revenue generated in markets outside North America would have represented 54% of total revenue.

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Total revenue generated in North America during the first nine months of fiscal year 2014 decreased $4.4 million , or 4% , as compared to the same period last year, and represented 46% of total revenue in the first nine months of both fiscal years 2014 and 2013. Total revenue generated in markets outside North America decreased $4.0 million, or 4% on a constant currency basis and 3% using actual exchange rates, in the first nine months of fiscal year 2014 as compared to the same period last year, and represented 54% of total revenue in both the first nine months of fiscal 2014 and 2013. If exchange rates had remained constant in the first nine months of fiscal year 2014 as compared to the exchange rates in effect in the first nine months of fiscal year 2013, total revenue generated in markets outside North America would have remained at 54% of total revenue.

In the first nine months of fiscal year 2014, Latin America and Asia Pacific were hurt by weaker local currencies.

Cost of Software Licenses

(In thousands)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013	Percentage Change
Cost of software licenses	$1,805	$1,587	14 %	$4,951	$5,033	(2)%
As a percentage of software license revenue	7 %	6 %		6 %	6 %	
As a percentage of total revenue	2 %	2 %		2 %	2 %	

Cost of software licenses consists primarily of costs of royalties, electronic software distribution, duplication and packaging. Cost of software licenses increased $0.2 million, or 14%, in the third quarter of fiscal year 2014 as compared to the same quarter last year, and increased as a percentage of software license revenue from 6% to 7%. Cost of software licenses decreased $0.1 million, or 2%, in the first nine months of fiscal year 2014 as compared to the same period last year, and remained flat as a percentage of software license revenue. 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 August 31, 2014	Three Months Ended August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013	Percentage Change
Cost of maintenance and services	$5,222	$6,403	(18)%	$16,276	$21,043	(23)%
As a percentage of maintenance and services revenue	10 %	12 %		10 %	13 %	
As a percentage of total revenue	7 %	8 %		7 %	9 %	

Cost of maintenance and services consists primarily of costs of providing customer support, consulting, and education. Cost of maintenance and services decreased $1.2 million, or 18%, in the third quarter of fiscal year 2014 as compared to the same quarter last year, and decreased as a percentage of maintenance and services revenue from 12% to 10%. Cost of maintenance and services decreased $4.8 million, or 23%, in the first nine months of fiscal year 2014 as compared to the same period last year, and decreased as a percentage of maintenance and services revenue from 13% 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 within our customer support organization compared to the first nine months of fiscal year 2013.

Amortization of Acquired Intangibles

(In thousands)	Three Months Ended August 31, 2014	August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	August 31, 2013	Percentage Change
Amortization of acquired intangibles	$834	$529	58 %	$1,893	$811	133 %
As a percentage of total revenue	1 %	1 %		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 $0.3

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million, or 58%, in the third quarter of fiscal year 2014 as compared to the same quarter last year, and increased $1.1 million, or 133%, in the first nine months of fiscal year 2014 as compared to the same period last year. The increase was due to amortization of intangible assets acquired with the Rollbase and Modulus acquisitions, which were completed at the end of the second quarter of fiscal year 2013 and 2014, respectively, partially offset by decreases due to the completion of amortization of certain intangible assets acquired in prior years.

Gross Profit

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2014	August 31, 2013	Percentage Change	August 31, 2014	August 31, 2013	Percentage Change
Gross profit	$71,413	$69,059	3 %	$211,519	$216,129	(2)%
As a percentage of total revenue	90 %	89 %		90 %	89 %	

Our gross profit increased $2.4 million, or 3%, in the third quarter of fiscal year 2014 as compared to the same quarter last year, and decreased $4.6 million, or 2%, in the first nine months of fiscal year 2014 as compared to the same period last year. Our gross profit as a percentage of total revenue increased from 89% in the third quarter of fiscal year 2013 to 90% in the third quarter of fiscal year 2014 and was 89% and 90% in the first nine months of 2013 and 2014, respectively. The dollar decrease in our gross profit during the nine month period was 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			Nine Months Ended		
	August 31, 2014	August 31, 2013	Percentage Change	August 31, 2014	August 31, 2013	Percentage Change
Sales and marketing	$22,477	$24,554	(8)%	$71,425	$79,086	(10)%
As a percentage of total revenue	28 %	32 %		30 %	33 %	

Sales and marketing expenses decreased $2.1 million, or 8%, in the third quarter of fiscal year 2014 as compared to the same quarter last year, and decreased as a percentage of total revenue from 32% to 28%. Sales and marketing expenses decreased $7.7 million, or 10%, in the first nine months of fiscal year 2014 as compared to the same period last year, and decreased as a percentage of total revenue from 33% to 30%. The decrease in both periods was primarily due to lower compensation-related and travel costs in the sales function, as well as lower commission expense due to the lower level of license bookings as compared to the same periods in fiscal year 2013. The decrease in costs in these areas was slightly offset by an increase in stock based compensation expense during the third quarter of fiscal year 2014 due to accelerated vesting of restricted stock units in connection with the termination of employment of our SVP of Global Field Operations. Marketing expenses were relatively consistent between the periods.

Product Development

(In thousands)	Three Months Ended			Nine Months Ended		
	August 31, 2014	August 31, 2013	Percentage Change	August 31, 2014	August 31, 2013	Percentage Change
Product development costs	$16,045	$14,615	10 %	$48,576	$42,908	13 %
Capitalized product development costs	(1,070)	—	100 %	(3,008)	—	100 %
Total product development expense	$14,975	$14,615	2 %	$45,568	$42,908	6 %
As a percentage of total revenue	19 %	19 %		19 %	18 %	

Product development expenses increased $0.4 million, or 2%, in the third quarter of fiscal year 2014 as compared to the same quarter last year, and remained flat as a percentage of revenue at 19%. Product development expenses increased $2.7 million, or 6%, in the first nine months of fiscal year 2014 as compared to the same period last year, and increased as a percentage of revenue from 18% to 19%. The increase in both periods was primarily due to higher costs related to our new product strategy, including higher expenses related to building our Progress Pacific platform. The increase was partially offset by the deferral of

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capitalized product development costs related to certain development activities with respect to our cloud and mobile platforms beginning in the fourth quarter of fiscal year 2013.

General and Administrative

(In thousands)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013	Percentage Change
General and administrative	$12,162	$13,660	(11)%	$35,236	$42,390	(17)%
As a percentage of total revenue	15%	18%		15%	17%	

General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses decreased $1.5 million, or 11%, in the third 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 15%. General and administrative expenses decreased $7.2 million, or 17%, in the first nine months of fiscal year 2014 as compared to the same period in the prior year, and decreased as a percentage of revenue from 17% to 15%. The decrease is primarily related to lower compensation-related costs as a result of headcount reduction actions occurring subsequent to the third quarter of fiscal year 2013, as well as lower professional services costs. The decrease in costs in these areas was slightly offset by an increase in stock based compensation expense during the third quarter of fiscal year 2014 due to accelerated vesting of restricted stock units in connection with the termination of employment of our SVP of Human Resources.

Amortization of Acquired Intangibles

(In thousands)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013	Percentage Change
Amortization of acquired intangibles	$116	$211	(45)%	$428	$549	(22)%
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 45% and 22% in the third quarter and first nine months of fiscal year 2014, respectively, as compared to the same periods 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 at the end of the second quarter of fiscal year 2013.

Restructuring Expenses

(In thousands)	Three Months Ended August 31, 2014	Three Months Ended August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013	Percentage Change
Restructuring expenses	$1,680	$5,401	(69)%	$2,001	$9,127	(78)%
As a percentage of total revenue	2%	7%		1%	4%	

Restructuring expenses recorded in the third quarter and first nine months of fiscal year 2014 relate to the restructuring activities occurring in fiscal years 2014, 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.

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Acquisition-Related Expenses

(In thousands)	Three Months Ended August 31, 2014	August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	August 31, 2013	Percentage Change
Acquisition-related expenses	$572	$957	(40)%	$3,148	$2,229	41 %
As a percentage of total revenue	1 %	1 %		1 %	1 %	

Acquisition-related expenses increased in the third quarter and first nine months of fiscal year 2014 compared to the same periods last year due to expenses related to earn-out provisions that were part of the Rollbase acquisition completed in the second quarter of fiscal year 2013, as well as transaction-related costs, primarily professional services fees, associated with the acquisition of Modulus, which was acquired in the second quarter of fiscal year 2014.

Income From Operations

(In thousands)	Three Months Ended August 31, 2014	August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	August 31, 2013	Percentage Change
Income from operations	$19,431	$9,661	101 %	$53,713	$39,840	35 %
As a percentage of total revenue	24 %	12 %		23 %	16 %	

Income from operations increased $9.8 million, or 101%, in the third quarter of fiscal year 2014 as compared to the same quarter last year, and increased $13.9 million, or 35%, in the first nine months of fiscal year 2014 as compared to the first nine months of fiscal year 2013. The increase in the third quarter and first nine months of fiscal year 2014 was primarily the result of the decrease in operating expenses.

Other Income (Expense)

(In thousands)	Three Months Ended August 31, 2014	August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	August 31, 2013	Percentage Change
Interest income and other	$(1,922)	$371	(618)%	$(813)	$1,146	(171)%
Foreign currency loss, net	(535)	(194)	(176)%	(1,768)	(1,809)	(2)%
Total other income (expense), net	$(2,457)	$177	(1,488)%	$(2,581)	$(663)	289 %
As a percentage of total revenue	(3)%	— %		(1)%	(1)%	

Total other income (expense) decreased $2.6 million in the third quarter of fiscal year 2014 as compared to the same quarter last year, and decreased $1.9 million in the first nine months of fiscal year 2014 as compared to the same period last year. The decrease in both periods is primarily related to the realized loss incurred of $2.6 million resulting from the sale of our auction rate securities, which is included in interest income and other for the three and nine months ended August 31, 2014. The change in foreign currency losses is a result of movements in exchange rates and the impact on our intercompany receivables and payables denominated in currencies other than local currencies.

Provision for Income Taxes

(In thousands)	Three Months Ended August 31, 2014	August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	August 31, 2013	Percentage Change

Provision for income taxes	$5,879	$2,634	123 %	$16,138	$14,018	15 %
As a percentage of total revenue	7 %	3 %		7 %	6 %	

Our effective tax rate was 32% in the first nine months of fiscal year 2014 compared to 36% in the first nine months 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

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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 August 31, 2014	Three Months Ended August 31, 2013	Percentage Change	Nine Months Ended August 31, 2014	Nine Months Ended August 31, 2013	Percentage Change
Income from continuing operations	$11,095	$7,204	54 %	$34,994	$25,159	39 %
Income from discontinued operations	—	17,639	(100)%	—	34,712	(100)%
Net income	$11,095	$24,843	(55)%	$34,994	$59,871	(42)%
As a percentage of total revenue	14 %	32 %		15 %	24 %	

Income 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.

Liquidity and Capital Resources

Cash, Cash Equivalents and Short-Term Investments

(In thousands)	August 31, 2014	November 30, 2013
Cash and cash equivalents	$242,380	$198,818
Short-term investments	18,912	32,622
Total cash, cash equivalents and short-term investments	$261,292	$231,440

The increase in cash, cash equivalents and short-term investments of $29.9 million from the end of fiscal year 2013 was primarily due to cash inflows from operations of $68.5 million as well as the sale of auction rate securities during the third quarter of fiscal year 2014 of $26.2 million, partially offset by repurchases of our common stock of $52.6 million and the purchase of Modulus for cash consideration of $12.5 million. Except as described below, there are no limitations on our ability to access our cash, cash equivalents and short-term investments.

As of August 31, 2014, $84.7 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 nine months of fiscal year 2014, we repurchased 2.3 million shares of our common stock for $52.6 million.

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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 2014, our management approved, committed to and initiated plans to make strategic changes to its organization to provide greater focus and agility in the delivery of next generation application development, deployment and integration solutions. Effective September 1, 2014, we began to operate as three distinct business units: OpenEdge, Application Development and Deployment, and Data Connectivity and Integration, each with dedicated sales, product management and product marketing functions. In connection with the new organizational structure, we no longer have a global head of sales, as well as certain other positions within the sales and administrative organizations. The organizational changes will not result in the closing of any of our facilities.

As part of the 2014 restructuring, for the three and nine months ended August 31, 2014, we incurred expenses of $1.5 million, which are related to employee costs, including severance, health benefits, and outplacement services, but excluding stock-based compensation. 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 2014 restructuring. Cash disbursements for expenses incurred to date under the 2014 restructuring are expected to be made over one year beginning in the fourth quarter of fiscal year 2014.

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

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August 31, 2014, there were no amounts outstanding under the revolving line and $0.7 million of letters of credit outstanding. We are in compliance with our covenants by a significant margin.

Auction Rate Securities

During the third quarter of fiscal year 2014, we received favorable offers to purchase our auction rate securities (ARS). As a result of the favorable offers we received, we sold all of our remaining ARS for $26.2 million and received the proceeds during the quarter. The previously recorded unrealized losses associated with our ARS have been adjusted based on the sale prices and recorded as a realized loss of $2.6 million during the three months ended August 31, 2014 within other income (expense) in the condensed consolidated statement of operations.

Cash Flows from Operating Activities

(In thousands)	Nine Months Ended August 31, 2014	August 31, 2013
Net income	$34,994	$59,871
Non-cash reconciling items included in net income	31,411	(42,810)
Changes in operating assets and liabilities	2,064	(30,340)
Net cash flows from (used in) operating activities	$68,469	$(13,279)

The increase in cash generated from operations in the first nine months of fiscal year 2014 as compared to the first nine months of fiscal year 2013 was primarily due to $56.3 million in payments made in the first nine months of fiscal year 2013 for income taxes related to the divestitures of the product lines discussed in Note 6, as well as an additional $7.8 million in payments related to the restructuring activities discussed in Note 12 in the first nine months of fiscal year 2013 as compared to the first nine months of fiscal year 2014. Total net tax payments made in the first nine months of fiscal year 2014 were $6.3 million, compared to $66.6 million in the first nine months of fiscal year 2013.

Our gross accounts receivable as of August 31, 2014 decreased by $9.5 million from the end of fiscal year 2013, which is primarily due to the decrease in license revenue during the first nine months of fiscal year 2014 compared to the same period in the prior year. Days sales outstanding (DSO) in accounts receivable was 66 days, which is consistent the end of fiscal year 2013. We target a DSO range of 60 to 75 days.

Cash Flows from Investing Activities

(In thousands)	Nine Months Ended August 31, 2014	August 31, 2013
Net investment activity	$39,231	$25,710
Purchases of property and equipment	(7,183)	(2,989)
Capitalized software development costs	(3,008)	—
Payments for acquisitions, net of cash acquired	(12,493)	(9,450)
Proceeds from divestitures, net	3,300	111,120
Other investing activities	144	835
Net cash flows from investing activities	$19,991	$125,226

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 $7.2 million of property and equipment in the first nine months of fiscal year 2014, including a $4.5 million investment in licensed software for use in our Pacific mobility platform, as compared to $3.0 million in the first nine 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 $111.1 million of proceeds related to the sale of divested product lines in the first nine months of fiscal year 2013, which was the primary reason for the decrease in net cash inflows from investing activities period over period.

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Cash Flows from Financing Activities

(In thousands)	Nine Months Ended August 31, 2014	August 31, 2013
Proceeds from stock-based compensation plans	$10,714	$49,109
Repurchases of common stock	(52,604)	(241,184)
Other financing activities	(2,917)	(1,635)
Net cash flows used in financing activities	$(44,807)	$(193,710)

We received $10.7 million in the first nine 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 $49.1 million in the first nine months of fiscal year 2013. In addition, in the first nine months of fiscal year 2014, we repurchased $52.6 million of our common stock under our share repurchase plan compared to $241.2 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.

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 are 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)	August 31, 2014	August 31, 2013
Deferred revenue, primarily related to unexpired maintenance and support contracts	$95,279	$97,578
Multi-year licensing arrangements [(1)]	8,474	13,713
Total revenue backlog	$103,753	$111,291

(1) 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, second and third quarters 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

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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 June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASU 2014-12). ASU 2014-12 brings consistency to the accounting for share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. This guidance is effective for all entities for reporting periods (including interim periods) beginning after December 15, 2015. Early adoption is permitted. In addition, all entities will have the option of applying the guidance either prospectively (i.e., only to awards granted or modified on or after the effective date of the ASU) or retrospectively. We are currently evaluating the effect that implementation of this update will have on our consolidated financial position and results of operations upon adoption.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016; early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. This update could impact the timing and amounts of revenue recognized. We are currently evaluating the effect that implementation of this update will have on our consolidated financial position and results of operations upon adoption.

In July 2013, the 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the third 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.

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Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

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

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

(b) Changes in internal control over financial reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated our “internal control over financial reporting” as defined in Exchange Act Rule 13a-15(f) to determine whether any changes in our internal control over financial reporting occurred during the fiscal quarter ended August 31, 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 August 31, 2014 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

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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 third 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 (1)
June 2014	1,500	$23.99	1,500	$64,964
July 2014	738,056	23.79	738,056	47,396
August 2014	—	—	—	47,396
Total	739,556	$23.79	739,556	$47,396

(1) In January 2014, our Board of Directors authorized a new $100.0 million share repurchase program. Under this authorization, we have repurchased 2.3 million shares for $52.6 million during the first six months of fiscal year 2014.

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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 August 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of August 31, 2014 and November 30, 2013; (ii) Condensed Consolidated Statements of Income for the three and nine months ended August 31, 2014 and August 31, 2013; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended August 31, 2014 and August 31, 2013; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended August 31, 2014 and August 31, 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.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PROGRESS SOFTWARE CORPORATION
(Registrant)

Dated: October 9, 2014	/s/ PHILIP M. PEAD Philip M. Pead President and Chief Executive Officer (Principal Executive Officer)
Dated: October 9, 2014	/s/ CHRIS E. PERKINS Chris E. Perkins Senior Vice President, Finance and Administration and Chief Financial Officer (Principal Financial Officer)
Dated: October 9, 2014	/s/ PAUL A. JALBERT Paul A. Jalbert Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)