

PROGRESS SOFTWARE CORP /MA  
Form 10-Q  
July 06, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 31, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 0-19417

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

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

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

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

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

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

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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
" No

As of June 27, 2018, there were 45,015,249 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)   | May 31,<br>2018 | November 30,<br>2017 |
|---|-----------------|----------------------|
| Assets  |                 |                      |
| Current assets:   |                 |                      |
| Cash and cash equivalents   | \$97,121        | \$ 133,464           |
| Short-term investments  | 47,079          | 50,145               |
| Total cash, cash equivalents and short-term investments   | 144,200         | 183,609              |
| Accounts receivable (less allowances of \$720 and \$676, respectively)  | 42,577          | 61,210               |
| Other current assets  | 13,844          | 18,588               |
| Total current assets  | 200,621         | 263,407              |
| Property and equipment, net   | 42,208          | 42,261               |
| Intangible assets, net  | 76,540          | 94,894               |
| Goodwill  | 315,012         | 315,041              |
| Deferred tax assets   | 846             | 1,123                |
| Other assets  | 1,746           | 1,992                |
| Total assets  | \$636,973       | \$ 718,718           |
| Liabilities and shareholders' equity  |                 |                      |
| Current liabilities:  |                 |                      |
| Current portion of long-term debt, net  | \$5,819         | \$ 5,819             |
| Accounts payable  | 10,406          | 9,000                |
| Accrued compensation and related taxes  | 17,605          | 32,373               |
| Dividends payable to shareholders   | 6,377           | 6,619                |
| Income taxes payable  | 3,428           | 1,173                |
| Other accrued liabilities   | 16,026          | 20,496               |
| Short-term deferred revenue   | 135,202         | 132,538              |
| Total current liabilities   | 194,863         | 208,018              |
| Long-term debt, net   | 113,180         | 116,090              |
| Long-term deferred revenue  | 12,586          | 9,750                |
| Deferred tax liabilities  | 1,228           | 2,809                |
| Other noncurrent liabilities  | 5,979           | 5,967                |
| Commitments and contingencies   |                 |                      |
| Shareholders' equity:   |                 |                      |
| Preferred stock, \$0.01 par value; authorized, 10,000,000 shares; issued, none  | —               | —                    |
| Common stock, \$0.01 par value, and additional paid-in capital; authorized, 200,000,000 shares; issued and outstanding, 45,503,468 shares in 2018 and 47,281,035 shares in 2017 | 258,696         | 249,836              |
| Retained earnings   | 74,655          | 145,247              |
| Accumulated other comprehensive loss  | (24,214 )       | (18,999 )            |
| Total shareholders' equity  | 309,137         | 376,084              |
| Total liabilities and shareholders' equity  | \$636,973       | \$ 718,718           |
| See notes to unaudited condensed consolidated financial statements.   |                 |                      |

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## Condensed Consolidated Statements of Operations

| (In thousands, except per share data) | Three Months Ended |              | Six Months Ended |              |
|---------------------------------------|--------------------|--------------|------------------|--------------|
|                                       | May 31, 2018       | May 31, 2017 | May 31, 2018     | May 31, 2017 |
| Revenue:                              |                    |              |                  |              |
| Software licenses                     | \$26,439           | \$25,592     | \$51,782         | \$49,914     |
| Maintenance and services              | 69,663             | 67,621       | 138,367          | 134,269      |
| Total revenue                         | 96,102             | 93,213       | 190,149          | 184,183      |
| Costs of revenue:                     |                    |              |                  |              |
| Cost of software licenses             | 1,233              | 1,422        | 2,494            | 3,010        |
| Cost of maintenance and services      | 9,511              | 11,262       | 19,335           | 21,754       |
| Amortization of acquired intangibles  | 5,899              | 4,683        | 11,717           | 8,361        |
| Total costs of revenue                | 16,643             | 17,367       | 33,546           | 33,125       |
| Gross profit                          | 79,459             | 75,846       | 156,603          | 151,058      |
| Operating expenses:                   |                    |              |                  |              |
| Sales and marketing                   | 21,658             | 21,236       | 43,086           | 46,957       |
| Product development                   | 19,822             | 18,791       | 40,067           | 36,125       |
| General and administrative            | 12,190             | 11,606       | 23,452           | 22,174       |
| Amortization of acquired intangibles  | 3,318              | 3,223        | 6,637            | 6,402        |
| Fees related to shareholder activist  | 214                | —            | 1,472            | —            |
| Restructuring expense                 | 426                | 662          | 2,247            | 17,801       |
| Acquisition-related expenses          | 43                 | 44           | 86               | 93           |
| Total operating expenses              | 57,671             | 55,562       | 117,047          | 129,552      |
| Income from operations                | 21,788             | 20,284       | 39,556           | 21,506       |
| Other (expense) income, net:          |                    |              |                  |              |
| Interest expense                      | (1,272 )           | (1,152 )     | (2,437 )         | (2,234 )     |
| Interest income and other, net        | 231                | 257          | 639              | 478          |
| Foreign currency (loss) gain, net     | (243 )             | (657 )       | (1,071 )         | (1,143 )     |
| Total other (expense) income, net     | (1,284 )           | (1,552 )     | (2,869 )         | (2,899 )     |
| Income before income taxes            | 20,504             | 18,732       | 36,687           | 18,607       |
| Provision for income taxes            | 5,101              | 8,391        | 8,372            | 8,791        |
| Net income                            | \$15,403           | \$10,341     | \$28,315         | \$9,816      |
| Earnings per share:                   |                    |              |                  |              |
| Basic                                 | \$0.34             | \$0.21       | \$0.62           | \$0.20       |
| Diluted                               | \$0.33             | \$0.21       | \$0.61           | \$0.20       |
| Weighted average shares outstanding:  |                    |              |                  |              |
| Basic                                 | 45,531             | 48,221       | 46,030           | 48,477       |
| Diluted                               | 46,087             | 48,490       | 46,781           | 48,762       |

Cash dividends declared per common share \$0.140 \$0.125 \$0.280 \$0.250

See notes to unaudited condensed consolidated financial statements.

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## Condensed Consolidated Statements of Comprehensive Income

| (In thousands)  | Three Months Ended |              | Six Months Ended |              |
|---|--------------------|--------------|------------------|--------------|
|   | May 31, 2018       | May 31, 2017 | May 31, 2018     | May 31, 2017 |
| Net income  | \$15,403           | \$10,341     | \$28,315         | \$9,816      |
| Other comprehensive (loss) income, net of tax:  |                    |              |                  |              |
| Foreign currency translation adjustments  | (9,018 )           | 4,143        | (5,187 )         | 5,371        |
| Unrealized (losses) gains on investments, net of tax provision of \$0 and \$39 for the second quarter and first six months of 2018, respectively and \$5 and \$45 for the second quarter and first six months of 2017, respectively | (1 )               | 7            | (28 )            | 78           |
| Total other comprehensive (loss) income, net of tax   | (9,019 )           | 4,150        | (5,215 )         | 5,449        |
| Comprehensive income  | \$6,384            | \$14,491     | \$23,100         | \$15,265     |

See notes to unaudited condensed consolidated financial statements.

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## Condensed Consolidated Statements of Cash Flows

| (In thousands)  | Six Months Ended |                 |
|---|------------------|-----------------|
|   | May 31,<br>2018  | May 31,<br>2017 |
| Cash flows from operating activities:   |                  |                 |
| Net income  | \$28,315         | \$9,816         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |                 |
| Depreciation and amortization of property and equipment                           | 3,343            | 3,962           |
| Amortization of intangibles and other   | 19,290           | 15,886          |
| Stock-based compensation  | 10,150           | 5,263           |
| Loss on disposal of property  | 136              | 155             |
| Deferred income taxes   | (1,490 )         | 4,727           |
| Excess tax benefit from stock plans   | —                | (353 )          |
| Allowances for accounts receivable  | 103              | 42              |
| Changes in operating assets and liabilities:                                      |                  |                 |
| Accounts receivable   | 18,500           | 22,651          |
| Other assets  | 4,614            | 946             |
| Accounts payable and accrued liabilities  | (18,027 )        | (6,475 )        |
| Income taxes payable  | 2,267            | 401             |
| Deferred revenue  | 6,523            | 2,708           |
| Net cash flows from operating activities  | 73,724           | 59,729          |
| Cash flows used in investing activities:  |                  |                 |
| Purchases of investments  | (8,258 )         | (14,376 )       |
| Sales and maturities of investments   | 10,723           | 9,440           |
| Purchases of property and equipment   | (3,196 )         | (523 )          |
| Payments for acquisitions, net of cash acquired                                   | —                | (28,270 )       |
| Net cash flows used in investing activities                                       | (731 )           | (33,729 )       |
| Cash flows used in financing activities:  |                  |                 |
| Proceeds from stock-based compensation plans                                      | 4,671            | 5,031           |
| Payments for taxes related to net share settlements of equity awards              | (1,931 )         | (2,367 )        |
| Repurchases of common stock   | (90,000 )        | (24,954 )       |
| Excess tax benefit from stock plans   | —                | 353             |
| Dividend payments to shareholders   | (13,101 )        | (12,116 )       |
| Payment of long-term debt   | (3,094 )         | (7,500 )        |
| Net cash flows used in financing activities                                       | (103,455)        | (41,553 )       |
| Effect of exchange rate changes on cash   | (5,881 )         | 6,403           |
| Net decrease in cash and cash equivalents   | (36,343 )        | (9,150 )        |
| Cash and cash equivalents, beginning of period                                    | 133,464          | 207,036         |
| Cash and cash equivalents, end of period  | \$97,121         | \$197,886       |

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Condensed Consolidated Statements of Cash Flows, continued

|   | Six Months<br>Ended |                 |
|---|---------------------|-----------------|
|   | May 31,<br>2018     | May 31,<br>2017 |
| Supplemental disclosure:  |                     |                 |
| Cash paid for income taxes, net of refunds of \$533 in 2018 and \$2,928 in 2017                             | \$3,545             | \$4,962         |
| Cash paid for interest  | \$1,991             | \$1,745         |
| Non-cash investing and financing activities:  |                     |                 |
| Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested | \$9,404             | \$13,754        |
| Dividends declared  | \$6,377             | \$6,035         |
| Unsettled sale of property, plant and equipment, net  | \$—                 | \$1,488         |
| 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 - Progress Software Corporation ("Progress," the "Company," "we," "us," or "our") offers the leading platform for developing and deploying strategic business applications. We enable customers and partners to deliver modern, high-impact digital experiences with a fraction of the effort, time and cost. Progress offers powerful tools for easily building adaptive user experiences across any type of device or touchpoint, award-winning machine learning that enables cognitive capabilities to be a part of any application, the flexibility of a serverless cloud to deploy modern apps, business rules, web content management, plus leading data connectivity technology. Over 1,700 independent software vendors, 100,000 enterprise customers, and 2 million developers rely on Progress to power their applications.

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

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

Basis of Presentation and Significant Accounting Policies - We prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "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, 2017, as amended ("Annual Report on Form 10-K for the fiscal year ended November 30, 2017").

We made no material 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, 2017. We have prepared the accompanying unaudited condensed consolidated financial statements on the same basis as the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2017, 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 February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). ASU 2018-02 gives entities the option to reclassify the disproportionate income tax effects ("stranded tax effects") caused by the newly-enacted US Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The update also requires new disclosures, some of which are applicable for all entities. The guidance in ASU 2018-02 is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently considering whether to adopt the optional reclassification of the stranded tax effects and evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

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

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In May 2017, the FASB issued Accounting Standards Update No. 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting ("ASU 2017-09"), which amends the scope of modification accounting for share-based payment awards. The guidance in ASU 2017-09 provides that modification accounting is required only if a change in the terms or conditions of an award results in a change to the fair value, the vesting conditions, or the classification of the award as equity or liability. The guidance in ASU 2017-09 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently assessing the impact of the adoption of this update on our consolidated financial position and results of operations.

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 is intended to simplify various aspects of the accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance in ASU 2016-09 is required for annual reporting periods beginning after December 15, 2016, with early adoption permitted. The standard requires, on a prospective basis, the recognition of all excess tax benefits and tax deficiencies as income tax benefit or expense in the statement of operations and the tax effect of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. The excess tax benefits and tax deficiencies should not be considered in an entity's calculation of its annual estimated effective tax rate and, as excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method to calculate diluted earnings per share should exclude such excess tax benefits. Further, on either a prospective or retrospective basis, excess tax benefits should be classified as operating activities in the statement of cash flows. The standard also provides entities the option to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur, which is to be applied in accordance with a modified retrospective transition. Additionally, the standard updates the threshold to qualify for equity classification for minimum statutory tax withholding requirements by permitting an entity to withhold up to the maximum statutory rates in the applicable jurisdictions, applied on a modified retrospective basis. Finally, the standard requires that cash paid by an employer to a taxing authority when directly withholding shares for tax withholding purposes be classified as a financing activity in the statement of cash flows, applied retrospectively.

We adopted this standard at the beginning of the first quarter of fiscal year 2018 and elected to classify excess tax benefits as operating activities on a prospective basis in the condensed consolidated statement of cash flows. As such, the prior period condensed consolidated statement of cash flows was not adjusted. We also elected to account for forfeitures as they occur and recorded a cumulative-effect adjustment of \$0.6 million to retained earnings during the period of adoption. The adoption of ASU 2016-09 did not have a material impact on our consolidated financial position, results of operations, and cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which requires lessees to record most leases on their balance sheets, recognizing a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The guidance

in ASU 2016-02 is required for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We currently expect that most of our operating lease commitments will be subject to the update and recognized as operating lease liabilities and right-of-use assets upon adoption. However, we are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

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

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

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

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

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

#### Note 2: Cash, Cash Equivalents and Investments

A summary of our cash, cash equivalents and available-for-sale investments at May 31, 2018 is as follows (in thousands):

|                                      | Amortized<br>Cost Basis | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|--------------------------------------|-------------------------|---------------------|----------------------|---------------|
| Cash                                 | \$96,523                | \$ —                | —\$ —                | \$96,523      |
| Money market funds                   | 598                     | —                   | —                    | 598           |
| State and municipal bond obligations | 32,323                  | —                   | (184 )               | 32,139        |

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|                     |            |    |          |   |            |
|---------------------|------------|----|----------|---|------------|
| U.S. treasury bonds | 6,704      | —  | (28      | ) | 6,676      |
| Corporate bonds     | 8,334      | —  | (70      | ) | 8,264      |
| Total               | \$ 144,482 | \$ | —\$ (282 | ) | \$ 144,200 |

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A summary of our cash, cash equivalents and available-for-sale investments at November 30, 2017 is as follows (in thousands):

|                                      | Amortized<br>Cost Basis | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|--------------------------------------|-------------------------|---------------------|----------------------|---------------|
| Cash                                 | \$ 130,547              | \$ —                | —\$ —                | \$ 130,547    |
| Money market funds                   | 2,917                   | —                   | —                    | 2,917         |
| State and municipal bond obligations | 40,458                  | —                   | (231 )               | 40,227        |
| U.S. treasury bonds                  | 3,517                   | —                   | (26 )                | 3,491         |
| Corporate bonds                      | 6,463                   | —                   | (36 )                | 6,427         |
| Total                                | \$ 183,902              | \$ —                | —\$ (293 )           | \$ 183,609    |

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

|                                      | May 31, 2018               |                           | November 30, 2017       |                           |
|--------------------------------------|----------------------------|---------------------------|-------------------------|---------------------------|
|                                      | Cash<br>and<br>Equivalents | Short-Term<br>Investments | Cash and<br>Equivalents | Short-Term<br>Investments |
| Cash                                 | \$96,523                   | \$ —                      | \$ 130,547              | \$ —                      |
| Money market funds                   | 598                        | —                         | 2,917                   | —                         |
| State and municipal bond obligations | —                          | 32,139                    | —                       | 40,227                    |
| U.S. treasury bonds                  | —                          | 6,676                     | —                       | 3,491                     |
| Corporate bonds                      | —                          | 8,264                     | —                       | 6,427                     |
| Total                                | \$97,121                   | \$ 47,079                 | \$ 133,464              | \$ 50,145                 |

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

|                                   | May 31, November 30,<br>2018 2017 |           |
|-----------------------------------|-----------------------------------|-----------|
| Due in one year or less           | \$27,247                          | \$ 22,333 |
| Due after one year <sup>(1)</sup> | 19,832                            | 27,812    |
| Total                             | \$47,079                          | \$ 50,145 |

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

We did not hold any investments with continuous unrealized losses as of May 31, 2018 or November 30, 2017.

### Note 3: Derivative Instruments

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

All forward contracts are recorded at fair value on the consolidated balance sheets at the end of each reporting period and expire from 30 days to one year. At May 31, 2018, \$1.5 million was recorded in other accrued liabilities on the condensed consolidated balance sheet. At November 30, 2017, \$0.2 million and \$0.2 million was recorded in other accrued liabilities and other assets, respectively, on the consolidated balance sheet. In the three and six months ended

May 31, 2018, realized and unrealized losses of \$6.7 million and \$3.1 million, respectively, from our forward contracts were recognized in foreign currency (loss) gain, net, on the condensed consolidated statements of operations. In the three and six months ended May 31, 2017, realized and unrealized gains of \$3.6 million and \$4.4 million, respectively, from our forward contracts were recognized in foreign currency (loss) gain, net on the condensed consolidated statements of operations. The losses and gains were substantially offset by realized and unrealized gains and losses on the offsetting positions.



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

|  | May 31, 2018   |             | November 30, 2017 |            |
|--|----------------|-------------|-------------------|------------|
|  | Notional Value | Fair Value  | Notional Value    | Fair Value |
| Forward contracts to sell U.S. dollars     | \$ 127,560     | \$ (1,473 ) | \$ 119,192        | \$ (27 )   |
| Forward contracts to purchase U.S. dollars | 703            | 2           | 462               | —          |
| Total                                      | \$ 128,263     | \$ (1,471 ) | \$ 119,654        | \$ (27 )   |

## 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 May 31, 2018 (in thousands):

|                                      | Total Fair Value | Fair Value Measurements Using |             |         |
|--------------------------------------|------------------|-------------------------------|-------------|---------|
|                                      |                  | Level 1                       | Level 2     | Level 3 |
| <b>Assets</b>                        |                  |                               |             |         |
| Money market funds                   | \$ 598           | \$ 598                        | \$—         | \$ —    |
| State and municipal bond obligations | 32,139           | —                             | 32,139      | —       |
| U.S. treasury bonds                  | 6,676            | —                             | 6,676       | —       |
| Corporate bonds                      | 8,264            | —                             | 8,264       | —       |
| <b>Liabilities</b>                   |                  |                               |             |         |
| Foreign exchange derivatives         | \$ (1,471 )      | \$—                           | \$ (1,471 ) | \$ —    |

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at November 30, 2017 (in thousands):

|                                      | Total Fair Value | Fair Value Measurements Using |          |         |
|--------------------------------------|------------------|-------------------------------|----------|---------|
|                                      |                  | Level 1                       | Level 2  | Level 3 |
| <b>Assets</b>                        |                  |                               |          |         |
| Money market funds                   | \$ 2,917         | \$ 2,917                      | \$—      | \$ —    |
| State and municipal bond obligations | 40,227           | —                             | 40,227   | —       |
| U.S. treasury bonds                  | 3,491            | —                             | 3,491    | —       |
| Corporate bonds                      | 6,427            | —                             | 6,427    | —       |
| <b>Liabilities</b>                   |                  |                               |          |         |
| Foreign exchange derivatives         | \$ (27 )         | \$—                           | \$ (27 ) | \$ —    |

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

we are required to make judgments about assumptions market participants would use to estimate the fair value of a financial instrument.

We did not have any nonrecurring fair value measurements during the six months ended May 31, 2018.

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## Note 5: Intangible Assets and Goodwill

## Intangible Assets

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

|                            | May 31, 2018          |                          |                | November 30, 2017     |                          |                |
|----------------------------|-----------------------|--------------------------|----------------|-----------------------|--------------------------|----------------|
|                            | Gross Carrying Amount | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Purchased technology       | \$154,301             | \$(99,942 )              | \$54,359       | \$154,301             | \$(88,224 )              | \$66,077       |
| Customer-related           | 67,802                | (51,426 )                | 16,376         | 67,802                | (46,230 )                | 21,572         |
| Trademarks and trade names | 17,740                | (11,935 )                | 5,805          | 17,740                | (10,495 )                | 7,245          |
| Total                      | \$239,843             | \$(163,303 )             | \$76,540       | \$239,843             | \$(144,949 )             | \$94,894       |

In the three and six months ended May 31, 2018, amortization expense related to intangible assets was \$9.2 million and \$18.4 million, respectively. In the three and six months ended May 31, 2017, amortization expense related to intangible assets was \$7.9 million and \$14.8 million, respectively.

Future amortization expense for intangible assets as of May 31, 2018, is as follows (in thousands):

|                   |          |
|-------------------|----------|
| Remainder of 2018 | \$17,701 |
| 2019              | 34,932   |
| 2020              | 10,152   |
| 2021              | 10,033   |
| 2022              | 3,722    |
| Total             | \$76,540 |

## Goodwill

Changes in the carrying amount of goodwill in the six months ended May 31, 2018 are as follows (in thousands):

|                            |           |
|----------------------------|-----------|
| Balance, November 30, 2017 | \$315,041 |
| Translation adjustments    | (29 )     |
| Balance, May 31, 2018      | \$315,012 |

Changes in the goodwill balances by reportable segment in the six months ended May 31, 2018 are as follows (in thousands):

|  | November 30, 2017 | Translation adjustments | May 31, 2018 |
|--|-------------------|-------------------------|--------------|
| OpenEdge                               | \$ 249,036        | \$ (29 )                | \$249,007    |
| Data Connectivity and Integration      | 19,040            | —                       | 19,040       |
| Application Development and Deployment | 46,965            | —                       | 46,965       |
| Total goodwill                         | \$ 315,041        | \$ (29 )                | \$315,012    |

During the quarter ending May 31, 2018, no triggering events occurred that would indicate that it is more likely than not that the carrying values of any of our reporting units exceeded their fair values.



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## Note 6: Business Combinations

## Kinvey Acquisition

On June 1, 2017, we acquired by merger 100% of the outstanding securities of Kinvey for an aggregate sum of \$49.2 million, which includes approximately \$0.3 million held-back from the founder of Kinvey as an incentive to remain with the Company for at least two years following the acquisition. The \$0.3 million held-back is being recorded to expense over the service period. Kinvey allows developers to set up, use, and operate a cloud backend for any native, hybrid, web, or IoT app built using any development tools. The acquisition was accounted for as a business combination, and accordingly, the results of operations of Kinvey are included in our operating results as part of the OpenEdge business segment from the date of acquisition. We paid the purchase price in cash from available funds.

The total consideration, less the \$0.3 million held-back discussed above, which is considered to be a compensation arrangement, was allocated to Kinvey's tangible assets, identifiable intangible assets and assumed liabilities based on their estimated fair values. The excess of the total consideration, less the amount held-back from the founder, over the tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill. The allocation of the purchase price was completed in the fourth quarter of fiscal year 2017 upon the finalization of our valuation of identifiable intangible assets and deferred taxes.

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

|                               | Total    | Life    |
|-------------------------------|----------|---------|
| Net working capital           | \$(963 ) |         |
| Property, plant and equipment | 26       |         |
| Purchased technology          | 22,100   | 5 Years |
| Trade name                    | 1,800    | 5 Years |
| Customer relationships        | 100      | 5 Years |
| Net deferred tax assets       | 1,465    |         |
| Goodwill                      | 24,351   |         |
| Net assets acquired           | \$48,879 |         |

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

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

We recorded the excess of the purchase price over the identified tangible and intangible assets as goodwill. We believe that the investment value of the future enhancement of our product and solution offerings created as a result of this acquisition has principally contributed to a purchase price that resulted in the recognition of \$24.4 million of goodwill, which is not deductible for tax purposes.

Acquisition-related transaction costs (e.g., legal, due diligence, valuation, and other professional fees) are not included as a component of consideration paid, but are required to be expensed as incurred. We incurred minimal acquisition-related costs during the three and six months ended May 31, 2018, which are included in acquisition-related expenses on our condensed consolidated statements of operations.

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

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## DataRPM Acquisition

On March 1, 2017, we acquired by merger 100% of the outstanding securities of DataRPM for an aggregate sum of \$30.0 million. Approximately \$1.7 million of the purchase price was paid to DataRPM's founders in the form of restricted stock units, subject to a two-year vesting schedule and continued employment. DataRPM is a leader in cognitive predictive maintenance for the industrial IoT ("IIoT") market. The acquisition was accounted for as a business combination, and accordingly, the results of operations of DataRPM are included in our operating results as part of the OpenEdge business segment from the date of acquisition. We paid the purchase price in cash from available funds.

The total consideration, less the fair value of the granted restricted stock units discussed above, which are considered compensation arrangements, was allocated to DataRPM's tangible assets, identifiable intangible assets and assumed liabilities based on their estimated fair values. The excess of the total consideration, less the fair value of the restricted stock units, over the tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill. The allocation of the purchase price was completed in the fourth quarter of fiscal year 2017 upon the finalization of our valuation of identifiable intangible assets and deferred taxes.

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

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

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

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

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

As discussed above, approximately \$1.7 million of the total consideration was paid to DataRPM's founders in restricted stock units, subject to a vesting schedule and continued employment. We concluded that the restricted stock units are compensation arrangements and we are recognizing stock-based compensation expense in accordance with the vesting schedule over the service period of the awards, which is two-years. During the three months ended May 31, 2018, we incurred minimal stock-based compensation expense related to these restricted stock units. During the six months ended May 31, 2018, as a result of the termination of employment of one of the founders, we recorded a minimal credit to stock-based compensation expense related to forfeitures. These amounts are included in operating

expenses on our condensed consolidated statements of operations.

Acquisition-related transaction costs (e.g., legal, due diligence, valuation, and other professional fees) are not included as a component of consideration transferred, but are required to be expensed as incurred. We did not incur any acquisition-related costs during the three and six months ended May 31, 2018 and do not expect to incur additional material costs with respect to this acquisition.



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

## Note 7: Term Loan and Line of Credit

Our credit agreement provides for a \$123.8 million secured term loan and a \$150.0 million secured revolving credit facility. The revolving credit facility may be made available in U.S. Dollars and certain other currencies and may be increased by up to an additional \$125.0 million if the existing or additional lenders are willing to make such increased commitments. The revolving credit facility has sublimits for swing line loans up to \$25.0 million and for the issuance of standby letters of credit in a face amount up to \$25.0 million. We expect to use the revolving credit facility for general corporate purposes, including acquisitions of other businesses, and may also use it for working capital.

The credit facility matures on November 20, 2022, when all amounts outstanding will be due and payable in full. The revolving credit facility does not require amortization of principal. The outstanding balance of the term loan as of May 31, 2018 was \$120.7 million, with \$6.2 million due in the next 12 months. The term loan requires repayment of principal at the end of each fiscal quarter, beginning with the fiscal quarter ended February 28, 2018. The principal repayment amounts are in accordance with the following schedule: (i) eight payments of \$1.5 million each, (ii) four payments of \$2.3 million each, (iii) four payments of \$3.1 million each, (iv) three payments of \$3.9 million each, and (v) the last payment is of the remaining principal amount. Any amounts outstanding under the term loan thereafter would be due on the maturity date. The term loan may be prepaid before maturity in whole or in part at our option without penalty or premium. As of May 31, 2018, the carrying value of the term loan approximates the fair value, based on Level 2 inputs (observable market prices in less than active markets), as the interest rate is variable over the selected interest period and is similar to current rates at which we can borrow funds. The interest rate of the credit facility as of May 31, 2018 was 3.44%.

Costs incurred to obtain our long-term debt of \$1.8 million are recorded as debt issuance costs as a direct deduction from the carrying value of the debt liability on our condensed consolidated balance sheets as of May 31, 2018. These costs are being amortized over the term of the debt agreement using the effective interest rate method. Amortization expense related to the debt issuance costs of \$0.1 million for the three months ended May 31, 2018 and May 31, 2017 and \$0.2 million for the six months ended May 31, 2018 and May 31, 2017, respectively, is recorded in interest expense on our condensed consolidated statements of operations.

Revolving loans may be borrowed, repaid, and reborrowed until November 20, 2022, at which time all amounts outstanding must be repaid. As of May 31, 2018, there were no amounts outstanding under the revolving line and \$1.3 million of letters of credit.

As of May 31, 2018, aggregate principal payments of long-term debt for the next five years are (in thousands):

|                   |           |
|-------------------|-----------|
| Remainder of 2018 | \$3,093   |
| 2019              | 6,188     |
| 2020              | 9,281     |
| 2021              | 12,375    |
| 2022              | 89,719    |
| Total             | \$120,656 |

## Note 8: Common Stock Repurchases

In the three and six months ended May 31, 2018, we repurchased and retired 1.1 million shares of our common stock for \$45.0 million and 2.1 million shares for \$90.0 million, respectively. In the three and six months ended May 31, 2017, we repurchased and retired 0.2 million shares for \$6.9 million and 0.9 million shares for \$25.0 million,

respectively. The shares were repurchased in all periods as part of our Board of Directors authorized share repurchase program.

In September 2017, our Board of Directors increased our total share repurchase authorization to \$250.0 million. As of May 31, 2018, there was \$130.0 million remaining under this current authorization.

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## Note 9: Stock-Based Compensation

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

During fiscal years 2016 and 2017, we granted performance-based restricted stock units that include a three-year market condition under a Long-Term Incentive Plan ("LTIP") where the performance measurement period is three years. Vesting of the LTIP awards is based on our level of attainment of specified total shareholder return ("TSR") targets relative to the percentage appreciation of a specified index of companies for the respective three-year periods and is also subject to the continued employment of the grantees. In order to estimate the fair value of such awards, we used a Monte Carlo Simulation valuation model.

During the first quarter of fiscal year 2018, we granted performance-based restricted stock units that include two performance metrics under a LTIP where the performance measurement period is three years. Vesting of the 2018 LTIP awards is as follows: (i) 50% is based on the three-year market condition as described above (TSR), and (ii) 50% is based on achievement of a three-year cumulative performance condition (operating income). In order to estimate the fair value of such awards, we used a Monte Carlo Simulation valuation model for the market condition portion of the award, and used the closing price of our common stock on the date of grant, less the present value of expected dividends, for the portion related to the performance condition.

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

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

|                                  | Three Months<br>Ended<br>May 31, |         | Six Months<br>Ended<br>May 31, |         |
|----------------------------------|----------------------------------|---------|--------------------------------|---------|
|                                  | 2018                             | 2017    | 2018                           | 2017    |
| Cost of maintenance and services | \$269                            | \$294   | \$515                          | \$551   |
| Sales and marketing              | 995                              | 200     | 1,365                          | 563     |
| Product development              | 1,984                            | 1,158   | 4,030                          | 1,054   |
| General and administrative       | 2,332                            | 1,981   | 4,240                          | 3,095   |
| Total stock-based compensation   | \$5,580                          | \$3,633 | \$10,150                       | \$5,263 |

## Note 10: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated balances of other comprehensive loss during the six months ended May 31, 2018 (in thousands):

| Foreign<br>Currency<br>Translation<br>Adjustment | Unrealized<br>Losses on<br>Investments | Accumulated<br>Other<br>Comprehensive<br>Loss |
|--|--|---|
|--|--|---|

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|   |              |           |              |
|---|--------------|-----------|--------------|
| Balance, December 1, 2017                                     | \$ (18,770 ) | \$ (229 ) | \$ (18,999 ) |
| Other comprehensive loss before reclassifications, net of tax | (5,187 )     | (28 )     | (5,215 )     |
| Balance, May 31, 2018   | \$ (23,957 ) | \$ (257 ) | \$ (24,214 ) |

The tax effect on accumulated unrealized losses on investments was minimal as of May 31, 2018 and November 30, 2017.

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## Note 11: Restructuring Charges

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

|                                   | Excess<br>Facilities and<br>Other Costs | Employee<br>Severance and<br>Related Benefits | Total    |
|-----------------------------------|---|---|----------|
| Balance, December 1, 2017         | \$ 570                                  | \$ 3,556                                      | \$4,126  |
| Costs incurred                    | 997                                     | 1,250   | 2,247    |
| Cash disbursements                | (900 )                                  | (4,281 )                                      | (5,181 ) |
| Translation adjustments and other | 46                                      | 11  | 57       |
| Balance, May 31, 2018             | \$ 713                                  | \$ 536  | \$1,249  |

During fiscal year 2017, we undertook certain operational restructuring initiatives intended to significantly reduce annual costs. As part of this action, management committed to a new strategic plan highlighted by a new product strategy and a streamlined operating approach. To execute these operational restructuring initiatives, we reduced our global workforce by over 20%. These workforce reductions occurred in substantially all functional units and across all geographies in which we operate. We also consolidated offices in various locations during fiscal year 2017 and the first half of fiscal year 2018. We expect to incur additional expenses related to facility closures during fiscal year 2018, but we do not expect these additional costs to be material.

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

As part of this fiscal year 2017 restructuring, for the three and six months ended May 31, 2018, we incurred expenses of \$0.4 million and \$2.2 million, respectively, which are recorded in restructuring expenses on the condensed consolidated statements of operations.

Cash disbursements for expenses incurred to date under this restructuring are expected to be made through the fourth quarter of fiscal year 2018. The short-term portion of the restructuring reserve of \$1.0 million is included in other accrued liabilities and the long-term portion of \$0.2 million is included in other noncurrent liabilities on the condensed consolidated balance sheets at May 31, 2018.

## Note 12: Income Taxes

Our income tax provision for the second quarter of fiscal years 2018 and 2017 reflects our estimate 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 in which they occur. The estimates are reevaluated each quarter based on our estimated tax expense for the full fiscal year.

Our effective income tax rate was 25% in the second quarter of fiscal year 2018 compared to 45% in the second quarter of fiscal year 2017, and 23% in the first six months of fiscal year 2018 compared to 47% in the same period last year. The primary reason for the decrease in the effective rate is due to the enactment of tax reform in the United States in December 2017.

During the first quarter of fiscal year 2018, the Tax Cuts and Jobs Act was enacted in the United States. The Act reduces the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and, effective

fiscal year 2019, creates new taxes on certain foreign sourced earnings. In December 2017, the SEC issued SAB 118, which directs taxpayers to consider the impact of the U.S. legislation as “provisional” when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. As of May 31, 2018, we have not completed our accounting for the tax effects of enactment of the Act, however, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax.

As a result of the Act, we re-measured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, we are still analyzing certain aspects of the Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to changes in deferred

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tax amounts. During the first quarter of fiscal year 2018, we recognized a provisional tax benefit of \$1.4 million related to the re-measurement of our U.S. deferred tax balances.

The one-time transition tax associated with the Act is based on our total post-1986 earnings and profits ("E&P") that we previously deferred from U.S. federal taxation. During the first quarter of fiscal year 2018, we made a provisional determination that we have an accumulated deficit in our foreign subsidiaries' E&P and thus do not have a transition tax associated with deferred foreign earnings related to the Act. We have not yet completed our calculation of the total post-1986 E&P for our foreign subsidiaries or the tax pools of our foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when we finalize the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets.

Our Federal income tax returns have been examined or are closed by statute for all years prior to fiscal year 2015. Our state income tax returns have been examined or are closed by statute for all years prior to fiscal year 2013.

Tax authorities for certain non-U.S. jurisdictions are also examining returns. With some exceptions, we are generally not subject to tax examinations in non-U.S. jurisdictions for years prior to fiscal year 2012.

## Note 13: Earnings per share

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

|   | Three Months<br>Ended<br>May 31, 2018 |          | Six Months<br>Ended<br>May 31, 2017 |         |
|---|---------------------------------------|----------|-------------------------------------|---------|
| Net income                                    | \$15,403                              | \$10,341 | \$28,315                            | \$9,816 |
| Weighted average shares outstanding           | 45,531                                | 48,221   | 46,030                              | 48,477  |
| Dilutive impact from common stock equivalents | 556                                   | 269      | 751                                 | 285     |
| Diluted weighted average shares outstanding   | 46,087                                | 48,490   | 46,781                              | 48,762  |
| Basic earnings per share                      | \$0.34                                | \$0.21   | \$0.62                              | \$0.20  |
| Diluted earnings per share                    | \$0.33                                | \$0.21   | \$0.61                              | \$0.20  |

We excluded stock awards representing approximately 698,000 shares and 521,000 shares of common stock from the calculation of diluted earnings per share in the three and six months ended May 31, 2018, respectively, because these awards were anti-dilutive. In the three and six months ended May 31, 2017, we excluded stock awards representing 941,000 shares and 519,000 shares of common stock, respectively, from the calculation of diluted earnings per share as they were anti-dilutive.

## Note 14: Business Segments and International Operations

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

We operate as three distinct business segments: OpenEdge, Data Connectivity and Integration, and Application Development and Deployment.

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



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

| (In thousands)                                   | Three Months Ended |              | Six Months Ended |              |
|--|--------------------|--------------|------------------|--------------|
|  | May 31, 2018       | May 31, 2017 | May 31, 2018     | May 31, 2017 |
| Segment revenue:                                 |                    |              |                  |              |
| OpenEdge   | \$69,967           | \$65,890     | \$136,375        | \$130,398    |
| Data Connectivity and Integration                | 5,788              | 7,096        | 13,392           | 13,924       |
| Application Development and Deployment           | 20,347             | 20,227       | 40,382           | 39,861       |
| Total revenue                                    | 96,102             | 93,213       | 190,149          | 184,183      |
| Segment costs of revenue and operating expenses: |                    |              |                  |              |
| OpenEdge   | 15,013             | 16,287       | 30,775           | 34,164       |
| Data Connectivity and Integration                | 1,674              | 2,069        | 3,303            | 4,331        |
| Application Development and Deployment           | 6,199              | 5,991        | 12,997           | 13,527       |
| Total costs of revenue and operating expenses    | 22,886             | 24,347       | 47,075           | 52,022       |
| Segment contribution margin:                     |                    |              |                  |              |
| OpenEdge   | 54,954             | 49,603       | 105,600          | 96,234       |
| Data Connectivity and Integration                | 4,114              | 5,027        | 10,089           | 9,593        |
| Application Development and Deployment           | 14,148             | 14,236       | 27,385           | 26,334       |
| Total contribution margin                        | 73,216             | 68,866       | 143,074          | 132,161      |
| Other unallocated expenses (1)                   | 51,428             | 48,582       | 103,518          | 110,655      |
| Income from operations                           | 21,788             | 20,284       | 39,556           | 21,506       |
| Other (expense) income, net                      | (1,284 )           | (1,552 )     | (2,869 )         | (2,899 )     |
| Income before income taxes                       | \$20,504           | \$18,732     | \$36,687         | \$18,607     |

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

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

| (In thousands)    | Three Months Ended |              | Six Months Ended |              |
|-------------------|--------------------|--------------|------------------|--------------|
|                   | May 31, 2018       | May 31, 2017 | May 31, 2018     | May 31, 2017 |
| Software licenses | \$26,439           | \$25,592     | \$51,782         | \$49,914     |
| Maintenance       | 62,323             | 59,898       | 123,802          | 119,036      |
| Services          | 7,340              | 7,723        | 14,565           | 15,233       |
| Total revenue     | \$96,102           | \$93,213     | \$190,149        | \$184,183    |

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

|                | Three Months Ended |              | Six Months Ended |              |
|----------------|--------------------|--------------|------------------|--------------|
|                | May 31, 2018       | May 31, 2017 | May 31, 2018     | May 31, 2017 |
| (In thousands) |                    |              |                  |              |
| North America  | \$50,823           | \$51,430     | \$102,464        | \$101,735    |
| EMEA           | 35,333             | 30,646       | 68,347           | 60,490       |
| Latin America  | 4,256              | 5,637        | 8,717            | 10,660       |
| Asia Pacific   | 5,690              | 5,500        | 10,621           | 11,298       |
| Total revenue  | \$96,102           | \$93,213     | \$190,149        | \$184,183    |

## 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 "believe," "may," "could," "would," "might," "should," "expect," "intend," "plan," "target," "anticipate" and "continue," are forward-looking, as are statements concerning future financial results, product offerings or other events that have not yet occurred. There are various factors that could cause actual results or events to differ materially from those anticipated by the forward-looking statements, including but not limited to the following: (1) Economic, geopolitical and market conditions can adversely affect our business, results of operations and financial condition, including our revenue growth and profitability, which in turn could adversely affect our stock price. (2) We may fail to achieve our financial forecasts due to such factors as delays or size reductions in transactions, fewer large transactions in a particular quarter, fluctuations in currency exchange rates, or a decline in our renewal rates for contracts. (3) Our ability to successfully manage transitions to new business models and markets, including an increased emphasis on a cloud and subscription strategy, may not be successful. (4) If we are unable to develop new or sufficiently differentiated products and services, or to enhance and improve our existing products and services in a timely manner to meet market demand, partners and customers may not purchase new software licenses or subscriptions or purchase or renew support contracts. (5) We depend upon our extensive partner channel and we may not be successful in retaining or expanding our relationships with channel partners. (6) Our international sales and operations subject us to additional risks that can adversely affect our operating results, including risks relating to foreign currency gains and losses. (7) If the security measures for our software, services or other offerings are compromised or subject to a successful cyber-attack, or if such offerings contain significant coding or configuration errors, we may experience reputational harm, legal claims and financial exposure. (8) We have made acquisitions, and may make acquisitions in the future, and those acquisitions may not be successful, may involve unanticipated costs or other integration issues or may disrupt our existing operations. (9) 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, 2017, as amended ("Annual Report on Form 10-K for the fiscal year ended November 30, 2017"). 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 a substantial portion of our total revenue. As a result, our revenue results have been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. For example, if the local currencies of our foreign subsidiaries strengthen, our consolidated results stated in U.S. dollars are positively impacted.

As exchange rates are an important factor in understanding period to period comparisons, we present revenue growth rates on a constant currency basis, which helps improve the understanding of our revenue results and our performance in comparison to prior periods. The constant currency information presented is calculated by translating current period results using prior

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period weighted average foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with accounting principles generally accepted in the United States of America ("GAAP").

### Overview

Progress Software Corporation ("Progress," the "Company," "we," "us," or "our") offers the leading platform for developing and deploying strategic business applications. We enable customers and partners to deliver modern, high-impact digital experiences with a fraction of the effort, time and cost. Progress offers powerful tools for easily building adaptive user experiences across any type of device or touchpoint, award-winning machine learning that enables cognitive capabilities to be a part of any application, the flexibility of a serverless cloud to deploy modern apps, business rules, web content management, plus leading data connectivity technology. Over 1,700 independent software vendors, 100,000 enterprise customers, and 2 million developers rely on Progress to power their applications. We operate as three distinct segments: OpenEdge, Data Connectivity and Integration, and Application Development and Deployment.

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

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

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

**New Product Strategy.** As part of the new strategic plan, we undertook a new product strategy to provide the platform and tools enterprises need to build next generation applications that drive their businesses, known as "Cognitive Applications." We offer this platform to both new customers and partners as well as our existing OpenEdge partner and customer ecosystems. Our platform for Cognitive Applications makes it easy for developers to build machine learning into their applications, and includes:

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

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

A modern serverless cloud backend application platform that runs on any cloud, is secure, high-performing, and highly-scalable while supporting all modern user interfaces;

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

Our data connectivity and integration capabilities;

Our business logic and rules capabilities; and

Web Content Management for delivering personalized and engaging digital experiences.

**Restructuring.** With the adoption of our new product strategy, we discontinued our investment in our Digital Factory strategy and re-aligned our resources consistent with our core operating approach. To that end, during fiscal year 2017, we implemented restructuring efforts including the consolidation of facilities, implementation of a simplified

organizational structure and a reduction of marketing and other external expenses. In addition, we reduced headcount by over 400 employees, totaling over 20% of our workforce. We reduced our full year expenses by over \$30 million by the end of fiscal year 2017.

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. For example, in late fiscal 2017 and the first half of fiscal 2018, the value of the U.S. dollar weakened in comparison to certain foreign currencies, including in Europe. Since approximately one-third of our revenue is denominated in foreign currency, our revenue results during those periods were positively impacted. We expect that future fluctuations in foreign currency exchange rates will continue to impact our results.

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In September 2017, we announced a new capital allocation strategy pursuant to which we are targeting to return approximately 50% of our annual cash flows from operations to stockholders in the form of share repurchases and 25-30% through dividends. To that end, our Board of Directors increased our total share repurchase authorization to \$250.0 million. As of May 31, 2018, there is \$130.0 million remaining under this current authorization. We expect to repurchase an additional \$30 million of shares of our common stock in the remainder of fiscal year 2018. However, the timing and amount of any shares repurchased will be determined by management based on its evaluation of market conditions and other factors, and we may choose to suspend, expand or discontinue the repurchase program at any time.

On September 6, 2017, our Board of Directors approved a 12% increase in our quarterly cash dividend to \$0.14 per share of common stock. We began paying quarterly cash dividends of \$0.125 per share of common stock to Progress stockholders in December 2016. We expect to continue paying quarterly cash dividends in subsequent quarters consistent with our capital allocation strategy. However, we may terminate or modify this program at any time without notice. On June 20, 2018, our Board of Directors declared a quarterly dividend of \$0.14 per share of common stock that will be paid on September 17, 2018 to shareholders of record as of the close of business on September 3, 2018.

We expect to continue to evaluate possible acquisitions and other strategic transactions designed to expand our business and/or add complementary products and technologies to our existing product sets. As a result, our expected uses of cash could change, our cash position could be reduced and we may incur additional debt obligations to the extent we complete additional acquisitions. However, we believe that existing cash balances, together with funds generated from operations and amounts available under our credit facility, will be sufficient to finance our operations and meet our foreseeable cash requirements, including quarterly cash dividends and stock repurchases to Progress stockholders, through at least the next twelve months.

During the first quarter of fiscal year 2018, the Tax Cuts and Jobs Act was enacted in the United States. The Act reduces the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign sourced earnings. In December 2017, the Securities and Exchange Commission (the "SEC") issued SAB 118, which directs taxpayers to consider the impact of the U.S. legislation as "provisional" when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. As of May 31, 2018, we have not completed our accounting for the tax effects of enactment of the Act, however, as described elsewhere in this Form 10-Q, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax.

In September 2017, Praesidium Investment Management publicly announced in a Schedule 13D filed with the SEC its disagreement with our strategy and stated that it was seeking changes in the composition of our Board of Directors. In March 2018, Praesidium Investment Management publicly announced in an amended Schedule 13D filed with the SEC that it had sold all but 1,000 shares of Company common stock that it previously held. We incurred professional and other fees relating to Praesidium's actions as noted below. We do not expect to incur additional professional and other fees related to this matter.

## Results of Operations

## Revenue

|                | Three Months Ended | May 31, 2018 | May 31, 2017 | Percentage Change |
|----------------|--------------------|--------------|--------------|-------------------|
| (In thousands) |                    |              |              | As Reported       |
|                |                    |              |              | Constant Currency |

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|                |                  |              |                   |                   |
|----------------|------------------|--------------|-------------------|-------------------|
| Revenue        | \$96,102         | \$93,213     | 3 %               | 1 %               |
|                | Six Months Ended |              | Percentage Change |                   |
| (In thousands) | May 31, 2018     | May 31, 2017 | As Reported       | Constant Currency |
| Revenue        | \$190,149        | \$184,183    | 3 %               | 1 %               |

Total revenue increased in the second quarter and first six months of fiscal year 2018 as compared to the same periods last year primarily due to a favorable impact from currency exchange rates. Changes in prices from fiscal year 2017 to 2018 did not have a significant impact on our revenue.

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## Software License Revenue

| (In thousands)                   | Three Months Ended |              | Percentage Change |                   |
|----------------------------------|--------------------|--------------|-------------------|-------------------|
|                                  | May 31, 2018       | May 31, 2017 | As Reported       | Constant Currency |
| Software Licenses                | \$26,439           | \$25,592     | 3 %               | 1 %               |
| As a percentage of total revenue | 28 %               | 27 %         |                   |                   |
| (In thousands)                   | Six Months Ended   |              | Percentage Change |                   |
|                                  | May 31, 2018       | May 31, 2017 | As Reported       | Constant Currency |
| Software Licenses                | \$51,782           | \$49,914     | 4 %               | 1 %               |
| As a percentage of total revenue | 27 %               | 27 %         |                   |                   |

Software license revenue increased in the second quarter and first six months of fiscal year 2018 as compared to the same periods last year primarily due to a favorable impact from currency exchange rates and an increase in license sales in our OpenEdge segment. The increase was partially offset by a decline in software license revenue in our Data Connectivity and Integration and Application Development and Deployment segments during the second quarter of fiscal year 2018 and a decline in our Application Development and Deployment segment during the first six months of fiscal year 2018 as compared to the same periods in the prior year.

## Maintenance and Services Revenue

| (In thousands)                         | Three Months Ended |              | Percentage Change |                   |
|--|--------------------|--------------|-------------------|-------------------|
|  | May 31, 2018       | May 31, 2017 | As Reported       | Constant Currency |
| Maintenance                            | \$62,323           | \$59,898     | 4 %               | 1 %               |
| As a percentage of total revenue       | 65 %               | 64 %         |                   |                   |
| Services                               | 7,340              | 7,723        | (5) %             | (6) %             |
| As a percentage of total revenue       | 8 %                | 8 %          |                   |                   |
| Total maintenance and services revenue | \$69,663           | \$67,621     | 3 %               | 1 %               |
| As a percentage of total revenue       | 72 %               | 73 %         |                   |                   |
| (In thousands)                         | Six Months Ended   |              | Percentage Change |                   |
|  | May 31, 2018       | May 31, 2017 | As Reported       | Constant Currency |
| Maintenance                            | \$123,802          | \$119,036    | 4 %               | 1 %               |
| As a percentage of total revenue       | 65 %               | 65 %         |                   |                   |
| Services                               | 14,565             | 15,233       | (4) %             | (6) %             |
| As a percentage of total revenue       | 8 %                | 8 %          |                   |                   |
| Total maintenance and services revenue | \$138,367          | \$134,269    | 3 %               | — %               |
| As a percentage of total revenue       | 73 %               | 73 %         |                   |                   |

Maintenance revenue increased in all periods presented primarily due to a favorable impact from currency exchange rates and an increase in maintenance revenue in our OpenEdge and Application Development and Deployment segments, offset by a decline in our Data Connectivity and Integration segment. The decrease in services revenue in all periods presented was due to lower professional services revenue generated by our OpenEdge segment, partially



offset by an increase in Sitefinity professional services revenue in our Application Development and Deployment segment.

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## Revenue by Region

| (In thousands)                              | Three Months Ended |              | Percentage Change |                   |
|---|--------------------|--------------|-------------------|-------------------|
|   | May 31, 2018       | May 31, 2017 | As Reported       | Constant Currency |
| North America                               | \$50,823           | \$51,430     | (1)%              | (1)%              |
| As a percentage of total revenue            | 53%                | 55%          |                   |                   |
| Europe, the Middle East and Africa ("EMEA") | \$35,333           | \$30,646     | 15%               | 7%                |
| As a percentage of total revenue            | 37%                | 33%          |                   |                   |
| Latin America                               | \$4,256            | \$5,637      | (24)%             | (20)%             |
| As a percentage of total revenue            | 4%                 | 6%           |                   |                   |
| Asia Pacific                                | \$5,690            | \$5,500      | 3%                | 3%                |
| As a percentage of total revenue            | 6%                 | 6%           |                   |                   |
|   | Six Months Ended   |              | Percentage Change |                   |
| (In thousands)                              | May 31, 2018       | May 31, 2017 | As Reported       | Constant Currency |
| North America                               | \$102,464          | \$101,735    | 1%                | 1%                |
| As a percentage of total revenue            | 54%                | 55%          |                   |                   |
| EMEA  | \$68,347           | \$60,490     | 13%               | 4%                |
| As a percentage of total revenue            | 36%                | 33%          |                   |                   |
| Latin America                               | \$8,717            | \$10,660     | (18)%             | (16)%             |
| As a percentage of total revenue            | 4%                 | 6%           |                   |                   |
| Asia Pacific                                | \$10,621           | \$11,298     | (6)%              | (8)%              |
| As a percentage of total revenue            | 6%                 | 6%           |                   |                   |

Total revenue generated in North America decreased \$0.6 million, and total revenue generated outside North America increased \$3.5 million, in the second quarter of fiscal year 2018 as compared to the same quarter last year. Total revenue generated in North America increased \$0.7 million, and total revenue generated outside North America increased \$5.2 million, in the first six months of fiscal year 2018 as compared to the same period last year. The decrease in North America in the second quarter of fiscal year 2018 was primarily due to lower license revenue generated by our Data Connectivity and Integration segment, partially offset by increased license and maintenance revenue in our OpenEdge segment. The increase in North America in the first six months of fiscal year 2018 was primarily due to an increase in license and maintenance revenue in our OpenEdge segment. The increase in revenue generated in EMEA in all periods was primarily due to an increase in OpenEdge license and maintenance revenue, which was further impacted by favorable exchange rates as described above. The decrease in revenue generated in Latin America in all periods was primarily due to license and maintenance revenue decreases in our OpenEdge segment. The revenue generated in Asia Pacific in the second quarter increased as compared to the same quarter last year as a result of higher license revenue in our OpenEdge segment. The decrease in revenue generated in Asia Pacific in the first six months of fiscal year 2018 as compared to the same period last year was primarily due to lower license and maintenance revenue in our OpenEdge segment.

Total revenue generated in markets outside North America represented 46% of total revenue in the first six months of fiscal year 2018 and 45% of total revenue in the same period last year. If exchange rates had remained constant in the first six months of fiscal year 2018 as compared to the exchange rates in effect in the same period of fiscal year 2017, total revenue generated in markets outside North America would have been 45% of total revenue.



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## Revenue by Segment

| (In thousands)                                 | Three Months Ended |              | Percentage Change |                   |  |
|--|--------------------|--------------|-------------------|-------------------|--|
|  | May 31, 2018       | May 31, 2017 | As Reported       | Constant Currency |  |
| OpenEdge segment                               | \$69,967           | \$65,890     | 6 %               | 3 %               |  |
| Data Connectivity and Integration segment      | 5,788              | 7,096        | (18)%             | (19)%             |  |
| Application Development and Deployment segment | 20,347             | 20,227       | 1 %               | 1 %               |  |
| Total revenue                                  | \$96,102           | \$93,213     | 3 %               | 1 %               |  |

  

| (In thousands)                                 | Six Months Ended |              | Percentage Change |                   |  |
|--|------------------|--------------|-------------------|-------------------|--|
|  | May 31, 2018     | May 31, 2017 | As Reported       | Constant Currency |  |
| OpenEdge segment                               | \$136,375        | \$130,398    | 5 %               | 1 %               |  |
| Data Connectivity and Integration segment      | 13,392           | 13,924       | (4)%              | (4)%              |  |
| Application Development and Deployment segment | 40,382           | 39,861       | 1 %               | 1 %               |  |
| Total revenue                                  | \$190,149        | \$184,183    | 3 %               | 1 %               |  |

Revenue in the OpenEdge segment increased in all periods primarily due to the favorable impact from exchange rate fluctuations and an increase in license and maintenance revenue, partially offset by a decrease in professional services revenue. Data Connectivity and Integration revenue decreased in all periods primarily due to the timing of certain renewals by original equipment manufacturers ("OEMs"). Application Development and Deployment revenue increased in all periods primarily as a result of higher maintenance and services revenue from Sitefinity.

## Cost of Software Licenses

| (In thousands)                              | Three Months Ended |              |                   | Six Months Ended |              |                   |
|---|--------------------|--------------|-------------------|------------------|--------------|-------------------|
|   | May 31, 2018       | May 31, 2017 | Percentage Change | May 31, 2018     | May 31, 2017 | Percentage Change |
| Cost of software licenses                   | \$1,233            | \$1,422      | (13)%             | \$2,494          | \$3,010      | (17)%             |
| As a percentage of software license revenue | 5 %                | 6 %          |                   | 5 %              | 6 %          |                   |
| As a percentage of total revenue            | 1 %                | 2 %          |                   | 1 %              | 2 %          |                   |

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

## Cost of Maintenance and Services

| (In thousands)                                      | Three Months Ended |              |                   | Six Months Ended |              |                   |
|---|--------------------|--------------|-------------------|------------------|--------------|-------------------|
|   | May 31, 2018       | May 31, 2017 | Percentage Change | May 31, 2018     | May 31, 2017 | Percentage Change |
| Cost of maintenance and services                    | \$9,511            | \$11,262     | (16)%             | \$19,335         | \$21,754     | (11)%             |
| As a percentage of maintenance and services revenue | 14 %               | 17 %         |                   | 14 %             | 16 %         |                   |
| As a percentage of total revenue                    | 10 %               | 12 %         |                   | 10 %             | 12 %         |                   |

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

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## Amortization of Acquired Intangibles

| (In thousands)                       | Three Months Ended |                 |                      | Six Months Ended |                 |                      |
|--------------------------------------|--------------------|-----------------|----------------------|------------------|-----------------|----------------------|
|                                      | May 31,<br>2018    | May 31,<br>2017 | Percentage<br>Change | May 31,<br>2018  | May 31,<br>2017 | Percentage<br>Change |
| Amortization of acquired intangibles | \$5,899            | \$4,683         | 26 %                 | \$11,717         | \$8,361         | 40 %                 |
| As a percentage of total revenue     | 6                  | % 5             | %                    | 6                | % 5             | %                    |

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 primarily due to the addition of intangible assets associated with the technologies obtained in connection with the acquisitions of DataRPM in the second quarter of fiscal year 2017 and Kinvey in the third quarter of fiscal year 2017.

## Gross Profit

| (In thousands)                   | Three Months Ended |                 |                      | Six Months Ended |                 |                      |
|----------------------------------|--------------------|-----------------|----------------------|------------------|-----------------|----------------------|
|                                  | May 31,<br>2018    | May 31,<br>2017 | Percentage<br>Change | May 31,<br>2018  | May 31,<br>2017 | Percentage<br>Change |
| Gross profit                     | \$79,459           | \$75,846        | 5 %                  | \$156,603        | \$151,058       | 4 %                  |
| As a percentage of total revenue | 83                 | % 81            | %                    | 82               | % 82            | %                    |

Our gross profit increased in the second quarter and first six months of fiscal year 2018 primarily due to the increases of license and maintenance revenue and the decrease in cost of maintenance and services as described above, offset slightly by the increase of amortization of acquired intangibles.

## Sales and Marketing

| (In thousands)                   | Three Months Ended |                 |                      | Six Months Ended |                 |                      |
|----------------------------------|--------------------|-----------------|----------------------|------------------|-----------------|----------------------|
|                                  | May 31,<br>2018    | May 31,<br>2017 | Percentage<br>Change | May 31,<br>2018  | May 31,<br>2017 | Percentage<br>Change |
| Sales and marketing              | \$21,658           | \$21,236        | 2 %                  | \$43,086         | \$46,957        | (8) %                |
| As a percentage of total revenue | 23                 | % 23            | %                    | 23               | % 25            | %                    |

Sales and marketing expenses increased in the second quarter of fiscal year 2018 as compared to the same period last year primarily due to higher marketing programs costs related to our annual customer and partner conference, which took place during the quarter. The increase was partially offset by lower compensation-related expenses. The decrease in the first six months of fiscal year 2018 as compared to the same period last year was primarily due to lower compensation-related and travel costs as a result of the headcount reduction actions which occurred in the first quarter of fiscal year 2017.

## Product Development

| (In thousands)                   | Three Months Ended |                 |                      | Six Months Ended |                 |                      |
|----------------------------------|--------------------|-----------------|----------------------|------------------|-----------------|----------------------|
|                                  | May 31,<br>2018    | May 31,<br>2017 | Percentage<br>Change | May 31,<br>2018  | May 31,<br>2017 | Percentage<br>Change |
| Product development costs        | \$19,822           | \$18,791        | 5 %                  | \$40,067         | \$36,125        | 11 %                 |
| As a percentage of total revenue | 21                 | % 20            | %                    | 21               | % 20            | %                    |

Product development expenses increased in the second quarter and first six months of fiscal year 2018 as compared to the same period last year primarily due to higher stock-based compensation expenses. During the first quarter of fiscal year 2017, there were significant forfeitures due to our restructuring action, which significantly reduced stock-based compensation expense in the second quarter and first six months of fiscal year 2017 as compared to the same periods in the current fiscal year.

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## General and Administrative

| (In thousands)                   | Three Months Ended |                 |                      | Six Months Ended |                 |                      |
|----------------------------------|--------------------|-----------------|----------------------|------------------|-----------------|----------------------|
|                                  | May 31,<br>2018    | May 31,<br>2017 | Percentage<br>Change | May 31,<br>2018  | May 31,<br>2017 | Percentage<br>Change |
| General and administrative       | \$12,190           | \$11,606        | 5 %                  | \$23,452         | \$22,174        | 6 %                  |
| As a percentage of total revenue | 13                 | % 12            | %                    | 12               | % 12            | %                    |

General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses increased in the second quarter of fiscal year 2018 as compared to the same period last year primarily due to higher outside services expense and stock-based compensation expense. The increase in the first six months of fiscal year 2018 as compared to the same period last year is primarily due to higher stock-based compensation expense, partially offset by lower compensation-related expenses. During the first quarter of fiscal year 2017, there were significant forfeitures due to our restructuring action, which significantly reduced stock-based compensation expense in the second quarter and first six months of fiscal year 2017 as compared to the same periods in the current fiscal year.

## Amortization of Acquired Intangibles

| (In thousands)                       | Three Months Ended |                 |                      | Six Months Ended |                 |                      |
|--------------------------------------|--------------------|-----------------|----------------------|------------------|-----------------|----------------------|
|                                      | May 31,<br>2018    | May 31,<br>2017 | Percentage<br>Change | May 31,<br>2018  | May 31,<br>2017 | Percentage<br>Change |
| Amortization of acquired intangibles | \$3,318            | \$3,223         | 3 %                  | \$6,637          | \$6,402         | 4 %                  |
| As a percentage of total revenue     | 3                  | % 3             | %                    | 3                | % 3             | %                    |

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

## Fees Related to Shareholder Activist

| (In thousands)                       | Three Months Ended |                 |                      | Six Months Ended |                 |                      |
|--------------------------------------|--------------------|-----------------|----------------------|------------------|-----------------|----------------------|
|                                      | May 31,<br>2018    | May 31,<br>2017 | Percentage<br>Change | May 31,<br>2018  | May 31,<br>2017 | Percentage<br>Change |
| Fees related to shareholder activist | \$214              | \$ —            | *                    | \$1,472          | \$ —            | *                    |
| As a percentage of total revenue     | —                  | % —             | %                    | 1                | % —             | %                    |

\* Not meaningful

In September 2017, Praesidium Investment Management publicly announced in a Schedule 13D filed with the SEC its disagreement with our strategy and stated that it was seeking changes in the composition of our Board of Directors. We incurred professional and other fees relating to Praesidium's actions as noted above. In March 2018, Praesidium Investment Management publicly announced in an amended Schedule 13D filed with the SEC that it had sold all but 1,000 shares of Company common stock that it previously held; accordingly, we do not expect to incur additional professional and other fees related to this matter.



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## Restructuring Expenses

| (In thousands)                   | Three Months Ended |              |                   | Six Months Ended |              |                   |
|----------------------------------|--------------------|--------------|-------------------|------------------|--------------|-------------------|
|                                  | May 31, 2018       | May 31, 2017 | Percentage Change | May 31, 2018     | May 31, 2017 | Percentage Change |
| Restructuring expenses           | \$426              | \$662        | (36)%             | \$2,247          | \$17,801     | (87)%             |
| As a percentage of total revenue | —                  | % 1          | %                 | 1                | % 10         | %                 |

Restructuring expenses recorded in the second quarter and first six months of fiscal year 2018 relate to the restructuring activities that occurred in fiscal year 2017. See Note 11 to the condensed consolidated financial statements for additional details, including types of expenses incurred and the timing of future expenses and cash payments. See also the Liquidity and Capital Resources section of this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

## Acquisition-Related Expenses

| (In thousands)                   | Three Months Ended |              |                   | Six Months Ended |              |                   |
|----------------------------------|--------------------|--------------|-------------------|------------------|--------------|-------------------|
|                                  | May 31, 2018       | May 31, 2017 | Percentage Change | May 31, 2018     | May 31, 2017 | Percentage Change |
| Acquisition-related expenses     | \$43               | \$44         | (2)%              | \$86             | \$93         | (8)%              |
| As a percentage of total revenue | —                  | % —          | %                 | —                | % —          | %                 |

Acquisition-related costs are expensed as incurred and include those costs incurred as a result of a business combination. These costs consist of professional service fees, including third-party legal and valuation-related fees, as well as retention fees, including earn-out payments treated as compensation expense. Acquisition-related expenses in the first quarter of fiscal year 2018 and 2017 were minimal.

## Income from Operations

| (In thousands)                   | Three Months Ended |              |                   | Six Months Ended |              |                   |
|----------------------------------|--------------------|--------------|-------------------|------------------|--------------|-------------------|
|                                  | May 31, 2018       | May 31, 2017 | Percentage Change | May 31, 2018     | May 31, 2017 | Percentage Change |
| Income from operations           | \$21,788           | \$20,284     | 7%                | \$39,556         | \$21,506     | 84%               |
| As a percentage of total revenue | 23                 | % 22         | %                 | 21               | % 12         | %                 |

Income from operations increased in the second quarter and first six months of fiscal year 2018 as compared to the same period last year primarily due to the restructuring expenses recorded in fiscal year 2017 as a result of the headcount reduction action that occurred in the first quarter of fiscal year 2017.

## Income from Operations by Segment

| (In thousands)                                 | Three Months Ended |              |                   | Six Months Ended |              |                   |
|--|--------------------|--------------|-------------------|------------------|--------------|-------------------|
|  | May 31, 2018       | May 31, 2017 | Percentage Change | May 31, 2018     | May 31, 2017 | Percentage Change |
| OpenEdge segment                               | \$54,954           | \$49,603     | 11%               | \$105,600        | \$96,234     | 10%               |
| Data Connectivity and Integration segment      | 4,114              | 5,027        | (18)%             | 10,089           | 9,593        | 5%                |
| Application Development and Deployment segment | 14,148             | 14,236       | (1)%              | 27,385           | 26,334       | 4%                |
| Other unallocated expenses (1)                 | (51,428)           | (48,582)     | 6%                | (103,518)        | (110,655)    | (6)%              |

|                        |          |          |   |   |          |          |    |   |
|------------------------|----------|----------|---|---|----------|----------|----|---|
| Income from operations | \$21,788 | \$20,284 | 7 | % | \$39,556 | \$21,506 | 84 | % |
|------------------------|----------|----------|---|---|----------|----------|----|---|

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

## Other (Expense) Income, Net

| (In thousands)                    | Three Months Ended |                 |                      | Six Months Ended |                 |                      |
|-----------------------------------|--------------------|-----------------|----------------------|------------------|-----------------|----------------------|
|                                   | May 31,<br>2018    | May 31,<br>2017 | Percentage<br>Change | May 31,<br>2018  | May 31,<br>2017 | Percentage<br>Change |
| Interest expense                  | \$(1,272)          | \$(1,152)       | (10 )%               | \$(2,437)        | \$(2,234)       | (9 )%                |
| Interest income and other, net    | 231                | 257             | (10 )%               | 639              | 478             | 34 %                 |
| Foreign currency (loss) gain, net | (243 )             | (657 )          | 63 %                 | (1,071 )         | (1,143 )        | 6 %                  |
| Total other (expense) income, net | \$(1,284)          | \$(1,552)       | 17 %                 | \$(2,869)        | \$(2,899)       | 1 %                  |
| As a percentage of total revenue  | (1 )%              | (2 )%           |                      | (2 )%            | (2 )%           |                      |

Other (expense) income, net increased in the second quarter and first six months of fiscal year 2018 as compared to the same periods last year primarily due to a decrease in foreign currency loss, partially offset by higher interest expense. The change in foreign currency gains/losses is a result of movements in exchange rates and the impact in the second and first six months of fiscal year 2018 on our intercompany receivables and payables denominated in currencies other than local currencies.

## Provision for Income Taxes

| (In thousands)                   | Three Months Ended |                 |                      | Six Months Ended |                 |                      |
|----------------------------------|--------------------|-----------------|----------------------|------------------|-----------------|----------------------|
|                                  | May 31,<br>2018    | May 31,<br>2017 | Percentage<br>Change | May 31,<br>2018  | May 31,<br>2017 | Percentage<br>Change |
| Provision for income taxes       | \$5,101            | \$8,391         | (39 )%               | \$8,372          | \$8,791         | (5 )%                |
| As a percentage of total revenue | 5 %                | 9 %             |                      | 4 %              | 5 %             |                      |

Our effective tax rate was 25% in the second quarter of fiscal year 2018 compared to 45% in the second quarter of fiscal year 2017, and 23% in the first six months of fiscal year 2018 compared to 47% in the same period last year. The primary reason for the decrease in the effective rate was due to the enactment of tax reform in the United States and our federal tax rate in fiscal year 2018 is estimated to be 22.2% as compared to 35% in fiscal year 2017. In addition, we recognized a \$1.4 million discrete income tax benefit in the first quarter of fiscal year 2018 from the re-measurement of our U.S. deferred tax balances.

## Net Income

| (In thousands)                   | Three Months Ended |                 |                      | Six Months Ended |                 |                      |
|----------------------------------|--------------------|-----------------|----------------------|------------------|-----------------|----------------------|
|                                  | May 31,<br>2018    | May 31,<br>2017 | Percentage<br>Change | May 31,<br>2018  | May 31,<br>2017 | Percentage<br>Change |
| Net income                       | \$15,403           | \$10,341        | 49 %                 | \$28,315         | \$9,816         | 188 %                |
| As a percentage of total revenue | 16 %               | 11 %            |                      | 15 %             | 5 %             |                      |

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## Liquidity and Capital Resources

## Cash, Cash Equivalents and Short-Term Investments

| (In thousands)  | May 31,<br>2018 | November 30,<br>2017 |
|---|-----------------|----------------------|
| Cash and cash equivalents                               | \$97,121        | \$ 133,464           |
| Short-term investments                                  | 47,079          | 50,145               |
| Total cash, cash equivalents and short-term investments | \$ 144,200      | \$ 183,609           |

The decrease in cash, cash equivalents and short-term investments of \$39.4 million from the end of fiscal year 2017 was due to repurchases of common stock of \$90.0 million, dividend payments of \$13.1 million, the effect of exchange rates on cash of \$5.9 million, payments of capital expenditures of \$3.2 million, and payments of debt obligations in the amount of \$3.1 million. These cash outflows were partially offset by cash inflows from operations of \$73.7 million and \$4.7 million in cash received from the issuance of common stock. Except as described below, there are no limitations on our ability to access our cash, cash equivalents and short-term investments.

As of May 31, 2018, \$32.3 million of our cash, cash equivalents and short-term investments was held by our foreign subsidiaries. If these funds are needed for U.S. operations, we would be required to accrue withholding tax liabilities to repatriate these funds. As a result of recent changes in U.S. tax legislation, any repatriation in the future would not result in U.S. federal income tax. Our intent is to permanently reinvest these funds outside the U.S. and our current operating plans do not require us to repatriate these funds for our U.S. operations.

## Share Repurchase Program

In September 2017, our Board of Directors increased our total share repurchase authorization to \$250.0 million. In fiscal year 2017, we repurchased and retired 2.2 million shares of our common stock for \$73.9 million. We repurchased and retired 1.1 million shares of our common stock for \$45.0 million in the three months ended May 31, 2018 and 2.1 million shares for \$90.0 million in the six months ended May 31, 2018. As of May 31, 2018, there was \$130.0 million remaining under this current authorization. We expect to continue repurchasing shares of our common stock under this authorization consistent with our capital allocation strategy. However, we may terminate this program at any time.

## Dividends

On September 6, 2017, our Board of Directors approved a 12% increase in our quarterly cash dividend to \$0.14 per share of common stock. We began paying quarterly cash dividends of \$0.125 per share of common stock to Progress shareholders in December 2016. We expect to continue paying quarterly cash dividends in subsequent quarters consistent with our capital allocation strategy. However, we may terminate or modify this program at any time. On June 20, 2018, our Board of Directors declared a quarterly dividend of \$0.14 per share of common stock that will be paid on September 17, 2018 to shareholders of record as of the close of business on September 3, 2018.

## Restructuring Activities

During fiscal year 2017, we undertook certain operational restructuring initiatives intended to significantly reduce annual costs. As part of this action, management committed to a new strategic plan highlighted by a new product strategy and a streamlined operating approach. To execute these operational restructuring initiatives, we reduced our global workforce by over 20%. These workforce reductions occurred in substantially all functional units and across all geographies in which we operate. We also consolidated offices in various locations during fiscal year 2017 and the

first half of fiscal year 2018. We expect to incur additional expenses related to facility closures during fiscal year 2018, but we do not expect these additional costs to be material.

As part of this fiscal year 2017 restructuring, for the three and six months ended May 31, 2018, we incurred expenses of \$0.4 million and \$2.2 million, respectively, which are recorded in restructuring expenses on the condensed consolidated statements of operations.

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## Credit Facility

On November 20, 2017, we entered into an amended and restated credit agreement, which provides for a \$123.8 million secured term loan and a \$150.0 million secured revolving credit facility. The revolving credit facility may be made available in U.S. Dollars and certain other currencies and may be increased by up to an additional \$125.0 million if the existing or additional lenders are willing to make such increased commitments.

Interest rates for the term loan and revolving credit facility are based upon our leverage ratio and determined based on an index selected at our option. The rates would range from 1.50% to 2.00% above the Eurodollar rate for Eurodollar-based borrowings or from 0.50% to 1.00% above the defined base rate for base rate borrowings. Additionally, we may borrow certain foreign currencies at rates set in the same respective range above the London interbank offered interest rates ("LIBOR") for those currencies. A quarterly commitment fee on the undrawn portion of the revolving credit facility is required and ranges from 0.25% to 0.35% per annum based on our leverage ratio. The interest rate of the credit facility as of May 31, 2018 was 3.44%.

The credit facility matures on November 20, 2022, when all amounts outstanding will be due and payable in full. The revolving credit facility does not require amortization of principal. The outstanding balance of the term loan as of May 31, 2018 was \$120.7 million, with \$6.2 million due in the next 12 months. The term loan requires repayment of principal at the end of each fiscal quarter, beginning with the fiscal quarter ended February 28, 2018. The principal repayment amounts are in accordance with the following schedule: (i) eight payments of \$1.5 million each, (ii) four payments of \$2.3 million each, (iii) four payments of \$3.1 million each, (iv) three payments of \$3.9 million each, and (v) the last payment is of the remaining principal amount. Any amounts outstanding under the term loan thereafter would be due on the maturity date. The term loan may be prepaid before maturity in whole or in part at our option without penalty or premium. As of May 31, 2018, the carrying value of the term loan approximates the fair value, based on Level 2 inputs (observable market prices in less than active markets), as the interest rate is variable over the selected interest period and is similar to current rates at which we can borrow funds.

Revolving loans may be borrowed, repaid and reborrowed until November 20, 2022, at which time all amounts outstanding must be repaid. As of May 31, 2018, there were no amounts outstanding under the revolving line and \$1.3 million of letters of credit.

The credit facility contains customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, grant liens, make investments, make acquisitions, incur indebtedness, merge or consolidate, dispose of assets, pay dividends or make distributions, repurchase stock, change the nature of the business, enter into certain transactions with affiliates and enter into burdensome agreements, in each case subject to customary exceptions for a credit facility of this size and type. We are also required to maintain compliance with a consolidated fixed charge coverage ratio, a consolidated total leverage ratio and a consolidated senior secured leverage ratio. We are in compliance with these financial covenants as of May 31, 2018.

## Cash Flows from Operating Activities

| (In thousands)                                    | Six Months<br>Ended |                 |
|---|---------------------|-----------------|
|   | May 31,<br>2018     | May 31,<br>2017 |
| Net income  | \$28,315            | \$9,816         |
| Non-cash reconciling items included in net income | 31,532              | 29,682          |
| Changes in operating assets and liabilities       | 13,877              | 20,231          |

Net cash flows from operating activities                      \$73,724 \$59,729

The increase in cash generated from operations in the first six months of fiscal year 2018 as compared to the first six months of fiscal year 2017 was primarily due to higher operating income, partially offset by the changes in operating assets and liabilities as compared to last year. Operating expenses were lower during the first six months of fiscal year 2018 as a result of the Company's focus on expense management as it relates to both hiring and discretionary spending. Further, cash flows in the first six months of fiscal year 2017 were particularly strong due to a slightly shorter collection cycle as compared to the first six months of fiscal year 2018. Our gross accounts receivable as of May 31, 2018 decreased by \$18.6 million from the end of fiscal year 2017, which is primarily due to higher collections than billings during the period. Days sales outstanding (DSO) in accounts receivable was 40 days compared to 42 days in the fiscal second quarter of 2017 due to the timing of billings in the quarter. In addition, our total deferred revenue as of May 31, 2018 increased by \$5.5 million from the end of fiscal year 2017.

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## Cash Flows used in Investing Activities

| (In thousands)                                  | Six Months Ended |              |
|---|------------------|--------------|
|   | May 31, 2018     | May 31, 2017 |
| Net investment activity                         | \$2,465          | \$(4,936 )   |
| Purchases of property and equipment             | (3,196 )         | (523 )       |
| Payments for acquisitions, net of cash acquired | —                | (28,270 )    |
| Net cash flows used in investing activities     | \$(731 )         | \$(33,729)   |

Net cash outflows and inflows 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 \$3.2 million of property and equipment in the first six months of fiscal year 2018, as compared to \$0.5 million in the first six months of fiscal year 2017. Most significantly, however, we acquired DataRPM during the second quarter of fiscal year 2017 for a net cash amount of \$28.3 million and did not complete any acquisitions during the first six months of fiscal year 2018.

## Cash Flows used in Financing Activities

| (In thousands)                               | Six Months Ended |              |
|--|------------------|--------------|
|  | May 31, 2018     | May 31, 2017 |
| Proceeds from stock-based compensation plans | \$4,671          | \$5,031      |
| Repurchases of common stock                  | (90,000 )        | (24,954 )    |
| Payment of long-term debt                    | (3,094 )         | (7,500 )     |
| Dividend payments to shareholders            | (13,101 )        | (12,116 )    |
| Other financing activities                   | (1,931 )         | (2,014 )     |
| Net cash flows used in financing activities  | \$(103,455)      | \$(41,553)   |

During the first six months of fiscal year 2018, we received \$4.7 million from the exercise of stock options and the issuance of shares under our employee stock purchase plan as compared to \$5.0 million in the first six months of fiscal year 2017. Significantly, in the first six months of fiscal year 2018, we repurchased \$90.0 million of our common stock under our share repurchase plan compared to \$25.0 million in the same period of the prior year. In addition, we made principal payments of our long-term debt of \$3.1 million in the first six months of fiscal year 2018 compared to \$7.5 million in the same period of the prior year. We also made dividend payments of \$13.1 million to our shareholders during the first six months of fiscal 2018, as compared to \$12.1 million in the first six months of fiscal 2017.

## Indemnification Obligations

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



### Liquidity Outlook

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

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## Revenue Backlog

| (In thousands)  | May 31,<br>2018 | May 31,<br>2017 |
|---|-----------------|-----------------|
| Deferred revenue,<br>primarily related to<br>unexpired maintenance<br>and support contracts | \$ 147,788      | \$ 142,074      |
| Multi-year licensing<br>arrangements <sup>(1)</sup>   | 16,609          | 21,344          |
| Total revenue backlog   | \$ 164,397      | \$ 163,418      |

Our backlog of orders not included on the balance sheet is not subject to our normal accounting controls for information that is either reported in or derived from our basic financial statements. Note that approximately \$14.9 (1) million and \$20.4 million of the multi-year licensing arrangements as of May 31, 2018 and May 31, 2017, respectively, relate to DataDirect OEM arrangements, while the remaining amount relates to arrangements in our OpenEdge business unit.

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

## Legal and Other Regulatory Matters

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

## Off-Balance Sheet Arrangements

Our only significant off-balance sheet commitments relate to operating lease obligations. Future annual minimum rental lease payments are detailed in Note 9 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended November 30, 2017. We have no "off-balance sheet arrangements" within the meaning of Item 303(a)(4) of Regulation S-K.

## Contractual Obligations

There have been no material changes to our contractual obligations disclosed in tabular format in our Annual Report on Form 10-K for the fiscal year ended November 30, 2017.

## Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). ASU 2018-02 gives entities the option to reclassify the disproportionate income tax effects ("stranded tax effects") caused by the newly-enacted US Tax Cuts

and Jobs Act from accumulated other comprehensive income to retained earnings. The update also requires new disclosures, some of which are applicable for all entities. The guidance in ASU 2018-02 is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently considering whether to adopt the optional reclassification of the stranded tax effects and evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

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

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting ("ASU 2017-09"), which amends the scope of modification accounting for share-based payment awards. The guidance in ASU 2017-09 provides that modification accounting is required only if a change in the terms or conditions of an award results in a change to the fair value, the vesting conditions, or the classification of the award as equity or liability. The guidance in ASU 2017-09 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently assessing the impact of the adoption of this update on our consolidated financial position and results of operations.

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 is intended to simplify various aspects of the accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance in ASU 2016-09 is required for annual reporting periods beginning after December 15, 2016, with early adoption permitted. The standard requires, on a prospective basis, the recognition of all excess tax benefits and tax deficiencies as income tax benefit or expense in the statement of operations and the tax effect of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. The excess tax benefits and tax deficiencies should not be considered in an entity's calculation of its annual estimated effective tax rate and, as excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method to calculate diluted earnings per share should exclude such excess tax benefits. Further, on either a prospective or retrospective basis, excess tax benefits should be classified as operating activities in the statement of cash flows. The standard also provides entities the option to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur, which is to be applied in accordance with a modified retrospective transition. Additionally, the standard updates the threshold to qualify for equity classification for minimum statutory tax withholding requirements by permitting an entity to withhold up to the maximum statutory rates in the applicable jurisdictions, applied on a modified retrospective basis. Finally, the standard requires that cash paid by an employer to a taxing authority when directly withholding shares for tax withholding purposes be classified as a financing activity in the statement of cash flows, applied retrospectively.

We adopted this standard at the beginning of the first quarter of fiscal year 2018 and elected to classify excess tax benefits as operating activities on a prospective basis in the condensed consolidated statement of cash flows. As such, the prior period condensed consolidated statement of cash flows was not adjusted. We also elected to account for forfeitures as they occur and recorded a cumulative-effect adjustment of \$0.6 million to retained earnings during the period of adoption. The adoption of ASU 2016-09 did not have a material impact on our consolidated financial position, results of operations, and cash flows.

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

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

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

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

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

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

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the second quarter of fiscal year 2018, 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 the fiscal year ended November 30, 2017 for a more complete discussion of the market risks we encounter.

### Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

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

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Our management, including our 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 May 31, 2018 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 May 31, 2018 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. There have been no material changes in our assessment of our risk factors from those set forth in our Annual Report on Form 10-K for the fiscal year ended November 30, 2017. For convenience, such risk factors are included below. The risks discussed below could materially affect our business, financial condition and future results. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may materially and adversely affect our business, financial condition or operating results in the future.

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

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

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

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

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

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downturns until future periods. Further, any increases in sales under our subscription sales model could result in decreased revenues over the short term if they are offset by a decline in sales from perpetual license customers.

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

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

Our international operations expose us to additional risks, and changes in global economic and political conditions could adversely affect our international operations, our revenue and our net income. Approximately 45% of our total revenue is generated from sales outside North America. Political and/or financial instability, oil price shocks and armed conflict in various regions of the world can lead to economic uncertainty and may adversely impact our business. For example, the announcement of the Referendum of the United Kingdom's Membership of the European Union ("EU") (referred to as "Brexit"), advising for the exit of the United Kingdom from the EU, resulted in significant volatility in global stock markets and currency exchange rate fluctuations. If customers' buying patterns, decision-making processes, timing of expected deliveries and timing of new projects unfavorably change due to economic or political conditions, there would be a material adverse effect on our business, financial condition and operating results.

Other potential risks inherent in our international business include:

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

seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;  
economic instability in emerging markets; and  
potentially adverse tax consequences.

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

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Fluctuations in foreign currency exchange rates could have an adverse impact on our financial condition and results of operations. Changes in the value of foreign currencies relative to the U.S. dollar have adversely affected our results of operations and financial position. For example, during periods in which the value of the U.S. dollar strengthens in comparison to certain foreign currencies, particularly in Europe, Brazil and Australia, our reported international revenue is reduced because foreign currencies translate into fewer U.S. dollars. As approximately one-third of our revenue is denominated in foreign currencies, our revenue results have been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates.

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

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

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

We have made significant investments in furtherance of our Cognitive Applications strategy and these investments may not generate the revenues we expect, which could adversely affect our business and financial results. In 2017, we made significant investments in furtherance of our Cognitive Applications strategy, including two acquisitions. Under our Cognitive Applications strategy, we provide the platform and tools enterprises need to build next generation applications that drive their businesses, known as "Cognitive First Applications." This consists of frontend UI tools for creating interfaces across any device, a modern serverless cloud backend application platform, cognitive services that can be built into any application, a business rules engine, and data connectivity to any data source (Big Data, IoT, systems of record and more). While our platform is horizontal, we also are offering vertically focused solutions. Our initial vertical focus areas are predictive maintenance for the industrial IoT ("IIoT") and healthcare applications.

IIoT is a relatively new market and there are a significant number of competitors in the market. If the market does not expand as rapidly as we or others expect or if customers adopt competitors' solutions rather than our solutions, our IIoT business may not generate the revenues we expect. Further, our customers and potential customers often begin the process of implementing IIoT with a proof-of-concept evaluation, in some cases with multiple different

technology vendors. Our offering for building healthcare applications is relatively new and thus is also subject to uncertainties in near-term revenue generation. Our pace of growth in these markets will depend on our ability to attract customers and engage with them to ensure that their investment yields value at their desired speed and expected costs.

The increased emphasis on a cloud strategy may give rise to risks that could harm our business. We are devoting significant resources to the development of cloud-based technologies and service offerings where we have a limited operating history. Our cloud strategy requires continued investment in product development and cloud operations as well as a change in the way we price and deliver our products. Many of our competitors may have advantages over us due to their larger presence, larger developer network, deeper experience in the cloud-based computing market, and greater sales and marketing resources. It is uncertain whether these strategies will prove successful or whether we will be able to develop the infrastructure and business models more quickly than our competitors. Our cloud strategy may give rise to a number of risks, including the following:

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

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

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

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

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

Our periodic workforce restructurings can be disruptive. We have in the past restructured or made other adjustments to our workforce in response to management changes, product changes, performance issues, change in strategies,

acquisitions and other internal and external considerations. In the past, these types of restructurings have resulted in increased restructuring costs and temporary reduced productivity. In addition, we may not achieve or sustain the expected growth or cost savings benefits of these restructurings, or do so within the expected timeframe. These effects could recur in connection with future restructurings and our revenues and other results of operations could be negatively affected.

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

Our business practices with respect to the collection, use and management of personal information could give rise to operational interruption, liabilities or reputational harm as a result of governmental regulation, legal requirements or



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industry standards relating to consumer privacy and data protection. As regulatory focus on privacy issues continues to increase and worldwide laws and regulations concerning the handling of personal information expand and become more complex, potential risks related to data collection and use within our business will intensify. For example, the EU and the U.S. formally entered into a new framework in July 2016 that provides a mechanism for companies to transfer data from EU member states to the U.S. This new framework, called the Privacy Shield, is intended to address shortcomings identified by the Court of Justice of the EU in the previous EU-U.S. Safe Harbor Framework, which the Court of Justice invalidated in October 2015. The Privacy Shield and other data transfer mechanisms are likely to be reviewed by the European courts, which may lead to uncertainty about the legal basis for data transfers to the U.S. or interruption of such transfers. In the event any court blocks transfers to or from a particular jurisdiction on the basis that no transfer mechanisms are legally adequate, this could give rise to operational interruption in the performance of services for customers and internal processing of employee information, regulatory liabilities or reputational harm. In addition, U.S. and foreign governments have enacted or are considering enacting legislation or regulations, or may in the near future interpret existing legislation or regulations, in a manner that could significantly impact our ability and the ability of our customers and data partners to collect, augment, analyze, use, transfer and share personal and other information that is integral to certain services we provide.

Regulators globally are also imposing greater monetary fines for privacy violations. For example, in 2016, the EU adopted a new law governing data practices and privacy called the General Data Protection Regulation ("GDPR"), which became effective in May 2018. The law establishes new requirements regarding the handling of personal data. Non-compliance with the GDPR may result in monetary penalties of up to 4% of worldwide revenue. The GDPR and other changes in laws or regulations associated with the enhanced protection of certain types of sensitive data, such as healthcare data or other personal information, could greatly increase our cost of providing our products and services or even prevent us from offering certain services in jurisdictions that we operate.

Additionally, public perception and standards related to the privacy of personal information can shift rapidly, in ways that may affect our reputation or influence regulators to enact regulations and laws that may limit our ability to provide certain products. Any failure, or perceived failure, by us to comply with U.S. federal, state, or foreign laws and regulations, including laws and regulations regulating privacy, data security, or consumer protection, or other policies, public perception, standards, self-regulatory requirements or legal obligations, could result in lost or restricted business, proceedings, actions or fines brought against us or levied by governmental entities or others, or could adversely affect our business and harm our reputation.

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

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

be inadequate to prevent misappropriation of our technology; moreover, others could independently develop similar technology.

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

If our security measures are breached, our products and services may be perceived as not being secure, customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure. Our products and services involve the storage and transmission of our customers' proprietary information, and security breaches could expose us

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to a risk of loss of this information, litigation, and potential liability. Our security measures may be breached due to the actions of outside parties, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to our data or our customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, increased costs to defend litigation or damage to our reputation, and a loss of confidence in the security of our products and services that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose customers.

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

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

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

We are required to comply with certain financial and operating covenants under our credit facility and to make scheduled debt payments as they become due; any failure to comply with those covenants or to make scheduled payments could cause amounts borrowed under the facility to become immediately due and payable or prevent us from borrowing under the facility. In November 2017, we entered into an amended and restated credit agreement, which consists of a \$123.8 million term loan and a \$150.0 million revolving loan (and may be increased by an additional \$125.0 million if the existing or additional lenders are willing to make such increased commitments). This facility matures in November 2022, at which time any amounts outstanding will be due and payable in full. We may wish to borrow additional amounts under the facility in the future to support our operations, including for strategic acquisitions and share repurchases.

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

Our annual operating cash flows may not be sufficient to enable us to meet our targeted capital allocation policy, which could decrease your expected return on investment in Progress stock. In September 2017, we increased our quarterly dividend by 12% and announced a new capital allocation strategy in which we are targeting to return approximately 50% of annual cash flows from operations to stockholders through share repurchases and 25-30%

through dividends. Meeting these targets requires us to generate consistent cash flow and have available capital in an amount sufficient to enable us to continue investing in our business. We may not meet these targets if we do not generate the operating cash flows we expect, if we use our available cash to satisfy other priorities, if we have insufficient funds available to make such repurchases and/or dividends or if we are unable to borrow funds under our credit facility.

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

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## 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 second quarter of fiscal year 2018 is as follows (in thousands, except per share and share data):

| Period     | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar Value<br>of Shares<br>that May Yet<br>be<br>Purchased<br>Under the<br>Plans or<br>Programs (1) |
|------------|---|---------------------------------------|--|--|
| March 2018 | 1,070,288                                 | \$ 42.03                              | 1,070,288  | \$ 130,000   |
| April 2018 | —   | —                                     | —  | 130,000  |
| May 2018   | —   | —                                     | —  | 130,000  |
| Total      | 1,070,288                                 | \$ 42.03                              | 1,070,288  | \$ 130,000   |

(1) In September 2017, our Board of Directors increased our total share repurchase authorization to \$250.0 million. As of May 31, 2018, there was \$130.0 million remaining under this authorization.

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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

|         |   |
|---------|---|
| 10.1*** | <u>2018 Fiscal Year Compensation Program for Non-Employee Directors</u>   |
| 31.1*   | <u>Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Yogesh K. Gupta</u> |
| 31.2*   | <u>Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Paul A. Jalbert</u> |
| 32.1**  | <u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act</u>  |

101 The following materials from Progress Software Corporation's Quarterly Report on Form 10-Q for the three and six months ended May 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of May 31, 2018 and November 30, 2017; (ii) Condensed Consolidated Statements of Income for the three and six months ended May 31, 2018 and 2017; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended May 31, 2018 and 2017; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended May 31, 2018 and 2017; and (v) Notes to Condensed Consolidated Financial Statements.

\* Filed herewith

\*\* Furnished herewith

\*\*\* Incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended February 28, 2018 filed on April 6, 2018

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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: July 6, 2018 /s/ YOGESH K. GUPTA  
Yogesh K. Gupta  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: July 6, 2018 /s/ PAUL A. JALBERT  
Paul A. Jalbert  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)