

Progress Software Corporation
Reconciliation of GAAP to Non-GAAP Financial Measures
August 31, 2017

Progress Software Corporation provides non-GAAP supplemental information to its financial results.

We use this non-GAAP information to evaluate our period-over-period operating performance because our management believes the information helps illustrate underlying trends in our business and provides us with a more comparable measure of our continuing business, as well as a greater understanding of the results from the primary operations of our business, by excluding the effects of certain items that do not reflect the ordinary earnings of our operations. Management also uses this non-GAAP financial information to establish budgets and operational goals, which are communicated internally and externally, evaluate performance, and allocate resources. In addition, compensation of our executives and non-executive employees is based in part on the performance of our business evaluated using this same non-GAAP information.

However, this non-GAAP information is not in accordance with, or an alternative to, generally accepted accounting principles in the United States (GAAP) and should be considered in conjunction with our GAAP results as the items excluded from the non-GAAP information often have a material impact on Progress' financial results. A reconciliation of non-GAAP adjustments to Progress' GAAP financial results is included in the tables below and is available on the Progress website at www.progress.com within the investor relations section.

As described in more detail below, non-GAAP revenue, non-GAAP costs of sales and operating expenses, non-GAAP income from operations and operating margin, non-GAAP net income, and non-GAAP diluted earnings per share exclude the effect of purchase accounting on the fair value of acquired deferred revenue, amortization of acquired intangible assets, stock-based compensation expense, restructuring charges, acquisition-related expenses, certain identified non-operating gains and losses, and the related tax effects of the preceding items. We also provide guidance on adjusted free cash flow, which is equal to cash flows from operating activities less purchases of property and equipment and capitalized software development costs, plus restructuring payments.

In the noted fiscal periods, we adjusted for the following items from our GAAP financial results to arrive at our non-GAAP financial measures:

- *Acquisition-related revenue* - In all periods presented, we include acquisition-related revenue, which constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. The acquisition-related revenue relates to Telerik, which we acquired on December 2, 2014, and Kinvey, which was acquired on June 1, 2017. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. We believe these adjustments are useful to management and investors as a measure of the ongoing performance of the business because, although we cannot be certain that customers will renew their contracts, we have historically experienced high renewal rates on maintenance and support agreements and other customer contracts. Additionally, although acquisition-related revenue adjustments are non-recurring with respect to past acquisitions, we expect to incur these adjustments in connection with any future acquisitions.
- *Amortization of acquired intangibles* - In all periods presented, we exclude amortization of acquired intangibles because those expenses are unrelated to our core operating performance and the intangible assets acquired vary significantly based on the timing and magnitude of our acquisition transactions and the maturities of the businesses acquired.
- *Stock-based compensation* - In all periods presented, we exclude stock-based compensation to be consistent with the way management and the financial community evaluates our performance and the methods used by analysts to

calculate consensus estimates. The expense related to stock-based awards is generally not controllable in the short-term and can vary significantly based on the timing, size and nature of awards granted. As such, we do not include these charges in operating plans. Stock-based compensation will continue in future periods.

- *Restructuring expenses* - In all periods presented, we exclude restructuring expenses incurred because those expenses distort trends and are not part of our core operating results.
- *Acquisition-related and transition expenses* - In all periods presented, we exclude acquisition-related expenses because those expenses distort trends and are not part of our core operating results. In recent years, we have completed a number of acquisitions, which result in our incurring operating expenses which would not otherwise have been incurred. By excluding certain transition, integration and other acquisition-related expense items in connection with acquisitions, this provides more meaningful comparisons of the financial results to our historical operations and forward looking guidance and the financial results of less acquisitive peer companies. We consider these types of costs and adjustments, to a great extent, to be unpredictable and dependent on a significant number of factors that are outside of our control. Furthermore, we do not consider these acquisition-related costs and adjustments to be related to the organic continuing operations of the acquired businesses and are generally not relevant to assessing or estimating the long-term performance of the acquired assets. In addition, the size, complexity and/or volume of past acquisitions, which often drives the magnitude of acquisition related costs, may not be indicative of the size, complexity and/or volume of future acquisitions.
- *Income tax adjustment* - In all periods presented, we adjust our income tax provision by excluding the tax impact of the non-GAAP adjustments discussed above.

RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES - QTD

	Three Months Ended		% Change Non-GAAP
	August 31, 2017	August 31, 2016	
<i>(In thousands, except per share data)</i>			
Adjusted revenue:			
GAAP revenue	\$ 97,310	\$ 102,018	
Acquisition-related revenue (1)	313	405	
Non-GAAP revenue	<u>\$ 97,623</u>	<u>\$ 102,423</u>	(5)%
Adjusted gross margin:			
GAAP gross margin	\$ 79,235	\$ 84,829	83 %
Amortization and impairment of acquired intangibles	5,768	3,940	4 %
Stock-based compensation (2)	239	223	— %
Acquisition-related revenue (1)	313	405	— %
Non-GAAP gross margin	<u>\$ 85,555</u>	<u>\$ 89,397</u>	(4)%
Adjusted operating expenses:			
GAAP operating expenses	\$ 58,936	\$ 71,223	70 %
Amortization and impairment of acquired intangibles	(3,319)	(8,237)	(8)%
Restructuring expenses and other	(923)	36	— %
Acquisition-related expenses	(751)	(53)	— %
Stock-based compensation (2)	(4,057)	(5,556)	(7)%
Non-GAAP operating expenses	<u>\$ 49,886</u>	<u>\$ 57,413</u>	(13)%
Adjusted income from operations:			
GAAP operating income	\$ 20,299	\$ 13,606	13 %
Amortization and impairment of acquired intangibles	9,087	12,177	12 %
Restructuring expenses and other	923	(36)	— %
Stock-based compensation (2)	4,296	5,779	6 %
Acquisition-related	1,064	458	— %
Non-GAAP income from operations	<u>\$ 35,669</u>	<u>\$ 31,984</u>	12 %
Adjusted diluted earnings per share:			
GAAP diluted earnings per share	\$ 0.23	\$ 0.15	
Amortization and impairment of acquired intangibles	0.19	0.25	
Restructuring expenses and other	0.02	—	
Stock-based compensation (2)	0.09	0.12	
Acquisition-related	0.02	0.01	
Provision for income taxes	(0.07)	(0.09)	
Non-GAAP diluted earnings per share	<u>\$ 0.48</u>	<u>\$ 0.44</u>	9 %
Non-GAAP weighted avg shares outstanding - diluted	48,370	49,135	(2)%

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvey and Telerik, respectively.

(2) Stock-based compensation is included in the GAAP statements of income, as follows:

Cost of revenue	\$ 239	\$ 223
Sales and marketing	808	751
Product development	1,645	2,524
General and administrative	1,604	2,281
Operating Expenses	<u>4,057</u>	<u>5,556</u>
Total	<u>\$ 4,296</u>	<u>\$ 5,779</u>

RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES - YTD

(In thousands, except per share data)	Nine Months Ended		% Change Non-GAAP
	August 31, 2017	August 31, 2016	
Adjusted revenue:			
GAAP revenue	\$ 281,493	\$ 287,617	
Acquisition-related revenue (1)	759	1,726	
Non-GAAP revenue	<u>\$ 282,252</u>	<u>\$ 289,343</u>	(2)%
Adjusted gross margin:			
GAAP gross margin	\$ 230,293	\$ 238,443	82 %
Amortization and impairment of acquired intangibles	14,129	11,818	5 %
Stock-based compensation (2)	790	599	— %
Acquisition-related revenue (1)	759	1,726	— %
Non-GAAP gross margin	<u>\$ 245,971</u>	<u>\$ 252,586</u>	87 % (3)%
Adjusted operating expenses:			
GAAP operating expenses	\$ 188,488	\$ 205,788	67 %
Amortization and impairment of acquired intangibles	(9,721)	(14,607)	(3)%
Restructuring expenses and other	(18,560)	(229)	(7)%
Acquisition-related expenses	(844)	(449)	— %
Stock-based compensation (2)	(8,769)	(18,410)	(2)%
Non-GAAP operating expenses	<u>\$ 150,594</u>	<u>\$ 172,093</u>	53 % (12)%
Adjusted income from operations:			
GAAP operating income	\$ 41,805	\$ 32,655	15 %
Amortization and impairment of acquired intangibles	23,850	26,425	8 %
Restructuring expenses and other	18,560	229	9 %
Stock-based compensation (2)	9,559	19,009	3 %
Acquisition-related	1,603	2,175	1 %
Non-GAAP income from operations	<u>\$ 95,377</u>	<u>\$ 80,493</u>	34 % 18 %
Adjusted diluted earnings per share:			
GAAP diluted earnings per share	\$ 0.43	\$ 0.36	
Amortization and impairment of acquired intangibles	0.49	0.53	
Restructuring expenses and other	0.38	—	
Stock-based compensation (2)	0.20	0.38	
Acquisition-related	0.03	0.04	
Provision for income taxes	(0.29)	(0.28)	
Non-GAAP diluted earnings per share	<u>\$ 1.24</u>	<u>\$ 1.03</u>	20 %
Non-GAAP weighted avg shares outstanding - diluted	48,631	50,310	(3)%

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvey and Telerik, respectively.

(2) Stock-based compensation is included in the GAAP statements of income, as follows:

Cost of revenue	\$ 790	\$ 599
Sales and marketing	1,371	2,792
Product development	2,699	7,600
General and administrative	4,699	8,018
Operating Expenses	<u>8,769</u>	<u>18,410</u>
Total	<u>\$ 9,559</u>	<u>\$ 19,009</u>

OTHER NON-GAAP FINANCIAL MEASURES - QTD

Revenue by Type

<i>(In thousands)</i>	Q3 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
License	\$ 28,529	\$ 37	\$ 28,566
Maintenance	60,535	117	60,652
Services	8,246	159	8,405
Total revenue	<u>\$ 97,310</u>	<u>\$ 313</u>	<u>\$ 97,623</u>

Revenue by Region

<i>(In thousands)</i>	Q3 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
North America	\$ 55,703	\$ 313	\$ 56,016
EMEA	31,830	—	31,830
Latin America	5,009	—	5,009
Asia Pacific	4,768	—	4,768
Total revenue	<u>\$ 97,310</u>	<u>\$ 313</u>	<u>\$ 97,623</u>

Revenue by Segment

<i>(In thousands)</i>	Q3 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
OpenEdge	\$ 68,135	\$ 159	\$ 68,294
Data Connectivity and Integration	8,987	—	8,987
Application Development and Deployment	20,188	154	20,342
Total revenue	<u>\$ 97,310</u>	<u>\$ 313</u>	<u>\$ 97,623</u>

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvey and Telerik, respectively.

Adjusted Free Cash Flow

<i>(In thousands)</i>	Q3 2017	Q3 2016	% Change
Cash flows from operations	\$ 13,442	\$ 19,648	(32)%
Purchases of property and equipment	(342)	(1,130)	(70)%
Free cash flow	13,100	18,518	(29)%
Add back: restructuring payments	5,241	542	867 %
Adjusted free cash flow	<u>\$ 18,341</u>	<u>\$ 19,060</u>	<u>(4)%</u>

OTHER NON-GAAP FINANCIAL MEASURES - YTD

Revenue by Type

<i>(In thousands)</i>	YTD 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
License	\$ 78,443	\$ 137	\$ 78,580
Maintenance	179,572	463	180,035
Services	23,478	159	23,637
Total revenue	<u>\$ 281,493</u>	<u>\$ 759</u>	<u>\$ 282,252</u>

Revenue by Region

<i>(In thousands)</i>	YTD 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
North America	\$ 157,438	\$ 759	\$ 158,197
EMEA	92,320	—	92,320
Latin America	15,669	—	15,669
Asia Pacific	16,066	—	16,066
Total revenue	<u>\$ 281,493</u>	<u>\$ 759</u>	<u>\$ 282,252</u>

Revenue by Segment

<i>(In thousands)</i>	YTD 2017	Non-GAAP Adjustment (1)	Non-GAAP Revenue
OpenEdge	\$ 198,533	\$ 159	\$ 198,692
Data Connectivity and Integration	22,911	—	22,911
Application Development and Deployment	60,049	600	60,649
Total revenue	<u>\$ 281,493</u>	<u>\$ 759</u>	<u>\$ 282,252</u>

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvey and Telerik, respectively.

Adjusted Free Cash Flow

<i>(In thousands)</i>	YTD 2017	YTD Q3 2016	% Change
Cash flows from operations	\$ 73,171	\$ 68,910	6 %
Purchases of property and equipment	(865)	(3,747)	(77)%
Free cash flow	<u>72,306</u>	<u>65,163</u>	<u>11 %</u>
Add back: restructuring payments	16,871	3,024	458 %
Adjusted free cash flow	<u>\$ 89,177</u>	<u>\$ 68,187</u>	<u>31 %</u>

Non-GAAP Bookings from Application Development and Deployment Segment

<i>(In thousands)</i>	<u>Q1 2016</u>	<u>Q2 2016</u>	<u>Q3 2016</u>	<u>Q4 2016</u>	<u>FY 2016</u>	<u>Q1 2017</u>	<u>Q2 2017</u>	<u>Q3 2017</u>
GAAP revenue	<u>\$ 18,752</u>	<u>\$ 19,185</u>	<u>\$ 20,233</u>	<u>\$ 22,895</u>	<u>\$ 81,065</u>	<u>\$ 19,634</u>	<u>\$ 20,226</u>	<u>\$ 20,188</u>
Add: change in deferred revenue								
Beginning balance	49,252	49,237	51,693	51,736	49,252	52,971	51,298	52,400
Ending balance	<u>49,237</u>	<u>51,693</u>	<u>51,736</u>	<u>52,971</u>	<u>52,971</u>	<u>51,298</u>	<u>52,400</u>	<u>52,615</u>
Change in deferred revenue	<u>(15)</u>	<u>2,456</u>	<u>43</u>	<u>1,235</u>	<u>3,719</u>	<u>(1,673)</u>	<u>1,102</u>	<u>215</u>
Non-GAAP bookings	<u>\$ 18,737</u>	<u>\$ 21,641</u>	<u>\$ 20,276</u>	<u>\$ 24,130</u>	<u>\$ 84,784</u>	<u>\$ 17,961</u>	<u>\$ 21,328</u>	<u>\$ 20,403</u>

SaaS Revenue (Hosted Services) from Application Development and Deployment Segment

<i>(In thousands)</i>	<u>Q1 2016</u>	<u>Q2 2016</u>	<u>Q3 2016</u>	<u>Q4 2016</u>	<u>FY 2016</u>	<u>Q1 2017</u>	<u>Q2 2017</u>	<u>Q3 2017</u>
SaaS Revenue - Application Development and Deployment	<u>\$ 1,071</u>	<u>\$ 1,079</u>	<u>\$ 1,160</u>	<u>\$ 1,163</u>	<u>\$ 4,473</u>	<u>\$ 963</u>	<u>\$ 854</u>	<u>\$ 799</u>

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR FISCAL YEAR 2017 GUIDANCE

(Unaudited)

Fiscal Year 2017 Revenue Growth Guidance

	Fiscal Year Ended		Fiscal Year Ending			
	November 30, 2016		November 30, 2017			
(In millions)		Low	% Change	High	% Change	
GAAP revenue	\$ 405.3	\$ 393.0	(3)%	\$ 396.0	(2)%	
Acquisition-related adjustments - revenue (1)	2.1	1.0	(52)%	1.0	(52)%	
Non-GAAP revenue	\$ 407.4	\$ 394.0	(3)%	\$ 397.0	(3)%	

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvey and Telerik, respectively.

Fiscal Year 2017 Non-GAAP Operating Margin Guidance

	Fiscal Year Ending November 30, 2017			
	Low		High	
GAAP income from operations	\$	70.1	\$	73.3
GAAP operating margins		18%		19%
Acquisition-related revenue		1.0		1.0
Acquisition-related expense		0.8		0.8
Stock-based compensation		14.3		14.3
Restructuring expense and other		19.5		18.5
Amortization of intangibles		33.0		33.0
Total adjustments		68.6		67.6
Non-GAAP income from operations	\$	138.7	\$	140.9
Non-GAAP operating margin		35%		36%

Fiscal Year 2017 Non-GAAP Earnings per Share and Effective Tax Rate Guidance

	Fiscal Year Ending November 30, 2017			
	Low		High	
GAAP net income	\$	36.1	\$	37.9
Adjustments (from previous table)		68.6		67.6
Income tax adjustment (2)		(16.3)		(15.7)
Non-GAAP net income	\$	88.4	\$	89.8
GAAP diluted earnings per share	\$	0.74	\$	0.78
Non-GAAP diluted earnings per share	\$	1.82	\$	1.85
Diluted weighted average shares outstanding		48.5		48.5

(2) Tax adjustment is based on a non-GAAP effective tax rate of 34% for Low and High, calculated as follows:

Non-GAAP income from operations	\$	138.7	\$	140.9
Other (expense) income, net		(5.6)		(5.6)
Non-GAAP income from continuing operations before income taxes		133.1		135.3
Non-GAAP net income		88.4		89.9
Tax provision	\$	44.7	\$	45.4
Non-GAAP tax rate		34%		34%

RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR Q4 2017 GUIDANCE

(Unaudited)

Q4 2017 Revenue Growth Guidance

	Three Months Ended		Three Months Ending			
	November 30, 2016		November 30, 2017			
<i>(In millions)</i>			Low	% Change	High	% Change
GAAP revenue	\$	117.7	\$ 111.5	(5)%	\$ 114.5	(3)%
Acquisition-related adjustments - revenue (1)		0.3	0.2	(33)%	0.2	(33)%
Non-GAAP revenue	\$	118.0	\$ 111.7	(5)%	\$ 114.7	(3)%

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue that would otherwise have been recognized but for the purchase accounting treatment of acquisitions. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments relate to Progress' OpenEdge and Application Development and Deployment business segments for Kinvey and Telerik, respectively.

Q4 2017 Non-GAAP Earnings per Share Guidance

	Three Months Ending November 30, 2017			
	Low		High	
GAAP diluted earnings per share	\$	0.33	\$	0.36
Acquisition-related revenue		0.01		0.01
Stock-based compensation		0.10		0.10
Amortization of intangibles		0.19		0.19
Total adjustments		0.30		0.30
Income tax adjustment	\$	(0.05)	\$	(0.05)
Non-GAAP diluted earnings per share	\$	0.58	\$	0.61