

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, 2020

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

(State or other jurisdiction of incorporation or organization)

04-2746201

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

14 Oak Park

Bedford, Massachusetts 01730

(Address of principal executive offices) (Zip code)

(781) 280-4000

(Registrant's telephone number, including area code)

Not applicable

(Former name or former address, if changed since last report.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	PRGS	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
(Do not check if a smaller reporting company)			
Emerging growth company	<input type="checkbox"/>		

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

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

As of June 26, 2020, there were 45,035,856 shares of the registrant's common stock, \$.01 par value per share, outstanding.

PROGRESS SOFTWARE CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MAY 31, 2020
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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements (Unaudited)****Condensed Consolidated Balance Sheets**

<i>(In thousands, except share data)</i>	May 31, 2020	November 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 193,222	\$ 154,259
Short-term investments	10,423	19,426
Total cash, cash equivalents and short-term investments	203,645	173,685
Accounts receivable (less allowances of \$881 and \$825, respectively)	54,527	72,820
Unbilled receivables and contract assets	12,540	10,880
Other current assets	20,686	27,280
Total current assets	291,398	284,665
Long-term unbilled receivables and contract assets	10,194	12,492
Property and equipment, net	27,693	29,765
Intangible assets, net	87,774	99,392
Goodwill	431,869	432,824
Deferred tax assets	17,995	18,601
Operating lease right-of-use assets	24,681	—
Other assets	3,998	3,532
Total assets	<u>\$ 895,602</u>	<u>\$ 881,271</u>
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt, net	\$ 14,480	\$ 10,717
Accounts payable	8,815	10,603
Accrued compensation and related taxes	21,549	34,444
Dividends payable to shareholders	7,539	7,498
Short-term operating lease liabilities	6,618	—
Income taxes payable	2,443	1,444
Other accrued liabilities	10,179	18,685
Short-term deferred revenue	153,549	157,494
Total current liabilities	225,172	240,885
Long-term debt, net	276,762	284,002
Long-term operating lease liabilities	19,896	—
Long-term deferred revenue	19,741	19,752
Other noncurrent liabilities	14,070	6,350
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, 45,033,417 shares in 2020 and 45,036,441 shares in 2019	304,282	295,953
Retained earnings	73,923	64,303
Accumulated other comprehensive loss	(38,244)	(29,974)
Total shareholders' equity	339,961	330,282
Total liabilities and shareholders' equity	<u>\$ 895,602</u>	<u>\$ 881,271</u>

See notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements of Operations

	Three Months Ended		Six Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
<i>(In thousands, except per share data)</i>				
Revenue:				
Software licenses	\$ 19,663	\$ 29,728	\$ 50,292	\$ 52,530
Maintenance and services	80,720	70,267	159,774	137,014
Total revenue	100,383	99,995	210,066	189,544
Costs of revenue:				
Cost of software licenses	810	925	2,199	2,092
Cost of maintenance and services	11,785	10,580	23,636	20,019
Amortization of acquired intangibles	1,664	6,106	3,310	11,539
Total costs of revenue	14,259	17,611	29,145	33,650
Gross profit	86,124	82,384	180,921	155,894
Operating expenses:				
Sales and marketing	21,716	24,832	45,914	47,155
Product development	21,787	21,688	43,441	41,578
General and administrative	12,440	12,654	25,188	24,939
Amortization of acquired intangibles	4,177	4,585	8,308	7,773
Restructuring expenses	695	2,777	1,735	3,192
Acquisition-related expenses	—	1,107	314	1,107
Total operating expenses	60,815	67,643	124,900	125,744
Income from operations	25,309	14,741	56,021	30,150
Other (expense) income:				
Interest expense	(2,598)	(2,210)	(5,390)	(3,599)
Interest income and other, net	122	344	333	573
Foreign currency loss, net	(371)	(451)	(1,187)	(1,294)
Total other expense, net	(2,847)	(2,317)	(6,244)	(4,320)
Income before income taxes	22,462	12,424	49,777	25,830
Provision for income taxes	5,494	4,243	11,693	8,247
Net income	\$ 16,968	\$ 8,181	\$ 38,084	\$ 17,583
Earnings per share:				
Basic	\$ 0.38	\$ 0.18	\$ 0.85	\$ 0.39
Diluted	\$ 0.37	\$ 0.18	\$ 0.84	\$ 0.39
Weighted average shares outstanding:				
Basic	44,889	44,611	44,893	44,784
Diluted	45,267	45,287	45,391	45,287
Cash dividends declared per common share	\$ 0.165	\$ 0.155	\$ 0.330	\$ 0.310

See notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended		Six Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
<i>(In thousands)</i>				
Net income	\$ 16,968	\$ 8,181	\$ 38,084	\$ 17,583
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(2,982)	(2,030)	(4,190)	(551)
Unrealized loss on hedging activity, net of tax benefit of \$760 and \$1,468 for the second quarter and first six months of 2020, respectively	(2,058)	—	(4,164)	—
Unrealized gain on investments, net of tax provision of \$41 and \$45 for the second quarter and first six months of 2020, respectively, and \$18 and \$48 for the second quarter and first six months of 2019, respectively	13	54	84	137
Total other comprehensive loss, net of tax	(5,027)	(1,976)	(8,270)	(414)
Comprehensive income	<u>\$ 11,941</u>	<u>\$ 6,205</u>	<u>\$ 29,814</u>	<u>\$ 17,169</u>

See notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements of Shareholders' Equity

	Six Months Ended May 31, 2020					
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Number of Shares	Amount				
<i>(in thousands)</i>						
Balance, December 1, 2019	45,037	\$ 450	\$ 295,503	\$ 64,303	\$ (29,974)	\$ 330,282
Issuance of stock under employee stock purchase plan	124	1	3,512	—	—	3,513
Exercise of stock options	113	1	3,527	—	—	3,528
Vesting of restricted stock units and release of deferred stock units	185	2	(2)	—	—	—
Withholding tax payments related to net issuance of restricted stock units	—	—	(3,895)	—	—	(3,895)
Stock-based compensation	—	—	11,674	—	—	11,674
Dividends declared	—	—	—	(14,955)	—	(14,955)
Treasury stock repurchases and retirements	(426)	(4)	(6,487)	(13,509)	—	(20,000)
Net income	—	—	—	38,084	—	38,084
Other comprehensive loss	—	—	—	—	(8,270)	(8,270)
Balance, May 31, 2020	45,033	\$ 450	\$ 303,832	\$ 73,923	\$ (38,244)	\$ 339,961

	Three Months Ended May 31, 2020					
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Number of Shares	Amount				
<i>(in thousands)</i>						
Balance, March 1, 2020	44,769	\$ 448	\$ 296,251	\$ 64,475	\$ (33,217)	\$ 327,957
Issuance of stock under employee stock purchase plan	85	1	2,318	—	—	2,319
Exercise of stock options	51	—	1,587	—	—	1,587
Vesting of restricted stock units and release of deferred stock units	128	1	(1)	—	—	—
Withholding tax payments related to net issuance of restricted stock units	—	—	(1,946)	—	—	(1,946)
Stock-based compensation	—	—	5,623	—	—	5,623
Dividends declared	—	—	—	(7,520)	—	(7,520)
Net income	—	—	—	16,968	—	16,968
Other comprehensive loss	—	—	—	—	(5,027)	(5,027)
Balance, May 31, 2020	45,033	\$ 450	\$ 303,832	\$ 73,923	\$ (38,244)	\$ 339,961

Condensed Consolidated Statements of Shareholders' Equity (cont.)

	Six Months Ended May 31, 2019					
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Number of Shares	Amount				
<i>(in thousands)</i>						
Balance, December 1, 2018	45,115	\$ 451	\$ 266,602	\$ 85,125	\$ (28,176)	\$ 324,002
Issuance of stock under employee stock purchase plan	99	1	2,802	—	—	2,803
Exercise of stock options	44	—	1,317	—	—	1,317
Vesting of restricted stock units and release of deferred stock units	146	1	(1)	—	—	—
Withholding tax payments related to net issuance of restricted stock units	(37)	—	(1,637)	—	—	(1,637)
Stock-based compensation	—	—	11,922	—	—	11,922
Issuance of shares related to non-compete agreement (Note 6)	44	—	2,000	—	—	2,000
Adjustment due to adoption of ASU 2016-09	—	—	—	(3,397)	—	(3,397)
Dividends declared	—	—	—	(13,832)	—	(13,832)
Treasury stock repurchases and retirements	(688)	(5)	(1,260)	(23,735)	—	(25,000)
Net income	—	—	—	17,583	—	17,583
Other comprehensive income	—	—	—	—	(414)	(414)
Balance, May 31, 2019	44,723	\$ 448	\$ 281,745	\$ 61,744	\$ (28,590)	\$ 315,347
	Three Months Ended May 31, 2019					
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Number of Shares	Amount				
<i>(in thousands)</i>						
Balance, March 1, 2019	44,474	\$ 446	\$ 272,408	\$ 60,462	\$ (26,614)	\$ 306,702
Issuance of stock under employee stock purchase plan	61	1	1,805	—	—	1,806
Exercise of stock options	35	—	1,049	—	—	1,049
Vesting of restricted stock units and release of deferred stock units	146	1	(1)	—	—	—
Withholding tax payments related to net issuance of restricted stock units	(37)	—	(1,632)	—	—	(1,632)
Stock-based compensation	—	—	6,116	—	—	6,116
Issuance of shares related to non-compete agreement (Note 6)	44	—	2,000	—	—	2,000
Dividends declared	—	—	—	(6,899)	—	(6,899)
Net income	—	—	—	8,181	—	8,181
Other comprehensive income	—	—	—	—	(1,976)	(1,976)
Balance, May 31, 2019	44,723	\$ 448	\$ 281,745	\$ 61,744	\$ (28,590)	\$ 315,347

Condensed Consolidated Statements of Cash Flows

	Six Months Ended	
	May 31, 2020	May 31, 2019
<i>(In thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 38,084	\$ 17,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	3,248	3,438
Amortization of acquired intangibles and other	11,993	19,900
Stock-based compensation	11,674	11,922
Non-cash lease expense	4,907	—
Loss on disposal of property and equipment	531	(18)
Deferred income taxes	1,944	(6,707)
Allowances for bad debt and sales credits	274	287
Changes in operating assets and liabilities:		
Accounts receivable	18,369	10,859
Other assets	4,968	7,722
Accounts payable and accrued liabilities	(18,664)	(4,627)
Lease liabilities	(4,076)	—
Income taxes payable	940	1,937
Deferred revenue	(3,219)	2,822
Net cash flows from operating activities	<u>70,973</u>	<u>65,118</u>
Cash flows from (used in) investing activities:		
Purchases of investments	(5,009)	(5,750)
Sales and maturities of investments	14,051	14,709
Purchases of property and equipment	(1,757)	(1,080)
Payments for acquisitions, net of cash acquired	—	(225,298)
Proceeds from sale of property, plant and equipment, net	—	6,146
Net cash flows from (used in) investing activities	<u>7,285</u>	<u>(211,273)</u>
Cash flows (used in) from financing activities:		
Proceeds from stock-based compensation plans	7,308	4,303
Payments for taxes related to net share settlements of equity awards	(3,895)	(1,637)
Repurchases of common stock	(20,000)	(25,000)
Dividend payments to shareholders	(14,906)	(13,886)
Proceeds from the issuance of debt	—	184,984
Payment of principle on long-term debt	(3,762)	(1,547)
Payment of issuance costs for long-term debt	—	(1,611)
Net cash flows (used in) from financing activities	<u>(35,255)</u>	<u>145,606</u>
Effect of exchange rate changes on cash	<u>(4,040)</u>	<u>(1,328)</u>
Net increase (decrease) in cash and cash equivalents	<u>38,963</u>	<u>(1,877)</u>
Cash and cash equivalents, beginning of period	<u>154,259</u>	<u>105,126</u>
Cash and cash equivalents, end of period	<u>\$ 193,222</u>	<u>\$ 103,249</u>

Condensed Consolidated Statements of Cash Flows, continued

	Six Months Ended	
	May 31, 2020	May 31, 2019
Supplemental disclosure:		
Cash paid for income taxes, net of refunds of \$239 in 2020 and \$176 in 2019	\$ 4,587	\$ 4,242
Cash paid for interest	\$ 4,898	\$ 2,990
Non-cash investing and financing activities:		
Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested	\$ 12,090	\$ 8,063
Dividends declared	\$ 7,539	\$ 6,944

See notes to unaudited condensed consolidated financial statements.

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, the flexibility of a cloud-native app dev platform to deliver modern apps, leading data connectivity technology, web content management, business rules, secure file transfer and network monitoring. Over 1,700 independent software vendors ("ISVs"), 100,000 enterprise customers, and 2 million developers rely on Progress to power their applications.

Our products are generally sold as perpetual licenses, but certain products also use term licensing models and our cloud-based offerings use a subscription-based model. More than half of our worldwide license revenue is realized through relationships with indirect channel partners, principally application partners, original equipment manufacturers ("OEMs"), distributors and value-added resellers. 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. Value-added resellers are companies that add features or services to our product, then resell it as an integrated product or complete "turn-key" solution.

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

Basis of Presentation and Significant Accounting Policies - We prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements and these unaudited financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2019 ("Annual Report on Form 10-K for the fiscal year ended November 30, 2019").

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, 2019. 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, 2019, 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.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an on-going basis, management evaluates its estimates and records changes in estimates in the period in which they become known. These estimates are based on historical data and experience, as well as various other assumptions that management believes to be reasonable under the circumstances. The most significant estimates relate to: the timing and amount of revenue recognition, including the determination of the nature and timing of the satisfaction of performance obligations, the standalone selling price of performance obligations, and the transaction price allocated to performance obligations; the realization of tax assets and estimates of tax liabilities; fair values of investments in marketable securities; assets held for sale; intangible assets and goodwill valuations; the recognition and disclosure of contingent liabilities; the collectability of accounts receivable; and assumptions used to determine the fair value of stock-based compensation. Actual results could differ from those estimates.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). ASU 2017-12 intends to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. We adopted this standard at the beginning of the first quarter of fiscal year 2020; however, our existing accounting aligned with the guidance of ASU 2017-12 and therefore there was no impact to our financial statements from adoption.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASC 842"). ASC 842 supersedes the requirements in Topic 840, *Leases*, and requires lessees to recognize right-of-use ("ROU") assets and liabilities for leases with lease terms of more than twelve months. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. We adopted ASC 842 effective December 1, 2019 using the modified retrospective transition method of applying the new standard at the adoption date. Results for reporting periods beginning on or after December 1, 2019 are presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with previous guidance. Disclosures required under the new standard will not be provided for dates and periods before December 1, 2019.

The new standard provided a number of optional practical expedients in transition. We elected the transition package of practical expedients available in the standard, which allowed the carry forward of historical assessments of whether a contract contains a lease, lease classification and initial direct costs. We also elected the practical expedient provided in ASC 842 to not separate lease components from non-lease components for each material underlying asset class: office leases, vehicle leases and equipment leases. For each lease, the non-lease components and related lease components are accounted for as a single lease component. Items or activities that do not transfer goods or services to the lessee, such as administrative tasks to set up the contract and reimbursement or payment of lessor costs, are not components of the contract and therefore no contract consideration is allocated to such items or activities. We did not elect the hindsight practical expedient to determine the lease term for existing leases. The adoption of the new standard also resulted in significant additional disclosures regarding our leasing activities. Refer to Note 8 for further details.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). ASU 2018-15 amends current guidance to align the accounting for costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing costs associated with developing or obtaining internal-use software. Capitalized implementation costs must be expensed over the term of the hosting arrangement and presented in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement. The guidance in ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. We are currently accounting for costs incurred in a cloud computing arrangement in accordance with the guidance provided in ASU 2018-15.

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. Upon adoption, we do not expect this update to have a material effect on our consolidated financial position and results of operations.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* ("ASU 2016-13"). The amendment changes the impairment model for most financial assets and certain other instruments. Entities will be required to use a model that will result in the earlier recognition of allowances for losses for trade and other receivables, contract assets, held-to-maturity debt securities, loans, and other instruments. ASU 2016-13 is effective for annual

periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of ASU 2016-13 on our consolidated financial statements.

Note 2: Cash, Cash Equivalents and Investments

A summary of our cash, cash equivalents and available-for-sale investments at May 31, 2020 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	\$ 187,573	\$ —	\$ —	\$ 187,573
Money market funds	5,649	—	—	5,649
U.S. treasury bonds	4,994	89	—	5,083
Corporate bonds	5,277	63	—	5,340
Total	\$ 203,493	\$ 152	\$ —	\$ 203,645

A summary of our cash, cash equivalents and available-for-sale investments at November 30, 2019 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	\$ 144,346	\$ —	\$ —	\$ 144,346
Money market funds	9,913	—	—	9,913
State and municipal bond obligations	7,036	1	—	7,037
U.S. treasury bonds	7,221	10	—	7,231
Corporate bonds	5,146	12	—	5,158
Total	\$ 173,662	\$ 23	\$ —	\$ 173,685

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

	May 31, 2020		November 30, 2019	
	Cash and Equivalents	Short-Term Investments	Cash and Equivalents	Short-Term Investments
Cash	\$ 187,573	\$ —	\$ 144,346	\$ —
Money market funds	5,649	—	9,913	—
State and municipal bond obligations	—	—	—	7,037
U.S. treasury bonds	—	5,083	—	7,231
Corporate bonds	—	5,340	—	5,158
Total	\$ 193,222	\$ 10,423	\$ 154,259	\$ 19,426

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

	May 31, 2020	November 30, 2019
Due in one year or less	\$ 5,058	\$ 14,004
Due after one year ⁽¹⁾	5,365	5,422
Total	\$ 10,423	\$ 19,426

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

We did not hold any investments with continuous unrealized losses as of May 31, 2020 or November 30, 2019.

Note 3: Derivative Instruments

Cash Flow Hedge

On July 9, 2019, we entered into an interest rate swap contract with an initial notional amount of \$150.0 million to manage the variability of cash flows associated with approximately one-half of our variable rate debt. The contract matures on April 30, 2024 and requires periodic interest rate settlements. Under this interest rate swap contract, we receive a floating rate based on the greater of 1-month LIBOR or 0.00% and pay a fixed rate of 1.855% on the outstanding notional amount.

We have designated the interest rate swap as a cash flow hedge and assess the hedge effectiveness both at the onset of the hedge and at regular intervals throughout the life of the derivative. To the extent that the interest rate swap is highly effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative are included as a component of other comprehensive loss on our condensed consolidated balance sheets. Although we have determined at the onset of the hedge that the interest rate swap will be a highly effective hedge throughout the term of the contract, any portion of the fair value swap subsequently determined to be ineffective will be recognized in earnings. As of May 31, 2020 and November 30, 2019, the fair value of the hedge was a loss of \$7.7 million and \$2.1 million, respectively, which was included in other noncurrent liabilities on our condensed consolidated balance sheets.

The following table presents our interest rate swap contract where the notional amount reflects the quarterly amortization of the interest rate swap, which is equal to approximately one-half of the corresponding reduction in the balance of our term loan as we make our scheduled principal payments. The fair value of the derivative represents the discounted value of the expected future discounted cash flows for the interest rate swap, based on the amortization schedule and the current forward curve for the remaining term of the contract, as of the date of each reporting period (in thousands):

	May 31, 2020		November 30, 2019	
	Notional Value	Fair Value	Notional Value	Fair Value
Interest rate swap contracts designated as cash flow hedges	\$ 146,250	\$ (7,686)	\$ 148,125	\$ (2,054)

Forward Contracts

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 between 30 days and two years from the date the contract was entered. At May 31, 2020, \$1.8 million and \$0.5 million was recorded in other noncurrent liabilities and other current assets, respectively, on the condensed consolidated balance sheets. At November 30, 2019, \$0.1 million was recorded in other noncurrent liabilities on the condensed consolidated balance sheets.

In the three and six months ended May 31, 2020, realized and unrealized losses of \$1.8 million and \$2.4 million, respectively, from our forward contracts were recognized in foreign currency loss, net, on the condensed consolidated statements of operations. In the three and six months ended May 31, 2019, realized and unrealized losses of \$2.0 million and \$1.3 million, respectively, from our forward contracts were recognized in foreign currency loss, net on the condensed consolidated statements of operations. The losses were substantially offset by realized and unrealized gains on the offsetting positions.

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

	May 31, 2020		November 30, 2019	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	\$ 66,206	\$ (1,295)	\$ 66,951	\$ (85)
Forward contracts to purchase U.S. dollars	—	—	1,457	5
Total	\$ 66,206	\$ (1,295)	\$ 68,408	\$ (80)

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, 2020 (in thousands):

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<i>Assets</i>				
Money market funds	\$ 5,649	\$ 5,649	\$ —	\$ —
U.S. treasury bonds	5,083	—	5,083	—
Corporate bonds	5,340	—	5,340	—
<i>Liabilities</i>				
Foreign exchange derivatives	(1,295)	—	(1,295)	—
Interest rate swap	\$ (7,686)	\$ —	\$ (7,686)	\$ —

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at November 30, 2019 (in thousands):

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<i>Assets</i>				
Money market funds	\$ 9,913	\$ 9,913	\$ —	\$ —
State and municipal bond obligations	7,037	—	7,037	—
U.S. treasury bonds	7,231	—	7,231	—
Corporate bonds	5,158	—	5,158	—
<i>Liabilities</i>				
Foreign exchange derivatives	(80)	—	(80)	—
Interest rate swap	\$ (2,054)	\$ —	\$ (2,054)	\$ —

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 as of May 31, 2020.

Note 5: Intangible Assets and Goodwill
Intangible Assets

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

	May 31, 2020			November 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	\$ 135,186	\$ (109,277)	\$ 25,909	\$ 135,186	\$ (105,967)	\$ 29,219
Customer-related	134,042	(81,129)	52,913	134,042	(74,175)	59,867
Trademarks and trade names	24,740	(17,064)	7,676	24,740	(16,043)	8,697
Non-compete agreement	2,000	(724)	1,276	2,000	(391)	1,609
Total	\$ 295,968	\$ (208,194)	\$ 87,774	\$ 295,968	\$ (196,576)	\$ 99,392

In the three and six months ended May 31, 2020, amortization expense related to intangible assets was \$5.8 million and \$11.6 million, respectively. In the three and six months ended May 31, 2019, amortization expense related to intangible assets was \$10.7 million and \$19.3 million, respectively.

Future amortization expense for intangible assets as of May 31, 2020, is as follows (in thousands):

Remainder of 2020	\$ 11,617
2021	23,117
2022	22,136
2023	21,860
2024	9,044
Total	\$ 87,774

Goodwill

Changes in the carrying amount of goodwill in the six months ended May 31, 2020 are as follows (in thousands):

Balance, November 30, 2019	\$ 432,824
Measurement period adjustments ⁽¹⁾	(838)
Translation adjustments	(117)
Balance, May 31, 2020	\$ 431,869

⁽¹⁾ Represents final measurement period adjustments related to our Ipswitch acquisition (Note 6)

Changes in the goodwill balances by reportable segment in the six months ended May 31, 2020 are as follows (in thousands):

	November 30, 2019	Measurement Period Adjustments	Translation adjustments	May 31, 2020
OpenEdge	\$ 366,819	\$ (838)	\$ (117)	\$ 365,864
Data Connectivity and Integration	19,040	—	—	19,040
Application Development and Deployment	46,965	—	—	46,965
Total goodwill	\$ 432,824	\$ (838)	\$ (117)	\$ 431,869

During the quarter ending May 31, 2020, 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.

Note 6: Business Combinations**Ipswitch Acquisition**

On April 30, 2019, we completed the acquisition of all of the outstanding equity interests of Ipswitch, Inc. (“Ipswitch”) from Roger Greene (the “Seller”) pursuant to the Stock Purchase Agreement, dated as of March 28, 2019, by and among Progress, Ipswitch and the Seller. The acquisition was completed for an aggregate purchase price of \$225.0 million, subject to certain customary adjustments as further described in the Stock Purchase Agreement (the “Consideration”), which was paid in cash. Pursuant to the Stock Purchase Agreement, \$22.5 million of the Consideration was deposited into an escrow account to secure certain indemnification and other potential obligations of the Seller to Progress. The Seller also received an award of approximately \$2.0 million in Progress restricted stock as consideration for the Seller entering into a non-competition agreement for three years as set forth in the Stock Purchase Agreement.

Ipswitch enables approximately 24,000 small and medium-sized businesses and enterprises to provide secure data sharing and ensure high-performance infrastructure availability. Through this acquisition, we bolstered our core offerings to small and medium-sized businesses and enterprises, enabling those businesses to respond faster to business demands and to improve productivity. We funded the acquisition through a combination of existing cash resources and a \$185.0 million term loan, which is part of a new \$401.0 million term loan and revolving credit facility (Note 7).

The consideration has been allocated to Ipswitch’s tangible assets, identifiable intangible assets, and assumed liabilities based on their estimated fair values. The excess of the total consideration over the tangible assets, identifiable intangible assets, and assumed liabilities was recorded as goodwill.

We recorded measurement period adjustments in accordance with FASB’s guidance regarding business combinations in the fourth quarter of fiscal year 2019 and the second quarter of fiscal year 2020 based on our valuation and purchase price allocation procedures. The measurement period adjustments, which were completed during the second quarter of fiscal year 2020, resulted in a decrease to goodwill of \$0.6 million, primarily due to a decrease to the sales tax reserve, partially offset by increased accrued expenses.

The following table discloses the net assets acquired in the business combination (in thousands):

	Initial Purchase Price Allocation	Measurement Period Adjustments	Final Purchase Price Allocation	Life
Net working capital	\$ 6,068	\$ 651	\$ 6,719	
Property, plant and equipment	4,661		4,661	
Purchased technology	33,100		33,100	5 Years
Trade name	9,600		9,600	5 Years
Customer relationships	66,600		66,600	5 Years
Other assets	314	(4)	310	
Deferred revenue	(12,696)	(29)	(12,725)	
Goodwill	117,651	(618)	117,033	
Net assets acquired	<u>\$ 225,298</u>	<u>\$ —</u>	<u>\$ 225,298</u>	

The fair value of the intangible assets has been estimated using the income approach in which the after-tax cash flows are discounted to present value. The cash flows are based on estimates used to value 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. The valuation assumptions take into consideration the Company’s estimates of customer attrition, technology obsolescence, and revenue growth projections. Based on the valuation, the acquired intangible assets are comprised of customer relationships of approximately \$66.6 million, existing technology of approximately \$33.1 million, and trade names of approximately \$9.6 million.

Tangible assets acquired and assumed liabilities were recorded at fair value. The valuation of the assumed deferred revenue was based on our contractual commitment to provide post-contract customer support to Ipswitch customers and future contractual performance obligations under existing hosting arrangements. The fair value of this assumed liability was based on the estimated cost plus a reasonable margin to fulfill these service obligations. A significant portion of the deferred revenue was recognized in the 12 months following the acquisition.

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 \$117.0 million of goodwill, which is deductible for tax purposes.

An election was made under Section 338(h)(10) of the Internal Revenue Code for Ipswitch to treat the transaction as a sale all of its assets on the acquisition date and subsequent liquidation. As a result, the identifiable intangible assets and goodwill are deductible for tax purposes.

As previously noted, the Seller received a restricted stock award of approximately \$2.0 million, subject to continued compliance with the three-year non-compete agreement. We concluded that the restricted stock award is not a compensation arrangement and we recorded the fair value of the award as an intangible asset separate from goodwill. We will recognize intangible asset amortization expense over the term of the agreement, which is 3 years. We recorded \$0.3 million of amortization expense related to this restricted stock award for the six months ended May 31, 2020 in operating expenses on our condensed consolidated statement of operations.

Acquisition-related transaction costs (e.g., legal, due diligence, valuation, and other professional fees) and certain acquisition restructuring and related charges are not included as a component of consideration transferred but are required to be expensed as incurred. During the three and six months ended May 31, 2020, we incurred approximately \$0.3 million of acquisition-related costs, which are included in acquisition-related expenses on our condensed consolidated statement of operations.

The operations of Ipswitch are included in our operating results as part of the OpenEdge segment from the date of acquisition. The amount of revenue of Ipswitch included in our unaudited condensed consolidated statement of operations during each of the three and six months ended May 31, 2020 was approximately \$17.3 million and \$32.5 million, respectively. The amount of revenue of Ipswitch included in our unaudited condensed consolidated statement of operations during the three and six months ended May 31, 2019 was approximately \$3.3 million. We determined that disclosing the amount of Ipswitch related earnings included in the consolidated statements of operations is impracticable, as certain operations of Ipswitch were integrated into the operations of the Company from the date of acquisition.

Pro Forma Information

The following pro forma financial information presents the combined results of operations of Progress and Ipswitch as if the acquisition had occurred on December 1, 2017 after giving effect to certain pro forma adjustments. The pro forma adjustments reflected herein include only those adjustments that are directly attributable to the Ipswitch acquisition and factually supportable. These pro forma adjustments include (i) a decrease in revenue from Ipswitch due to the beginning balance of deferred revenue being adjusted to reflect the fair value of the acquired balance, (ii) a net increase in amortization expense to record amortization expense for the \$111.3 million of acquired identifiable intangible assets and to eliminate historical amortization of Ipswitch intangible assets, (iii) an increase in interest expense to record interest for the period presented as a result of the new credit facility entered into by Progress in connection with the acquisition, and (iv) the income tax effect of the adjustments made at the statutory tax rate of the U.S. (approximately 24.5%). In addition, prior to the acquisition Ipswitch did not pay entity level corporate tax, with the exception of some states, because it was registered as an S-Corporation. Therefore, we applied the statutory tax rate of the U.S. (approximately 24.5%) to the income before tax of Ipswitch as if the acquisition had occurred on December 1, 2017.

The pro forma financial information does not reflect any adjustments for anticipated expense savings resulting from the acquisition and is not necessarily indicative of the operating results that would have actually occurred had the transaction been consummated on December 1, 2017. These results are prepared in accordance with ASC 606.

	Pro Forma Three Months Ended May 31, 2019	
<i>(In thousands, except per share data)</i>		
Revenue	\$	112,234
Net income	\$	5,926
Net income per basic share	\$	0.13
Net income per diluted share	\$	0.13

	Pro Forma Six Months Ended May 31, 2019	
<i>(In thousands, except per share data)</i>		
Revenue	\$	218,532
Net income	\$	10,824
Net income per basic share	\$	0.24
Net income per diluted share	\$	0.24

Note 7: Term Loan and Line of Credit

On April 30, 2019, we entered into an amended and restated credit agreement (the "Credit Agreement") with certain lenders (the "Lenders"), which provides for a \$301.0 million secured term loan and a \$100.0 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.

The Credit Agreement modified our prior credit facility by extending the maturity date to April 30, 2024 and extending the principal repayments of the term loan. We borrowed an additional \$185.0 million under the term loan as part of this modification. The new term loan was used to partially fund our acquisition of Ipswitch (Note 6) and we expect to use the revolving credit facility for general corporate purposes, which may include acquisitions of other businesses, and may also use it for working capital.

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 range from 1.50% to 2.00% above the Eurocurrency rate for Eurocurrency-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 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 as of May 31, 2020 was 2.06%.

The credit facility matures on April 30, 2024, 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, 2020 was \$293.5 million, with \$15.1 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 August 31, 2019. The principal repayment amounts are in accordance with the following schedule: (i) four payments of \$1.9 million each, (ii) four payments of \$3.8 million each, (iii) four payments of \$5.6 million each, (iv) four payments of \$7.5 million each, (v) three payments of \$9.4 million each, and (vi) 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, 2020, 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.

Costs incurred to obtain our long-term debt of \$1.6 million, along with \$1.2 million of unamortized debt issuance costs related to the previous credit agreement, 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, 2020. 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 was \$0.1 million for each of the three months ended May 31, 2020 and May 31, 2019. Amortization expense related to the debt issuance costs was \$0.3 million and \$0.2 million for the six months ended May 31, 2020 and May 31, 2019, respectively. These amounts are recorded in interest expense on our condensed consolidated statements of operations.

Revolving loans may be borrowed, repaid, and reborrowed until April 30, 2024, at which time all amounts outstanding must be repaid. Accrued interest on the loans is payable quarterly in arrears with respect to base rate loans and at the end of each interest rate period (or at each three-month interval in the case of loans with interest periods greater than three months) with respect to Eurocurrency rate loans. We may prepay the loans or terminate or reduce the commitments in whole or in part at any time, without premium or penalty, subject to certain conditions and reimbursement of certain costs in the case of Eurocurrency rate loans. As of May 31, 2020, there were no amounts outstanding under the revolving line and \$1.8 million of letters of credit.

We are the sole borrower under the credit facility. Our obligations under the Credit Agreement are secured by substantially all of our assets and each of our material domestic subsidiaries, as well as 100% of the capital stock of our domestic subsidiaries and 65% of the capital stock of our first-tier foreign subsidiaries, in each case, subject to certain exceptions as described in the Credit Agreement. Future material domestic subsidiaries will be required to guaranty our obligations under the Credit Agreement, and to grant security interests in substantially all of their assets to secure such obligations. The Credit Agreement generally prohibits, with certain exceptions, any other liens on our assets, subject to certain exceptions as described in the Credit Agreement.

The Credit Agreement 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.

As of May 31, 2020, aggregate principal payments of long-term debt for the next five years are (in thousands):

Remainder of 2020	7,524
2021	18,813
2022	26,338
2023	33,863
2024	206,938
Total	<u>\$ 293,476</u>

Note 8: Leases

In February 2016, the FASB issued ASC 842 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company adopted the guidance on December 1, 2019 using the modified retrospective method and as a result did not adjust comparative periods or modify disclosures in those comparative periods.

The new guidance provides a number of optional practical expedients in transition. The Company elected the package of practical expedients, which does not require the reassessment of prior conclusions about lease identification, lease classification and initial direct costs. Further, the Company elected the practical expedients to combine lease and non-lease components. Contracts may be comprised of lease components, non-lease components, and elements that are not components. Each lease component represents a lessee's right to use an underlying asset in the contract if the lessee can benefit from the right-of-use of the asset either on its own or together with other readily available resources and if the right-of-use is neither highly dependent or highly interrelated with other rights-of-use. Non-lease components include items such as common area maintenance and utilities provided by the lessor. We also elected the practical expedient to not recognize right-of-use assets and lease liabilities for short-term leases. Leases with an initial term of 12 months or less are classified as short-term leases.

Consideration in the contract is comprised of any fixed payments and variable payments that depend on an index or rate. Payments in the Company's operating lease arrangements primarily consist of base office rent. In accordance with the standard, variable payments in an agreement that are not dependent on an index or rate are excluded from the calculation of ROU assets and lease liabilities. The Company makes variable payments on certain of its leases related to taxes, insurance, common area maintenance, and utilities, among other things.

The adoption of ASC 842 on December 1, 2019 resulted in the recognition of operating lease ROU assets of approximately \$28.9 million and operating lease liabilities of approximately \$29.9 million. The difference between the value of the ROU assets and lease liabilities is due to the reclassification of existing deferred rent, prepaid rent, and unamortized lease incentives as of December 1, 2019. Operating leases are included in ROU assets and lease liabilities on the Company's balance sheets. ROU assets and lease liabilities are to be presented separately for operating and finance leases; however, the Company currently has no material finance leases. The adoption of ASC 842 did not have a material impact on the Company's condensed consolidated statement of operations, consolidated statement of stockholders' equity, consolidated statement of comprehensive income (loss) or consolidated statement of cash flows. The new standard also had no impact on liquidity or the Company's debt-covenant compliance under its current debt agreements.

The Company determines if an arrangement is a lease at inception. ROU assets represent the Company's right to use an underlying asset for the duration of the lease term. Lease liabilities represent the Company's contractual obligation to make lease payments over the lease term. ROU assets are recorded and recognized at commencement for the lease liability amount, plus initial direct costs incurred less lease incentives received. Lease liabilities are recorded at the present value of future lease payments over the lease term at commencement. Operating leases liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in the lease contracts is not readily determinable. As such, we utilize the appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. Lease expenses relating to operating leases are recognized on a straight-line basis over the lease term.

The Company has operating leases for administrative, product development, and sales and marketing facilities, vehicles, and equipment under various non-cancelable lease agreements. The Company's leases have remaining lease terms ranging from 1 year to 10 years. The Company's lease terms may include options to extend or terminate the lease where it is reasonably certain that the Company will exercise those options. The Company considers several economic factors when making this determination, including but not limited to, the significance of leasehold improvements incurred in the office space, the difficulty in replacing the asset, underlying contractual obligations, or specific characteristics unique to a particular lease. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The components of operating lease cost for the three and six months ended May 31, 2020 were as follows (in thousands):

	Three Months Ended May 31, 2020	Six Months Ended May 31, 2020
Lease costs under long-term operating leases	\$ 1,799	\$ 3,757
Lease costs under short-term operating leases	99	144
Variable lease cost under short-term and long-term operating leases ⁽¹⁾	82	188
Operating lease right-of-use asset impairment	266	1,189
Total operating lease cost	<u>\$ 2,246</u>	<u>\$ 5,278</u>

(1) Lease costs that are not fixed at lease commencement.

The table below presents supplemental cash flow information related to leases during the six months ended May 31, 2020 (in thousands):

	Six Months Ended May 31, 2020
Cash paid for leases	\$ 4,076
Right-of-use assets recognized for new leases and amendments (non-cash)	231

Weighted average remaining lease term in years and weighted average discount rate are as follows:

	May 31, 2020
Weighted average remaining lease term in years	4.67
Weighted average discount rate	2.3%

Future payments under non-cancellable leases at May 31, 2020 are as follows (in thousands):

Remainder of 2020	\$	3,832
2021		5,999
2022		5,299
2023		5,117
2024		5,044
Thereafter		2,736
Total lease payments		28,027
Less imputed interest ⁽¹⁾		(1,513)
Present value of lease liabilities	\$	26,514

(1) Lease liabilities are measured at the present value of the remaining lease payments using a discount rate determined at lease commencement unless the discount rate is updated as a result of a lease reassessment event.

As previously disclosed in the Company's Form 10-K for the fiscal year ended November 30, 2019 and under the previous lease accounting standard, ASC 840, *Leases*, the following table summarizes the future non-cancelable minimum lease commitments (including office space, copiers, and automobiles) at November 30, 2019 (in thousands):

2020	\$	7,453
2021		5,711
2022		4,977
2023		5,017
2024		5,102
Thereafter		2,904
Total	\$	31,164

Note 9: Common Stock Repurchases

In January 2020, our Board of Directors increased the total share repurchase authorization from \$75.0 million to \$250.0 million. In the three months ended May 31, 2020 and May 31, 2019, we did not repurchase and retire any shares of our common stock. In the six months ended May 31, 2020 and May 31, 2019, we repurchased and retired 0.4 million shares for \$20.0 million and 0.7 million shares for \$25.0 million, respectively. The shares were repurchased in both periods as part of our Board of Directors authorized share repurchase program. As of May 31, 2020, there was \$230.0 million remaining under the current authorization.

Note 10: Stock-Based Compensation

Stock-based compensation expense reflects the fair value of stock-based awards, less the present value of expected dividends when applicable, 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 the first six months of fiscal years 2018, 2019 and 2020, we granted performance-based restricted stock units that include two performance metrics under our Long-Term Incentive Plan ("LTIP") where the performance measurement period is three years. Vesting of the LTIP awards is as follows: (i) 50% is based on our level of attainment of specified total stockholder return ("TSR") targets relative to the percentage appreciation of a specified index of companies for the respective three-year periods, 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 when applicable, 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 Ended		Six Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Cost of maintenance and services	\$ 338	\$ 250	\$ 657	\$ 494
Sales and marketing	1,110	1,190	2,160	2,238
Product development	1,899	1,936	3,825	3,864
General and administrative	2,276	2,740	5,032	5,326
Total stock-based compensation	<u>\$ 5,623</u>	<u>\$ 6,116</u>	<u>\$ 11,674</u>	<u>\$ 11,922</u>

Note 11: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated balances of other comprehensive loss during the six months ended May 31, 2020 (in thousands):

	Foreign Currency Translation Adjustment	Unrealized (Losses) Gains on Investments	Unrealized Losses on Hedging Activity	Accumulated Other Comprehensive Loss
Balance, December 1, 2019	\$ (28,393)	\$ (30)	\$ (1,551)	\$ (29,974)
Other comprehensive (loss) income before reclassifications, net of tax	(4,190)	84	(4,164)	(8,270)
Balance, May 31, 2020	<u>\$ (32,583)</u>	<u>\$ 54</u>	<u>\$ (5,715)</u>	<u>\$ (38,244)</u>

The tax effect on accumulated unrealized losses on hedging activity and unrealized (losses) gains on investments was \$1.9 million and \$0.4 million as of May 31, 2020 and November 30, 2019, respectively.

Note 12: Revenue Recognition

Contract Balances

Unbilled Receivables and Contract Assets

The timing of revenue recognition may differ from the timing of customer invoicing. When revenue is recognized prior to invoicing and the right to the amount due from customers is conditioned only on the passage of time, we record an unbilled receivable on our condensed consolidated balance sheets. Our multi-year term license arrangements, which are typically billed annually, result in revenue recognition in advance of invoicing and the recognition of unbilled receivables.

As of May 31, 2020, invoicing of our long-term unbilled receivables is expected to occur as follows (in thousands):

2021	\$ 8,255
2022	1,759
2023	180
Total	<u>\$ 10,194</u>

Contract assets, which arise when revenue is recognized prior to invoicing and the right to the amount due from customers is conditioned on something other than the passage of time, such as the completion of a related performance obligation, were \$1.7 million as of May 31, 2020 and \$4.0 million as of November 30, 2019. These amounts are included in unbilled receivables or long-term unbilled receivables on our condensed consolidated balance sheets.

Deferred Revenue

Deferred revenue is recorded when revenue is recognized subsequent to customer invoicing. Our deferred revenue balance is primarily made up of deferred maintenance from our OpenEdge and Application Development and Deployment segments.

As of May 31, 2020, the changes in deferred revenue were as follows (in thousands):

Balance, December 1, 2019	\$	177,246
Billings and other		206,110
Revenue recognized		(210,066)
Balance, May 31, 2020	\$	<u>173,290</u>

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of May 31, 2020, transaction price allocated to remaining performance obligations was \$180 million. We expect to recognize approximately 88% of the revenue within the next year and the remainder thereafter.

Deferred Contract Costs

Deferred contract costs, which include certain sales incentive programs, are incremental and recoverable costs of obtaining a contract with a customer. Incremental costs of obtaining a contract with a customer are recognized as an asset if the expected benefit of those costs is longer than one year. We have applied the practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less. These costs include a large majority of our sales incentive programs as we have determined that annual compensation is commensurate with annual sales activities.

Certain of our sales incentive programs do meet the requirements to be capitalized. Depending upon the sales incentive program and the related revenue arrangement, such capitalized costs are amortized over the longer of (i) the product life, which is generally three to five years; or (ii) the term of the related revenue contract. We determined that a three to five year product life represents the period of benefit that we receive from these incremental costs based on both qualitative and quantitative factors, which include customer contracts, industry norms, and product upgrades. Total deferred contract costs were \$1.8 million and \$1.7 million as of May 31, 2020 and November 30, 2019, respectively, and are included in other current assets and other assets on our condensed consolidated balance sheets. Amortization of deferred contract costs is included in sales and marketing expense on our condensed consolidated statement of operations and was minimal in all periods presented.

Note 13: Restructuring Charges

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

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2019	\$ 196	\$ 2,007	\$ 2,203
Costs incurred	1,587	148	1,735
Cash disbursements	(767)	(1,713)	(2,480)
Translation adjustments and other	(27)	—	(27)
Balance, May 31, 2020	<u>\$ 989</u>	<u>\$ 442</u>	<u>\$ 1,431</u>

During the fourth quarter of fiscal year 2019, we announced the reduction of our ongoing spending level within our cognitive application product lines, which consist primarily of our DataRPM and Kinvey products. This restructuring resulted in a reduction in positions primarily within the product development function. In connection with this restructuring action, during

the fourth quarter of fiscal year 2019, we evaluated the ongoing value of the intangible assets primarily associated with the technologies and trade names obtained in the acquisitions of DataRPM and Kinvey.

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

For the three and six months ended May 31, 2020, we incurred expenses of \$0.1 million relating to this restructuring. The expenses are recorded as restructuring expenses in the condensed consolidated statements of operations.

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

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2019	\$ —	\$ 1,460	\$ 1,460
Costs incurred	—	109	109
Cash disbursements	—	(1,134)	(1,134)
Balance, May 31, 2020	\$ —	\$ 435	\$ 435

Cash disbursements for expenses incurred to date under this restructuring are expected to be made through fiscal year 2020. Accordingly, the balance of the restructuring reserve of \$0.4 million is included in other accrued liabilities on the condensed consolidated balance sheet at May 31, 2020. We do not expect to incur additional material costs with respect to this restructuring.

During the second quarter of fiscal year 2019, we restructured our operations in connection with the acquisition of Ipswitch (Note 6). This restructuring resulted in a reduction in redundant positions, primarily within administrative functions of Ipswitch. We expect to incur additional expenses as part of this action related to employee costs and facility closures as we consolidate offices in various locations during fiscal year 2020, but we do not expect these costs to be material.

For the three and six months ended May 31, 2020, we incurred expenses of \$0.3 million and \$1.4 million, respectively, relating to this restructuring. The expenses are recorded as restructuring expenses in the condensed consolidated statements of operations and include charges for the impairment of operating lease right-of-use assets of \$0.3 million and \$1.2 million for the three and six months ended May 31, 2020, respectively (Note 8).

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

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2019	\$ 5	\$ 547	\$ 552
Costs incurred	1,334	39	1,373
Cash disbursements	(432)	(579)	(1,011)
Translation adjustments and other	(20)	—	(20)
Balance, May 31, 2020	\$ 887	\$ 7	\$ 894

Cash disbursements for expenses incurred to date under this restructuring are expected to be made through fiscal year 2020. Accordingly, the balance of the restructuring reserve of \$0.9 million is included in short-term operating lease liabilities on the condensed consolidated balance sheet at May 31, 2020.

Note 14: Income Taxes

Our income tax provision for the second quarter of fiscal years 2020 and 2019 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 tax rate was 25% in the second fiscal quarter of 2020 compared to 34% in the second fiscal quarter of 2019. Our effective tax rate was 24% in the six month period ended May 31, 2020 compared to 32% in the same period of 2019. The primary reason for the decrease in effective rate is that during the preparation of our financial statements for the three months ended August 31, 2019, we identified an error in our income tax provisions for the first and second quarters of fiscal year 2019 related to the tax treatment of an intercompany sale of intellectual property that occurred in fiscal year 2018. As a result of the error, income tax expense was overstated by \$1.1 million and \$2.5 million during the first and second quarters of fiscal year 2019, respectively. We determined that the error was not material to the first and second quarters of fiscal year 2019 and corrected the error by recording an out of period \$3.6 million tax benefit in our financial statements for the period ended August 31, 2019. If the error had not occurred, the effective tax rate in the second quarter of fiscal year 2019 would have been 14% and the effective tax rate in the six month period ended May 31, 2019 would have been 18%.

Our Federal income tax returns have been examined or are closed by statute for all years prior to fiscal year 2016. 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 2013.

Note 15: Earnings per share

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

	Three Months Ended		Six Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Net income	\$ 16,968	\$ 8,181	\$ 38,084	\$ 17,583
Weighted average shares outstanding	44,889	44,611	44,893	44,784
Dilutive impact from common stock equivalents	378	676	498	503
Diluted weighted average shares outstanding	45,267	45,287	45,391	45,287
Basic earnings per share	\$ 0.38	\$ 0.18	\$ 0.85	\$ 0.39
Diluted earnings per share	\$ 0.37	\$ 0.18	\$ 0.84	\$ 0.39

We excluded stock awards representing approximately 1,538,000 shares and 1,099,000 shares of common stock from the calculation of diluted earnings per share in the three and six months ended May 31, 2020, respectively, because these awards were anti-dilutive. In the three and six months ended May 31, 2019, we excluded stock awards representing 545,000 shares and 728,000 shares of common stock, respectively, from the calculation of diluted earnings per share as they were anti-dilutive.

Note 16: 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.

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

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Segment revenue:				
OpenEdge	\$ 77,735	\$ 67,820	\$ 154,814	\$ 133,072
Data Connectivity and Integration	3,662	12,932	17,347	18,932
Application Development and Deployment	18,986	19,243	37,905	37,540
Total revenue	100,383	99,995	210,066	189,544
Segment costs of revenue and operating expenses:				
OpenEdge	17,876	19,097	37,626	37,412
Data Connectivity and Integration	1,629	1,806	4,309	3,306
Application Development and Deployment	6,986	5,547	14,274	10,974
Total costs of revenue and operating expenses	26,491	26,450	56,209	51,692
Segment contribution margin:				
OpenEdge	59,859	48,723	117,188	95,660
Data Connectivity and Integration	2,033	11,126	13,038	15,626
Application Development and Deployment	12,000	13,696	23,631	26,566
Total contribution margin	73,892	73,545	153,857	137,852
Other unallocated expenses ⁽¹⁾	48,583	58,804	97,836	107,702
Income from operations	25,309	14,741	56,021	30,150
Other expense, net	(2,847)	(2,317)	(6,244)	(4,320)
Income before income taxes	\$ 22,462	\$ 12,424	\$ 49,777	\$ 25,830

⁽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 of acquired intangibles, stock-based compensation, 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 external customers by revenue type is as follows (in thousands):

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Performance obligations transferred at a point in time:				
Software licenses	\$ 19,663	\$ 29,728	\$ 50,292	\$ 52,530
Performance obligations transferred over time:				
Maintenance	71,686	62,528	141,742	122,527
Services	9,034	7,739	18,032	14,487
Total revenue	\$ 100,383	\$ 99,995	\$ 210,066	\$ 189,544

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, 2020	May 31, 2019	May 31, 2020	May 31, 2019
<i>(In thousands)</i>				
North America	\$ 56,564	\$ 57,060	\$ 121,977	\$ 103,558
EMEA	34,157	33,633	69,145	67,005
Latin America	3,346	4,108	7,346	8,569
Asia Pacific	6,316	5,194	11,598	10,412
Total revenue	\$ 100,383	\$ 99,995	\$ 210,066	\$ 189,544

No single customer, partner, or country outside of the U.S. has accounted for more than 10% of our total revenue for the three or six months ended May 31, 2020 and May 31, 2019. As of May 31, 2020 and November 30, 2019, no individual customer accounted for 10% or more of our net accounts receivable balance. As of May 31, 2020 and November 30, 2019, no individual foreign country accounted for 10% or more of total consolidated assets.

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

Critical Accounting Policies

Management’s discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements which have been prepared in accordance with GAAP. We make estimates and assumptions in the preparation of our consolidated financial statements that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates. The most significant estimates relate to: the timing and amounts of revenue recognition, including the determination of the nature and timing of the satisfaction of performance obligations, the standalone selling price of performance obligations, and the transaction price allocated to performance obligations; the realization of tax assets and estimates of tax liabilities; fair values of investments in marketable securities; assets held for sale; intangible assets and goodwill valuations; the recognition and disclosure of contingent liabilities; the collectability of accounts receivable; and assumptions used to determine the fair value of stock-based compensation. This listing is not a comprehensive list of all of our accounting policies. For further information regarding the application of these and other accounting policies, see Note 1 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended November 30, 2019.

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 other statements concerning future financial results, product offerings or other events that have not yet occurred. There are a number of factors that could cause actual results or future events to differ materially from those anticipated by the forward-looking statements, including, without limitation: (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) The coronavirus disease (COVID-19) outbreak and the impact it could have on our employees, customers, partners and the global financial markets could adversely affect our business, results of operations and financial condition. (10) 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, 2019. 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 believe the presentation of revenue growth rates on a constant currency basis enhances the understanding of our revenue results and evaluation of our performance in comparison to prior periods. The constant currency information presented is calculated by translating current period results using prior period weighted average foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP.

Impact of COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, which continues to be spread throughout the U.S. and the world. The impact from the rapidly changing market and economic conditions due to the COVID-19 outbreak is uncertain, disrupting the business of our customers and partners, and will impact our business and consolidated results of operations and could impact our financial condition in the future. While we have not incurred significant disruptions thus far from the COVID-19 outbreak, we are unable to accurately predict the full impact that COVID-19 will have due to numerous uncertainties, including the severity of the disease, the duration of the outbreak, actions that may be taken by governmental authorities, the impact to the business of our customers and partners and other factors identified in Part II, Item 1A "Risk Factors" in this Form 10-Q. We will continue to evaluate the nature and extent of the impact to our business, consolidated results of operations, and financial condition.

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, the flexibility of a cloud-native app dev platform to deliver modern apps, leading data connectivity technology, web content management, business rules, secure file transfer and network monitoring. Over 1,700 independent software vendors, 100,000 enterprise customers, and two 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.

The key tenets of our strategic plan and operating model are as follows:

Align Resources to Drive Profitability. Our organizational philosophy and operating principles focus primarily on customer and partner retention and success for our core products and a streamlined operating approach in order to more efficiently drive revenue.

Protect and Strengthen Our Core Business. A key element of our strategy is centered on providing the platform and tools enterprises need to build modern, strategic business applications. We offer these products and tools to both new customers and partners as well as our existing partner and customer ecosystems. This strategy builds on our inherent DNA and our vast experience in application development that we've acquired over the past 35+ years.

Our offerings enable developers to build the most modern applications quickly and easily, and include:

- our OpenEdge software, which provides a unified development environment consisting of development tools, application servers, application management tools, an embedded relational database management system and the capability to connect and integrate with other applications and data sources;
- our leading UI development tools, which enable organizations to easily build engaging user interfaces for any device or front end;
- our data connectivity and integration offerings;
- our business logic and rules offerings;
- our secure file transfer solutions, which provide secure collaboration and automated file transfers of sensitive data and advanced workflow automation offerings;
- our network management offerings, which enable small and medium-sized businesses to monitor and manage their IT infrastructure and applications; and
- web content management for delivering personalized and engaging digital experiences.

Acquire Accretive Businesses. We are pursuing acquisitions of businesses within the software infrastructure space, with products that appeal to both IT organizations and individual developers. These acquisitions must meet strict financial criteria, which will enable us to drive significant stockholder returns by providing scale and increased cash flows. As described below, in April 2019, we acquired Ipswitch in a transaction that met these strict financial criteria.

Holistic Capital Allocation Approach. We have adopted a shareholder friendly capital allocation policy that utilizes dividends and share repurchases to return capital to shareholders. Pursuant to our capital allocation strategy that we initially announced in September 2017, we have targeted to return approximately 25% of our annual cash flows from operations to stockholders in the form of dividends. We also intend to repurchase our shares sufficient to offset dilution from our equity plans.

In January 2020, our Board of Directors increased the total share repurchase authorization from \$75.0 million to \$250.0 million. We repurchased and retired 0.4 million shares of our common stock for \$20.0 million in the six months ended May 31, 2020. The shares were repurchased as part of our Board of Directors authorized share repurchase program. As of May 31, 2020, there was \$230.0 million remaining under the current authorization.

We began paying quarterly cash dividends of \$0.125 per share of common stock to Progress stockholders in December 2016 and increased the quarterly cash dividend to \$0.14 per share in September 2017. In September 2018, the quarterly cash dividend was increased to \$0.155 per share of common stock. On September 24, 2019, our Board of Directors approved an additional increase to our quarterly cash dividend from \$0.155 to \$0.165 per share of common stock.

On January 8, 2020, our Board of Directors declared a quarterly dividend of \$0.165 per share of common stock that was paid on March 16, 2020 to shareholders of record as of the close of business on March 2, 2020. On March 18, 2020, our Board of Directors declared a quarterly dividend of \$0.165 per share of common stock that was paid on June 15, 2020 to shareholders of record as of the close of business on June 1, 2020. We expect to continue paying quarterly cash dividends in subsequent quarters consistent with our capital allocation strategy.

In furtherance of our acquisition strategy, on April 30, 2019, we acquired all of the outstanding equity interests of Ipswitch, a provider of award-winning and easy-to-use secure data file transfer and network management software, for an aggregate purchase price of approximately \$225.0 million.

We expect to continue to evaluate possible acquisitions designed to expand our business and drive significant stockholder returns. 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, as applicable, through at least the next twelve months. We also believe that our financial resources will allow us to manage the anticipated impact of COVID-19 on our business operations for the foreseeable future, which could include reductions in revenue and delays in payments from customers and partners. The challenges posed by COVID-19 on our business are expected to evolve rapidly. Consequently, we will continue to evaluate our financial position in light of future developments, particularly those relating to COVID-19.

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. Since approximately one-third of our revenue is

denominated in foreign currency, and given the potential volatility in the global economy created by COVID-19, our revenue results in fiscal year 2020 are expected to be impacted by fluctuations in foreign currency exchange rates.

On September 26, 2019, we announced that we are reducing our current and ongoing investment levels within our cognitive application product lines, which consist primarily of our DataRPM and Kinvey products. Accordingly, our fiscal fourth quarter of 2019 results include a restructuring charge of \$2.5 million. This restructuring charge relates to employee costs, including severance, health benefits and outplacement services (but excluding stock-based compensation) incurred as a part of the reduction in the investment. In connection with this restructuring action, during the fiscal fourth quarter of 2019, we evaluated the ongoing value of the intangible assets primarily associated with the technologies and trade names obtained in the acquisitions of DataRPM and Kinvey. As a result of this evaluation, we wrote down these assets to fair value, which resulted in a \$22.7 million asset impairment charge during the fiscal fourth quarter of 2019.

Results of Operations

Revenue

	Three Months Ended		Percentage Change	
	May 31, 2020	May 31, 2019	As Reported	Constant Currency
<i>(In thousands)</i>				
Revenue	\$ 100,383	\$ 99,995	—%	2%
	Six Months Ended		Percentage Change	
	May 31, 2020	May 31, 2019	As Reported	Constant Currency
<i>(In thousands)</i>				
Revenue	\$ 210,066	\$ 189,544	11%	12%

Total revenue remained flat in the three month period ended May 31, 2020 compared to the same quarter last year. Total revenue increased in the six month period ended May 31, 2020 compared to the corresponding period in 2019, primarily due to the acquisition of Ipswitch, partially offset by a decrease in license sales in our Data Connectivity and Integration segment. Ipswitch revenue was \$17.3 million and \$32.5 million for the second quarter and first six months of fiscal year 2020, respectively. Ipswitch revenue was \$3.3 million for each of the second quarter and first six months of fiscal year 2019.

Software License Revenue

	Three Months Ended		Percentage Change	
	May 31, 2020	May 31, 2019	As Reported	Constant Currency
<i>(In thousands)</i>				
Software Licenses	\$ 19,663	\$ 29,728	(34)%	(33)%
<i>As a percentage of total revenue</i>	20%	30%		
	Six Months Ended		Percentage Change	
	May 31, 2020	May 31, 2019	As Reported	Constant Currency
<i>(In thousands)</i>				
Software Licenses	\$ 50,292	\$ 52,530	(4)%	(3)%
<i>As a percentage of total revenue</i>	24%	28%		

Software license revenue decreased compared to the same periods last year primarily due to a decrease in license sales in our Data Connectivity and Integration segment, partially offset by an increase in Ipswitch license sales, which are included in our OpenEdge segment. Refer to Revenue by Segment section below for further discussion.

Maintenance and Services Revenue

	Three Months Ended		Percentage Change	
	May 31, 2020	May 31, 2019	As Reported	Constant Currency
<i>(In thousands)</i>				
Maintenance	\$ 71,686	\$ 62,528	15%	16%
<i>As a percentage of total revenue</i>	71%	63%		
Services	9,034	7,739	17%	18%
<i>As a percentage of total revenue</i>	9%	8%		
Total maintenance and services revenue	\$ 80,720	\$ 70,267	15%	17%
<i>As a percentage of total revenue</i>	80%	70%		

	Six Months Ended		Percentage Change	
	May 31, 2020	May 31, 2019	As Reported	Constant Currency
<i>(In thousands)</i>				
Maintenance	\$ 141,742	\$ 122,527	16%	17%
<i>As a percentage of total revenue</i>	67%	65%		
Services	18,032	14,487	24%	25%
<i>As a percentage of total revenue</i>	9%	8%		
Total maintenance and services revenue	\$ 159,774	\$ 137,014	17%	18%
<i>As a percentage of total revenue</i>	76%	72%		

Maintenance and services revenue increased in all periods due to our acquisition of Ipswitch. The increase in services revenue was also driven by our Application Development and Deployment segment.

Revenue by Region

	Three Months Ended		Percentage Change	
	May 31, 2020	May 31, 2019	As Reported	Constant Currency
<i>(In thousands)</i>				
North America	\$ 56,564	\$ 57,060	(1)%	(1)%
<i>As a percentage of total revenue</i>	57%	57%		
Europe, the Middle East and Africa ("EMEA")	\$ 34,157	\$ 33,633	2 %	4 %
<i>As a percentage of total revenue</i>	34%	34%		
Latin America	\$ 3,346	\$ 4,108	(19)%	(3)%
<i>As a percentage of total revenue</i>	3%	4%		
Asia Pacific	\$ 6,316	\$ 5,194	22 %	26 %
<i>As a percentage of total revenue</i>	6%	5%		

	Six Months Ended		Percentage Change	
	May 31, 2020	May 31, 2019	As Reported	Constant Currency
<i>(In thousands)</i>				
North America	\$ 121,977	\$ 103,558	18 %	18 %
<i>As a percentage of total revenue</i>	58%	55%		
EMEA	\$ 69,145	\$ 67,005	3 %	5 %
<i>As a percentage of total revenue</i>	33%	35%		
Latin America	\$ 7,346	\$ 8,569	(14)%	(4)%
<i>As a percentage of total revenue</i>	4%	5%		
Asia Pacific	\$ 11,598	\$ 10,412	11 %	14 %
<i>As a percentage of total revenue</i>	5%	5%		

Total revenue generated in North America decreased by \$0.5 million for the three month period ended May 31, 2020, compared to the corresponding period in 2019, primarily due to decreased license sales in our Data Connectivity and Integration segment, partially offset by our acquisition of Ipswitch. The revenue generated in North America increased for the six month period ended May 31, 2020, compared to the corresponding period in 2019, primarily due to our acquisition of Ipswitch as well as higher maintenance and services revenue generated by our Application Development and Deployment segment. The increase in revenue generated in EMEA in all periods was also due to our acquisition of Ipswitch. Revenue in Latin America decreased in all periods primarily due to the effect of foreign exchange. Revenue in Asia Pacific increased in both periods primarily due to an increase in OpenEdge license sales.

In the first six months of fiscal year 2020, revenue generated in markets outside North America represented 42% of total revenue compared to 43% of total revenue on a constant currency basis and 45% of total revenue in the same period last year.

Revenue by Segment

	Three Months Ended		Percentage Change	
	May 31, 2020	May 31, 2019	As Reported	Constant Currency
<i>(In thousands)</i>				
OpenEdge segment	\$ 77,735	\$ 67,820	15 %	17 %
Data Connectivity and Integration segment	3,662	12,932	(72)%	(72)%
Application Development and Deployment segment	18,986	19,243	(1)%	(1)%
Total revenue	\$ 100,383	\$ 99,995	— %	2 %

	Six Months Ended		Percentage Change	
	May 31, 2020	May 31, 2019	As Reported	Constant Currency
<i>(In thousands)</i>				
OpenEdge segment	\$ 154,814	\$ 133,072	16 %	18 %
Data Connectivity and Integration segment	17,347	18,932	(8)%	(9)%
Application Development and Deployment segment	37,905	37,540	1 %	1 %
Total revenue	\$ 210,066	\$ 189,544	11 %	12 %

Revenue in our OpenEdge segment increased in all periods primarily due to our acquisition of Ipswitch. Data Connectivity and Integration revenue decreased in all periods due to the timing of term license renewals by certain of our OEM partners. Application Development and Deployment revenue decreased in the three month period ended May 31, 2020, compared to the corresponding period in 2019, primarily due to lower license revenue, and increased in the six month period ended May 31, 2020, primarily due to higher professional services and maintenance revenues.

Cost of Software Licenses

	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
<i>(In thousands)</i>						
Cost of software licenses	\$ 810	\$ 925	(12)%	\$ 2,199	\$ 2,092	5%
<i>As a percentage of software license revenue</i>	4%	3%		4%	4%	
<i>As a percentage of total revenue</i>	1%	1%		1%	1%	

Cost of software licenses consists primarily of costs of royalties, electronic software distribution, duplication, and packaging. The slight increase in cost of software licenses in the six month period ending May 31, 2020, compared to the corresponding period in 2019, was due to our acquisition of Ipswitch.

Cost of Maintenance and Services

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
	Cost of maintenance and services	\$ 11,785	\$ 10,580	11%	\$ 23,636	\$ 20,019
<i>As a percentage of maintenance and services revenue</i>	15%	15%		15%	15%	
<i>As a percentage of total revenue</i>	12%	11%		11%	11%	

Cost of maintenance and services consists primarily of costs of providing customer support, consulting, and education. The year over year increase in all periods was primarily due to increased headcount resulting from our acquisition of Ipswitch.

Amortization of Intangibles

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
	Amortization of intangibles	\$ 1,664	\$ 6,106	(73)%	\$ 3,310	\$ 11,539
<i>As a percentage of total revenue</i>	2%	6%		2%	6%	

Amortization of intangibles included in costs of revenue primarily represents the amortization of the value assigned to technology-related intangible assets obtained in business combinations. The year over year decrease in all periods was due to certain intangible assets being fully amortized and the impairment of intangible assets recorded in the fourth fiscal quarter of 2019 associated with the technology of our Kinvey and DataRPM acquisitions.

Gross Profit

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
	Gross profit	\$ 86,124	\$ 82,384	5%	\$ 180,921	\$ 155,894
<i>As a percentage of total revenue</i>	86%	82%		86%	82%	

Our gross profit increased in both periods primarily due to the increase in maintenance revenue and the decrease in the amortization of intangibles, offset slightly by the decrease of license revenue and increase of cost of maintenance and services, each as described above.

Sales and Marketing

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
	Sales and marketing	\$ 21,716	\$ 24,832	(13)%	\$ 45,914	\$ 47,155
<i>As a percentage of total revenue</i>	22%	25%		22%	25%	

Sales and marketing expenses decreased in both periods as compared to the corresponding periods last year primarily due to decreased travel and in-person events resulting from restrictions related to the COVID-19 pandemic as well as cost reductions resulting from our decision to reduce our current and ongoing investment levels within our cognitive application product lines in the fourth quarter of fiscal year 2019. These decreases were partially offset by increased costs resulting from the acquisition of Ipswitch on April 30, 2019.

Product Development

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
	Product development costs	\$ 21,787	\$ 21,688	—%	\$ 43,441	\$ 41,578
<i>As a percentage of total revenue</i>	22%	22%		21%	22%	

Product development expenses increased in both periods presented as compared to the same periods last year primarily due to increased compensation-related expenses as a result of the acquisition of Ipswitch, partially offset by decreased travel resulting from restrictions related to the COVID-19 pandemic and cost reductions resulting from our decision to reduce our current and ongoing investment levels within our cognitive application product lines in the fourth quarter of fiscal year 2019.

General and Administrative

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
	General and administrative	\$ 12,440	\$ 12,654	(2)%	\$ 25,188	\$ 24,939
<i>As a percentage of total revenue</i>	12%	13%		12%	13%	

General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses decreased during the three month period ended May 31, 2020 due to decreased stock-based compensation expense compared to the same quarter last year. General and administrative expenses increased during the six month period ended May 31, 2020 as compared to the same period last year primarily due to higher headcount-related costs, partially offset by decreased stock-based compensation expense.

Amortization of Intangibles

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
	Amortization of intangibles	\$ 4,177	\$ 4,585	(9)%	\$ 8,308	\$ 7,773
<i>As a percentage of total revenue</i>	4%	5%		4%	4%	

Amortization of 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 intangibles decreased in the three month period ended May 31, 2020, compared to the corresponding period in 2019, due to certain intangible assets being fully amortized and the impairment of intangible assets, as discussed above. Amortization of intangibles for the six month period ended May 31, 2020 increased year over year due to the addition of intangible assets obtained in connection with our acquisition of Ipswitch, partially offset by certain intangible assets being fully amortized and the impairment of intangible assets, as discussed above.

Restructuring Expenses

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
Restructuring expenses	\$ 695	\$ 2,777	(75)%	\$ 1,735	\$ 3,192	(46)%
As a percentage of total revenue	1%	3%		1%	2%	

Restructuring expenses recorded in the first six months of fiscal year 2020 relate primarily to the restructuring activities that occurred in fiscal year 2019. See Note 13 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, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
Acquisition-related expenses	\$ —	\$ 1,107	*	\$ 314	\$ 1,107	(72)%
As a percentage of total revenue	—%	1%		—%	1%	

* Not meaningful

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. Acquisition-related expenses in both the second quarter and first six months of fiscal year 2020 were minimal. Acquisition-related expenses in both the second quarter and first six months of fiscal year 2019 were related to the acquisition of Ipswitch.

Income from Operations

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
Income from operations	\$ 25,309	\$ 14,741	72%	\$ 56,021	\$ 30,150	86%
As a percentage of total revenue	25%	15%		27%	16%	

Income from operations increased year over year in both periods due to an increase in revenue and decreases in costs of revenue and operating expenses as shown above.

Income from Operations by Segment

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
OpenEdge segment	\$ 59,859	\$ 48,723	23 %	\$ 117,188	\$ 95,660	23 %
Data Connectivity and Integration segment	2,033	11,126	(82)%	13,038	15,626	(17)%
Application Development and Deployment segment	12,000	13,696	(12)%	23,631	26,566	(11)%
Other unallocated expenses ⁽¹⁾	(48,583)	(58,804)	17 %	(97,836)	(107,702)	9 %
Income from operations	\$ 25,309	\$ 14,741	72 %	\$ 56,021	\$ 30,150	86 %

⁽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

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
	Interest expense	\$ (2,598)	\$ (2,210)	(18)%	\$ (5,390)	\$ (3,599)
Interest income and other, net	122	344	(65)%	333	573	(42)%
Foreign currency loss, net	(371)	(451)	18 %	(1,187)	(1,294)	8 %
Total other expense, net	\$ (2,847)	\$ (2,317)	(23)%	\$ (6,244)	\$ (4,320)	(45)%
<i>As a percentage of total revenue</i>	<i>(3)%</i>	<i>(2)%</i>		<i>(3)%</i>	<i>(2)%</i>	

Other expense, net increased in all periods presented due to an increase in interest expense. The change in interest expense is a result of an increase in the principal balance of our debt, which was used to fund the Ipswitch acquisition.

(Benefit) Provision for Income Taxes

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
	Provision for income taxes	\$ 5,494	\$ 4,243	29%	\$ 11,693	\$ 8,247
<i>As a percentage of total revenue</i>	<i>5%</i>	<i>4%</i>		<i>6%</i>	<i>4%</i>	

Our effective tax rate was 25% in the second fiscal quarter of 2020 compared to 34% in the second fiscal quarter of 2019. Our effective tax rate was 24% in the six month period ended May 31, 2020 compared to 32% in the same period of 2019. The primary reason for the decrease in effective rate is that during the preparation of our financial statements for the three months ended August 31, 2019, we identified an error in our income tax provisions for the first and second quarters of fiscal year 2019 related to the tax treatment of an intercompany sale of intellectual property that occurred in fiscal year 2018. As a result of the error, income tax expense was overstated by \$1.1 million and \$2.5 million during the first and second quarters of fiscal year 2019, respectively. We determined that the error was not material to the first and second quarters of fiscal year 2019 and corrected the error by recording an out of period \$3.6 million tax benefit in our financial statements for the period ended August 31, 2019. If the error had not occurred, the effective tax rate in the second quarter of fiscal year 2019 would have been 14% and the effective tax rate in the six month period ended May 31, 2019 would have been 18%. The primary reason why the effective tax rate would have been lower in fiscal year 2019 versus fiscal year 2020 is due to a shift in a significant amount of income from a low tax jurisdiction to the United States from fiscal year 2019 to fiscal year 2020.

Net Income

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2020	May 31, 2019	Percentage Change	May 31, 2020	May 31, 2019	Percentage Change
	Net income	\$ 16,968	\$ 8,181	107%	\$ 38,084	\$ 17,583
<i>As a percentage of total revenue</i>	<i>17%</i>	<i>8%</i>		<i>18%</i>	<i>9%</i>	

Liquidity and Capital Resources*Cash, Cash Equivalents and Short-Term Investments*

<i>(In thousands)</i>	May 31, 2020	November 30, 2019
Cash and cash equivalents	\$ 193,222	\$ 154,259
Short-term investments	10,423	19,426
Total cash, cash equivalents and short-term investments	\$ 203,645	\$ 173,685

The increase in cash, cash equivalents and short-term investments of \$30.0 million from the end of fiscal year 2019 was due to cash inflows from operations of \$71.0 million, and \$3.4 million in cash received from the issuance of common stock. These cash inflows were offset by repurchases of common stock of \$20.0 million, dividend payments of \$14.9 million, payments of debt obligations in the amount of \$3.8 million, the effect of exchange rates on cash of \$4.0 million and purchases of property and equipment of \$1.8 million. Except as described below, there are no limitations on our ability to access our cash, cash equivalents and short-term investments.

As of May 31, 2020, \$24.5 million of our cash, cash equivalents and short-term investments was held by our foreign subsidiaries. Foreign cash includes unremitted foreign earnings, which are invested indefinitely outside of the U.S. As such, it is not available to fund our domestic operations. If we were to repatriate these earnings, we may be subject to income tax withholding in certain tax jurisdictions and a portion of the repatriated earnings may be subject to U.S. income tax. However, we do not anticipate that this would have a material adverse impact on our liquidity.

Share Repurchase Program

In January 2020, our Board of Directors increased the total share repurchase authorization from \$75.0 million to \$250.0 million. We repurchased and retired 0.4 million shares of our common stock for \$20.0 million in the six months ended May 31, 2020 and 0.7 million shares for \$25.0 million in the six months ended May 31, 2019. We did not repurchase and retire any shares of our common stock in the three month periods ended May 31, 2020 and May 31, 2019. The shares were repurchased in both periods as part of our Board of Directors authorized share repurchase program. As of May 31, 2020, there was \$230.0 million remaining under the current authorization.

Dividends

We began paying quarterly cash dividends of \$0.125 per share of common stock to Progress stockholders in December 2016 and increased the quarterly cash dividend to \$0.14 per share in September 2017. In September 2018, the quarterly cash dividend was increased to \$0.155 per share of common stock. On September 24, 2019, our Board of Directors approved an additional increase to our quarterly cash dividend from \$0.155 to \$0.165 per share of common stock. On January 8, 2020, our Board of Directors declared a quarterly dividend of \$0.165 per share of common stock that was paid on March 16, 2020 to stockholders of record as of the close of business on March 2, 2020. On March 18, 2020, our Board of Directors declared a quarterly dividend of \$0.165 per share of common stock that will be paid on June 15, 2020 to shareholders of record as of the close of business on June 1, 2020. On June 23, 2020, our Board of Directors declared a quarterly dividend of \$0.165 per share of common stock that will be paid on September 15, 2020 to shareholders of record as of the close of business on September 1, 2020.

Restructuring Activities

During the second quarter of fiscal year 2019, we restructured our operations in connection with the acquisition of Ipswitch. This restructuring resulted in a reduction in redundant positions, primarily within administrative functions of Ipswitch. We expect to incur additional expenses as part of this action related to employee costs and facility closures as we consolidate offices in various locations during fiscal year 2020, but we do not expect these costs to be material. For the three and six months ended May 31, 2020, we incurred expenses of \$0.3 million and \$1.4 million, respectively, in connection with the restructuring, which are recorded as restructuring expenses in the consolidated statements of operations. Cash disbursements for expenses incurred to date under this restructuring are expected to be made through fiscal year 2020. We do not expect to incur additional material costs with respect to this restructuring.

During the fourth quarter of fiscal year 2019, we announced the reduction of our current and ongoing investment level within our cognitive application product lines, which consist primarily of our DataRPM and Kinvey products. This restructuring resulted in a reduction in positions primarily within the sales and product development functions. For the three and six months ended May 31, 2020, we incurred minimal expenses in connection with the restructuring, which are recorded as restructuring expenses in the consolidated statements of operations. Cash disbursements for expenses incurred to date under this restructuring are expected to be made through fiscal year 2020. We do not expect to incur additional material costs with respect to this restructuring.

Credit Facility

Our credit agreement provides for a \$301.0 million secured term loan and a \$100.0 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 sub-limits 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 April 30, 2024, 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, 2020 was \$293.5 million, with \$15.1 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 August 31, 2019. The principal repayment amounts are in accordance with the following schedule: (i) four payments of \$1.9 million each, (ii) four payments of \$3.8 million each, (iii) four payments of \$5.6 million each, (iv) four payments of \$7.5 million each, (v) three payments of \$9.4 million each, and (vi) 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. The interest rate of the credit facility as of May 31, 2020 was 2.06%.

Revolving loans may be borrowed, repaid, and reborrowed until April 30, 2024, at which time all amounts outstanding must be repaid. As of May 31, 2020, there were no amounts outstanding under the revolving line and \$1.8 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, 2020.

Cash Flows from Operating Activities

	Six Months Ended	
	May 31, 2020	May 31, 2019
<i>(In thousands)</i>		
Net income	\$ 38,084	\$ 17,583
Non-cash reconciling items included in net income	34,571	28,822
Changes in operating assets and liabilities	(1,682)	18,713
Net cash flows from operating activities	<u>\$ 70,973</u>	<u>\$ 65,118</u>

The year over year increase in cash generated from operations was primarily due to higher operating income. Our gross accounts receivable as of May 31, 2020 decreased by \$18.3 million from the end of fiscal year 2019 and our days sales outstanding (DSO) in accounts receivable increased to 47 days from 42 days in the fiscal second quarter of 2019 due to the timing of billings and collections.

Cash Flows used in Investing Activities

	Six Months Ended	
	May 31, 2020	May 31, 2019
<i>(In thousands)</i>		
Net investment activity	\$ 9,042	\$ 8,959
Proceeds from sale of property, plant and equipment, net	—	6,146
Purchases of property and equipment	(1,757)	(1,080)
Payments for acquisitions, net of cash acquired	—	(225,298)
Net cash flows used in investing activities	<u>\$ 7,285</u>	<u>\$ (211,273)</u>

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. However, we acquired Ipswitch for a net cash amount of \$225.3 million in the second quarter of fiscal year 2019, which is driving the change in investing cash flows for the six months ended May 31, 2020 as compared to May 31, 2019. In addition, we purchased \$1.8 million of property and equipment in the first six months of fiscal year 2020, as compared to \$1.1 million in the first six months of fiscal year 2019.

Cash Flows from (used in) Financing Activities

	Six Months Ended	
	May 31, 2020	May 31, 2019
<i>(In thousands)</i>		
Proceeds from stock-based compensation plans	\$ 7,308	\$ 4,303
Proceeds from the issuance of debt	—	184,984
Repurchases of common stock	(20,000)	(25,000)
Payment of principle on long-term debt	(3,762)	(1,547)
Dividend payments to shareholders	(14,906)	(13,886)
Other financing activities	(3,895)	(3,248)
Net cash flows from (used in) financing activities	<u>\$ (35,255)</u>	<u>\$ 145,606</u>

During the first six months of fiscal year 2020, we received \$7.3 million from the exercise of stock options and the issuance of shares under our employee stock purchase plan as compared to \$4.3 million in the first six months of fiscal year 2019. In addition, in the first six months of fiscal year 2020, we did not receive any proceeds from the issuance of debt as compared to \$185.0 million in the same period of the prior year to fund the acquisition of Ipswitch. Further, we repurchased \$20.0 million of our common stock under our share repurchase plan compared to \$25.0 million in the same period of the prior year. We also made principal payments on our long-term debt of \$3.8 million in the first six months of fiscal year 2020 compared to \$1.5 million in the same period of the prior year. Finally, we made dividend payments of \$14.9 million to our shareholders during the first six months of fiscal 2020, as compared to \$13.9 million in the first six months of fiscal 2019.

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 invested indefinitely outside of the U.S. Our foreseeable cash needs include our planned capital expenditures, debt repayments, quarterly cash dividends, share repurchases, acquisitions, lease commitments, restructuring obligations and other long-term obligations.

We also believe that our financial resources will allow us to manage the anticipated impact of COVID-19 on our business operations for the foreseeable future, which could include reductions in revenue and delays in payments from customers and partners. The challenges posed by COVID-19 on our business are expected to evolve rapidly. Consequently, we will continue to evaluate our financial position in light of future developments, particularly those relating to COVID-19

Legal and Other Regulatory Matters

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

Off-Balance Sheet Arrangements

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, 2019.

Recent Accounting Pronouncements

Refer to Note 1 - Nature of Business and Basis of Presentation (Part I, Item 1 of this Form 10-Q) for further discussion.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the second quarter of fiscal year 2020, 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, 2019 for a more complete discussion of the market risks we encounter.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Our management maintains disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is

accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), as appropriate, to allow for timely decisions regarding required disclosure.

Our management, including 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 Exchange Act 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, 2020 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, 2020 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. We implemented internal controls to ensure we adequately evaluated our agreements and properly assessed the impact of ASC 842 on our financial statements to facilitate our adoption of it on December 1, 2019. There were no material changes to our internal control over financial reporting due to the adoption of ASC 842.

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. The risk factors set forth below that are marked with an asterisk (*) are new or contain changes to the similarly titled risk factors included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2019. 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 business and results of operations will be, and our financial condition may be, impacted by the outbreak of COVID-19 and such impact could be materially adverse.** The global spread of the novel coronavirus (COVID-19) has created significant volatility, uncertainty and economic disruption. The extent to which the coronavirus pandemic impacts our business, operations, and financial results is uncertain and will depend on numerous evolving factors that we may not be able to accurately predict, including:

- the duration and scope of the pandemic;
- governmental, business and individual actions taken in response to the pandemic and the impact of those actions on global economic activity;
- the actions taken in response to economic disruption;
- the impact of business disruptions on our customers and partners and the resulting impact on their demand for our products and services;
- the increase in business failures among small- and mid-sized business that we serve;
- our customers' and partners' ability to pay for our products and services; and
- our ability to provide our products and services, including as a result of our employees working remotely and/or closures of offices and facilities.

Any of these factors could cause or contribute to the risks and uncertainties identified in our Annual Report on Form 10-K for the fiscal year ended November 30, 2019 and could materially adversely affect our business, financial condition and results of operations.

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;

- integration of acquired businesses;
- customer order deferrals in anticipation of new products announced by us or our competitors;
- general economic conditions in regions in which we conduct business; and
- other factors such as political or social unrest, terrorist attacks, other hostilities, natural disasters, and potential public health crises, such as the COVID-19.

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 result in a material adverse impact on 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.

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 in large part 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 any of our 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.

Changes in accounting principles and guidance, or their interpretation or implementation, may materially adversely affect our reported results of operations or financial position. We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") These principles are subject to interpretation by the SEC and various bodies formed to create and interpret appropriate accounting principles and guidance. A change in these principles or guidance, or in their interpretations, may have a significant effect on our reported results, as well as our processes and related controls.

A failure of our information technology systems could have a material adverse effect on our business. A failure or prolonged interruption in our information technology systems, or any difficulty encountered in upgrading our systems or implementing new systems, that compromises our ability to meet our customers' needs, or impairs our ability to record, process and report accurate information could have a material adverse effect on our financial condition.

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 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 become 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 (the "U.K.") Membership of the European Union ("E.U.") (referred to as "Brexit"), advising for the exit of the U.K. from the E.U., 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 and legal 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, legal impediments and 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;
- changes in U.S. or foreign trade policies or practices that increase costs or restrict the distribution of products;
- 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.

In addition, our business could be adversely affected by regional or global health crises, including an outbreak of contagious disease such as COVID-19. A significant outbreak of contagious diseases and other adverse public health developments, or the fear of such events that results in a widespread health crisis could adversely affect global supply chains and the economies and financial markets of many countries. Any prolonged economic disruption could affect demand for our products and services and adversely impact our results of operations and financial condition. The full impact of the coronavirus outbreak is unknown at this time. We continue to monitor developments and the potential effect on our business.

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 could adversely affect 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.

****Our customers and partners may delay payment or fail to pay us in accordance with the terms of their agreements, necessitating action by us to compel payment.*** We typically enter into non-cancelable arrangements with our customers and partners. If customers and partners delay the payment or fail to pay us under the terms of our agreements, we may be adversely affected both from the inability to collect amounts due and the cost of enforcing the terms of our contracts, including litigation. Furthermore, some of our customers and partners may seek bankruptcy protection or other similar relief and fail to pay amounts due to us, or pay those amounts more slowly, either of which could adversely affect our operating results, financial position and cash flow. The recent and ongoing global COVID-19 pandemic may also increase the likelihood of these risks.

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 we develop may not adequately address the changing needs of the marketplace or may not be accepted by the market. 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 are more responsive to customer requirements than, OpenEdge such that we are unable to maintain OpenEdge's competitive position within its marketplace, our business, financial condition and operating results may be materially adversely affected.

****If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.*** We acquire other companies and intangible assets and may not realize all the economic benefit from those acquisitions, which could cause an impairment of goodwill or intangibles. We review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We test goodwill for impairment at least annually. Factors that may cause a change in circumstances, indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable, include a decline in our stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in industry segments in which we participate. We may be required to record a significant charge in our consolidated financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, negatively affecting our results of operations.

We may make additional acquisitions of businesses, products or technologies that involve additional risks, which could disrupt our business or harm our financial condition, results of operations or cash flows. A key element of our strategy includes the acquisition of businesses that offer complementary products, services and technologies, augment our revenues and cash flows, and meet our strict financial criteria, such as our recent acquisition of Ipswitch. We may not be able to identify suitable acquisition opportunities, or to consummate any such transactions. Any acquisitions that we do complete and their integration involve a number of risks, the occurrence of which could have a material adverse effect on our business, financial condition, operating results or cash flows, including:

- unexpected delays, challenges and related expenses, and the disruption of our business;
- difficulties of assimilating the operations and personnel of acquired companies;
- our potential inability to realize the value of the acquired assets relative to the price paid;
- distraction of management from our ongoing businesses;
- potential product disruptions associated with the sale of the acquired business's products;
- the potential that an acquisition may not further our business strategy as we expected, may not result in revenue and cash flow growth to the degree we expected or at all, or may not achieve expected synergies;
- the possibility of incurring significant restructuring charges and amortization expense;
- risks related to the assumption of the acquired business's liabilities or any ongoing lawsuits;
- potential impairment to assets that we recorded as a part of an acquisition, including intangible assets and goodwill; and
- to the extent that we issue stock to pay for an acquisition, dilution to existing stockholders and decreased earnings per share.

Difficulties associated with any acquisitions we may pursue and their integration may be complicated by factors such as:

- the size of the business or entity acquired;
- geographic and cultural differences;
- lack of experience operating in the industry or geographic markets of the acquired business;
- potential loss of key employees and customers;
- the potential for deficiencies in internal controls at the acquired or combined business;
- performance problems with the acquired business's technology;
- exposure to unanticipated liabilities of the acquired business;
- insufficient revenue to offset increased expenses associated with the acquisition; and
- adverse tax consequences.

If we fail to complete an announced acquisition, our stock price could fall to the extent the price reflects an assumption that such acquisition will be completed, and we may incur significant unrecoverable costs. Further, the failure to consummate an acquisition may result in negative publicity and adversely impact our relationships with our customers, vendors and employees. We may become subject to legal proceedings relating to the acquisition and the integration of acquired businesses may not be

successful. Failure to manage and successfully integrate acquired businesses, achieve anticipated levels of profitability of the acquired business, improve margins of the acquired businesses and products, or realize other anticipated benefits of an acquisition could materially harm our business, operating results and margins.

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

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 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 E.U. and the United States ("U.S.") formally entered into a framework in July 2016 that provides a mechanism for companies to transfer data from E.U. member states to the U.S. This framework, called the Privacy Shield, is intended to address shortcomings identified by the Court of Justice of the E.U. in the previous E.U.-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 E.U. adopted a 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. Litigation relating to any such claims could result in substantial costs and diversion of resources, whether or not we ultimately prevail on the merits. Any such litigation could also result in our being prohibited from selling one or more of our products, unanticipated royalty payments, reluctance by potential customers to purchase our products, or 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 may be vulnerable to unauthorized access, computer viruses, cyber-attacks, distributed denial of service attacks and other disruptive problems. Due to the actions of outside parties, employee error, malfeasance, or otherwise, an unauthorized party may obtain access to our data or our customers' data, which could result in its theft, destruction or misappropriation. Security risks in recent years have increased significantly given the increased sophistication and activities of hackers, organized crime, including state-sponsored organizations and nation-states, and other outside parties. Cyber threats are continuously evolving, increasing the difficulty of defending against them. While we have implemented security procedures and controls to address these threats, our security measures could be compromised or could fail. Any security breach or unauthorized access could result in significant legal and financial exposure, increased costs to defend litigation, indemnity and other contractual obligations, government fines and penalties, damage to our reputation and our brand, and a loss of confidence in the security of our products and services that could potentially have an adverse effect on our business and results of operations. Breaches of our network could disrupt our internal systems and business applications, including services provided to our customers. Additionally, data breaches could compromise technical and proprietary information, harming our competitive position. We may need to spend significant capital or allocate significant resources to ensure effective ongoing protection against the threat of security breaches or to address security related concerns. 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. In addition, our insurance coverage may not be adequate to cover all costs related to cybersecurity incidents and the disruptions resulting from such events.

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 that is inconsistent with such assessments 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 April 2019, we entered into an amended and restated credit agreement, which consists of a \$301.0 million term loan and a \$100.0 million revolving loan (which 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 April 2024, at which time any amounts outstanding will be due and payable in full. We may wish to borrow additional amounts under the facility in the future to support our operations, including for strategic acquisitions and share repurchases.

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

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

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 2020 is as follows (in thousands, except per share and share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs ⁽¹⁾
March 2020	—	\$ —	—	\$ 230,000
April 2020	—	—	—	230,000
May 2020	—	—	—	230,000
Total	—	\$ —	—	\$ 230,000

(1) In January 2020, our Board of Directors increased the total share repurchase authorization from \$75.0 million to \$250.0 million. As of May 31, 2020, there was \$230.0 million remaining under this authorization.

Item 6. Exhibits

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

Exhibit No.	Description
2.1***	Stock Purchase Agreement, dated March 28, 2019, by and among Progress Software Corporation, Ipswitch, Inc. and Roger Greene
31.1*	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Yogesh K. Gupta
31.2*	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Anthony Folger
32.1**	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
101*	The following materials from Progress Software Corporation’s Quarterly Report on Form 10-Q for the three and six months ended May 31, 2020, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of May 31, 2020 and November 30, 2019; (ii) Condensed Consolidated Statements of Income for the three and six months ended May 31, 2020 and 2019; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended May 31, 2020 and 2019; (iv) Condensed Consolidated Statements of Shareholders' Equity for the three and six months ended May 31, 2020 and May 31, 2019; (v) Condensed Consolidated Statements of Cash Flows for the six months ended May 31, 2020 and 2019; and (vi) Notes to Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

*** Incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed on April 1, 2019

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 8, 2020

/s/ YOGESH K. GUPTA

Yogesh K. Gupta
President and Chief Executive Officer
(Principal Executive Officer)

Dated: July 8, 2020

/s/ ANTHONY FOLGER

Anthony Folger
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATION

I, Yogesh K. Gupta, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Progress Software Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure control and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 8, 2020

/s/ YOGESH K. GUPTA

Yogesh K. Gupta

President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Anthony Folger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Progress Software Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure control and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 8, 2020

/s/ ANTHONY FOLGER

Anthony Folger

Chief Financial Officer

(Principal Financial Officer)

Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Progress Software Corporation (the Company) for the three months ended May 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned, Yogesh K. Gupta, President and Chief Executive Officer, and Anthony Folger, Chief Financial Officer, of the Company, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ YOGESH K. GUPTA

President and Chief Executive Officer

/s/ ANTHONY FOLGER

Chief Financial Officer

Date: July 8, 2020

Date: July 8, 2020