UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2021
or

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

For the transition period from _____to _____.
Commission File Number: **0-19417**

PROGRESS SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**04-2746201**
(State or other jurisdiction of incorporation or organization)	(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	☒		Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☐			

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

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

As of March 26, 2021, there were 44,003,055 shares of the registrant’s common stock, $.01 par value per share, outstanding.

PROGRESS SOFTWARE CORPORATION

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2021

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets

(In thousands, except share data)	February 28, 2021	November 30, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 107,698	$ 97,990
Short-term investments	6,673	8,005
Total cash, cash equivalents and short-term investments	114,371	105,995
Accounts receivable (less allowances of $732 and $1,315, respectively)	77,573	84,040
Unbilled receivables and contract assets	24,099	24,917
Other current assets	23,266	23,983
Total current assets	239,309	238,935
Long-term unbilled receivables and contract assets	14,334	17,133
Property and equipment, net	29,838	29,817
Intangible assets, net	202,347	212,747
Goodwill	491,701	491,726
Deferred tax assets	13,613	14,490
Right-of-use lease assets	31,265	30,635
Other assets	4,650	6,299
Total assets	$ 1,027,057	$ 1,041,782
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt, net	$ 20,124	$ 18,242
Accounts payable	10,105	9,978
Accrued compensation and related taxes	21,213	36,816
Dividends payable to shareholders	7,901	7,904
Short-term operating lease liabilities	7,154	7,015
Income taxes payable	870	1,899
Other accrued liabilities	14,930	14,302
Short-term deferred revenue	183,443	166,387
Total current liabilities	265,740	262,543
Long-term debt, net	343,758	364,260
Long-term operating lease liabilities	27,342	26,966
Long-term deferred revenue	25,535	26,908
Other noncurrent liabilities	12,129	15,092
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, 43,999,982 shares in 2021 and 44,240,635 shares in 2020	312,137	306,244
Retained earnings	71,118	72,547
Accumulated other comprehensive loss	(30,702)	(32,778)
Total shareholders' equity	352,553	346,013
Total liabilities and shareholders' equity	$ 1,027,057	$ 1,041,782

See notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020
Revenue:		
Software licenses	$ 33,317	$ 30,629
Maintenance and services	87,963	79,054
Total revenue	121,280	109,683
Costs of revenue:		
Cost of software licenses	1,151	1,389
Cost of maintenance and services	13,319	11,851
Amortization of acquired intangibles	3,521	1,646
Total costs of revenue	17,991	14,886
Gross profit	103,289	94,797
Operating expenses:		
Sales and marketing	29,469	24,198
Product development	24,548	21,654
General and administrative	13,424	12,748
Amortization of acquired intangibles	6,879	4,131
Restructuring expenses	1,157	1,040
Acquisition-related expenses	396	314
Total operating expenses	75,873	64,085
Income from operations	27,416	30,712
Other (expense) income:		
Interest expense	(2,514)	(2,792)
Interest income and other, net	119	211
Foreign currency loss, net	(257)	(816)
Total other expense, net	(2,652)	(3,397)
Income before income taxes	24,764	27,315
Provision for income taxes	5,803	6,199
Net income	$ 18,961	$ 21,116
Earnings per share:		
Basic	$ 0.43	$ 0.47
Diluted	$ 0.42	$ 0.46
Weighted average shares outstanding:		
Basic	44,108	44,897
Diluted	44,652	45,515
Cash dividends declared per common share	$ 0.175	$ 0.165

See notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020
Net income	$ 18,961	$ 21,116
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	1,225	(1,208)
Unrealized gain (loss) on hedging activity, net of tax provision of $271 and tax benefit of $708 for the first quarter of 2021 and 2020, respectively	837	(2,106)
Unrealized gain on investments, net of tax benefit of $42 and tax provision of $4 for the first quarter of 2021 and 2020, respectively	14	71
Total other comprehensive income (loss), net of tax	2,076	(3,243)
Comprehensive income	$ 21,037	$ 17,873

See notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements of Shareholders' Equity

	Three Months Ended February 28, 2021					
	Common Stock					
(in thousands)	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 1, 2020	44,241	$ 442	$ 305,802	$ 72,547	$ (32,778)	$ 346,013
Issuance of stock under employee stock purchase plan	56	1	1,544	—	—	1,545
Exercise of stock options	28	—	917	—	—	917
Vesting of restricted stock units and release of deferred stock units	28	—	—	—	—	—
Withholding tax payments related to net issuance of restricted stock units	—	—	(892)	—	—	(892)
Stock-based compensation	—	—	6,784	—	—	6,784
Dividends declared	—	—	—	(7,851)	—	(7,851)
Treasury stock repurchases and retirements	(353)	(3)	(2,458)	(12,539)	—	(15,000)
Net income	—	—	—	18,961	—	18,961
Other comprehensive loss	—	—	—	—	2,076	2,076
Balance, February 28, 2021	44,000	$ 440	$ 311,697	$ 71,118	$ (30,702)	$ 352,553

	Three Months Ended February 29, 2020					
	Common Stock					
(in thousands)	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 1, 2019	45,037	$ 450	$ 295,503	$ 64,303	$ (29,974)	$ 330,282
Issuance of stock under employee stock purchase plan	39	—	1,194	—	—	1,194
Exercise of stock options	62	1	1,940	—	—	1,941
Vesting of restricted stock units and release of deferred stock units	57	1	(1)	—	—	—
Withholding tax payments related to net issuance of restricted stock units	—	—	(1,949)	—	—	(1,949)
Stock-based compensation	—	—	6,051	—	—	6,051
Dividends declared	—	—	—	(7,435)	—	(7,435)
Treasury stock repurchases and retirements	(426)	(4)	(6,487)	(13,509)	—	(20,000)
Net income	—	—	—	21,116	—	21,116
Other comprehensive loss	—	—	—	—	(3,243)	(3,243)
Balance, February 29, 2020	44,769	$ 448	$ 296,251	$ 64,475	$ (33,217)	$ 327,957

Condensed Consolidated Statements of Cash Flows

(In thousands)	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020
Cash flows from operating activities:		
Net income	$ 18,961	$ 21,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	1,315	1,717
Amortization of acquired intangibles and other	10,547	5,952
Stock-based compensation	6,784	6,051
Non-cash lease expense	2,138	3,087
Loss on disposal of property and equipment	3	57
Deferred income taxes	656	1,967
Allowances for bad debt and sales credits	(382)	236
Changes in operating assets and liabilities:		
Accounts receivable	10,841	9,810
Other assets	215	2,010
Accounts payable and accrued liabilities	(17,762)	(20,893)
Lease liabilities	(2,258)	(2,356)
Income taxes payable	(1,469)	373
Deferred revenue	15,099	3,889
Net cash flows from operating activities	44,688	33,016
Cash flows from (used in) investing activities:		
Purchases of investments	—	(4,259)
Sales and maturities of investments	1,300	7,767
Purchases of property and equipment	(1,166)	(1,148)
Decrease in escrow receivable	2,130	—
Net cash flows from investing activities	2,264	2,360
Cash flows from (used in) financing activities:		
Proceeds from stock-based compensation plans	3,485	4,245
Payments for taxes related to net share settlements of equity awards	(892)	(1,949)
Repurchases of common stock	(15,000)	(20,000)
Dividend payments to shareholders	(7,854)	(7,468)
Payment of principal on long-term debt	(18,763)	(1,882)
Net cash flows used in financing activities	(39,024)	(27,054)
Effect of exchange rate changes on cash	1,780	(1,487)
Net increase in cash and cash equivalents	9,708	6,835
Cash and cash equivalents, beginning of period	97,990	154,259
Cash and cash equivalents, end of period	$ 107,698	$ 161,094

Condensed Consolidated Statements of Cash Flows, continued

	Three Months Ended	
	February 28, 2021	February 29, 2020
Supplemental disclosure:		
Cash paid for income taxes, net of refunds of $434 in 2021 and $196 in 2020	$ 3,703	$ 3,364
Cash paid for interest	$ 2,283	$ 2,588
Non-cash investing and financing activities:		
Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested	$ 2,088	$ 4,652
Dividends declared	$ 7,901	$ 7,465

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") provides the best products to develop, deploy and manage high-impact business applications. Our comprehensive product stack is designed to make technology teams more productive and we have a deep commitment to the developer community, both open source and commercial alike. With Progress, organizations can accelerate the creation and delivery of strategic business applications, automate the process by which apps are configured, deployed and scaled, and make critical data and content more accessible and secure—leading to competitive differentiation and business success. Over 1,700 independent software vendors ("ISVs"), 100,000 enterprise customers, and 3 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 ISVs, original equipment manufacturers ("OEMs"), distributors and value-added resellers. ISVs 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, 2020, as amended by Form 10-K/A filed on March 30, 2021 ("2020 10-K").

We made no material changes in the application of our significant accounting policies that were disclosed in our 2020 10-K. We have prepared the accompanying unaudited condensed consolidated financial statements on the same basis as the audited financial statements included in our 2020 10-K, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full fiscal year.

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; 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

Financial Instruments - Credit Losses

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires measurement and recognition of expected credit losses for financial assets measured at amortized cost, including accounts receivable, upon initial recognition of that financial asset using a forward-looking expected loss model, rather than an incurred loss model. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses when the fair value is below the amortized cost of the asset, removing the concept of "other-than-temporary" impairments. The Company adopted this standard effective December 1, 2020. The adoption of this standard did not have a material effect on the Company's condensed consolidated financial statements.

Note 2: Cash, Cash Equivalents and Investments

A summary of our cash, cash equivalents and available-for-sale investments at February 28, 2021 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 87,403	$ —	$ —	$ 87,403
Money market funds	20,295	—	—	20,295
U.S. treasury bonds	4,493	42	—	4,535
Corporate bonds	2,109	29	—	2,138
Total	$ 114,300	$ 71	$ —	$ 114,371

A summary of our cash, cash equivalents and available-for-sale investments at November 30, 2020 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 79,026	$ —	$ —	$ 79,026
Money market funds	18,964	—	—	18,964
U.S. treasury bonds	4,993	58	—	5,051
Corporate bonds	2,913	41	—	2,954
Total	$ 105,896	$ 99	$ —	$ 105,995

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

	February 28, 2021		November 30, 2020	
	Cash and Equivalents	Short-Term Investments	Cash and Equivalents	Short-Term Investments
Cash	$ 87,403	$ —	$ 79,026	$ —
Money market funds	20,295	—	18,964	—
U.S. treasury bonds	—	4,535	—	5,051
Corporate bonds	—	2,138	—	2,954
Total	$ 107,698	$ 6,673	$ 97,990	$ 8,005

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

	February 28, 2021	November 30, 2020
Due in one year or less	$ 4,676	$ 5,998
Due after one year[1]	1,997	2,007
Total	$ 6,673	$ 8,005

(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 February 28, 2021 or November 30, 2020.

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 February 28, 2021, the fair value of the hedge was a loss of $5.7 million, 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 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):

	February 28, 2021		November 30, 2020	
	Notional Value	Fair Value	Notional Value	Fair Value
Interest rate swap contracts designated as cash flow hedges	$ 140,625	$ (5,747)	$ 142,500	$ (6,855)

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 February 28, 2021, $2.3 million was recorded in other current assets on our condensed consolidated balance sheets. At November 30, 2020, $1.4 million was recorded in other assets on our condensed consolidated balance sheets.

In the three months ended February 28, 2021 and February 29, 2020, realized and unrealized gains of $1.7 million and losses of $0.6 million, respectively, from our forward contracts were recognized in foreign currency loss, net, on our condensed consolidated statements of operations. These gains and losses were substantially offset by realized and unrealized losses and gains on the offsetting positions.

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

	February 28, 2021		November 30, 2020	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	$ 64,543	$ 2,350	$ 69,031	$ 1,445
Forward contracts to purchase U.S. dollars	—	—	440	(3)
Total	$ 64,543	$ 2,350	$ 69,471	$ 1,442

Note 4: Fair Value Measurements

Recurring Fair Value Measurements

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at February 28, 2021 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	Level 1	Level 2	Level 3
Assets				
Money market funds	$ 20,295	$ 20,295	$ —	$ —
U.S. treasury bonds	4,535	—	4,535	—
Corporate bonds	2,138	—	2,138	—
Foreign exchange derivatives	2,350	—	2,350	—
Liabilities				
Interest rate swap	$ (5,747)	$ —	$ (5,747)	$ —

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at November 30, 2020 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	Level 1	Level 2	Level 3
Assets				
Money market funds	$ 18,964	$ 18,964	$ —	$ —
U.S. treasury bonds	5,051	—	5,051	—
Corporate bonds	2,954	—	2,954	—
Foreign exchange derivatives	1,442	—	1,442	—
Liabilities				
Interest rate swap	$ (6,855)	$ —	$ (6,855)	$ —

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 February 28, 2021.

Note 5: Intangible Assets and Goodwill

Intangible Assets

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

	February 28, 2021			November 30, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	$ 173,486	$ (117,384)	$ 56,102	$ 173,486	$ (113,863)	$ 59,623
Customer-related	231,342	(97,256)	134,086	231,342	(91,326)	140,016
Trademarks and trade names	30,440	(19,059)	11,381	30,440	(18,275)	12,165
Non-compete agreement	2,000	(1,222)	778	2,000	(1,057)	943
Total	$ 437,268	$ (234,921)	$ 202,347	$ 437,268	$ (224,521)	$ 212,747

In the first quarter of fiscal years 2021 and 2020, amortization expense related to intangible assets was $10.4 million and $5.8 million, respectively.

Future amortization expense for intangible assets as of February 28, 2021, is as follows (in thousands):

Remainder of 2021	$ 34,491
2022	44,836
2023	44,560
2024	31,743
2025	21,233
Thereafter	25,484
Total	$ 202,347

Goodwill

Changes in the carrying amount of goodwill in the three months ended February 28, 2021 are as follows (in thousands):

Balance, November 30, 2020	$ 491,726
Translation adjustments	(25)
Balance, February 28, 2021	$ 491,701

Changes in the goodwill balances by reportable segment in the three months ended February 28, 2021 are as follows (in thousands):

	November 30, 2020	Translation adjustments	February 28, 2021
OpenEdge	$ 365,863	$ (25)	$ 365,838
Data Connectivity and Integration	19,040	—	19,040
Application Development and Deployment	106,823	—	106,823
Total goodwill	$ 491,726	$ (25)	$ 491,701

During the quarter ending February 28, 2021, 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

Chef Acquisition

On October 5, 2020, we completed the acquisition of Chef Software Inc. ("Chef") pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), dated as of September 4, 2020. The acquisition was completed for a base purchase price of $220.0 million, subject to certain customary adjustments as further described in the Merger Agreement (the "Aggregate Consideration"), which was paid in cash. Pursuant to the Merger Agreement, $12.0 million of the Aggregate Consideration was deposited into an escrow account to secure certain indemnification and other potential obligations of the former Chef equity holders.

Chef is a global leader in DevOps and DevSecOps, providing complete infrastructure automation to build, deploy, manage and secure applications in modern multi-cloud and hybrid environments, as well as on-premises. Chef has enhanced our position as a trusted provider of the best products to develop, deploy and manage high-impact business applications by providing industry-leading compliance and application automation products for multi-cloud and on-prem infrastructure. The acquisition bolstered our core offerings, enabling customers to respond faster to business demands and improve efficiency. We funded the acquisition through a combination of existing cash resources and by drawing down $98.5 million from our existing revolving credit facility (Note 7).

The Aggregate Consideration has been allocated to Chef's tangible assets, identifiable intangible assets, and assumed liabilities based on their estimated fair values. The preliminary fair value estimates of the net assets acquired are based upon preliminary calculations and valuations, and those estimates and assumptions are subject to change as we obtain additional information for those estimates during the measurement period (up to one year from the acquisition date). The excess of the total consideration over the tangible assets, identifiable intangible assets, and assumed liabilities was recorded as goodwill.

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

	Total	Life
Net working capital	$ 52,330	
Property, plant and equipment	498	
Purchased technology	38,300	5 years
Trade name	5,700	5 years
Customer relationships	97,300	7 years
Other assets	122	
Other noncurrent liabilities	(841)	
Lease liabilities, net	(1,810)	
Deferred taxes	(7,817)	
Deferred revenue	(12,525)	
Goodwill	59,858	
Net assets acquired	$ 231,115	

The fair value of the intangible assets was estimated using the income approach in which the after-tax cash flows are discounted to present value. The cash flows are based on estimates used to 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 our estimates of customer attrition, technology obsolescence, and revenue growth projections.

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 Chef 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 is expected to be 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 $59.9 million of goodwill, which is not deductible for tax purposes.

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 months ended February 28, 2021, we incurred approximately $0.4 million of acquisition-related costs, which are included in acquisition-related expenses on our consolidated statement of operations.

The operations of Chef are included in our operating results as part of the Application Development and Deployment business segment from the date of acquisition. The amount of revenue of Chef included in our consolidated statement of operations during the three months ended February 28, 2021 was approximately $12.0 million. We determined that disclosing the amount of Chef related earnings included in the consolidated statements of operations is impracticable, as certain operations of Chef 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 Chef as if the acquisition had occurred on December 1, 2018, after giving effect to certain pro forma adjustments. The pro forma adjustments reflected herein include only those adjustments that are directly attributable to the Chef acquisition and factually supportable. These pro forma adjustments include (i) a decrease in revenue from Chef 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 $141.3 million of acquired identifiable intangible assets, (iii) an increase in interest expense to record interest for the period presented as a result of drawing down our revolving credit facility 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%).

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, 2018. These results are prepared in accordance with ASC 606.

(In thousands, except per share data)	Pro Forma Three Months Ended February 29, 2020	
Revenue	$	123,690
Net income	$	12,933
Net income per basic share	$	0.29
Net income per diluted share	$	0.28

Note 7: Term Loan and Line of Credit

On April 30, 2019, we entered into an amended and restated credit agreement (the "Credit Agreement"), which provides for a $301.0 million secured term loan and a $100.0 million secured revolving line of credit. The revolving line of credit 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 line of credit 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 modified credit facility. The new term loan was used to partially fund our acquisition of Ipswitch in April 2019. During October 2020, we partially funded our acquisition of Chef by drawing down $98.5 million under the revolving line of credit (Note 6).

Interest rates for the term loan and revolving line of credit 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 line of credit is required and ranges from 0.25% to 0.35% per annum based on our leverage ratio. The interest rate as of February 28, 2021 was 1.75%.

The credit facility matures on April 30, 2024, when all amounts outstanding will be due and payable in full. The revolving line of credit does not require amortization of principal. The outstanding balance of the term loan as of February 28, 2021 was $282.2 million, with $20.7 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 February 28, 2021, 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 February 28, 2021. 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 February 28, 2021 and February 29, 2020 is 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. During October 2020, we partially funded our acquisition of Chef by drawing down $98.5 million under the revolving line of credit (Note 6). During the first fiscal quarter of 2021, we paid down $15.0 million on the revolving line of credit. As of February 28, 2021, there was $83.5 million outstanding under the revolving line of credit and $2.1 million of letters of credit outstanding.

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 February 28, 2021, aggregate future maturities of long-term debt were as follows (in thousands):

Remainder of 2021	$	15,050
2022		26,338
2023		33,863
2024		290,437
Total	$	365,688

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 ASC 842 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 ASC 842, 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 adoption of ASC 842 had no impact on liquidity or the Company’s debt-covenant compliance under its current debt agreements.

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 the determination as to whether the Company will exercise options to extend or terminate the lease, 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 months ended February 28, 2021 and February 29, 2020 were as follows (in thousands):

	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020
Lease costs under long-term operating leases	$ 2,135	$ 1,958
Lease costs under short-term operating leases	15	45
Variable lease cost under short-term and long-term operating leases[1]	115	106
Operating lease right-of-use asset impairment	—	923
Total operating lease cost	$ 2,265	$ 3,032

[1] Lease costs that are not fixed at lease commencement.

The table below presents supplemental cash flow information related to leases during the three months ended February 28, 2021 and February 29, 2020 (in thousands):

	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020
Cash paid for leases	$ 2,258	$ 2,356
Right-of-use assets recognized for new leases and amendments (non-cash)	$ 2,338	$ —

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

	February 28, 2021	November 30, 2020
Weighted average remaining lease term in years	4.87	5.02
Weighted average discount rate	2.7 %	2.3 %

Future payments under non-cancellable leases are as follows (in thousands):

	February 28, 2021
Remainder of 2021	$ 6,069
2022	7,658
2023	7,550
2024	7,509
2025	5,027
Thereafter	2,932
Total lease payments	36,745
Less imputed interest[(1)]	(2,249)
Present value of lease liabilities	$ 34,496

[(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.

Note 9: Common Stock Repurchases

In January 2020, our Board of Directors increased the total share repurchase authorization from $75 million to $250 million. In the three months ended February 28, 2021 and February 29, 2020, we repurchased and retired 0.4 million shares for $15.0 million and 0.4 million shares for $20.0 million, respectively. The shares were repurchased in both periods as part of our Board of Directors authorized share repurchase program. As of February 28, 2021, there was $175.0 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.

In 2019, 2020 and 2021, 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 on the 2019 and 2020 plan is based on the following: (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). For the 2021 plan, the vesting terms were changed to the following: (i) 25% 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) 75% 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 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	
	February 28, 2021	February 29, 2020
Cost of maintenance and services	$ 392	$ 319
Sales and marketing	1,503	1,050
Product development	1,919	1,926
General and administrative	2,970	2,756
Total stock-based compensation	$ 6,784	$ 6,051

Note 11: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated balances of other comprehensive loss during the three months ended February 28, 2021 (in thousands):

	Foreign Currency Translation Adjustment	Unrealized Gains on Investments	Unrealized Losses on Hedging Activity	Accumulated Other Comprehensive Loss
Balance, December 1, 2020	$ (27,616)	$ 14	$ (5,176)	$ (32,778)
Other comprehensive income before reclassifications, net of tax	1,225	14	837	2,076
Balance, February 28, 2021	$ (26,391)	$ 28	$ (4,339)	$ (30,702)

The tax effect on accumulated unrealized losses on hedging activity and unrealized gains on investments was $1.4 million and $1.6 million as of February 28, 2021 and November 30, 2020, 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 February 28, 2021, invoicing of our long-term unbilled receivables is expected to occur as follows (in thousands):

2022	$ 6,335
2023	3,913
2024	1,177
Total	$ 11,425

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 $7.9 million as of February 28, 2021 and $11.3 million as of November 30, 2020. 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 February 28, 2021, the changes in deferred revenue were as follows (in thousands):

Balance, December 1, 2020	$	193,295
Billings and other		136,963
Revenue recognized		(121,280)
Balance, February 28, 2021	$	208,978

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 February 28, 2021, transaction price allocated to remaining performance obligations was $223.3 million. We expect to recognize approximately 85% 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 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 $3.3 million and $2.5 million as of February 28, 2021 and November 30, 2020, 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, 2020	$	421	$	3,552	$	3,973
Costs incurred		261		896		1,157
Cash disbursements		(478)		(2,515)		(2,993)
Translation adjustments and other		1		11		12
Balance, February 28, 2021	$	205	$	1,944	$	2,149

During the fourth quarter of fiscal year 2020, we restructured our operations in connection with the acquisition of Chef (Note 6). This restructuring resulted in a reduction in redundant positions, primarily within administrative functions of Chef.

For the three months ended February 28, 2021, we incurred expenses of $0.9 million related to this restructuring. The expenses are recorded as restructuring expenses in the 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, 2020	$ —	$ 3,523	$ 3,523
Costs incurred	51	897	948
Cash disbursements	(51)	(2,487)	(2,538)
Translation adjustments and other	—	11	11
Balance, February 28, 2021	$ —	$ 1,944	$ 1,944

Cash disbursements for expenses incurred to date under this restructuring are expected to be made through fiscal year 2021. Accordingly, the balance of the restructuring reserve of $1.9 million is included in other accrued liabilities on the consolidated balance sheet at February 28, 2021.

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 2021, but we do not expect these costs to be material.

Note 14: Income Taxes

Our income tax provision for the first quarter of fiscal years 2021 and 2020 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 23% in both the first fiscal quarter of 2021 and in the first fiscal quarter of 2020. There were no significant discrete tax items in either the first fiscal quarter of 2021 or the first fiscal quarter of 2020.

Our federal income tax returns have been examined or are closed by statute for all years prior to fiscal year 2017. Our state income tax returns have been examined or are closed by statute for all years prior to fiscal year 2016.

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 2014.

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	
	February 28, 2021	February 29, 2020
Net income	$ 18,961	$ 21,116
Weighted average shares outstanding	44,108	44,897
Dilutive impact from common stock equivalents	544	618
Diluted weighted average shares outstanding	44,652	45,515
Basic earnings per share	$ 0.43	$ 0.47
Diluted earnings per share	$ 0.42	$ 0.46

We excluded stock awards representing approximately 1,078,000 and 661,000 shares of common stock from the calculation of diluted earnings per share in the three months ended February 28, 2021 and February 29, 2020, respectively, as these awards 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:

	Three Months Ended	
(In thousands)	February 28, 2021	February 29, 2020
Segment revenue:		
OpenEdge	$ 84,603	$ 77,079
Data Connectivity and Integration	5,528	13,685
Application Development and Deployment	31,149	18,919
Total revenue	121,280	109,683
Segment costs of revenue and operating expenses:		
OpenEdge	18,916	19,750
Data Connectivity and Integration	1,170	2,680
Application Development and Deployment	15,410	7,288
Total costs of revenue and operating expenses	35,496	29,718
Segment contribution margin:		
OpenEdge	65,687	57,329
Data Connectivity and Integration	4,358	11,005
Application Development and Deployment	15,739	11,631
Total contribution margin	85,784	79,965
Other unallocated expenses[1]	58,368	49,253
Income from operations	27,416	30,712
Other expense, net	(2,652)	(3,397)
Income before income taxes	$ 24,764	$ 27,315

[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):

	Three Months Ended	
(In thousands)	February 28, 2021	February 29, 2020
Performance obligations transferred at a point in time:		
Software licenses	$ 33,317	$ 30,629
Performance obligations transferred over time:		
Maintenance	76,977	70,056
Services	10,986	8,998
Total revenue	$ 121,280	$ 109,683

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	
(In thousands)	February 28, 2021	February 29, 2020
North America	$ 71,505	$ 65,413
EMEA	40,240	34,988
Latin America	3,493	4,000
Asia Pacific	6,042	5,282
Total revenue	$ 121,280	$ 109,683

No single customer, partner, or country outside of the U.S. has accounted for more than 10% of our total revenue for the three months ended February 28, 2021 and February 29, 2020. As of February 28, 2021 and November 30, 2020, no individual customer accounted for 10% or more of our net accounts receivable balance. As of February 28, 2021 and November 30, 2020, 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; 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 2020 10-K.

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, other offerings or our internal information technology infrastructure are compromised or subject to a successful cyber-attack, or if our software 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) Delay or failure to realize the expected synergies and benefits of the Chef acquisition could negatively impact our future results of operations and financial condition; (10) The continuing impact of the coronavirus disease (COVID-19) outbreak on our employees, customers, partners, and the global financial markets could adversely affect our business, results of operations and financial condition. For further information regarding risks and uncertainties associated with Progress' business, please refer to Part II, Item 1A (Risk Factors) in this Quarterly Report on Form 10-Q, and in Part I, Item 1A (Risk Factors) in our 2020 10-K. 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 impact the U.S. and the world. COVID-19 has disrupted the business of our customers and partners, and negatively impacted our business and consolidated results of operations, and could impact our financial condition in the future. We are unable to accurately predict the full impact that COVID-19 will have due to numerous uncertainties, including 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") provides the best products to develop, deploy and manage high-impact business applications. Our comprehensive product stack is designed to make technology teams more productive and we have a deep commitment to the developer community, both open source and commercial alike. With Progress, organizations can accelerate the creation and delivery of strategic business applications, automate the process by which apps are configured, deployed and scaled, and make critical data and content more accessible and secure—leading to competitive differentiation and business success. Over 1,700 independent software vendors, 100,000 enterprise customers, and three 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:

Trusted Partner of the Best Products to Develop, Deploy and Manage High Impact Business Applications. A key element of our strategy is centered on providing the platform and tools enterprises needed 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 40 years.

Focus on Customer and Partner Retention to Drive Recurring Revenue and Profitability. Our organizational philosophy and operating principles focus primarily on customer and partner retention and success and a streamlined operating approach in order to more efficiently drive predictable and stable recurring revenue.

Total Growth Strategy Driven by Accretive M&A. We are pursuing a total growth strategy driven by accretive 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 and other criteria, which should enable us to drive significant stockholder returns by providing scale and increased cash flows. In April 2019, we acquired Ipswitch, Inc. and as described below, in October 2020, we acquired Chef Software. Both acquisitions have met these strict financial criteria.

Chef is a global leader in providing complete infrastructure automation to build, deploy, manage and secure applications in modern multi-cloud and hybrid environments, as well as on-premises. The purchase price for Chef was $220 million and we funded the purchase price with a combination of existing cash balances and drawings under our revolving credit facility. Chef is the developer of Chef Enterprise Automation Stack, automating infrastructure, compliance and application delivery for many of the Fortune 500.

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 $15.0 million in the three months ended February 28, 2021. The shares were repurchased as part of our Board of Directors authorized share repurchase program. As of February 28, 2021, there was $175.0 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 in fiscal years 2017, 2018 and 2019. On September 23, 2020, our Board of Directors approved an additional 6% increase to our quarterly cash dividend from $0.165 to $0.175 per share of common stock.

On March 23, 2021, our Board of Directors declared a quarterly dividend of $0.175 per share of common stock that will be paid on June 15, 2021 to shareholders of record as of the close of business on June 1, 2021.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. Additionally, on October 5, 2020, we acquired Chef, a global leader in providing complete infrastructure automation to build, deploy, manage and secure applications in modern multi-cloud and hybrid environments, as well as on-premises, for $220 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 have allowed, and will continue to allow us to manage the impact of COVID-19 on our business operations for the foreseeable future. The challenges posed by COVID-19 on our business continues to evolve. 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 volatility in the global economy created by COVID-19, our revenue results in fiscal year 2021 have been impacted by fluctuations in foreign currency exchange rates.

We currently report results based on three business segments. We are in the process of updating how we allocate resources and assess performance, which will affect our determination of business segments. Although this process has not been completed, we anticipate that we will begin operating as one distinct segment during the fiscal second quarter ending May 31, 2021 based on expected updates to how our management internally analyzes our business. Once we have completed our update, we will begin reporting any updates to our segments.

Select Performance Metrics:

Management evaluates our financial performance using a number of financial and operating metrics. These metrics are periodically reviewed and revised to reflect changes in our business.

Annual Recurring Revenue (ARR)

Beginning this period, we are providing an ARR performance metric to help investors better understand and assess the performance of our business because our mix of revenue generated from recurring sources has increased in recent years. ARR represents the annualized contract value for all active and contractually binding term-based contracts at the end of a period. ARR includes maintenance, software upgrade rights, public cloud and on-premises subscription-based transactions and managed services. ARR mitigates fluctuations due to seasonality, contract term and the sales mix of subscriptions for term-based licenses and SaaS. ARR does not have any standardized meaning and is therefore unlikely to be comparable to similarly titled measures presented by other companies. ARR should be viewed independently of revenue and deferred revenue and is not intended to be combined with or to replace either of those items. ARR is not a forecast and the active contracts at the end of a reporting period used in calculating ARR may or may not be extended or renewed by our customers.

We define ARR as the annual recurring revenue of term-based contracts from all customers at a point in time. We calculate ARR by taking monthly recurring revenue, or MRR, and multiplying it by 12. MRR for each month is calculated by aggregating, for all customers during that month, monthly revenue from committed contractual amounts, additional usage and monthly subscriptions.

Our ARR was $432 million and $355 million as of February 28, 2021 and 2020, respectively, which is an increase of 21.7% year-over-year. The growth in our ARR is primarily driven by the acquisition of Chef.

Net Dollar Retention Rate

We calculate net dollar retention rate as of a period end by starting with the ARR from the cohort of all customers as of 12 months prior to such period end (“Prior Period ARR”). We then calculate the ARR from these same customers as of the current period end (“Current Period ARR”). Current Period ARR includes any expansion and is net of contraction or attrition over the last 12 months but excludes ARR from new customers in the current period. We then divide the total Current Period ARR by the total Prior Period ARR to arrive at the net dollar retention rate.

Our net dollar retention rates were 98.8% and 99.1% for the trailing twelve months ended February 28, 2021 and 2020, respectively. Our high net dollar retention rates illustrate our predictable and durable top line performance.

Results of Operations

Revenue

	Three Months Ended		% Change	
(In thousands)	February 28, 2021	February 29, 2020	As Reported	Constant Currency
Revenue	$ 121,280	$ 109,683	11 %	9 %

Total revenue increased compared to the same quarter last year primarily due to our acquisition of Chef in the fourth quarter of fiscal year 2020, as well as increases in our OpenEdge and Ipswitch product lines. Chef revenue was $12.0 million in our first fiscal quarter of 2021. These increases were offset by lower license revenue in our Data Connectivity and Integration segment.

Software License Revenue

	Three Months Ended		% Change	
(In thousands)	February 28, 2021	February 29, 2020	As Reported	Constant Currency
Software Licenses	$ 33,317	$ 30,629	9 %	7 %
As a percentage of total revenue	*27 %*	*28 %*		

Software license revenue increased compared to the same period last year primarily due to our acquisition of Chef and increases in license sales in our OpenEdge segment, partially offset by a decrease in license sales in our Data Connectivity and Integration segment. Refer to the Revenue by Segment section below for further discussion.

Maintenance and Services Revenue

	Three Months Ended		% Change	
(In thousands)	February 28, 2021	February 29, 2020	As Reported	Constant Currency
Maintenance	$ 76,977	$ 70,056	10 %	8 %
As a percentage of total revenue	*63 %*	*64 %*		
Services	10,986	8,998	22 %	20 %
As a percentage of total revenue	*10 %*	*8 %*		
Total maintenance and services revenue	$ 87,963	$ 79,054	11 %	10 %
As a percentage of total revenue	*73 %*	*72 %*		

Maintenance and services revenue both increased compared to the same quarter last year primarily due to our acquisition of Chef and increased maintenance revenue from our OpenEdge segment.

Revenue by Region

	Three Months Ended		% Change	
(In thousands)	February 28, 2021	February 29, 2020	As Reported	Constant Currency
North America	$ 71,505	$ 65,413	9 %	9 %
As a percentage of total revenue	*59 %*	*59 %*		
Europe, the Middle East and Africa ("EMEA")	$ 40,240	$ 34,988	15 %	9 %
As a percentage of total revenue	*33 %*	*32 %*		
Latin America	$ 3,493	$ 4,000	(13)%	— %
As a percentage of total revenue	*3 %*	*4 %*		
Asia Pacific	$ 6,042	$ 5,282	14 %	10 %
As a percentage of total revenue	*5 %*	*5 %*		

Total revenue generated in North America increased $6.1 million, primarily due to our acquisition of Chef and increased OpenEdge segment maintenance revenue, partially offset by decreased license sales in our Data Connectivity and Integration segment. The increase in revenue generated in both EMEA and Asia Pacific was primarily due to increases in our OpenEdge segment as well as our acquisition of Chef. The increase in EMEA was also partially offset by decreased license sales in our Data Connectivity and Integration segment. Revenue in Latin America decreased due to lower maintenance revenue in our OpenEdge segment.

In the first three months of fiscal years 2021 and 2020, revenue generated in markets outside North America represented 41% of total revenue compared to 40% of total revenue on a constant currency basis.

Revenue by Segment

	Three Months Ended		% Change	
(In thousands)	February 28, 2021	February 29, 2020	As Reported	Constant Currency
OpenEdge segment	$ 84,603	$ 77,079	10 %	7 %
Data Connectivity and Integration segment	5,528	13,685	(60)%	(60)%
Application Development and Deployment segment	31,149	18,919	65 %	65 %
Total revenue	$ 121,280	$ 109,683	11 %	9 %

Revenue in our OpenEdge segment increased primarily due to higher OpenEdge license sales as well as increased Ipswitch product line revenue. Data Connectivity and Integration revenue decreased due to the timing of term license renewals by certain of our OEM partners. Application Development and Deployment revenue increased due to our acquisition of Chef.

Cost of Software Licenses

	Three Months Ended			
(In thousands)	February 28, 2021	February 29, 2020	Change	
Cost of software licenses	$ 1,151	$ 1,389	$ (238)	(17)%
As a percentage of software license revenue	*3 %*	*5 %*		
As a percentage of total revenue	*1 %*	*1 %*		

Cost of software licenses consists primarily of costs of royalties, electronic software distribution, duplication, and packaging. The year over year decrease was the result of lower payments of royalties to third parties as compared to the prior period. Cost of software licenses as a percentage of software license revenue varies from period to period depending upon the relative product mix.

Cost of Maintenance and Services

	Three Months Ended			
(In thousands)	February 28, 2021	February 29, 2020	Change	
Cost of maintenance and services	$ 13,319	$ 11,851	$ 1,468	12 %
As a percentage of maintenance and services revenue	*15 %*	*15 %*		
As a percentage of total revenue	*11 %*	*11 %*		
Components of cost of maintenance and services:				
Personnel related costs	$ 9,539	$ 8,518	$ 1,021	12 %
Contractors and outside services	2,579	2,631	(52)	(2)%
Hosting and other	1,201	702	499	71 %
Total cost of maintenance and services	$ 13,319	$ 11,851	$ 1,468	12 %

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

Amortization of Intangibles

(In thousands)	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020	% Change
Amortization of intangibles	$ 3,521	$ 1,646	114 %
As a percentage of total revenue	*3 %*	*2 %*	

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 increase was primarily due to the acquisition of Chef in the fourth quarter of 2020.

Gross Profit

(In thousands)	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020	% Change
Gross profit	$ 103,289	$ 94,797	9 %
As a percentage of total revenue	*85 %*	*86 %*	

Our gross profit increased primarily due to the increase in revenue, offset by the increase of costs of maintenance and services and the amortization of intangibles, each as described above.

Sales and Marketing

(In thousands)	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020	Change	
Sales and marketing	$ 29,469	$ 24,198	$ 5,271	22 %
As a percentage of total revenue	*24 %*	*22 %*		
Components of sales and marketing:				
Personnel related costs	$ 25,891	$ 20,624	$ 5,267	26 %
Contractors and outside services	388	542	(154)	(28)%
Marketing programs and other	3,190	3,032	158	5 %
Total sales and marketing	$ 29,469	$ 24,198	$ 5,271	22 %

Sales and marketing expenses increased year over year primarily due to increased personnel related costs associated with our acquisition of Chef.

Product Development

(In thousands)	Three Months Ended February 28, 2021	Three Months Ended February 29, 2020	Change	
Product development costs	$ 24,548	$ 21,654	$ 2,894	13 %
As a percentage of total revenue	*20 %*	*20 %*		
Components of product development costs:				
Personnel related costs	$ 23,604	$ 20,885	$ 2,719	13 %
Contractors and outside services	725	674	51	8 %
Other product development costs	219	95	124	131 %
Total product development costs	$ 24,548	$ 21,654	$ 2,894	13 %

Product development expenses increased as compared to the same period last year primarily due to increased personnel related costs associated with our acquisition of Chef.

General and Administrative

(In thousands)	Three Months Ended February 28, 2021	February 29, 2020	Change	
General and administrative	$ 13,424	$ 12,748	$ 676	5 %
As a percentage of total revenue	*11 %*	*12 %*		
Components of general and administrative:				
Personnel related costs	$ 11,887	$ 10,291	$ 1,596	16 %
Contractors and outside services	1,460	1,640	(180)	(11)%
Other general and administrative costs	77	817	(740)	(91)%
Total cost of general and administrative	$ 13,424	$ 12,748	$ 676	5 %

General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses increased as compared to the same quarter last year primarily due to higher personnel costs associated with our acquisition of Chef, partially offset by decreased other general and administrative costs.

Amortization of Intangibles

(In thousands)	Three Months Ended February 28, 2021	February 29, 2020	% Change
Amortization of intangibles	$ 6,879	$ 4,131	67 %
As a percentage of total revenue	*6 %*	*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 increased compared to the corresponding period in 2020 due to the addition of Chef intangible assets in the fourth quarter of 2020, as discussed above.

Restructuring Expenses

(In thousands)	Three Months Ended February 28, 2021	February 29, 2020	% Change
Restructuring expenses	$ 1,157	$ 1,040	11 %
As a percentage of total revenue	*1 %*	*1 %*	

Restructuring expenses recorded in the first three months of fiscal year 2021 relate primarily to the restructuring activities that occurred in the fourth quarter of fiscal year 2020 relating to the acquisition of Chef. Restructuring expenses recorded in the first three months of fiscal year 2020 are comprised mostly of costs related to the Ipswitch and Cognitive restructuring actions of 2019. See the Liquidity and Capital Resources section of this Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Acquisition-Related Expenses

(In thousands)	Three Months Ended February 28, 2021	February 29, 2020	% Change
Acquisition-related expenses	$ 396	$ 314	26 %
As a percentage of total revenue	*— %*	*— %*	

Acquisition-related costs are expensed as incurred and include those costs incurred as a result of a business combination. These costs consist of professional service fees, including third-party legal and valuation-related fees. Acquisition-related expenses in increased slightly compared to the same period in 2020 and were related to the acquisition of Chef, which was completed in the fourth quarter of 2020. Acquisition-related expenses in the same period of fiscal year 2020 were related to the acquisition of Ipswitch.

Income from Operations

	Three Months Ended		
(In thousands)	February 28, 2021	February 29, 2020	% Change
Income from operations	$ 27,416	$ 30,712	(11)%
As a percentage of total revenue	*23 %*	*28 %*	

Income from operations decreased year over year due to an increase in costs of revenue and operating expenses, offset by increases in revenue as shown above.

Income from Operations by Segment

	Three Months Ended		
(In thousands)	February 28, 2021	February 29, 2020	% Change
OpenEdge segment	$ 65,687	$ 57,329	15 %
Data Connectivity and Integration segment	4,358	11,005	(60)%
Application Development and Deployment segment	15,739	11,631	35 %
Other unallocated expenses[1]	(58,368)	(49,253)	(19)%
Income from operations	$ 27,416	$ 30,712	(11)%

[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

	Three Months Ended		
(In thousands)	February 28, 2021	February 29, 2020	% Change
Interest expense	$ (2,514)	$ (2,792)	10 %
Interest income and other, net	119	211	(44)%
Foreign currency loss, net	(257)	(816)	69 %
Total other expense, net	$ (2,652)	$ (3,397)	22 %
As a percentage of total revenue	*(2)%*	*(3)%*	

Other expense, net, decreased in the three month period ended February 28, 2021 as compared to the same period in the prior year. This is a result of a lower foreign currency loss due to lower costs of forward points on our outstanding forward contracts and lower interest expense due to declining interest rates.

Provision (Benefit) for Income Taxes

	Three Months Ended		
(In thousands)	February 28, 2021	February 29, 2020	% Change
Provision for income taxes	$ 5,803	$ 6,199	(6)%
As a percentage of total revenue	*5 %*	*6 %*	

Our effective tax rate was 23% in both the first fiscal quarter of 2021 and the first fiscal quarter of 2020. There were no significant discrete tax items in either the first fiscal quarter of 2021 or the first fiscal quarter of 2020.

Net Income

	Three Months Ended		
(In thousands)	February 28, 2021	February 29, 2020	% Change
Net income	$ 18,961	$ 21,116	(10)%
As a percentage of total revenue	*16 %*	*19 %*	

Liquidity and Capital Resources

Cash, Cash Equivalents and Short-Term Investments

(In thousands)	February 28, 2021	November 30, 2020
Cash and cash equivalents	$ 107,698	$ 97,990
Short-term investments	6,673	8,005
Total cash, cash equivalents and short-term investments	$ 114,371	$ 105,995

The increase in cash, cash equivalents and short-term investments of $8.4 million from the end of fiscal year 2020 was due to cash inflows from operations of $44.7 million, $2.6 million in cash received from the issuance of common stock, a decrease in other noncurrent assets of $2.1 million, and the effect of exchange rates on cash of $1.8 million. These cash inflows were offset by payments of debt obligations in the amount of $18.8 million, repurchases of common stock of $15.0 million, dividend payments of $7.9 million, and purchases of property and equipment of $1.2 million. Except as described below, there are no limitations on our ability to access our cash, cash equivalents and short-term investments.

As of February 28, 2021, $30.6 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 $15.0 million in the three months ended
February 28, 2021 and 0.4 million shares for $20.0 million in the three months ended February 29, 2020. The shares were repurchased in both periods as part of our Board of Directors authorized share repurchase program. As of February 28, 2021, there was $175.0 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 September 23, 2020, our Board of Directors approved an additional increase of 6% to our quarterly cash dividend from $0.165 to $0.175 per share of common stock. On January 12, 2021, our Board of Directors declared a quarterly dividend of $0.175 per share of common stock that was paid on March 15, 2021 to stockholders of record as of the close of business on March 1, 2021. On March 23, 2021, our Board of Directors declared a quarterly dividend of $0.175 per share of common stock that will be paid on June 15, 2021 to shareholders of record as of the close of business on June 1, 2021.

Restructuring Activities

During the fourth quarter of fiscal year 2020, we restructured our operations in connection with the acquisition of Chef (Note 6). This restructuring resulted in a reduction in redundant positions, primarily within administrative functions of Chef. For the three months ended February 28, 2021, we incurred expenses of $0.9 million relating to this restructuring. Cash disbursements for expenses incurred to date under this restructuring are expected to be made through fiscal year 2021. Accordingly, the balance of the restructuring reserve of $1.9 million is included in other accrued liabilities on the consolidated balance sheet at February 28, 2021. 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 2021, but we do not expect these costs to be material.

Credit Facility

Our credit agreement provides for a $301.0 million secured term loan and a $100.0 million secured revolving line of credit. The revolving line of credit 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 line of credit 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 line of credit 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 line of credit does not require amortization of principal. The outstanding balance of the term loan as of February 28, 2021 was $282.2 million, with $20.7 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 as of February 28, 2021 was 1.75%.

Revolving loans may be borrowed, repaid, and reborrowed until April 30, 2024, at which time all amounts outstanding must be repaid. During October 2020, we partially funded our acquisition of Chef by drawing down $98.5 million under the revolving line of credit (Note 6). During the first fiscal quarter of 2021, we paid down $15.0 million on the revolving line of credit. As of February 28, 2021, there was $83.5 million outstanding under the revolving line of credit and $2.1 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 February 28, 2021.

Cash Flows from Operating Activities

	Three Months Ended	
(In thousands)	February 28, 2021	February 29, 2020
Net income	$ 18,961	$ 21,116
Non-cash reconciling items included in net income	21,061	19,067
Changes in operating assets and liabilities	4,666	(7,167)
Net cash flows from operating activities	$ 44,688	$ 33,016

The year over year increase in cash generated from operations was primarily due to particularly strong collections of our receivables, partially offset by increased expenses. Our gross accounts receivable as of February 28, 2021 decreased by $7.0

million from the end of fiscal year 2020 and our days sales outstanding (DSO) in accounts receivable increased to 53 days from 49 days in the fiscal first quarter of 2020 due to the timing of billings and collections.

Cash Flows from (used in) Investing Activities

	Three Months Ended	
(In thousands)	February 28, 2021	February 29, 2020
Net investment activity	$ 1,300	$ 3,508
Purchases of property and equipment	(1,166)	(1,148)
Decrease in escrow receivable	2,130	—
Net cash flows from investing activities	$ 2,264	$ 2,360

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. We also purchased $1.2 million of property and equipment in the first three months of fiscal year 2021, as compared to $1.1 million in the first three months of fiscal year 2020.

Cash Flows (used in) from Financing Activities

	Three Months Ended	
(In thousands)	February 28, 2021	February 29, 2020
Proceeds from stock-based compensation plans	$ 3,485	$ 4,245
Repurchases of common stock	(15,000)	(20,000)
Payment of principal on long-term debt	(18,763)	(1,882)
Dividend payments to shareholders	(7,854)	(7,468)
Other financing activities	(892)	(1,949)
Net cash flows used in financing activities	$ (39,024)	$ (27,054)

During the first three months of fiscal year 2021, we received $3.5 million from the exercise of stock options and the issuance of shares under our employee stock purchase plan as compared to $4.2 million in the first three months of fiscal year 2020. Further, we repurchased $15.0 million of our common stock under our share repurchase plan compared to $20.0 million in the same period of the prior year. We also made payments on our long-term debt of $18.8 million (including a $15.0 million repayment on the revolving line of credit) in the first three months of fiscal year 2021 compared to $1.9 million in the same period of the prior year. Finally, we made dividend payments of $7.9 million to our shareholders during the first three months of fiscal 2021, as compared to $7.5 million in the first three months of fiscal 2020.

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 on-going impact of COVID-19 on our business operations for the foreseeable future, which has included, and could include further, reductions in revenue and delays in payments from customers and partners.

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 2020 10-K.

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 first quarter of fiscal year 2021, 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 2020 10-K, 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 February 28, 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there were no changes in our internal control over financial reporting during the fiscal quarter ended February 28, 2021 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

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 2020 10-K. The risks discussed below could materially affect our business, financial condition and future results. The risks described below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results in the future.

Risks Related to Our Ability to Grow Our Business

The ongoing COVID-19 pandemic could materially and adversely affect our business, results of operations and financial condition. In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has spread throughout the United States and the world and has resulted in authorities implementing and re-implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. These measures are in place to varying degrees. We are unable to accurately predict the full impact that the COVID-19 pandemic will have on our results of operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures. Our compliance with these measures has impacted our day-to-day operations and could disrupt our business and operations, as well as that of our customers, partners, suppliers and others with whom we work, for an indefinite period of time. To support the health and well-being of our employees, customers, partners and communities, the vast majority of our employees are working remotely and are expected to continue to work remotely until the pandemic subsides. In addition, many of our customers and partners are working remotely, which may delay the timing of their purchases of our products and services.

Given the economic uncertainty created by the COVID-19 pandemic, we have and may continue to see delays in our sales cycle, failures of customers to renew at all or to renew at the anticipated scope their subscriptions with us, requests from customers for payment term deferrals as well as pricing or bundling concessions, which, if significant, could materially and adversely affect our business, results of operations and financial condition. In addition, our third-party service providers may experience financial difficulties or business disruptions that could negatively affect their operations and their ability to supply us with services needed for our products and operations. Although such events did not have a material adverse impact on our financial results for the fiscal first quarter ended February 28, 2021 or the fiscal year ended November 30, 2020, there can be no assurance that these events will not have a material adverse impact on our financial results for the full fiscal year or future periods.

The full extent of the COVID-19 pandemic's impact on our operations and financial performance depends on future developments that are uncertain and unpredictable, including the duration and spread of the pandemic, its impact on capital and financial markets, the timing of economic recovery, the spread of the virus to other regions, and the actions taken to contain it, among others. Any of these impacts could have a material adverse impact on our business, results of operations and financial condition and ability to execute and capitalize on our strategies. Due to the ongoing uncertainty regarding the severity and duration of the COVID-19 pandemic, we cannot predict whether our response to date or the actions we may take in the future will be effective in mitigating the effects of the COVID-19 pandemic on our business, results of operations or financial condition. Accordingly, we are unable at this time to predict the future impact of the COVID-19 pandemic on our operations, liquidity, and financial results, and, depending on the magnitude and duration of the COVID-19 pandemic, such impact may be material.

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 ISVs, 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 new products in a timely manner 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 consumer demand declines, or 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.

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. One of the characteristics of open source software is that the governing license terms generally allow liberal modifications of the code and distribution thereof to a wide group of companies and/or individuals. As a result, others could easily develop new software products or services based upon those open source programs that compete with existing open source software that we support and incorporate into our Chef products. As a result, new competitors possessing technological, marketing or other competitive advantages may emerge and develop their own open source software or hybrid proprietary and open source software offerings, potentially reducing the demand for, and putting price pressure on, our products enabling them to 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 intend to 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 and other criteria, such as our recent acquisitions of Ipswitch and Chef. 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.

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 face various risks in connection with our acquisition of Chef. On October 5, 2020, we completed our acquisition of Chef. We face various risks in connection with this acquisition, including the effects of disruption from the transaction making it more difficult to maintain relationships with employees, customers, other business partners or governmental entities, other business effects, including the effects of industry, economic or political conditions outside of our control, transaction costs, actual or contingent liabilities, diversion of management, uncertainties as to whether anticipated synergies will be realized and uncertainties as to whether Chef's business will be successfully integrated with our business. Any one or more of these factors could have a material adverse effect on the combined business, our results of operations and our financial condition.

We may incur significant debt or issue a material amount of debt or equity securities to finance an acquisition, which could adversely affect our operating flexibility and financial statements. If we were to incur a significant amount of debt, whether by borrowing funds or issuing new debt securities, to finance an acquisition, our interest expense, debt service requirements and leverage would increase significantly. The increases in these expenses and in our leverage could adversely impact our ability to operate the company as we might otherwise and to borrow additional amounts. If we were to issue a significant amount of equity securities in connection with an acquisition, existing stockholders would be diluted and earnings per share could decrease.

Risk Related to the Operation of Our Business

We recognize a substantial portion of our revenue from sales made through third parties, including our ISVs, 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 ISV, 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 ISV, distributor/reseller, or OEM could have a negative effect on our sales and financial results. Any adverse effect on any of our ISV's, 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.

A failure of our information technology systems could have a material adverse effect on our business. We rely on our technology infrastructure, and the technology infrastructure of third parties, for many functions, including selling our products, supporting our ISVs and other third-party channels, fulfilling orders and billing, and collecting and making payments. This technology infrastructure may be vulnerable to damage or interruption from natural disasters, power loss, telecommunication failures, terrorist attacks, computer intrusions, vulnerabilities and viruses, software errors, computer denial-of-service attacks and other events. A significant number of the systems making up this infrastructure are not redundant, and our disaster recovery planning may not be sufficient for every eventuality. This technology infrastructure may fail or be vulnerable to damage or interruption because of actions by third parties or employee error or malfeasance. We may not carry business interruption insurance sufficient to protect us from all losses that may result from interruptions in our services as a result of technology infrastructure failures or to cover all contingencies. Any interruption in the availability of our websites and on-line interactions with customers or partners may cause a reduction in customer or partner satisfaction levels, which in turn could cause additional claims, reduced revenue or loss of customers or partners. Despite any precautions we may take, these problems could result in, among other consequences, a loss of data, loss of confidence in the stability and reliability of our offerings, damage to our reputation, and legal liability, all of which may adversely affect our business, financial condition, operating results and 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 41% 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, political instability, such as the Referendum of the United Kingdom’s (the "U.K.") Membership of the European Union ("E.U.") (referred to as "Brexit"), led to significant, continuing 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;
- 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 has been, and could in the future 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. 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 ongoing global COVID-19 pandemic has also increased the likelihood of these risks.

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.

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.

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.

Catastrophic events may disrupt our business. We rely on our network infrastructure and enterprise applications, internal technology systems and website for our development, marketing, operations, support and sales activities. In addition, we rely on third-party hosted services, and we do not control the operation of third-party data center facilities, which increases our vulnerability. A disruption, infiltration or failure of these systems or third-party hosted services in the event of a major earthquake, fire, flood, tsunami or other weather event, power loss, telecommunications failure, software or hardware malfunctions, pandemics (including the COVID-19 pandemic), cyber-attack, war, terrorist attack or other catastrophic event that our disaster recovery plans do not adequately address, could cause system interruptions, reputational harm, loss of intellectual property, delays in our product development, lengthy interruptions in our services, breaches of data security and loss of critical data. A catastrophic event that results in the destruction or disruption of any of our data centers or our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be adversely affected, and the adverse effects of any such catastrophic event would be exacerbated if experienced at the same time as another unexpected and adverse event, such as the COVID-19 pandemic.

Risk Related to Laws and Regulations

We are subject to risks associated with compliance with laws and regulations globally, which may harm our business. We are a global company subject to varied and complex laws, regulations and customs, both domestically and internationally. These laws and regulations relate to a number of aspects of our business, including trade protection, import and export control, data and transaction processing security, payment card industry data security standards, records management, user-generated content hosted on websites we operate, privacy practices, data residency, corporate governance, anti-trust and competition, employee and third-party complaints, anti-corruption, gift policies, conflicts of interest, securities regulations and other regulatory requirements affecting trade and investment. The application of these laws and regulations to our business is often unclear and may at times conflict. For example, in many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us, including the Foreign Corrupt Practices Act. We cannot provide assurance that our employees, contractors, agents and business partners will not take actions in violation of our internal policies or U.S. laws. Compliance with these laws and regulations may involve significant costs or require changes in our business practices that result in reduced revenue and profitability. Non-compliance could also result in fines, damages, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business, and damage to our reputation. In response to the COVID-19 pandemic, federal, state, local and foreign governmental authorities have imposed, and may continue to impose, protocols and restrictions intended to contain the spread of the virus, including limitations on the size of gatherings, closures of work facilities, schools, public buildings and businesses, quarantines, lockdowns and travel restrictions. Such restrictions have disrupted and may continue to disrupt our business operations and limit our ability to perform critical functions.

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, on July 16, 2020, the Court of Justice of the European Union ("CJEU") invalidated the E.U.-U.S. Privacy Shield framework – a system for complying with EU data protection requirements when transferring personal data from the European Economic Area ("EEA") to the U.S. – with immediate effect. Other data transfer mechanisms remain intact although still subject to considerable scrutiny by certain member states and their Data Protection Authorities. While legislators are said to be considering a replacement for the Privacy Shield, no action seems imminent. As a result, we may experience reluctance or refusal by current or prospective European customers to use our products, and we may find it necessary or desirable to make further changes to our handling of personal data of EEA residents. The regulatory environment applicable to the handling of EEA residents' personal data, and our actions taken in response, may cause us to assume additional liabilities or incur additional costs, and could result in our business, operating results and financial condition being harmed. Additionally, we and our customers may face a risk of enforcement actions by data protection authorities in the EEA relating to personal data transfers to us and by us from the EEA. Any such enforcement actions could result in substantial costs and diversion of resources, distract management and technical personnel and negatively affect our business, operating results and financial condition.

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. For example, in the U.S., the California Consumer Privacy Act ("CCPA") became effective in January 2020, and the U.S. Congress is considering several privacy bills at the federal level, and other state legislatures are considering privacy laws. Internationally, Brazil has recently enacted its national data privacy law (Lei Geral de Proteção de Dados Pessoais, or LGPD), which is similar to GDPR.

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.

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.

The value of our Chef software assets may be limited by open source development and licensing practices. Our Chef offerings incorporate software components licensed to the general public under open source licenses. We obtain many components from software developed and released by contributors to independent open source components of our offerings. Open source licenses grant licensees broad permissions to use, copy, modify and redistribute our platform. As a result, open source development and licensing practices can limit the value of our software copyright assets.

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.

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.

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.

Contracting with government entities exposes us to additional risks inherent in the government procurement process. We provide products and services, directly and indirectly, to a variety of government entities, both domestically and internationally. Risks associated with licensing and selling products and services to government entities include more extended sales and collection cycles, varying governmental budgeting processes and adherence to complex procurement regulations and other government-specific contractual requirements. We may be subject to audits and investigations relating to our government contracts and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, payment of fines, and suspension or debarment from future government business, as well as harm to our reputation and financial results.

Risks Related to Financial Performance or General Economic Conditions

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 ISVs, resellers/distributors 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.

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 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 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 COVID-19.

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 first quarter of fiscal year 2021 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)
December 2020	—	$ —	—	$ 190,000
January 2021	352,885	42.49	352,885	175,000
February 2021	—	—	—	175,000
Total	352,885	$ —	352,885	$ 175,000

(1) In January 2020, our Board of Directors increased the total share repurchase authorization from $75.0 million to $250.0 million. As of February 28, 2021, there was $175.0 million remaining under this authorization.

Item 5. Other Information

On March 22, 2020, the Board of Directors adopted the 2021 Fiscal Year Compensation Program for Non-Employee Directors (the “2021 Plan”), which provides for the payment of cash and equity compensation to non-employee members of our Board of Directors in connection with their service to Progress. Except as described below, the 2021 Plan is identical to the compensation plan applicable to directors in 2020.

Under the 2021 Plan, our non-employee directors will be paid an annual retainer of $275,000. This annual retainer will be paid $50,000 in cash and $225,000 in equity (with the equity paid in the form of deferred stock units which convert to shares of common stock only upon a change in control of the Company or the cessation of service on the Board of Directors). The amount of the equity retainer for 2021 has been increased by $25,000 over the plan applicable to directors in 2020. The non-executive Chairman of the Board will be paid an additional cash retainer of $75,000, which is an increase of $25,000 over the retainer paid to the Chairman of the Board in 2020.

With respect to service on the committees of our Board of Directors, the following fees will be paid:

- Audit Committee - $25,000 for the Chairman and $20,000 for the other members (unchanged);
- Compensation Committee - $25,000 for the Chairman and $15,000 for the other members (unchanged);
- Nominating and Corporate Governance Committee - $12,500 for the Chairman and $10,000 for the other members (unchanged); and
- Mergers and Acquisitions/Strategy Committee - $25,000 for the Chairman and $15,000 for the other members (unchanged).

Item 6. Exhibits

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

Exhibit No.	Description
10.1*†	2021 Fiscal Year Compensation Plan for Non-Employee Directors
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 months ended February 28, 2021, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of February 28, 2021 and November 30, 2020; (ii) Condensed Consolidated Statements of Income for the three months ended February 28, 2021 and February 29, 2020; (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended February 28, 2021 and February 29, 2020; (iv) Condensed Consolidated Statements of Shareholders' Equity for the three months ended February 28, 2021 and February 29, 2020; (v) Condensed Consolidated Statements of Cash Flows for the three months ended February 28, 2021 and February 29, 2020; 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
† Indicates management compensatory plan, contract, or arrangement

SIGNATURES

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

PROGRESS SOFTWARE CORPORATION
(Registrant)

Dated:	April 5, 2021	/s/ YOGESH K. GUPTA Yogesh K. Gupta President and Chief Executive Officer (Principal Executive Officer)
Dated:	April 5, 2021	/s/ ANTHONY FOLGER Anthony Folger Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

PROGRESS SOFTWARE CORPORATION
2021 FISCAL YEAR COMPENSATION PROGRAM
FOR NON-EMPLOYEE DIRECTORS

A. Amounts of 2021 Fiscal Year Compensation

• Annual Board Retainer (cash):	$50,000
• Additional Annual Non-Executive Chairman Retainer (cash):	$75,000
• Committee fees (cash):	
Audit Committee:	$25,000 for Chair $20,000 for Members
Nominating and Corporate Governance Committee:	$12,500 for Chair $10,000 for Members
Compensation Committee:	$25,000 for Chair $15,000 for Members
M&A Committee:	$25,000 for Chair $15,000 for Members

Equity Component:

- $225,000 to be delivered in one installment (as set forth below under “Timing”), consisting of Deferred Stock Units (“DSUs”).

- The number of DSUs to be issued will be determined by dividing $225,000 by the fair market value of Company common stock on the date of issuance. The DSUs will vest in a single installment on the date of the 2022 Annual Meeting, subject to continued service on the Board thru such date, with full acceleration upon a change in control.

- DSUs will accrue dividends on the same basis as Company common stock and will be reinvested in additional DSUs.

- DSUs, together with dividends credited on those DSUs, will be settled upon a Director’s separation from service from the Board of Directors or change in control, if earlier, and not upon vesting. At such time, DSUs will be paid out in the form of Company common stock.

Timing

- Annual fiscal year cash compensation will be paid in one installment at the Compensation Committee meeting in June or, promptly following the date of the 2021 Annual Meeting, whichever is earlier, or such other date as determined by the Compensation Committee.

- Amounts paid will be pro-rated for partial year service, with a fractional month of service rounded to a whole month. A Director who joins the Board other than on the first day of the fiscal year will be paid a pro-rated amount of the annual fiscal year compensation. The same proration rule will also apply to any partial year service on any committee.

B. Stock Retention Guidelines

All non-employee Directors must hold a number of shares of the Corporation's common stock having a fair market value equal to at least five times the Annual Cash Retainer, which for purposes of this requirement shall include vested DSUs. Directors have five years to attain this guideline from the date of election to the Board.

C. Miscellaneous

Employee Directors shall not be entitled to participate in the 2021 Director Compensation Plan.

Exhibit 31.1

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: April 5, 2021

/s/ YOGESH K. GUPTA
Yogesh K. Gupta
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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: April 5, 2021

/s/ ANTHONY FOLGER
Anthony Folger
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 February 28, 2021, 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	/s/ ANTHONY FOLGER
President and Chief Executive Officer	Chief Financial Officer
Date: April 5, 2021	Date: April 5, 2021