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

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 31, 2022
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.)

15 Wayside Road, Suite 400
Burlington, Massachusetts 01803
(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 June 28, 2022, there were 43,462,098 shares of the registrant's common stock, $.01 par value per share, outstanding.

PROGRESS SOFTWARE CORPORATION

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MAY 31, 2022

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets

(In thousands, except share data)	May 31, 2022	November 30, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 224,863	$ 155,406
Short-term investments	1,050	1,967
Total cash, cash equivalents and short-term investments	225,913	157,373
Accounts receivable (less allowances of $869 and $634, respectively)	64,733	99,815
Unbilled receivables and contract assets	32,735	25,816
Other current assets	32,488	39,549
Assets held for sale	—	15,255
Total current assets	355,869	337,808
Long-term unbilled receivables and contract assets	24,253	17,464
Property and equipment, net	13,649	14,345
Intangible assets, net	252,360	287,185
Goodwill	673,066	671,152
Right-of-use lease assets	21,364	25,253
Deferred tax assets	4,180	1,415
Other assets	9,841	8,915
Total assets	$ 1,354,582	$ 1,363,537
Liabilities and stockholders’ equity		
Current liabilities:		
Current portion of long-term debt, net	$ 6,234	$ 25,767
Accounts payable	9,917	9,683
Accrued compensation and related taxes	29,341	47,116
Dividends payable to stockholders	8,094	7,925
Short-term operating lease liabilities	7,843	7,926
Other accrued liabilities	15,469	19,491
Short-term deferred revenue	207,331	205,021
Total current liabilities	284,229	322,929
Long-term debt, net	262,337	239,992
Convertible senior notes, net	351,567	294,535
Long-term operating lease liabilities	18,965	23,130
Long-term deferred revenue	51,249	47,359
Deferred tax liabilities	6,098	14,163
Other noncurrent liabilities	7,991	8,940
Commitments and contingencies		
Stockholders’ 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, 43,454,288 shares in 2022 and 44,146,193 shares in 2021	435	441
Additional paid-in capital	309,913	354,235
Retained earnings	93,885	90,256
Accumulated other comprehensive loss	(32,087)	(32,443)
Total stockholders’ equity	372,146	412,489
Total liabilities and stockholders’ equity	$ 1,354,582	$ 1,363,537

See notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended May 31, 2022	Three Months Ended May 31, 2021	Six Months Ended May 31, 2022	Six Months Ended May 31, 2021
Revenue:				
Software licenses	$ 44,814	$ 30,107	$ 87,564	$ 63,424
Maintenance and services	103,933	92,381	206,105	180,344
Total revenue	148,747	122,488	293,669	243,768
Costs of revenue:				
Cost of software licenses	2,583	1,038	5,192	2,189
Cost of maintenance and services	15,801	14,673	30,946	27,992
Amortization of acquired intangibles	5,573	3,599	11,031	7,120
Total costs of revenue	23,957	19,310	47,169	37,301
Gross profit	124,790	103,178	246,500	206,467
Operating expenses:				
Sales and marketing	32,704	29,262	66,173	58,731
Product development	28,643	26,415	57,316	50,963
General and administrative	19,207	16,460	36,198	29,884
Amortization of acquired intangibles	11,892	7,979	23,614	14,858
Restructuring expenses	143	(64)	654	1,093
Acquisition-related expenses	2,736	844	3,648	1,240
Gain on sale of assets held for sale	(10,770)	—	(10,770)	—
Total operating expenses	84,555	80,896	176,833	156,769
Income from operations	40,235	22,282	69,667	49,698
Other (expense) income:				
Interest expense	(3,656)	(4,601)	(7,359)	(7,115)
Interest income and other, net	155	4	744	123
Foreign currency gain (loss), net	111	(621)	(255)	(878)
Total other expense, net	(3,390)	(5,218)	(6,870)	(7,870)
Income before income taxes	36,845	17,064	62,797	41,828
Provision for income taxes	7,735	3,507	13,233	9,310
Net income	$ 29,110	$ 13,557	$ 49,564	$ 32,518
Earnings per share:				
Basic	$ 0.67	$ 0.31	$ 1.13	$ 0.74
Diluted	$ 0.66	$ 0.30	$ 1.11	$ 0.73
Weighted average shares outstanding:				
Basic	43,575	43,818	43,778	43,963
Diluted	44,253	44,472	44,480	44,562
Cash dividends declared per common share	$ 0.175	$ 0.175	$ 0.350	$ 0.350

See notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended May 31, 2022	Three Months Ended May 31, 2021	Six Months Ended May 31, 2022	Six Months Ended May 31, 2021
Net income	$ 29,110	$ 13,557	$ 49,564	$ 32,518
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(5,104)	1,876	(3,323)	3,101
Unrealized gain on hedging activity, net of tax provision of $643 and $1,165 for the second quarter and first six months of 2022, respectively and net of tax provision of $76 and $347 for the second quarter and first six months of 2021, respectively	2,038	235	3,691	1,072
Unrealized loss on investments, net of tax benefit of $1 and $4 for the second quarter and first six months of 2022 and net of tax provision of $30 and a tax benefit of $12 for the second quarter and first six months of 2021, respectively	(5)	(53)	(12)	(39)
Total other comprehensive income, net of tax	(3,071)	2,058	356	4,134
Comprehensive income	$ 26,039	$ 15,615	$ 49,920	$ 36,652

See notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements of Stockholders’ Equity

	Six Months Ended May 31, 2022					
	Common Stock					
(in thousands)	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, December 1, 2021	44,146	$ 441	$ 354,235	$ 90,256	$ (32,443)	$ 412,489
Cumulative effect of adoption of ASU 2020-06	—	—	(47,456)	4,893	—	(42,563)
Issuance of stock under employee stock purchase plan	178	2	5,211	—	—	5,213
Exercise of stock options	60	1	2,235	—	—	2,236
Vesting of restricted stock units and release of deferred stock units	188	2	(2)	—	—	—
Withholding tax payments related to net issuance of RSUs	—	—	(5,405)	—	—	(5,405)
Stock-based compensation	—	—	17,471	—	—	17,471
Dividends declared	—	—	—	(15,742)	—	(15,742)
Treasury stock repurchases and retirements	(1,118)	(11)	(16,376)	(35,086)	—	(51,473)
Net income	—	—	—	49,564	—	49,564
Other comprehensive income	—	—	—	—	356	356
Balance, May 31, 2022	43,454	$ 435	$ 309,913	$ 93,885	$ (32,087)	$ 372,146

	Three Months Ended May 31, 2022					
	Common Stock					
(in thousands)	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, March 1, 2022	43,766	$ 438	$ 303,240	$ 93,661	$ (29,016)	$ 368,323
Issuance of stock under employee stock purchase plan	115	1	3,385	—	—	3,386
Exercise of stock options	41	1	1,600	—	—	1,601
Vesting of restricted stock units and release of deferred stock units	98	1	(1)	—	—	—
Withholding tax payments related to net issuance of RSUs	—	—	(2,266)	—	—	(2,266)
Stock-based compensation	—	—	9,357	—	—	9,357
Dividends declared	—	—	—	(7,821)	—	(7,821)
Treasury stock repurchases and retirements	(566)	(6)	(5,402)	(21,065)	—	(26,473)
Net income	—	—	—	29,110	—	29,110
Other comprehensive income	—	—	—	—	(3,071)	(3,071)
Balance, May 31, 2022	43,454	$ 435	$ 309,913	$ 93,885	$ (32,087)	$ 372,146

	Six Months Ended May 31, 2021					
	Common Stock					
(in thousands)	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, December 1, 2020	44,241	$ 442	$ 305,802	$ 72,547	$ (32,778)	$ 346,013
Issuance of stock under employee stock purchase plan	145	1	4,039	—	—	4,040
Exercise of stock options	56	1	1,831	—	—	1,832
Vesting of restricted stock units and release of deferred stock units	100	1	(1)	—	—	—
Withholding tax payments related to net issuance of RSUs	—	—	(2,373)	—	—	(2,373)
Stock-based compensation	—	—	15,146	—	—	15,146
Equity components of Notes, net of issuance costs and tax	—	—	47,797	—	—	47,797
Purchase of capped calls, net of tax	—	—	(32,752)	—	—	(32,752)
Dividends declared	—	—	—	(15,634)	—	(15,634)
Treasury stock repurchases and retirements	(797)	(8)	(5,862)	(29,130)	—	(35,000)
Net income	—	—	—	32,518	—	32,518
Other comprehensive loss	—	—	—	—	4,134	4,134
Balance, May 31, 2021	43,745	$ 437	$ 333,627	$ 60,301	$ (28,644)	$ 365,721

	Three Months Ended May 31, 2021					
	Common Stock					
(in thousands)	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, March 1, 2021	44,000	$ 440	$ 311,697	$ 71,118	$ (30,702)	$ 352,553
Issuance of stock under employee stock purchase plan	89	—	2,495	—	—	2,495
Exercise of stock options	28	1	914	—	—	915
Vesting of restricted stock units and release of deferred stock units	72	1	(1)	—	—	—
Withholding tax payments related to net issuance of RSUs	—	—	(1,481)	—	—	(1,481)
Stock-based compensation	—	—	8,362	—	—	8,362
Equity components of Notes, net of issuance costs and tax	—	—	47,797	—	—	47,797
Purchase of capped calls, net of tax	—	—	(32,752)	—	—	(32,752)
Dividends declared	—	—	—	(7,783)	—	(7,783)
Treasury stock repurchases and retirements	(444)	(5)	(3,404)	(16,591)	—	(20,000)
Net income	—	—	—	13,557	—	13,557
Other comprehensive loss	—	—	—	—	2,058	2,058
Balance, May 31, 2021	43,745	$ 437	$ 333,627	$ 60,301	$ (28,644)	$ 365,721

Condensed Consolidated Statements of Cash Flows

	Six Months Ended	
(In thousands)	May 31, 2022	May 31, 2021
Cash flows from operating activities:		
Net income	$ 49,564	$ 32,518
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	2,432	2,741
Amortization of acquired intangibles and other	35,111	22,267
Amortization of debt discount and issuance costs on Notes	1,054	1,683
Stock-based compensation	17,471	15,146
Non-cash lease expense	4,033	4,183
Loss on disposal of property and equipment	8	3
Gain on sale of assets held for sale	(10,770)	
Deferred income taxes	1,735	(705)
Allowances for bad debt and sales credits	339	(358)
Changes in operating assets and liabilities:		
Accounts receivable	19,894	29,105
Other assets	6,833	1,722
Inventories	738	—
Accounts payable and accrued liabilities	(20,330)	(11,554)
Lease liabilities	(4,337)	(4,467)
Income taxes payable	(200)	(1,059)
Deferred revenue	8,778	8,153
Net cash flows from operating activities	112,353	99,378
Cash flows from investing activities:		
Sales and maturities of investments	900	2,650
Purchases of property and equipment	(1,979)	(2,116)
Proceeds from sale of long-lived assets, net	25,998	—
Decrease in escrow receivable and other	—	2,130
Net cash flows from investing activities	24,919	2,664
Cash flows (used in) from financing activities:		
Proceeds from stock-based compensation plans	7,771	6,300
Payments for taxes related to net share settlements of equity awards	(5,405)	(2,373)
Repurchases of common stock	(51,473)	(35,000)
Proceeds from issuance of senior convertible notes, net of issuance costs of $9.9 million	—	350,100
Purchase of capped calls	—	(43,056)
Dividend payments to stockholders	(15,573)	(15,617)
Proceeds from the issuance of debt	7,474	—
Payment of principal on long-term debt	(3,435)	(106,025)
Payment of debt issuance costs	(1,957)	(904)
Net cash flows (used in) from financing activities	(62,598)	153,425
Effect of exchange rate changes on cash	(5,217)	3,903
Net increase in cash and cash equivalents	69,457	259,370
Cash and cash equivalents, beginning of period	155,406	97,990
Cash and cash equivalents, end of period	$ 224,863	$ 357,360

Condensed Consolidated Statements of Cash Flows, continued

	Six Months Ended	
	May 31, 2022	May 31, 2021
Supplemental disclosure:		
Cash paid for income taxes, net of refunds of $364 in 2022 and $488 in 2021	$ 4,982	$ 6,677
Cash paid for interest	$ 3,291	$ 4,480
Non-cash investing and financing activities:		
Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested	$ 18,204	$ 8,698
Dividends declared	$ 8,094	$ 7,921

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") is dedicated to propelling business forward in a technology-driven world. Progress helps businesses drive faster cycles of innovation, fuel momentum and accelerate their path to success. As the trusted provider of the leading products to develop, deploy and manage high-impact applications, Progress enables customers to develop the applications and experiences the need, deploy where and how they want and manage it all safely and securely. Hundreds of thousands of enterprises, including 1,700 software companies and 3.5 million developers depend on Progress to achieve their goals—with confidence.

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 independent software vendors), original equipment manufacturers ("OEMs"), distributors and value-added resellers. Independent software vendors 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 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, 2021, as filed with the SEC on January 27, 2022, as amended by a Form 10-K/A filed on March 30, 2022 (together, the "2021 10-K").

We made no material changes in the application of our significant accounting policies that were disclosed in our 2021 10-K. We have prepared the accompanying unaudited condensed consolidated financial statements on the same basis as the audited financial statements included in our 2021 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

Income Taxes

In December 2019, the Financial Accounting Standards Board issued Accounting Standards Update No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"). ASU 2019-12 updates specific areas of ASC 740, Income Taxes, to reduce complexity while maintaining or improving the usefulness of the information provided to users of financial statements. The Company adopted this standard effective December 1, 2021. The adoption of this standard did not have a material effect on the Company's condensed consolidated financial position and results of operations.

Convertible Debt

On December 1, 2021, we early adopted Accounting Standards Update No. 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06") on a modified retrospective basis. Under ASU 2020-06, we no longer separate the convertible senior notes into liability and equity components. We recognized the cumulative effect of initially applying this new standard as of December 1, 2021 as an adjustment to the December 1, 2021 opening balance of retained earnings. The conversion option that was previously accounted for in equity under the cash conversion model was recombined into the convertible debt outstanding, and as a result, additional paid in capital and the related unamortized debt discount on the convertible senior notes were reduced. The removal of the remaining debt discount recorded for this previous separation has the effect of increasing our net debt balance. We recorded a $47.5 million decrease to additional paid-in capital, a $56.0 million decrease to debt discount, a $4.9 million increase to retained earnings, and a $13.4 million decrease to long-term deferred tax liabilities. There was no impact to the Company's statements of cash flows as the result of the adoption of ASU 2020-06. The prior period consolidated financial statements have not been retrospectively adjusted and continue to be reported under the accounting standards in effect for those periods. See "Note 8: Debt" for additional information regarding the terms of the Convertible Senior Notes (the "Notes").

The new standard requires the use of the "if-converted" method to calculate the diluted earnings per common share. Refer to Note 16: Earnings Per Share for effect of the convertible notes on diluted earnings per common share.

Note 2: Cash, Cash Equivalents and Investments

A summary of our cash, cash equivalents and available-for-sale investments at May 31, 2022 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 198,897	$ —	$ —	$ 198,897
Money market funds	25,966	—	—	25,966
U.S. treasury bonds	750	—	—	750
Corporate bonds	300	—	—	300
Total	$ 225,913	$ —	$ —	$ 225,913

A summary of our cash, cash equivalents and available-for-sale investments at November 30, 2021 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 130,371	$ —	$ —	$ 130,371
Money market funds	25,035	—	—	25,035
U.S. treasury bonds	748	9	—	757
Corporate bonds	1,203	7	—	1,210
Total	$ 157,357	$ 16	$ —	$ 157,373

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

	May 31, 2022		November 30, 2021	
	Cash and Equivalents	Short-Term Investments	Cash and Equivalents	Short-Term Investments
Cash	$ 198,897	$ —	$ 130,371	$ —
Money market funds	25,966	—	25,035	—
U.S. treasury bonds	—	750	—	757
Corporate bonds	—	300	—	1,210
Total	$ 224,863	$ 1,050	$ 155,406	$ 1,967

The fair value of debt securities by contractual maturity due in one year or less was $1.1 million and $2.0 million as of May 31, 2022 and November 30, 2021, respectively. There were no debt securities by contractual maturity due after one year as of May 31, 2022 or November 30, 2021.

We did not hold any investments with continuous unrealized losses as of May 31, 2022 or November 30, 2021.

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. On January 25, 2022, we amended our prior credit facility (see *Note 8: Debt)*. We reassessed the hedge in connection with the debt amendment and determined that it is still highly effective. As of May 31, 2022, the fair value of the hedge was a gain of $1.8 million, which was included in other assets 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):

	May 31, 2022		November 30, 2021	
	Notional Value	Fair Value	Notional Value	Fair Value
Interest rate swap contracts designated as cash flow hedges	$ 127,500	$ 1,778	$ 133,125	$ (3,078)

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 3 years from the date the contract was entered. At May 31, 2022, $1.6 million and $0.4 million was recorded in other noncurrent liabilities and other current assets on our condensed consolidated balance sheets. At November 30, 2021, $0.3 million and $0.1 million were recorded in other noncurrent liabilities and other accrued liabilities, respectively, on our condensed consolidated balance sheets.

In the three and six months ended May 31, 2022, realized and unrealized losses of $3.9 million and $3.6 million, respectively, from our forward contracts were recognized in foreign currency gain (loss), net, on our condensed consolidated statements of operations. In the three and six month ended May 31, 2021, realized and unrealized gains of $0.9 million and $2.6 million, respectively, from our forward contracts were recognized in foreign currency gain (loss), net, on our condensed consolidated statements of operations. These gains and losses were substantially offset by realized and unrealized gains and losses in the offsetting positions.

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

	May 31, 2022		November 30, 2021	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	$ 84,291	$ (1,206)	$ 79,777	$ (371)
Forward contracts to purchase U.S. dollars	737	(8)	119	(1)
Total	$ 85,028	$ (1,214)	$ 79,896	$ (372)

Note 4: Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at May 31, 2022 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	Level 1	Level 2	Level 3
Assets				
Money market funds	$ 25,966	$ 25,966	$ —	$ —
U.S. treasury bonds	750	—	750	—
Corporate bonds	300	—	300	—
Interest rate swap	1,778	—	1,778	—
Liabilities				
Foreign exchange derivatives	$ (1,214)	$ —	$ (1,214)	$ —

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at November 30, 2021 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	Level 1	Level 2	Level 3
Assets				
Money market funds	$ 25,035	$ 25,035	$ —	$ —
U.S. treasury bonds	757	—	757	—
Corporate bonds	1,210	—	1,210	—
Liabilities				
Foreign exchange derivatives	(372)	—	(372)	—
Interest rate swap	$ (3,078)	$ —	$ (3,078)	$ —

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.

Fair Value of the Convertible Senior Notes

The Notes' fair value, inclusive of the conversion feature embedded in the Notes, was $367.7 million as of May 31, 2022. The fair value was determined based on the Notes' quoted price in an over-the-counter market on the last trading day of the reporting period and classified within Level 1 in the fair value hierarchy. See *Note 8: Debt* for additional information.

Note 5: Inventories

The components of inventories were as follows (in thousands):

	May 31, 2022	November 30, 2021
Raw materials	$ 1,001	$ 1,920
Work in process	—	—
Finished goods	1,779	1,631
Total	$ 2,780	$ 3,551

At May 31, 2022 and November 30, 2021, the inventories balances of $2.8 million and $3.6 million were recorded in other current assets on the condensed consolidated balance sheets.

Note 6: Intangible Assets and Goodwill

Intangible Assets

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

	May 31, 2022			November 30, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	$ 212,700	$ (139,832)	$ 72,868	$ 212,700	$ (128,797)	$ 83,903
Customer-related	306,308	(140,627)	165,681	306,308	(119,357)	186,951
Trademarks and trade names	37,611	(23,800)	13,811	37,611	(21,556)	16,055
Non-compete agreement	2,000	(2,000)	—	2,000	(1,724)	276
Total	$ 558,619	$ (306,259)	$ 252,360	$ 558,619	$ (271,434)	$ 287,185

In the three and six months ended May 31, 2022, amortization expense related to intangible assets was $17.5 million and $34.6 million, respectively. In the three and six months ended May 31, 2021, amortization expense related to intangible assets was $11.6 million and $22.0 million, respectively.

Future amortization expense for intangible assets as of May 31, 2022, is as follows (in thousands):

Remainder of 2022	$ 34,542
2023	68,895
2024	56,079
2025	45,569
2026	35,875
Thereafter	11,400
Total	$ 252,360

Goodwill

Changes in the carrying amount of goodwill in the six months ended May 31, 2022 are as follows (in thousands):

Balance, November 30, 2021	$	671,152
Measurement period adjustments		1,886
Translation adjustments		28
Balance, May 31, 2022	$	673,066

Note 7: Business Combinations

Kemp Acquisition

On November 1, 2021, we completed the acquisition of the parent company of Kemp Technologies, Inc. (“Kemp”), which is described in greater detail in our 2021 10-K. The acquisition was completed for a base purchase price of $258.0 million (subject to certain customary adjustments) in cash.

The acquisition consideration for Kemp has been preliminarily allocated to Kemp’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.

We recorded measurement period adjustments based on our ongoing valuation and purchase price allocation procedures. We are still finalizing the valuation and purchase price allocation as it relates to the net working capital amount in the table below.

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

	Initial Purchase Price Allocation	Measurement Period Adjustments	Adjusted Purchase Price Allocation	Life
Net working capital	$ 27,075	$ (772)	$ 26,303	
Property, plant and equipment	803	(8)	795	
Purchased technology	39,400	—	39,400	5 years
Trade name	7,200	—	7,200	5 years
Customer relationships	75,500	—	75,500	5 years
Other assets	170	27	197	
Other noncurrent liabilities	(604)	(1,133)	(1,737)	
Deferred taxes	(23,187)	—	(23,187)	
Deferred revenue	(29,997)	—	(29,997)	
Goodwill	179,521	1,886	181,407	
Net assets acquired	$ 275,881	$ —	$ 275,881	

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. Based on the preliminary valuation, the acquired intangible assets are comprised of customer relationships of approximately $75.5 million, existing technology of approximately $39.4 million, and trade names of approximately $7.2 million.

Tangible assets acquired and assumed liabilities were recorded at fair value. As described in Note 1: Nature of Business and Summary of Significant Accounting Policies, we adopted ASU 2021-08, which amended ASC 805 to require acquiring entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. We determined the acquisition date deferred revenue balance based on our assessment of the individual contracts acquired and our application of Topic 606. 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 $181.4 million of goodwill, which is not deductible for tax purposes.

Acquisition-related transaction costs (e.g., legal, due diligence, valuation, and other professional fees) and certain acquisition restructuring and related charges are not included as a component of consideration transferred but are required to be expensed as incurred. During the three and six months ended May 31, 2022, we incurred approximately $0.4 million and $0.8 million of acquisition-related costs, which are included in acquisition-related expenses on our consolidated statement of operations.

We determined that disclosing the amount of Kemp related earnings included in the consolidated statements of operations is impracticable, as certain operations of Kemp 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 Kemp as if the acquisition had occurred on December 1, 2019, after giving effect to certain pro forma adjustments. The pro forma adjustments reflected herein include only those adjustments that are directly attributable to the Kemp acquisition and factually supportable. These pro forma adjustments include: (i) an increase in revenue from Kemp as a result of the application of Topic 606 to recognize and measure contract assets and contract liabilities in the business combination, (ii) a net increase in amortization expense to record amortization expense relating to the $122.1 million of acquired identifiable intangible assets, (iii) a decrease in interest expense to remove the interest expense associated with Kemp's debt obligations, 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, 2019. These results are prepared in accordance with ASC 606.

(in thousands, except per share data)	Pro Forma Three Months Ended May 31, 2021	
Revenue	$	139,115
Net income	$	12,285
Net income per basic share	$	0.28
Net income per diluted share	$	0.28

(in thousands, except per share data)	Pro Forma Six Months Ended May 31, 2021	
Revenue	$	274,637
Net income	$	29,463
Net income per basic share	$	0.67
Net income per diluted share	$	0.66

Chef Acquisition

On October 5, 2020, we completed the acquisition of Chef Software Inc. ("Chef"), which is described in greater detail in our 2021 10-K. The acquisition was completed for a base purchase price of $220.0 million (subject to certain customary adjustments) in cash. We funded the acquisition through a combination of existing cash resources and by drawing down $98.5 million from our then-existing revolving credit facility (Note 8).

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

We recorded measurement period adjustments in accordance with FASB's guidance regarding business combinations in the third and fourth quarters of fiscal year 2021 based on our valuation and purchase price allocation procedures. The measurement period adjustments were completed during the fourth quarter of fiscal year 2021.

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

	Initial Purchase Price Allocation	Measurement Period Adjustments	Final Purchase Price Allocation	Life
Net working capital	$ 52,330	$ 147	$ 52,477	
Property, plant and equipment	498	—	498	
Purchased technology	38,300	—	38,300	5 years
Trade name	5,700	—	5,700	5 years
Customer relationships	97,300	—	97,300	7 years
Other assets	122	—	122	
Other noncurrent liabilities	(841)	—	(841)	
Lease liabilities, net	(1,810)	—	(1,810)	
Deferred taxes	(7,817)	126	(7,691)	
Deferred revenue	(12,525)	—	(12,525)	
Goodwill	59,858	(273)	59,585	
Net assets acquired	$ 231,115	$ —	$ 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 was 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 $59.6 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 and six months ended May 31, 2022, we incurred approximately $0.1 million of acquisition-related costs, which are included in acquisition-related expenses on our consolidated statement of operations.

The operations of Chef were included in our operating results beginning on the date of acquisition. 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.

Note 8: Debt

The Company adopted ASU 2020-06 on December 1, 2021. See Note 1 for further discussion of this recently adopted accounting policy. As of May 31, 2022, future maturities of the Company's long-term debt were as follows:

(In thousands)	2026 Notes	Revolving Credit Facility	Total
Remainder of 2022	$ —	$ 3,438	$ 3,438
2023	—	6,875	6,875
2024	—	13,750	13,750
2025	—	20,625	20,625
2026	—	20,625	20,625
2027	360,000	206,250	566,250
Total face value of long-term debt	360,000	271,563	631,563
Unamortized discount and issuance costs	(8,433)	(2,992)	(11,425)
Less current portion of long-term debt, net	—	(6,234)	(6,234)
Long-term debt	$ 351,567	$ 262,337	$ 613,904

Notes Payable

Convertible Senior Notes and Capped Calls

In April 2021, the Company issued, in a private placement to certain initial purchasers in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act in transactions not involving any public offering, for resale by the initial purchasers to persons whom the initial purchasers believe are qualified institutional buyers pursuant to Rule144A under the Securities Act, the Notes with an aggregate principal amount of $325.0 million, due April 15, 2026, unless earlier repurchased, redeemed or converted. The proceeds from the Notes were used or are anticipated to be used for the Capped Call Transactions (described below), working capital, and other general corporate purposes, including acquisitions. There are no required principal payments prior to maturity. In addition, the Company also granted the initial purchasers of the Notes an option to purchase up to an additional $50.0 million aggregate principal amount of the Notes, for settlement within a 13-day period beginning on, and including, April 13, 2021, of which $35.0 million of additional Notes were purchased for total proceeds of $360.0 million. The Notes bear interest at an annual rate of 1%, payable semi-annually in arrears on April 15 and October 15 of each year, beginning on October 15, 2021. The Company incurred approximately $10.8 million in issuance cost for the issuance of the Notes. During the six months ended May 31, 2022, the Company did not enter into any new or amended Notes.

Conversion Rights

The Company will satisfy its conversion obligations by paying cash up to the aggregate principal amount of Notes to be converted, by issuing shares of its common stock or a combination of cash and shares of its common stock, at its election. The initial conversion rate is 17.4525 shares of common stock per $1,000 principal amount of the Notes, representing an initial conversion price of approximately $57.30 per share of common stock. The conversion rate will be adjusted upon the occurrence of certain events, including spin-offs, tender offers, exchange offers, make-whole fundamental change and certain stockholder distributions.

Repurchase Rights

On or after April 20, 2024, and on or before the 50th scheduled trading day immediately before the maturity date, the Company may redeem for cash all or part of the Notes, subject to the partial redemption limitation, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest, if the last reported sale price per share of the Company’s common stock exceeded 130% of the conversion price on; (i) each of at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides a redemption notice and (ii) the trading day immediately before the date the Company sends such notice. Pursuant to the partial redemption limitation, the Company may not elect to redeem less than all of the outstanding Notes unless at least $100.0 million aggregate principal amount of Notes are outstanding and not subject to redemption as of the time it sends the related redemption notice.

If certain corporate events that constitute a “fundamental change” (as described below) occur at any time, holders may, subject to certain exceptions, require the Company to purchase their Notes in whole or in part for cash at a price equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. A fundamental change relates to events such as business combination transactions involving the Company and certain de-listing events with respect to the Company’s common stock.

Capped Call Transactions

On April 8, 2021, in connection with the pricing of the Notes, the Company entered into privately negotiated capped call transactions (“Capped Call Transactions”) with one or more of the initial purchasers and/or their respective affiliates and/or other financial institutions. The Capped Call Transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, approximately 6.3 million shares (representing the number of shares of common stock initially underlying the Notes) of the Company’s common stock. The Capped Call Transactions are generally expected to reduce potential dilution to our common stock upon any conversion of Notes and/or offset any potential cash payments the Company is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap. The cap price of the Capped Call Transactions will initially be $89.88 per share of common stock, which represents a premium of 100% over the last reported sale price of the common stock of $44.94 per share on April 8, 2021, and is subject to certain adjustments under the terms of the Capped Call Transactions. The cost of the purchased capped calls of $43.1 million was recorded as a reduction to additional paid-in-capital.

We elected to integrate the capped call options with the applicable Notes for federal income tax purposes pursuant to applicable U.S. Treasury Regulations. Accordingly, the $43.1 million gross cost of the purchased capped calls will be deductible for income tax purposes as original discount interest over the term of the Notes. We recorded deferred tax assets of $10.6 million with respect to the capped calls which represents the tax benefit of these deductions with an offsetting entry to additional paid-in capital.

Accounting for the Notes

In accounting for the transaction, prior to the adoption of ASU 2020-06, the Notes were separated into liability and equity components.

- The conversion option of the Notes does not require bifurcation as an embedded derivative.
- The initial carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated conversion feature. The excess of the Notes’ principal amount over the initial carrying amount of the liability component, referred to as the debt discount, is amortized as interest expense over the Notes’ contractual term - at an effective interest rate of 5.7%.
- The equity component, which represents the difference between the gross proceeds and the initial liability component, was recorded as an increase to additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification.

The Company incurred issuance costs of $10.8 million related to the Notes, allocated between the Notes’ liability and equity components proportionate to the initial carrying amount of the liability and equity components prior to the adoption of ASU 2020-06.

- Issuance costs attributable to the liability component of $8.9 million are recorded as an offset to the Notes’ principal balance. They are amortized as interest expense using the effective interest method over the contractual term of the Notes.
- Issuance costs attributable to the equity component of $1.9 million are recorded as an offset to the equity component in additional paid-in capital and are not amortized.

Upon adoption of ASU 2020-06 on December 1, 2021, the Company reversed the separation of the debt and equity components and accounted for the Notes wholly as debt. The Company also reversed the amortization of the debt discount that was due to the equity component, with a cumulative adjustment to retained earnings on the adoption date. Further, the Company reversed the allocation of the issuance costs to the equity component and accounted for the entire amount as debt issuance cost that will be amortized as interest expense over the remaining term at an effective interest rate of 1.63% with a cumulative adjustment to retained earnings on the adoption date.

Refer to Note 1, Basis of Presentation for further details on the impact of adoption.

Interest expense related to the Notes:

(In thousands)	Three Months Ended		Six Months Ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Contractual interest expense (1% coupon)	$ 910	$ 470	$ 1,790	$ 470
Amortization of debt discount and issuance costs	529	1,682	1,054	1,682
	$ 1,439	$ 2,152	$ 2,844	$ 2,152

Prior to adoption of ASU 2020-06, the effective interest rate for the Notes was 5.71%. After the adoption of ASU 2020-06, the effective interest rate for the Notes is 1.63%.

Credit Facility

On January 25, 2022, the Company entered into an amended and restated credit agreement (the "Credit Agreement"), which provides for a $275.0 million secured term loan and a $300.0 million secured revolving line of credit. The revolving credit facility may be increased, and new term loan commitments may be entered into, by up to an additional amount up to the sum of (A) the greater of (x) $260.0 million and (y) 100% of Consolidated EBITDA (as defined in the Credit Agreement) and (B) an unlimited additional amount subject to pro forma compliance with a Consolidated Senior Secured Net Leverage Ratio of no greater than 3.75 to 1.00 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. This new credit facility replaces our prior secured credit facility dated April 30, 2019.

The amount of the term loan outstanding under our prior secured credit facility was incorporated into the amended and restated credit facility.

Interest rates for the Credit Agreement are determined by reference to a term benchmark rate or a base rate at our option and would range from 1.00% to 2.00% above the term benchmark rate or would range from 0.00% to 1.00% above the defined base rate for base rate borrowings, in each case based upon our leverage ratio. Additionally, we may borrow certain foreign currencies at rates set in the same range above the respective term benchmark rates for those currencies, based on our leverage ratio. We will incur a quarterly commitment fee on the undrawn portion of the revolving credit facility, ranging from 0.125% to 0.275% per annum, based upon our leverage ratio. At closing of the revolving credit facility, the applicable interest rate and commitment fee are at the third lowest rate in each range.

The Credit Agreement matures on the earlier of (i) January 25, 2027, and (ii) the date that is 181 days prior to the maturity date of our Notes subject to certain conditions as set forth in the Credit Agreement, including the repayment of the Notes, the refinancing of the Notes including a maturity date that is at least 181 days after January 25, 2027 and compliance with a liquidity test 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 May 31, 2022 was $271.6 million, with $6.9 million due in the next 12 months. The term loan requires repayment of principal at the end of each fiscal quarter, beginning with the fiscal quarter ended February 28, 2022. The principal repayment amounts are in accordance with the following schedule: (i) eight payments of $1.7 million each, (ii) four payments of $3.4 million each, (iii) eight payments of $5.2 million each, and (iv) the last payment is of the remaining principal amount. Any amounts outstanding under the term loan thereafter would be due on the maturity date. The term loan may be prepaid before maturity in whole or in part at our option without penalty or premium. As of May 31, 2022, the carrying value of the term loan approximates the fair value, based on Level 2 inputs (observable market prices in less than active markets), as the interest rate is variable over the selected interest period and is similar to current rates at which we can borrow funds. The interest rate as of May 31, 2022 was 2.63%.

Costs incurred to obtain our long-term debt of $3.2 million, including $1.1 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 long-term debt liability on our condensed consolidated balance sheets as of May 31, 2022. These costs are being amortized over the term of the Credit Agreement using the effective interest rate method. Amortization expense related to the debt issuance costs was $0.2 million and $0.1 million, for the three months ended May 31, 2022 and May 31, 2021, respectively. Amortization expense related to the debt issuance costs was $0.5 million and $0.3 million for the six months ended May 31, 2022 and May 31, 2021, respectively. These amounts are recorded in interest expense on our condensed consolidated statements of operations.

The revolving line of credit may be borrowed, repaid, and reborrowed until January 25, 2027, at which time all amounts outstanding must be repaid. As of May 31, 2022, there were no amounts outstanding under the revolving line of credit and $2.1 million of letters of credit outstanding.

Note 9: Leases

Upon adoption of ASC 842, there were a number of optional practical expedients to apply 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 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 8 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 and six months ended May 31, 2022 were as follows (in thousands):

	Three Months Ended May 31, 2022	Six Months Ended May 31, 2022
Lease costs under long-term operating leases	$ 1,820	$ 3,584
Lease costs under short-term operating leases	17	31
Variable lease cost under short-term and long-term operating leases[1]	173	294
Total operating lease cost	$ 2,010	$ 3,909

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

The components of operations lease cost for the three and six months ended May 31, 2021 were as follows (in thousands):

	Three Months Ended May 31, 2021	Six Months Ended May 31, 2021
Lease costs under long-term operating leases	$ 2,009	$ 4,144
Lease costs under short-term operating leases	4	19
Variable lease cost under short-term and long-term operating leases[(1)]	35	150
Operating lease right-of-use asset impairment	36	36
Total operating lease cost	$ 2,084	$ 4,349

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

The table below presents supplemental cash flow information related to leases during the three and six months ended May 31, 2022 (in thousands):

	Three Months Ended May 31, 2022	Six Months Ended May 31, 2022
Cash paid for leases	$ 2,191	$ 4,337
Right-of-use assets recognized for new leases and amendments (non-cash)	$ 80	$ 301

The table below presents supplemental cash flow information related to leases during the three and six months ended May 31, 2021 (in thousands):

	Three Months Ended May 31, 2021	Six Months Ended May 31, 2021
Cash paid for leases	$ 2,209	$ 4,467
Right-of-use assets recognized for new leases and amendments (non-cash)	$ 1,309	$ 3,647

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

	May 31, 2022	November 30, 2021
Weighted average remaining lease term in years	3.73	4.15
Weighted average discount rate	2.6 %	2.6 %

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

	May 31, 2022
Remainder of 2022	$ 4,343
2023	8,070
2024	7,676
2025	5,005
2026	1,808
Thereafter	1,306
Total lease payments	28,208
Less imputed interest[(1)]	(1,400)
Present value of lease liabilities	$ 26,808

[(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 10: 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 May 31, 2022 and May 31, 2021, we repurchased and retired 0.6 million shares for $26.5 million and 0.4 million shares for $20.0 million, respectively. In the six months ended May 31, 2022 and May 31, 2021, we repurchased and retired 1.1 million shares for $51.5 million and 0.8 million shares for $35.0 million, respectively. The shares were repurchased in both periods as part of our Board of Directors authorized share repurchase program. As of May 31, 2022, there was $103.5 million remaining under the current authorization.

Note 11: 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 2020, 2021 and 2022, 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 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 and 2022 plan, the vesting terms were changed to the following: (i) 25% is based on our level of attainment of specified 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 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		Six Months Ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Cost of maintenance and services	$ 472	$ 468	$ 883	$ 860
Sales and marketing	690	1,752	2,092	3,255
Product development	2,740	2,412	4,962	4,331
General and administrative	5,455	3,730	9,534	6,700
Total stock-based compensation	$ 9,357	$ 8,362	$ 17,471	$ 15,146

Note 12: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated balances of other comprehensive loss during the six months ended May 31, 2022 (in thousands):

	Foreign Currency Translation Adjustment	Unrealized (Losses) on Investments	Unrealized (Losses) Gains on Hedging Activity	Accumulated Other Comprehensive Loss
Balance, December 1, 2021	$ (30,055)	$ (49)	$ (2,339)	$ (32,443)
Other comprehensive income before reclassifications, net of tax	(3,323)	(12)	3,691	356
Balance, May 31, 2022	$ (33,378)	$ (61)	$ 1,352	$ (32,087)

The tax effect on accumulated unrealized (losses) gains on hedging activity and unrealized (losses) on investments was $0.5 million and $0.7 million as of May 31, 2022 and November 30, 2021, respectively.

Note 13: Revenue Recognition

Timing of Revenue Recognition

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		Six Months Ended	
(In thousands)	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Performance obligations transferred at a point in time:				
Software licenses	$ 44,814	$ 30,107	$ 87,564	$ 63,424
Performance obligations transferred over time:				
Maintenance	91,331	80,069	181,294	157,046
Services	12,602	12,312	24,811	23,298
Total revenue	$ 148,747	$ 122,488	$ 293,669	$ 243,768

Geographic Revenue

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

	Three Months Ended		Six Months Ended	
(In thousands)	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
North America	$ 85,394	$ 71,094	$ 163,487	$ 142,599
EMEA	49,634	41,321	103,336	81,561
Latin America	4,678	3,753	8,561	7,246
Asia Pacific	9,041	6,320	18,285	12,362
Total revenue	$ 148,747	$ 122,488	$ 293,669	$ 243,768

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 May 31, 2022 and May 31, 2021.

Contract Balances

Unbilled Receivables and Contract Assets

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

As of May 31, 2022, invoicing of our long-term unbilled receivables is expected to occur as follows (in thousands):

2023	$ 8,025
2024	8,341
2025	5,583
2026	1,891
Total	$ 23,840

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 $3.0 million as of May 31, 2022 and $5.0 million as of November 30, 2021. 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.

As of May 31, 2022, the changes in deferred revenue were as follows (in thousands):

Balance, December 1, 2021	$ 252,380
Billings and other	299,869
Revenue recognized	(293,669)
Balance, May 31, 2022	$ 258,580

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. As of May 31, 2022, transaction price allocated to remaining performance obligations was $265 million. We expect to recognize approximately 80% 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 $8.0 million and $7.9 million as of May 31, 2022 and November 30, 2021, 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 14: 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, 2021	$ 4,483	$ 1,889	$ 6,372
Costs incurred	208	446	654
Cash disbursements	(508)	(1,837)	(2,345)
Balance, May 31, 2022	$ 4,183	$ 498	$ 4,681

During the fourth quarter of fiscal year 2021, we restructured our operations in connection with the acquisition of Kemp (Note 7). This restructuring resulted in a reduction in redundant positions, primarily within the administrative functions of Kemp.

For the three months ended May 31, 2022, we incurred minimal expenses related to this restructuring. For the six months ended May 31, 2022, we incurred expenses of $0.4 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, 2021	$ —	$ 1,882	$ 1,882
Costs incurred	—	446	446
Cash disbursements	—	(1,830)	(1,830)
Balance, May 31, 2022	$ —	$ 498	$ 498

Cash disbursements for expenses incurred to date under this restructuring are expected to be made through fiscal year 2022. Accordingly, the balance of the restructuring liability of $0.5 million is included in other accrued liabilities on the consolidated balance sheet at May 31, 2022.

We expect to incur additional expenses as part of this action related to employee costs during fiscal year 2022, but we do not expect these costs to be material.

During the fourth quarter of fiscal year 2020, we restructured our operations in connection with the acquisition of Chef (Note 7). This restructuring resulted in a reduction in redundant positions, primarily within administrative functions of Chef.

For the three and six months ended May 31, 2022, we incurred expenses of $0.1 million and $0.2 million, respectively, 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, 2021	$ 4,483	$ 7	$ 4,490
Costs incurred	208	—	208
Cash disbursements	(508)	(7)	(515)
Balance, May 31, 2022	$ 4,183	$ —	$ 4,183

Cash disbursements for expenses incurred to date under this restructuring are expected to be made through fiscal year 2022. Accordingly, the balance of the restructuring liability of $4.2 million is included in other accrued liabilities, and short-term and long-term lease liabilities on the consolidated balance sheet at May 31, 2022.

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 2022, but we do not expect these costs to be material.

Note 15: Income Taxes

Our income tax provision for the second quarter of fiscal years 2022 and 2021 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 21% in the second fiscal quarter of both 2022 and 2021.There were no significant discrete tax items in the second fiscal quarter of either 2022 or 2021.

Our federal income tax returns have been examined or are closed by statute for all years prior to fiscal year 2018. Our state income tax returns have been examined or are closed by statute for all years prior to fiscal year 2017.

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 2016 because they are closed by statute.

Note 16: Earnings per share

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

	Three Months Ended		Six Months Ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Net income	$ 29,110	$ 13,557	$ 49,564	$ 32,518
Weighted average shares outstanding	43,575	43,818	43,778	43,963
Basic earnings per common share	$ 0.67	$ 0.31	$ 1.13	$ 0.74
Diluted earnings per common share:				
Net income	$ 29,110	$ 13,557	$ 49,564	$ 32,518
Weighted average shares outstanding	43,575	43,818	43,778	43,963
Effect of dilution from common stock equivalents	678	654	702	599
Diluted weighted average shares outstanding	44,253	44,472	44,480	44,562
Diluted earnings per share	$ 0.66	$ 0.30	$ 1.11	$ 0.73

We excluded stock awards representing approximately 1,904,000 and 1,720,000 shares of common stock from the calculation of diluted earnings per share in the three and six months ended May 31, 2022, respectively, as these awards were anti-dilutive. In the three and six months ended May 31, 2021, we excluded stock awards representing 1,396,000 shares and 1,237,000 shares of common stock, respectively, from the calculation of diluted earnings per share as they were anti-dilutive.

As a result of our adoption of ASU 2020-06 on December 1, 2021, the dilutive impact of the Notes on our calculation of diluted net income per share is considered using the if-converted method. However, because the principal amount of the Notes must be settled in cash, the dilutive impact of applying the if-converted method is limited to the in-the-money portion, if any, of the Notes. During the three and six months ended May 31, 2022, we did not include the Notes in our diluted earnings per share calculation because the conversion feature in the Notes was out of the money. For periods prior to our December 1, 2021 adoption of ASU 2020-06, we applied the treasury stock method to account for the dilutive impact of the Notes for diluted earnings per share purposes.

Note 17: Segment Information

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 ("CODM") in deciding how to allocate resources and assess performance. Our CODM is our Chief Executive Officer.

Beginning in the second quarter of fiscal year 2021, we operate as one operating segment: software products to develop, deploy, and manage high-impact business applications. Our CODM evaluates financial information on a consolidated basis. As we operate as one operating segment, the required financial segment information can be found in the condensed consolidated financial statements.

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

Critical Accounting Policies

Management’s discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. We make estimates and assumptions in the preparation of our consolidated financial statements that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates. The most significant estimates relate to: the timing and amounts of revenue recognition, including the determination of the nature and timing of the satisfaction of performance obligations, the standalone selling price of performance obligations, and the transaction price allocated to performance obligations; the realization of tax assets and estimates of tax liabilities; fair values of investments in marketable securities; assets held for sale; intangible assets and goodwill valuations; the recognition and disclosure of contingent liabilities; the collectability of accounts receivable; and assumptions used to determine the fair value of stock-based compensation. This 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 2021 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: (i) 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; (ii) 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; (iii) 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; (iv) 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; (v) We depend upon our extensive partner channel and we may not be successful in retaining or expanding our relationships with channel partners; (vi) 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; (vii) 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; (viii) 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; (ix) delay or failure to realize the expected synergies and benefits of the Kemp acquisition could negatively impact our future results of operations and financial condition; (x) 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; (xi) Russia's recent invasion of Ukraine, and the international community's response, have created substantial political and economic disruption, uncertainty, and risk. For further information regarding risks and uncertainties associated with Progress' business, please refer to Part II, Item 1A (Risk Factors) in our Quarterly Report on Form 10-Q, as filed with the SEC on April 7, 2022; and in Part I, Item 1A (Risk Factors) in our 2021 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.

Overview

Progress Software Corporation ("Progress," the "Company," "we," "us," or "our") is dedicated to propelling business forward in a technology-driven world. As the trusted provider of the leading products to develop, deploy and manage high-impact applications, Progress enables customers to develop the applications and experiences the need, deploy where and how they want and manage it all safely and securely. Beginning in the second quarter of fiscal year 2021, we operate as one operating segment.

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 need to build, deploy, and manage 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 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 and high levels of profitability.

Total Growth Strategy Driven by Accretive M&A. We are pursuing a total growth strategy driven by accretive acquisitions of businesses within the infrastructure software space, with products that appeal to both IT organizations and individual developers. These acquisitions must meet strict financial and other criteria, which help further our goal to provide significant stockholder returns by providing scale and increased cash flows. In April 2019, we acquired Ipswitch, Inc.; in October 2020, we acquired Chef Software, Inc.; and in November 2021, we acquired Kemp Technologies. These acquisitions met our strict financial criteria.

Multi-Faceted Capital Allocation Approach. Our capital allocation policy emphasizes accretive M&A, which allows us to expand our business and drive significant stockholder returns, and utilizes dividends and share repurchases to return capital to stockholders. We intend to repurchase our shares in sufficient quantities to offset dilution from our equity plans. Lastly, we return a significant portion of our annual cash flows from operations to stockholders in the form of dividends.

In the first six months of 2022, we repurchased and retired 1.1 million shares of our common stock for $51.5 million. As of May 31, 2022, there was $103.5 million remaining under share repurchase authorization. The timing and amount of any shares repurchased will be determined by management based on its evaluation of market conditions and other factors, and the Board of Directors may choose to suspend, expand or discontinue the repurchase program at any time.

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 annually in fiscal years 2017, 2018 and 2019. On September 22, 2020, our Board of Directors approved an additional increase of 6% to our quarterly cash dividend from $0.165 to $0.175 and declared a quarterly dividend of $0.175 per share of common stock. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

We will continue to pursue acquisitions meeting our financial criteria and 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 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 recent volatility in the global economy, our revenue results in the second fiscal quarter of 2022 were impacted by fluctuations in foreign currency exchange rates.

Results of Operations

Revenue

	Three Months Ended		% Change	
(In thousands)	May 31, 2022	May 31, 2021	As Reported	Constant Currency
Revenue	$ 148,747	$ 122,488	21 %	24 %

	Six Months Ended		% Change	
(In thousands)	May 31, 2022	May 31, 2021	As Reported	Constant Currency
Revenue	$ 293,669	$ 243,768	20 %	23 %

Total revenue increased in both the second fiscal quarter and six month period ended May 31, 2022 as compared to the same periods last year primarily due to our acquisition of Kemp in the fourth quarter of fiscal year 2021, as well as increases in our DataDirect and Chef product offerings. These increases were partially offset by the negative impact of foreign exchange on license and maintenance revenue in our EMEA region.

Software License Revenue

	Three Months Ended		% Change	
(In thousands)	May 31, 2022	May 31, 2021	As Reported	Constant Currency
Software licenses	$ 44,814	$ 30,107	49 %	53 %
As a percentage of total revenue	*30 %*	*25 %*		

	Six Months Ended		% Change	
(In thousands)	May 31, 2022	May 31, 2021	As Reported	Constant Currency
Software licenses	$ 87,564	$ 63,424	38 %	41 %
As a percentage of total revenue	*30 %*	*26 %*		

Software license revenue increased in both the second quarter and first six months of fiscal year 2022 as compared to the same periods last year primarily due to our acquisition of Kemp and increases in license sales in our DataDirect product offerings.

Maintenance and Services Revenue

	Three Months Ended		% Change	
(In thousands)	May 31, 2022	May 31, 2021	As Reported	Constant Currency
Maintenance	$ 91,331	$ 80,069	14 %	17 %
As a percentage of total revenue	*61 %*	*65 %*		
Services	12,602	12,312	2 %	4 %
As a percentage of total revenue	*9 %*	*10 %*		
Total maintenance and services revenue	$ 103,933	$ 92,381	13 %	15 %
As a percentage of total revenue	*70 %*	*75 %*		

	Six Months Ended		% Change	
(In thousands)	May 31, 2022	May 31, 2021	As Reported	Constant Currency
Maintenance	$ 181,294	$ 157,046	15 %	18 %
As a percentage of total revenue	*62 %*	*64 %*		
Services	24,811	23,298	6 %	8 %
As a percentage of total revenue	*8 %*	*10 %*		
Total maintenance and services revenue	$ 206,105	$ 180,344	14 %	16 %
As a percentage of total revenue	*70 %*	*74 %*		

Maintenance revenue increased in the second quarter and first six months of fiscal year 2022 as compared to the same periods last year primarily due to our acquisition of Kemp and increased maintenance revenue from our Chef product offerings.

Our Ipswitch and DevTools product offerings also contributed to the year to date increase in maintenance revenue. Services revenue increased in the second quarter and first six months of fiscal year 2022 as compared to the same periods last year primarily due to increased services revenue from our OpenEdge and Ipswitch product offerings. The maintenance and services increases were partially offset by the negative impact of foreign exchange in our EMEA region.

Revenue by Region

(In thousands)	Three Months Ended May 31, 2022	Three Months Ended May 31, 2021	% Change As Reported	% Change Constant Currency
North America	$ 85,394	$ 71,094	20 %	20 %
As a percentage of total revenue	*58 %*	*58 %*		
Europe, the Middle East and Africa ("EMEA")	$ 49,634	$ 41,321	20 %	28 %
As a percentage of total revenue	*33 %*	*34 %*		
Latin America	$ 4,678	$ 3,753	25 %	17 %
As a percentage of total revenue	*3 %*	*3 %*		
Asia Pacific	$ 9,041	$ 6,320	43 %	47 %
As a percentage of total revenue	*6 %*	*5 %*		

(In thousands)	Six Months Ended May 31, 2022	Six Months Ended May 31, 2021	% Change As Reported	% Change Constant Currency
North America	$ 163,487	$ 142,599	15 %	15 %
As a percentage of total revenue	*56 %*	*58 %*		
Europe, the Middle East and Africa ("EMEA")	$ 103,336	$ 81,561	27 %	33 %
As a percentage of total revenue	*35 %*	*34 %*		
Latin America	$ 8,561	$ 7,246	18 %	15 %
As a percentage of total revenue	*3 %*	*3 %*		
Asia Pacific	$ 18,285	$ 12,362	48 %	52 %
As a percentage of total revenue	*6 %*	*5 %*		

Total revenue generated in North America increased $14.3 million and $20.9 million in the second quarter and first six months of fiscal year 2022, respectively. The increases were primarily due to our acquisition of Kemp, as well as increases from our DataDirect and Chef product offerings. The increase in revenue generated in EMEA was primarily due to our acquisition of Kemp, as well as increased revenue from Chef, partially offset by a negative impact of foreign exchange. The increases in revenue generated in both Latin America and Asia Pacific were due to our acquisition of Kemp, as well as increased revenue from our OpenEdge product offerings.

In the first six months of fiscal year 2022 revenue generated in markets outside North America represented 44% of total revenue compared to 45% of total revenue on a constant currency basis. In the first six months of fiscal year 2021 revenue generated in markets outside North America represented 42% of total revenue at both actual rates and on a constant currency basis.

Cost of Software Licenses

	Three Months Ended				Six Months Ended			
(In thousands)	May 31, 2022	May 31, 2021	Change		May 31, 2022	May 31, 2021	Change	
Cost of software licenses	$ 2,583	$ 1,038	$ 1,545	149 %	$ 5,192	$ 2,189	$ 3,003	137 %
As a percentage of software license revenue	*6 %*	*3 %*			*6 %*	*3 %*		
As a percentage of total revenue	*2 %*	*1 %*			*2 %*	*1 %*		

Cost of software licenses consists primarily of costs of royalties, electronic software distribution, duplication, and packaging. Cost of software licenses as a percentage of software license revenue varies from period to period depending upon the relative product mix. The year over year increase is due to our acquisition of Kemp in the fourth quarter of fiscal year 2021.

Cost of Maintenance and Services

	Three Months Ended				Six Months Ended			
(In thousands)	May 31, 2022	May 31, 2021	Change		May 31, 2022	May 31, 2021	Change	
Cost of maintenance and services	$ 15,801	$ 14,673	$ 1,128	8 %	$ 30,946	$ 27,992	$ 2,954	11 %
As a percentage of maintenance and services revenue	*15 %*	*16 %*			*15 %*	*16 %*		
As a percentage of total revenue	*10 %*	*12 %*			*10 %*	*11 %*		
Components of cost of maintenance and services:								
Personnel related costs	$ 11,034	$ 10,038	$ 996	10 %	$ 21,838	$ 19,577	$ 2,261	12 %
Contractors and outside services	3,254	3,457	(203)	(6)%	6,222	6,035	187	3 %
Hosting and other	1,513	1,178	335	28 %	2,886	2,380	506	21 %
Total cost of maintenance and services	$ 15,801	$ 14,673	$ 1,128	8 %	$ 30,946	$ 27,992	$ 2,954	11 %

Cost of maintenance and services consists primarily of costs of providing customer support, consulting, and education. The increases in all periods were primarily due to increased headcount and hosting costs resulting from our acquisition of Kemp.

Amortization of Intangibles

	Three Months Ended			Six Months Ended		
(In thousands)	May 31, 2022	May 31, 2021	% Change	May 31, 2022	May 31, 2021	% Change
Amortization of intangibles	$ 5,573	$ 3,599	55 %	$ 11,031	$ 7,120	55 %
As a percentage of total revenue	*4 %*	*3 %*		*4 %*	*3 %*	

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 increases in both periods shown were due to the acquisition of Kemp.

Gross Profit

	Three Months Ended			Six Months Ended		
(In thousands)	May 31, 2022	May 31, 2021	% Change	May 31, 2022	May 31, 2021	% Change
Gross profit	$ 124,790	$ 103,178	21 %	$ 246,500	$ 206,467	19 %
As a percentage of total revenue	*84 %*	*84 %*		*84 %*	*85 %*	

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

Sales and Marketing

(In thousands)	Three Months Ended May 31, 2022	Three Months Ended May 31, 2021	Change		Six Months Ended May 31, 2022	Six Months Ended May 31, 2021	Change	
Sales and marketing	$ 32,704	$ 29,262	$ 3,442	12 %	$ 66,173	$ 58,731	$ 7,442	13 %
As a percentage of total revenue	*22 %*	*24 %*			*23 %*	*24 %*		
Components of sales and marketing:								
Personnel related costs	$ 27,755	$ 25,248	$ 2,507	10 %	$ 56,151	$ 51,140	$ 5,011	10 %
Contractors and outside services	759	968	(209)	(22)%	1,579	1,356	223	16 %
Marketing programs and other	4,190	3,046	1,144	38 %	8,443	6,235	2,208	35 %
Total sales and marketing	$ 32,704	$ 29,262	$ 3,442	12 %	$ 66,173	$ 58,731	$ 7,442	13 %

Sales and marketing expenses increased in both periods shown, primarily due to increased personnel related costs associated with our acquisition of Kemp, as well as increases in marketing and sales events costs.

Product Development

(In thousands)	Three Months Ended May 31, 2022	Three Months Ended May 31, 2021	Change		Six Months Ended May 31, 2022	Six Months Ended May 31, 2021	Change	
Product development costs	$ 28,643	$ 26,415	$ 2,228	8 %	$ 57,316	$ 50,963	$ 6,353	12 %
As a percentage of total revenue	*19 %*	*22 %*			*20 %*	*21 %*		
Components of product development costs:								
Personnel related costs	$ 27,754	$ 25,225	$ 2,529	10 %	$ 55,233	$ 48,829	$ 6,404	13 %
Contractors and outside services	696	986	(290)	(29)%	1,714	1,711	3	— %
Other product development costs	193	204	(11)	(5)%	369	423	(54)	(13)%
Total product development costs	$ 28,643	$ 26,415	$ 2,228	8 %	$ 57,316	$ 50,963	$ 6,353	12 %

Product development expenses increased in both periods shown primarily due to increased personnel related costs associated with our acquisition of Kemp.

General and Administrative

(In thousands)	Three Months Ended May 31, 2022	Three Months Ended May 31, 2021	Change		Six Months Ended May 31, 2022	Six Months Ended May 31, 2021	Change	
General and administrative	$ 19,207	$ 16,460	$ 2,747	17 %	$ 36,198	$ 29,884	$ 6,314	21 %
As a percentage of total revenue	*13 %*	*13 %*			*12 %*	*12 %*		
Components of general and administrative:								
Personnel related costs	$ 15,751	$ 13,428	$ 2,323	17 %	$ 29,803	$ 25,315	$ 4,488	18 %
Contractors and outside services	2,262	2,055	207	10 %	4,329	3,515	814	23 %
Other general and administrative costs	1,194	977	217	22 %	2,066	1,054	1,012	96 %
Total cost of general and administrative	$ 19,207	$ 16,460	$ 2,747	17 %	$ 36,198	$ 29,884	$ 6,314	21 %

General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses increased in both periods shown primarily due to higher personnel costs and contractors and outside services costs associated with our acquisition of Kemp, as well as an increase in other general and administrative costs.

Amortization of Intangibles

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2022	May 31, 2021	% Change	May 31, 2022	May 31, 2021	% Change
Amortization of intangibles	$ 11,892	$ 7,979	49 %	$ 23,614	$ 14,858	59 %
As a percentage of total revenue	*8 %*	*7 %*		*8 %*	*6 %*	

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 in both periods shown due to the addition of Kemp intangible assets, as discussed above.

Restructuring Expenses

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2022	May 31, 2021	% Change	May 31, 2022	May 31, 2021	% Change
Restructuring expenses	$ 143	$ (64)	(323)%	$ 654	$ 1,093	(40)%
As a percentage of total revenue	*— %*	*— %*		*— %*	*— %*	

Restructuring expenses recorded in the second quarter and first six months of fiscal year 2022 relate to the restructuring activities that occurred in the fourth quarters of fiscal years 2021 and 2020 resulting from the acquisitions of Kemp and Chef, respectively. Restructuring expenses recorded in the second quarter and first six months of fiscal year 2021 are comprised mostly of costs related to the Chef restructuring action of 2020. 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			Six Months Ended		
	May 31, 2022	May 31, 2021	% Change	May 31, 2022	May 31, 2021	% Change
Acquisition-related expenses	$ 2,736	$ 844	224 %	$ 3,648	$ 1,240	194 %
As a percentage of total revenue	*2 %*	*1 %*		*1 %*	*1 %*	

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 increased in the second quarter and first six months of fiscal year 2022 due to our pursuit of other acquisition opportunities, as well as our acquisition of Kemp. Acquisition-related expenses in the same periods of fiscal year 2021 were primarily related to the acquisition of Chef.

Gain on Sale of Assets Held for Sale

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2022	May 31, 2021	% Change	May 31, 2022	May 31, 2021	% Change
Gain of sale of assets held for sale	$ (10,770)	$ —	*	$ (10,770)	$ —	*
As a percentage of total revenue	*(7)%*	*— %*		*(4)%*	*— %*	

*not meaningful

In the second quarter of fiscal year 2022, we sold corporate land and building assets previously reported as assets held for sale on our consolidated balance sheet. As the sale price less cost to sell was greater than the carrying value of these assets we recognized a net gain on the sale of approximately $10.8 million in the second quarter of fiscal year 2022.

Income from Operations

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2022	May 31, 2021	% Change	May 31, 2022	May 31, 2021	% Change
Income from operations	$ 40,235	$ 22,282	81 %	$ 69,667	$ 49,698	40 %
As a percentage of total revenue	*27 %*	*18 %*		*24 %*	*20 %*	

Income from operations increased in both periods shown due to increases of revenue, offset by an increase in costs of revenue and operating expenses as shown above.

Other (Expense) Income, Net

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2022	May 31, 2021	% Change	May 31, 2022	May 31, 2021	% Change
Interest expense	$ (3,656)	$ (4,601)	21 %	$ (7,359)	$ (7,115)	(3)%
Interest income and other, net	155	4	*	744	123	505 %
Foreign currency gain (loss), net	111	(621)	118 %	(255)	(878)	71 %
Total other expense, net	$ (3,390)	$ (5,218)	35 %	$ (6,870)	$ (7,870)	13 %
As a percentage of total revenue	*(2)%*	*(4)%*		*(2)%*	*(3)%*	

*not meaningful

Other expense, net, decreased in the second quarter and first six months of fiscal year 2022 as compared to the same periods last year primarily due to decreased foreign currency loss, net, in both periods, as well as higher interest income and other, net, which resulted from the recognition of grant income during the first quarter of fiscal year 2022. Interest expense decreased in the second quarter of fiscal year 2022 as compared to the same period last year due to decreased interest expense on our convertible senior notes resulting from the adoption of ASU 2020-06. Refer to Note 1, Basis of Presentation for further details on the impact of adoption. The decrease in interest expense on our convertible senior notes was offset by increased interest expense on our term loan, which was amended in the first quarter of fiscal year 2022. Refer to Note 8, Debt. for further details on the impact of the amendment.

Provision for Income Taxes

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2022	May 31, 2021	% Change	May 31, 2022	May 31, 2021	% Change
Provision for income taxes	$ 7,735	$ 3,507	121 %	$ 13,233	$ 9,310	42 %
As a percentage of total revenue	*5 %*	*3 %*		*5 %*	*4 %*	

Our effective tax rate was 21% in the second fiscal quarter of both 2022 and 2021. There were no significant discrete tax items in the second fiscal quarter of either 2022 or 2021.

Net Income

(In thousands)	Three Months Ended			Six Months Ended		
	May 31, 2022	May 31, 2021	% Change	May 31, 2022	May 31, 2021	% Change
Net income	$ 29,110	$ 13,557	115 %	$ 49,564	$ 32,518	52 %
As a percentage of total revenue	*20 %*	*11 %*		*17 %*	*13 %*	

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)

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 GAAP revenue and deferred revenue and is not intended to be combined with or to replace, not be superior to, 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. All periods are reported in constant currency, using current year budgeted exchange rates.

Our ARR was $486.0 million and $432.0 million as of May 31, 2022 and 2021, respectively, which is an increase of 12.5% year-over-year. The growth in our ARR is primarily driven by the acquisition of Kemp.

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 have generally ranged between 100% and 102% for all periods presented. Our high net dollar retention rates illustrate our predictable and durable top line performance.

Liquidity and Capital Resources

Cash, Cash Equivalents and Short-Term Investments

(In thousands)	May 31, 2022	November 30, 2021
Cash and cash equivalents	$ 224,863	$ 155,406
Short-term investments	1,050	1,967
Total cash, cash equivalents and short-term investments	$ 225,913	$ 157,373

The increase in cash, cash equivalents and short-term investments of $68.5 million from the end of fiscal year 2021 was due to cash inflows from operations of $112.4 million, proceeds from the sale of long-lived assets of $26.0 million, proceeds from the issuance of debt of $7.5 million, and $2.4 million in cash received from the issuance of common stock. These cash inflows were offset by repurchases of common stock of $51.5 million, dividend payments of $15.6 million, the effect of exchange rates on cash of $5.2 million, payments of debt obligations of $3.4 million, payments of issuance costs for long-term debt of $2.0 million, and purchases of property and equipment of $2.0 million. Except as described below, there are no limitations on our ability to access our cash, cash equivalents and short-term investments.

As of May 31, 2022, $56.1 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 million to $250 million. In the six months ended May 31, 2022 and May 31, 2021, we repurchased and retired 1.1 million shares for $51.5 million and 0.8 million shares for $35.0 million, respectively. The shares were repurchased in both periods as part of our Board of Directors authorized share repurchase program. As of May 31, 2022, there was $103.5 million remaining under the current authorization.

Dividends

We began paying quarterly cash dividends to Progress stockholders in December 2016, and have paid a quarterly cash dividend since that time. On June 21, 2022, our Board of Directors declared a quarterly dividend of $0.175 per share of common stock that will be paid on September 15, 2022 to stockholders of record as of the close of business on September 1, 2022. Future declarations of dividends and the establishment of future record and payment dates are subject to the final determination of our Board of Directors.

Restructuring Activities

During the fourth quarter of fiscal year 2021, we restructured our operations in connection with the acquisition of Kemp. This restructuring resulted in a reduction in redundant positions, primarily within administrative functions of Kemp. For the three and six months ended May 31, 2022, we incurred expenses of $0.4 million relating to this restructuring. The expenses are recorded as restructuring expenses in the consolidated statements of operations. 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 2022, but we do not expect these costs to be material. Cash disbursements for expenses incurred to date under this restructuring are expected to be made through fiscal year 2022. Accordingly, the balance of the restructuring liability of $0.5 million is included in other accrued liabilities on the consolidated balance sheet at May 31, 2022.

During the fourth quarter of fiscal year 2020, we restructured our operations in connection with the acquisition of Chef (Note 7). This restructuring resulted in a reduction in redundant positions, primarily within administrative functions of Chef. For the three and six months ended May 31, 2022, we incurred expenses of $0.1 million and $0.2 million, respectively, relating to this restructuring. Cash disbursements for expenses incurred to date under this restructuring are expected to be made through fiscal year 2027. Accordingly, the balance of the restructuring liability of $4.2 million is included in short-term and long-term lease liabilities on the condensed consolidated balance sheet at May 31, 2022. 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 2022, but we do not expect these costs to be material.

Credit Facility

On January 25, 2022, we entered into an amended and restated credit agreement (the "Credit Agreement") providing for a $275.0 million secured term loan and a $300.0 million secured revolving credit facility. The revolving credit facility may be increased, and new term loan commitments may be entered into, by up to an additional amount up to the sum of (A) the greater of (x) $260.0 million and (y) 100% of our consolidated EBITDA and (B) an unlimited additional amount subject to pro forma compliance with a consolidated senior secured net leverage ratio of no greater than 3.75 to 1.00 if the existing or additional lenders are willing to make such increased commitments. This new credit facility replaces our prior secured credit facility dated April 30, 2019.

The amount of the term loan outstanding under our prior secured credit facility was incorporated into the amended and restated credit facility.

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. We expect to use the revolving credit facility for general corporate purposes, which may include the acquisitions of other businesses, and may also use it for working capital.

Interest rates for the Credit Agreement are determined by reference to a term benchmark rate or a base rate at our option and would range from 1.00% to 2.00% above the term benchmark rate or would range from 0.00% to 1.00% above the defined base rate for base rate borrowings, in each case based upon our leverage ratio. Additionally, we may borrow certain foreign currencies at rates set in the same range above the respective term benchmark rates for those currencies, based on our leverage ratio. We will incur a quarterly commitment fee on the undrawn portion of the revolving credit facility, ranging from 0.125% to 0.275% per annum, based upon our leverage ratio. At closing of the revolving credit facility, the applicable interest rate and commitment fee are at the third lowest rate in each range.

The Credit Agreement matures on the earlier of (i) January 25, 2027 and (ii) the date that is 181 days prior to the maturity date of our Notes subject to certain conditions as set forth in the amended credit agreement, including the repayment of the Notes, the refinancing of the Notes including a maturity date that is at least 181 days after January 25, 2027 and compliance with a liquidity test, when all amounts outstanding will be due and payable in full. The revolving credit facility does not require amortization of principal. The term loan requires repayment of principal at the end of each fiscal quarter, beginning with the fiscal quarter ending February 28, 2022. The first eight payments are in the principal amount of $1.7 million each, the following four payments are in the principal amount of $3.4 million each, the following eight payments are in the principal amount of $5.2 million each and 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.

We are the sole borrower under the credit facility. Our obligations under the amended credit agreement are guaranteed by each of our material domestic subsidiaries and are secured by substantially all of our assets and such 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 amended credit agreement. Future material domestic subsidiaries will be required to guaranty our obligations under the amended credit agreement, and to grant security interests in substantially all of their assets to secure such obligations. The amended credit agreement generally prohibits, with certain exceptions, any other liens on our assets and the assets of our subsidiaries, subject to certain exceptions as described in the amended credit agreement.

The amended credit agreement contains customary affirmative and negative covenants, including covenants that limit or restrict us and our subsidiaries' 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 its 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 interest charge coverage ratio and a consolidated total net leverage ratio.

The amended credit agreement includes customary events of default that include, among other things, non-payment defaults, covenant defaults, inaccuracy of representations and warranties, cross default to material indebtedness, bankruptcy and insolvency defaults, material judgment defaults, ERISA defaults and a change of control default. The occurrence of an event of default could result in the acceleration of the obligations under the amended credit agreement.

The outstanding balance of the term loan as of May 31, 2022 was $271.6 million, with $6.9 million due in the next 12 months. 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 May 31, 2022 was 2.63%. As of May 31, 2022, there were no amounts outstanding under the revolving line of credit and $2.1 million of letters of credit outstanding (Note 8).

Convertible Senior Notes

In April 2021, we issued, in a private placement, Convertible Senior Notes (the "Notes") with an aggregate principal amount of $325 million, due April 15, 2026, unless earlier repurchased, redeemed or converted. There are no required principal payments prior to the maturity of the Notes. In addition, the Company granted the initial purchasers of the Notes an option to purchase up to an additional $50.0 million aggregate principal amount of the Notes, of which $35 million of additional Notes were purchased for total proceeds of $360 million. The Notes bear interest at an annual rate of 1%, payable semi-annually in arrears on April 15 and October 15 of each year, beginning on October 15, 2021. The adoption of ASU 2020-06 had no impact on the Company's debt covenant compliance under the current arrangement. Refer to Note 8: Debt for further discussion.

Cash Flows From Operating Activities

	Six Months Ended	
(In thousands)	May 31, 2022	May 31, 2021
Net income	$ 49,564	$ 32,518
Non-cash reconciling items included in net income	51,413	44,960
Changes in operating assets and liabilities	11,376	21,900
Net cash flows from operating activities	$ 112,353	$ 99,378

In the first six months of fiscal year 2022, operating cash flows increased due to the acquisition of Kemp and particularly strong collections of our receivables, partially offset by higher compensation related payments as compared to the same period in 2021. Our gross accounts receivable as of May 31, 2022, decreased by $34.8 million from the end of fiscal year 2021 and our days sales outstanding (DSO) in accounts receivable decreased to 39 days from 44 days in the second fiscal quarter of 2021 due to the timing of billings and collections.

Cash Flows From Investing Activities

	Six Months Ended	
(In thousands)	May 31, 2022	May 31, 2021
Net investment activity	$ 900	$ 2,650
Purchases of property and equipment	(1,979)	(2,116)
Proceeds from sale of long-lived assets, net	25,998	—
Decrease in escrow receivable and other	—	2,130
Net cash flows from investing activities	$ 24,919	$ 2,664

Net cash outflows and inflows of our net investment activity are generally a result of the timing of our purchases and maturities of securities, which are classified as cash equivalents or short-term securities. In the second quarter of fiscal year 2022 we received $26.0 million net proceeds from the sale of long-lived assets. We also purchased $2.0 million of property and equipment in the first six months of fiscal year 2022, as compared to $2.1 million in the first six months of fiscal year 2021.

Cash Flows (Used in) From Financing Activities

(In thousands)	Six Months Ended May 31, 2022	Six Months Ended May 31, 2021
Proceeds from stock-based compensation plans	$ 7,771	$ 6,300
Repurchases of common stock	(51,473)	(35,000)
Proceeds from the issuance of debt	7,474	—
Payment of debt issuance costs	(1,957)	(904)
Payment of principal on long-term debt	(3,435)	(106,025)
Proceeds from issuance of senior convertible notes, net of issuance costs of $9.9 million	—	350,100
Purchase of capped calls	—	(43,056)
Dividend payments to stockholders	(15,573)	(15,617)
Other financing activities	(5,405)	(2,373)
Net cash flows (used in) from financing activities	$ (62,598)	$ 153,425

During the first six months of fiscal year 2022, we received $5.5 million in net proceeds from the issuance of debt. During the first six months of fiscal year 2021, we received $349.2 million in net proceeds from the issuance of convertible senior notes and paid $43.1 million to purchase capped calls in connection with the convertible note offering. We also received $7.8 million from the exercise of stock options and the issuance of shares under our employee stock purchase plan as compared to $6.3 million in the first six months of fiscal year 2021. Further, we repurchased $51.5 million of our common stock under our share repurchase plan compared to $35.0 million in the same period of the prior year. We also made payments on our long-term debt of $3.4 million in the first six months of fiscal year 2022 compared to $106.0 million in the same period of the prior year (including a $98.5 million repayment on the revolving line of credit). Finally, we made dividend payments of $15.6 million to our stockholders during the first six months of both fiscal year 2022 and 2021.

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

Cash from operations in fiscal year 2022 could be affected by various risks and uncertainties, including, but not limited to, the effects of COVID-19 and other risks detailed in Part II, Item 1A titled “Risk Factors.” While the pandemic has not negatively impacted our liquidity and capital resources to date, it has led to increased disruption and volatility in capital markets and credit markets generally which could adversely affect our liquidity and capital resources in the future. However, based on our current business plan, 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 cash requirements for the foreseeable future. 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.

Legal and Other Regulatory Matters

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

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the second quarter of fiscal year 2022, 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 2021 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 May 31, 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there were no changes in our internal control over financial reporting during the fiscal quarter ended May 31, 2022 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 currently does not believe that the outcome of any of these legal matters will have a material effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves certain risks and uncertainties, some of which are beyond our control. In addition to the information provided in this report, please refer to Part I, Item 1A. *Risk Factors* in our Annual Report on Form 10-K for the fiscal year ended November 30, 2021 and Part II, Item 1A: *Risk Factors* in our Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2022 for a more complete discussion regarding certain factors that could materially affect our business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Items 2(a) and 2(b) are not applicable.

(c) Stock Repurchases

Information related to the repurchases of our common stock by month in the second quarter of fiscal year 2022 is as follows (in thousands, except per share and share data):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs[(1)]
March 2022	33,394	$ 46.70	33,394	$ 128,440
April 2022	533,799	46.65	533,799	103,527
May 2022	—	—	—	103,527
Total	567,193	$ 46.65	567,193	$ 103,527

(1) In January 2020, our Board of Directors increased the total share repurchase authorization from $75.0 million to $250.0 million. As of May 31, 2022, there was $103.5 million remaining under this authorization.

Item 6. Exhibits

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

Exhibit No.	Description
31.1*	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Yogesh K. Gupta
31.2*	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act – Anthony Folger
32.1**	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
101*	The following materials from Progress Software Corporation's Quarterly Report on Form 10-Q for the three and six months ended May 31, 2022, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of May 31, 2022 and November 30, 2021; (ii) Condensed Consolidated Statements of Income for the three and six months ended May 31, 2022 and 2021; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended May 31, 2022 and 2021; (iv) Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended May 31, 2022 and 2021; (v) Condensed Consolidated Statements of Cash Flows for the six months ended May 31, 2022 and 2021; 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

SIGNATURES

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

PROGRESS SOFTWARE CORPORATION
(Registrant)

Dated:	July 7, 2022	/s/ YOGESH K. GUPTA
		Yogesh K. Gupta President and Chief Executive Officer (Principal Executive Officer)
Dated:	July 7, 2022	/s/ ANTHONY FOLGER
		Anthony Folger Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Dated:	July 7, 2022	/s/ DOMENIC LOCOCO
		Domenic LoCoco Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

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: July 7, 2022

/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: July 7, 2022

/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 May 31, 2022, 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: July 7, 2022	Date: July 7, 2022