

PROGRESS SOFTWARE CORP /MA
Form 10-K
January 29, 2013

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended November 30, 2012
or

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

Commission File Number: 0-19417

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

MASSACHUSETTS
(State or other jurisdiction of
incorporation or organization)

04-2746201
(I.R.S. Employer
Identification No.)

14 Oak Park
Bedford, Massachusetts 01730
(Address of Principal Executive Offices)

Telephone Number: (781) 280-4000

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock \$.01 par value	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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 May 31, 2012 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$1,200,000,000.

As of January 22, 2013, there were 57,863,000 common shares outstanding.

Documents Incorporated By Reference

Portions of the definitive Proxy Statement in connection with the 2013 Annual Meeting of Shareholders are incorporated by reference into Part III.

PROGRESS SOFTWARE CORPORATION
 FORM 10-K
 FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2012
 INDEX

PART I

Item 1.	<u>Business</u>	4
Item 1A.	<u>Risk Factors</u>	8
Item 1B.	<u>Unresolved Staff Comments</u>	13
Item 2.	<u>Properties</u>	13
Item 3.	<u>Legal Proceedings</u>	13
Item 4.	<u>Mine Safety Disclosures</u>	13

PART II

Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	13
Item 6.	<u>Selected Financial Data</u>	15
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 8.	<u>Financial Statements and Supplementary Data</u>	39
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	78
Item 9A.	<u>Controls and Procedures</u>	78
Item 9B.	<u>Other Information</u>	80

PART III

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	80
Item 11.	<u>Executive Compensation</u>	83
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	83
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	84
Item 14.	<u>Principal Accounting Fees and Services</u>	84

PART IV

Item 15.	<u>Exhibits, Financial Statement Schedules</u>	84
	<u>Signatures</u>	87

CAUTIONARY STATEMENTS

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. This Form 10-K, 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 “expect,” “estimate,” “believe,” “are planning” or “plan to” are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are various factors that could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors are more fully described in Item 1A of this Form 10-K under the heading “Risk Factors.” 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.

PART I

Item 1. Business

Overview

We are a global software company that simplifies and enables the development, deployment and management of business applications on-premise or on any Cloud, on any platform and on any device with minimal IT complexity and low total cost of ownership. Our comprehensive portfolio of products provides leading solutions for enterprise integration, data interoperability and application development, including SaaS enablement and delivery in the Cloud. Our solutions are used across a variety of industries.

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

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

Fiscal Year 2012 Highlights

In April 2012, we announced a new strategic plan (the "Plan") in which we intend to become a leading provider of next-generation, context-aware application development and deployment platform in the Cloud for the Application Platform-as-a-Service (aPaaS) market by investing in our OpenEdge, DataDirect and Decision Analytics product lines ("Core" product lines) and integrating them into a single, cohesive offering. The Plan is being executed in two phases. In the first phase, we are investing in our Core product lines and making them more Cloud-ready. As part of this phase, we are also divesting the remaining product lines which are not considered core to our business, which include Actional, Artix, DataXtend, FuseSource, ObjectStore, Orbacus, Orbix, Savvion, Shadow and Sonic. In the second phase of the Plan, by unifying the product capabilities of our Core product lines, we will refine and enhance our next generation, feature-rich application development and deployment solution targeting the aPaaS market.

In fiscal year 2012 and the first quarter of fiscal year 2013, we entered into definitive purchase and sale agreements to divest all of our non-Core product lines. The FuseSource product line was sold to Red Hat, Inc. in September 2012, the Shadow product line was sold to Rocket Software, Inc. in October 2012, and the investment arm of Trilogy Enterprises purchased Actional, DataXtend, ObjectStore, Savvion and Sonic in December 2012. We expect to close on the sale of Artix, Orbacus and Orbix to a subsidiary of Micro Focus International plc in the first quarter of fiscal year 2013. The aggregate purchase price for all divestitures is approximately \$130.0 million.

During 2012, we also executed on cost reductions as part of the Plan. In fiscal year 2012, we recorded restructuring expenses of \$19.0 million in furtherance of the cost reduction plans, of which \$10.9 million is included in discontinued operations. The charge included \$16.4 million in severance and other employee benefits associated with the reduction of 11% of our workforce.

As part of the Plan, our Board of Directors authorized us to repurchase \$350.0 million of our common stock through November 2013. In October 2012, under the authorization, we announced the adoption of a 10b5-1 plan to repurchase up to \$250.0 million of our common stock through June 30, 2013, or earlier, and have repurchased 4.5 million shares of our common stock for \$88.4 million through November 30, 2012. As of January 22, 2013, we have repurchased 7.6 million shares of our common stock for \$155.3 million.

As part of the Plan, we changed the structure of our internal organization and the way we manage our business. Our internal reporting includes two segments: (1) the Core segment, which includes our Core product lines, and (2) the non-Core segment, which includes the non-Core product lines. For financial information relating to segments and international operations, see Note 17 of the Consolidated Financial Statements appearing in this Annual Report on Form 10-K.

Our Products

Progress OpenEdge

Progress OpenEdge is a complete development platform to build dynamic, business process-enabled applications for secure deployment across any platform, any mobile device and any Cloud. OpenEdge is a comprehensive platform for the rapid development and deployment of business applications that are standards-based and service-oriented and OpenEdge-based applications can be deployed and managed over many computer platforms as well as under a SaaS model. OpenEdge provides a unified environment comprising development tools, application servers, application management tools, an embedded database, and the capability to connect and integrate with other applications and data sources. The primary products included in this product set are OpenEdge Studio, OpenEdge RDBMS, OpenEdge Application Server, OpenEdge DataServers, OpenEdge Management and OpenEdge Replication.

Progress DataDirect

Progress DataDirect Connect products provide data connectivity components that use industry-standard interfaces to connect applications running on various platforms to any major database, for both corporate IT organizations and software vendors. With components embedded in the products of over 250 software companies and in the applications of thousands of large enterprises, the DataDirect Connect product set is a global leader in the data connectivity market. The primary products included in this product set are ODBC drivers, JDBC drivers and ADO.NET providers.

Progress Decision Analytics

Progress Decision Analytics is comprised of Progress Apama, Corticon and Control Tower, which are offered individually or as an integrated platform to automate business decision-making.

Progress Apama offers flexible and powerful complex event processing (CEP) capabilities and broad market connectivity. Apama is one of the leading platforms in capital markets for building high frequency trading applications. Apama also gives firms the tools for creating, testing and deploying unique strategies for low latency, high throughput applications including algorithmic trading, market aggregation, smart order routing, market surveillance and monitoring, and real-time risk management. CEP helps businesses achieve operational responsiveness by uncovering events or event patterns in data streams that signal new opportunities, critical threats, or changing conditions or factors that impact the organization. With Apama, business events can be correlated and analyzed across multiple data streams in real-time.

Progress Corticon enables organizations to make better, faster decisions by automating business rules. Corticon's patented "no-coding" rules engine automates sophisticated decision management, empowering organizations to increase

efficiencies, operate more responsively and reduce rule development and change cycles.

The Progress Control Tower is a unified, interactive business control panel that gives business users the tools needed to view what is happening within their business and the ability to assess how to improve it. This fully configurable, feature-rich, interactive framework delivers visibility into key performance indicators (KPIs) and the ability to raise alerts and act on them in real-time. Users can also create and model business processes that can then be monitored and improved dynamically.

Product Development

Most of our products have been developed by our internal product development staff or the internal staffs of acquired companies. We believe that the features and performance of our products are competitive with those of other available development and deployment tools and that none of the current versions of our products are approaching obsolescence. However, we believe that significant investments in new product development and continuing enhancements of our current products will be required for us to maintain our competitive position and to successfully execute on our Plan.

As of November 30, 2012, we have five primary development offices in North America, three primary development offices in EMEA and three primary development offices in India. We spent \$53.0 million, \$44.9 million, and \$50.1 million in fiscal years 2012, 2011 and 2010, respectively, on product development.

Customers

We market our products globally through channels: directly to end-users and indirectly to application partners (or ISVs), OEMs, and system integrators. Purchasers of our solutions and products through our direct sales force are generally to business managers or IT managers in corporations and governmental agencies. We also market our products through indirect channels, primarily application partners and OEMs who embed our products as part of an integrated solution. We use international distributors in certain locations where we do not have a direct presence.

More than half of our license revenues are derived from indirect channels. No single customer has accounted for more than 10% of our total revenue in any of our last three fiscal years.

Application Partners

Our application partners cover a broad range of markets, offer an extensive library of business applications and are a source of follow-on revenue. We have kept entry costs, consisting primarily of the initial purchase of development licenses, low to encourage a wide variety of application partners to build applications. If an application partner succeeds in marketing its applications, we obtain follow-on revenue as the application partner licenses our deployment products to allow its application to be installed and used by customers. We offer a subscription model alternative to the traditional perpetual license model for application partners who have chosen to enable their business applications under a SaaS platform.

Original Equipment Manufacturers

We enter into arrangements with OEMs whereby the OEM embeds our products into its solutions, typically either software or technology devices. OEMs typically license the right to embed our products into their solutions and distribute such solutions for initial terms ranging from one to three years. Historically, a significant portion of our OEMs have renewed their agreements upon the expiration of the initial term, although no assurance can be made that these renewals will continue in the future.

Sales and Marketing

We sell our products and solutions through our direct global field operations, which comprises sales, service and support personnel worldwide. Additionally, we sell our products and solutions through independent distributors in certain locations outside North America. We have sold our products and solutions to enterprises in over 180 countries. The global field operations and field marketing groups are organized by region and secondarily by direct and indirect channels. We operate by region in the Americas, EMEA and Asia Pacific. We believe this structure allows us to

maintain direct contact with our customers and support their diverse market requirements. Our international operations provide focused local sales, support and marketing efforts and are able to respond directly to changes in local conditions.

Global field operations personnel are responsible for developing new direct end-user accounts, recruiting new indirect channel partners, managing existing channel partner relationships and servicing existing customers. We actively seek to avoid conflict between the sales efforts of our application partners and our own direct sales efforts. We use our inside sales team to enhance our direct sales efforts and to generate new business and follow-on business from existing customers.

Our marketing personnel conduct a variety of marketing engagement programs designed to create demand for our products, enhance the market readiness of our products, raise the general awareness of our company and our products and solutions, generate leads for the global field operations organization and promote our various products. These programs include press relations, analyst relations, investor relations, digital/web marketing, marketing communications, participation in trade shows

and industry conferences, and production of sales and marketing literature. We also hold global events, as well as regional user events in various locations throughout the world.

Customer Support

Our customer support staff provides telephone and Web-based support to end-users, application developers and OEMs. Customers may purchase maintenance services entitling them to software updates, technical support and technical bulletins. First year maintenance and any subsequent annual renewals are not included with our products and are purchased separately. We provide support to customers primarily through our main regional customer support centers in Bedford, Massachusetts; Morrisville, North Carolina; Rotterdam, The Netherlands; and Melbourne, Australia. Local technical support for specific products is provided in certain other countries as well.

Professional Services

Our global professional services organization delivers business solutions for customers through a combination of products, consulting and education. Our consulting organization offers project management, implementation services, custom development, programming and other services. Our consulting organization also provides services to Web-enable existing applications or to take advantage of the capabilities of new product releases. Our education organization offers numerous training options, from traditional instructor-led courses to advanced learning modules available via the web or on CDs.

Competition

The computer software industry is intensely competitive. We experience significant competition from a variety of sources with respect to all of our products. Factors affecting competition in the markets we serve include product performance in complex applications, application solutions, vendor experience, ease of integration, price, training and support.

We compete in various markets with a number of entities, such as IBM Corporation, Microsoft Corporation and Oracle Corporation, which include database vendors offering development tools in conjunction with their database systems, numerous enterprise infrastructure vendors providing developmental toolkits, data integration technologies, messaging products, event processing products, business process management products and business visibility tools. We believe that IBM Corporation, Microsoft Corporation and Oracle Corporation currently dominate the database market and that IBM currently dominates the messaging market. We do not believe that there is a dominant vendor in the other infrastructure software markets. Some of our competitors have greater financial, marketing or technical resources than we have and may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than we can. Increased competition could make it more difficult for us to maintain our revenue and market presence.

Copyrights, Trademarks, Patents and Licenses

We rely on a combination of contractual provisions and copyright, patent, trademark and trade secret laws to protect our proprietary rights in our products. We generally distribute our products under software license agreements that grant customers a perpetual nonexclusive license to use our products and contain terms and conditions prohibiting the unauthorized reproduction or transfer of our products. We also distribute our products through various channel partners, including application partners, OEMs and system integrators. We also license our products under term or subscription arrangements. In addition, we attempt to protect our trade secrets and other proprietary information through agreements with employees, consultants and channel partners. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful.

We seek to protect the source code of our products as trade secrets and as unpublished copyrighted works. We hold numerous patents covering portions of our products. We also have several patent applications for some of our other product technologies. Where possible, we seek to obtain protection of our product names and service offerings through trademark registration and other similar procedures throughout the world.

We believe that due to the rapid pace of innovation within our industry, factors such as the technological and creative skills of our personnel are as important in establishing and maintaining a leadership position within the industry as are the various legal protections of our technology. In addition, we believe that the nature of our customers, the importance of our products to them and their need for continuing product support may reduce the risk of unauthorized reproduction, although no assurances can be made in this regard.

Employees

As of November 30, 2012, we had 1,395 employees worldwide, including 379 in sales and marketing, 280 in customer support and services, 560 in product development and 176 in administration. Subsequent to November 30, 2012, approximately 280 employees became employed or will become employed by the buyers of the two non-Core divestitures which have occurred or are expected to occur in the first quarter of fiscal year 2013. The employees are primarily in sales and marketing and product development.

None of our U.S. employees are subject to a collective bargaining agreement. Employees in certain foreign jurisdictions are represented by local workers' councils and/or collective bargaining agreements as may be customary or required in those jurisdictions. We have experienced no work stoppages and believe our relations with employees are good.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, including exhibits, and amendments to those reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at www.progress.com as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission. The information posted on our website is not incorporated into this Annual Report.

Our Code of Conduct is also available on our website. Additional information about this code and amendments and waivers thereto can be found below in Part III, Item 10 of this Annual Report.

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves certain risks and uncertainties, some of which are beyond our control. The risks described below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition and/or operating results.

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

- changes in demand for our products;
- introduction, enhancement or announcement of products by us or our competitors;
- market acceptance of our new products;
- the growth rates of certain market segments in which we compete;
- size and timing of significant orders;
- budgeting cycles of customers;
- mix of distribution channels;
- mix of products and services sold;
 - mix of international and North American revenues;
- fluctuations in currency exchange rates;
- changes in the level of operating expenses;
- the amount of our stock-based compensation;
- changes in management;

- restructuring programs;
- reorganizations of our sales force;
- completion or announcement of acquisitions by us or our competitors;
- customer order deferrals in anticipation of new products announced by us or our competitors; and
- general economic conditions in regions in which we conduct business.

Revenue forecasting is uncertain, and the failure to meet our forecasts could result in a decline in our stock price. Our revenues, particularly new software license revenues, are difficult to forecast. We use a pipeline system to forecast revenues and trends in our business. We monitor the status of potential business and estimate when a customer will make a purchase decision, the dollar amount of the sale and the products or services to be sold. These estimates are aggregated periodically to generate the pipeline. Our pipeline estimates may prove to be unreliable either in a particular quarter or over a longer period of time, in part because the conversion rate of the pipeline into contracts can be difficult to estimate and requires management

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

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

Weakness in the U.S. and international economies may result in fewer sales of our products and may otherwise harm our business. We are subject to the risks arising from adverse changes in global economic conditions, especially those in the U.S., Europe and the Asia Pacific region. The past four years have been characterized by weak global economic conditions, tightening of credit markets and instability in the financial markets, particularly in Europe. If these conditions continue or worsen, customers may delay, reduce or forego technology purchases, both directly and through our application partners and OEMs. This could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition. Further, deteriorating economic conditions could adversely affect our customers and their ability to pay amounts owed to us. Any of these events would likely harm our business, results of operations, financial condition or cash flows.

Our international operations expose us to additional risks, and changes in global economic and political conditions could adversely affect our international operations, our revenue and our net income. In the past few fiscal years, more than half of our total revenue has been generated from sales outside North America. Political and/or financial instability, oil price shocks and armed conflict in various regions of the world can lead to economic uncertainty and may adversely impact our business. If customers' buying patterns, decision-making processes, timing of expected deliveries and timing of new projects unfavorably change due to economic or political conditions, there would be a material adverse effect on our business, financial condition and operating results.

Other potential risks inherent in our international business include:

- longer payment cycles;
- credit risk and higher levels of payment fraud;
- greater difficulties in accounts receivable collection;
- varying regulatory requirements;
- compliance with international and local trade, labor and export control laws;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting bribery and corrupt payments to government officials;
- restrictions on the transfer of funds;

difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;

- reduced or minimal protection of intellectual property rights in some countries;
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses;
- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;
- economic instability in emerging markets; and
- potentially adverse tax consequences.

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

Fluctuations in foreign currency exchange rates could have an adverse impact on our financial condition and results of operations. Changes in the value of foreign currencies relative to the U.S. dollar may adversely affect our results of operations and financial position. We seek to reduce our exposure to fluctuations in exchange rates by entering into foreign exchange option and forward contracts to hedge certain actual and forecasted transactions of selected currencies (mainly in Europe, Brazil, Japan and Australia). Our currency hedging transactions may not be effective in reducing any adverse impact of fluctuations in foreign currency exchange rates. Further, the imposition of exchange or price controls or other restrictions on the conversion of foreign currencies could have a material adverse effect on our business.

Our ability to absorb allocated segment costs, primarily general and administrative expenses, into our Core segment, or otherwise reduce such costs. On April 25, 2012, we announced a new strategic plan, and in the third quarter of fiscal year 2012 we changed the structure of our internal organization and the way we manage our business. As a result, our reportable segments became our Core and non-Core product line groups. Indirect expenses of the product lines, primarily general and administrative expenses, are allocated to the segment operating results. As non-Core product lines are divested, the Core segment will absorb these expenses in periods subsequent to the divestitures. The absorption of these expenses may impact the operating margin of the Core segment.

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

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

We expect to make additional acquisitions or investments in new businesses, products or technologies that involve additional risks, which could disrupt our business or harm our financial condition, results of operations or cash flows. We have made, and expect to continue to make, acquisitions of businesses or investments in companies that offer complementary products, services and technologies. Any acquisitions that we do complete involve a number of risks, including the risks of assimilating the operations and personnel of acquired companies, realizing the value of the acquired assets relative to the price paid, distraction of management from our ongoing businesses and potential product disruptions associated with the sale of the acquired company's products. These factors could have a material adverse effect on our business, financial condition, operating results and cash flows. The consideration we pay for any future acquisitions could include our stock. As a result, future acquisitions could cause dilution to existing shareholders and to earnings per share.

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

In addition, the marketplace for new products is intensely competitive and characterized by low barriers to entry. For example, an increase in market acceptance of open source software may cause downward pricing pressures. As a result, new competitors possessing technological, marketing or other competitive advantages may emerge and rapidly acquire market share. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing their ability to deliver products that better address the needs of our prospective customers. Current and potential competitors may also be more successful than we are in having their products or technologies widely

accepted. We may be unable to compete successfully against current and future competitors, and our failure to do so could have a material adverse effect on our business, prospects, financial condition and operating results.

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

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

The use of open source software in our products may expose us to additional risks. We license certain open source software pursuant to license agreements that require a user who distributes the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. This effectively renders what was previously proprietary software open source software. Many features we may wish to add to our products in the future may be available as open source software and our development team may wish to make use of this software to reduce development costs and speed up the development process. While we carefully monitor the use of all open source software and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product, such use could inadvertently occur. Additionally, if a third party has incorporated certain types of open source software into its software but has failed to disclose the presence of such open source software and we embed that third party software into one or more of our products, we could, under certain circumstances, be required to disclose the source code to our product. This could have a material adverse effect on our business.

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

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

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

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

If our security measures are breached, our products and services may be perceived as not being secure, customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure. Our products and services involve the storage and transmission of our customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation, and potential liability. Our security measures may be breached due to the actions of outside parties, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to our

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

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

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

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

We may be required to reassess our reporting units for goodwill impairment testing purposes, which may trigger the need for additional impairment tests and potential goodwill impairment charges. On April 25, 2012, we announced a new strategic plan in which we will combine our OpenEdge, DataDirect and Decision Analytics product lines into a single, cohesive offering. In the third quarter of fiscal year 2012, we changed the structure of our internal organization and the way we manage our business as part of this plan. However, certain aspects of the organizational change and the way in which we manage our business are still evolving and may continue to change through the implementation of the new strategic plan. Due to this, we may be required to update the evaluation of our reporting unit conclusion in future periods. The evaluation may result in a different reporting unit conclusion, which would require us to test goodwill for impairment. The tests may result in impairment of our goodwill that could have a material effect on our reported results.

We are required to comply with certain financial and operating covenants under our credit facility and any failure to comply with those covenants could cause amounts borrowed under the facility to become immediately due and payable or prevent us from borrowing under the facility. Under the terms of our credit facility, we may borrow up to \$150.0 million (with an accordion feature that allows us to borrow up to an additional \$75.0 million if the existing or additional lenders agree), repay the same in whole or in part and re-borrow at any time through August 15, 2016, at which time any amounts outstanding will be due and payable in full. As of November 30, 2012, there were no amounts outstanding under the revolving line and \$0.3 million of letters of credit outstanding. We may wish to borrow amounts under the facility in the future to support our operations, including for strategic acquisitions.

We are required to comply with specified financial and operating covenants, which may limit our ability to operate our business as we otherwise might operate it. Our failure to comply with any of these covenants or to meet any payment obligations under the facility could result in an event of default which, if not cured or waived, would result in any amounts outstanding, including any accrued interest and unpaid fees, becoming immediately due and payable. We

might not have sufficient working capital or liquidity to satisfy any repayment obligations in the event of an acceleration of those obligations. In addition, if we are not in compliance with the financial and operating covenants at the time we wish to borrow funds, we will be unable to borrow funds.

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

Item 1B. Unresolved Staff Comments

As of the date of this report, we do not have any open comments or communications from the U.S. Securities and Exchange Commission (SEC) related to our financial statements or periodic filings with the SEC.

Item 2. Properties

We own our principal administrative, sales, support, marketing, product development and distribution facilities, which are located in three buildings totaling approximately 258,000 square feet in Bedford, Massachusetts. In addition, we maintain offices in leased facilities in approximately 9 other locations in North America and approximately 23 locations outside North America. The terms of our leases generally range from one to six years. We believe that our facilities are adequate for our current needs and that suitable additional space will be available as needed.

Item 3. Legal Proceedings

We are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material effect on our consolidated financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The following table sets forth, for the periods indicated, the range of high and low sale prices for our common stock. Our common stock trades on the NASDAQ Global Select Market under the symbol "PRGS".

	Fiscal Year Ended		November 30, 2011	
	November 30, 2012		High	Low
	High	Low	High	Low
First quarter	\$24.18	\$17.01	\$31.47	\$25.45
Second quarter	24.76	18.90	30.39	25.83
Third quarter	21.16	17.30	27.23	18.48
Fourth quarter	22.24	17.45	22.45	16.71

We have not declared or paid cash dividends on our common stock and we do not plan to pay cash dividends to our shareholders in the near future. As of December 31, 2012, our common stock was held by approximately 250 shareholders of record.

Information related to our repurchases of our common stock by month in the fourth quarter of fiscal year 2012 is as follows (in thousands, except per 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⁾
September 2012	—	\$—	—	\$350,000
October 2012	1,212	19.33	1,212	326,580
November 2012	3,282	19.79	3,282	261,614
Total	4,494	\$19.67	4,494	\$261,614

In April 2012, the Board of Directors authorized a \$350.0 million return of capital to shareholders in the form of (1) share repurchases through fiscal year 2013, and in October 2012 we launched a 10b5-1 to repurchase up to \$250.0 million of our common stock through June 30, 2013, under the authorization.

Stock Performance Graph and Cumulative Total Return

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the NASDAQ Composite Index and the NASDAQ Computer Index for each of the last five fiscal years ended November 30, 2012, assuming an investment of \$100 at the beginning of such period and the reinvestment of any dividends.

(1) \$100 invested on November 30, 2007 in stock or index, including reinvestment of dividends.

November 30,	2007	2008	2009	2010	2011	2012
Progress Software Corporation	\$100.00	\$67.28	\$76.10	\$121.76	\$96.59	\$95.35
NASDAQ Composite	100.00	57.71	80.59	93.88	98.47	113.13
NASDAQ Computer	100.00	53.72	86.99	102.91	111.20	124.67

Item 6. Selected Financial Data

The following table sets forth selected financial data for the last five fiscal years (in thousands, except per share data):

Year Ended November 30,	2012	2011	2010	2009	2008
Revenue	\$335,205	\$360,704	\$351,610	\$343,907	\$400,314
Income from operations	49,440	101,241	91,476	60,785	91,541
Income from continuing operations	32,604	66,342	62,568	37,404	63,697
Net income	47,444	59,629	48,098	33,280	46,783
Basic earnings per share from continuing operations	0.52	1.01	0.98	0.62	1.03
Diluted earnings per share from continuing operations	0.51	0.98	0.94	0.61	1.00
Cash, cash equivalents and short-term investments	355,217	261,416	322,396	224,121	118,529
Total assets	884,977	864,263	939,393	801,633	754,260
Long-term debt, including current portion	—	357	664	1,022	1,352
Shareholders' equity	638,399	625,110	690,274	557,867	483,342

Prior period amounts have been revised for the impact of discontinued operations, purchase accounting measurement period adjustments and the immaterial correction of prior period amounts. Refer to Item 8 of this Annual Report for an additional description of these items.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain statements below about anticipated results and our products and markets, are forward-looking statements that are based on our current plans and assumptions. Important information about the bases for these plans and assumptions and factors that may cause our actual results to differ materially from these statements is contained below and in Item 1A. "Risk Factors" of this Annual Report on Form 10-K.

Use of Constant Currency

Revenue from our international operations has historically represented more than half 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 weaken, our consolidated results stated in U.S. dollars are negatively 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 accounting principles generally accepted in the United States of America (GAAP).

Revised Prior Period Amounts

Our financial results for prior periods have been revised, in accordance with GAAP, to reflect certain changes to the business and other matters. Prior period amounts have been revised for the impact of discontinued operations due to the sale or expected sale of our non-Core product lines, purchase accounting measurement period adjustments related

to our acquisition of Corticon Technologies, Inc. (Corticon), changes to our reportable segments as a result of organizational structure changes from the implementation of a new strategic plan and an immaterial correction of prior period amounts. Refer to Item 8 of this Annual Report for an additional description of these items.

Overview

We are a global software company that simplifies and enables the development, deployment and management of business applications on-premise or on any Cloud, on any platform and on any device with minimal IT complexity and low total cost of ownership. In April 2012, we announced a new strategic plan (the "Plan") in which we intend to become a leading provider of next-generation, context-aware application development and deployment platform in the Cloud for the Application Platform-as-a-Service (aPaaS) market by investing in our OpenEdge, DataDirect and Decision Analytics product lines ("Core" product lines) and integrating them into a single, cohesive offering.

The Plan is being executed in two phases. In the first phase, we are investing in our Core product lines and making them more Cloud-ready. We are also divesting the ten non-Core product lines which are not considered Core to our business: Actional, Artix, DataXtend, FuseSource, ObjectStore, Orbacus, Orbix, Savvion, Shadow and Sonic. In the second phase of the Plan, by unifying the product capabilities of our Core product lines, we will refine and enhance our next generation, feature-rich application development and deployment solution targeting the new market category of aPaaS.

In fiscal year 2012 and the first quarter of fiscal year 2013, we entered into definitive purchase and sale agreements to divest all of our non-Core product lines. The FuseSource product line was sold to Red Hat, Inc. in September 2012, the Shadow product line was sold to Rocket Software, Inc. in October 2012, and the investment arm of Trilogy Enterprises purchased Actional, DataXtend, ObjectStore, Savvion and Sonic in December 2012. We expect to close on the sale of Artix, Orbacus and Orbix to a subsidiary of Micro Focus International plc in the first quarter of fiscal year 2013. The aggregate purchase price for all divestitures is approximately \$130.0 million.

During 2012, we also executed on cost reductions as part of the Plan. In fiscal year 2012, we recorded restructuring expenses of \$19.0 million in furtherance of the cost reduction plans, of which \$10.9 million is included in discontinued operations. The charge included \$16.4 million in severance and other employee benefits associated with the reduction of 11% of our workforce.

As part of the Plan, our Board of Directors authorized us to repurchase \$350.0 million of our common stock through November 2013. In October 2012, under the authorization, we announced the adoption of a 10b5-1 plan to repurchase up to \$250.0 million of our common stock through June 30, 2013, or earlier, and have repurchased 4.5 million shares of our common stock for \$88.4 million through November 30, 2012. As of January 22, 2013, we have repurchased 7.6 million shares of our common stock for \$155.3 million.

As part of the Plan, we changed the structure of our internal organization and the way we manage our business. Our internal reporting includes two segments: (1) the Core segment, which includes our Core product lines, and (2) the non-Core segment, which includes the non-Core product lines. We assign dedicated costs and expenses directly to each segment and utilize an allocation methodology to assign all other costs and expenses, primarily general and administrative, to each segment.

Our financial results for fiscal year 2012 were adversely impacted by factors related to the planning, announcement and execution of the Plan, including the undertaking of large restructuring efforts and the marketing for divestiture and actual sale of non-Core products. These factors contributed to a very uncertain environment for our company, partners, customers and employees. In particular, since the second quarter of fiscal year 2012, customer purchasing decisions were delayed, which caused deal slippage at a greater rate than usual. This was caused both by uncertainty surrounding the Plan and generally deteriorating macroeconomic conditions, primarily in Europe.

Investments to improve the Core business were also initiated late during the second quarter of fiscal year 2012, and require time to impact performance. Until these investments are realized, our operating margins will be adversely

impacted. In addition, the new business focus and new strategy has required us to restructure our organization and the way we go to market, how we think about and implement product roadmaps and how we operate and report our financial results, all of which caused additional disruption.

The announcement and marketing for divestiture of the non-Core product lines caused revenue from these product lines to drop significantly in fiscal year 2012. These declines have adversely impacted our fiscal year 2012 results and our operating performance will be adversely impacted in the future by temporarily higher expense levels as we transition away from the non-Core portfolio.

The U.S. and many foreign economies continue to experience uncertainty driven by varying macroeconomic conditions and recovery remains uneven. Uncertainty in the macroeconomic environment and associated global economic conditions have resulted in extreme volatility in credit, equity, and foreign currency markets, including the European sovereign debt markets and volatility in various markets including the financial services sector. We have been adversely impacted by these conditions

as some customers have delayed software investments in response to this macroeconomic uncertainty. The continuation of this climate could cause our customers to further delay, forego or reduce the amount of their investments in our products or delay payments of amounts due to us. We expect these macroeconomic conditions to continue in fiscal year 2013, most particularly in Europe, the Middle East and Africa (EMEA).

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.

We believe that existing cash balances, together with funds generated from operations, amounts available under our revolving credit line and consideration received from the divestitures of non-Core product lines will be sufficient to finance our operations and meet our foreseeable cash requirements, including our plans to repurchase shares of our common stock, through at least the next twelve months.

Results of Operations

The following table sets forth certain income and expense items as a percentage of total revenue, and the percentage change in dollar amounts of such items compared with the corresponding period in the previous fiscal year.

	Percentage of Total Revenue			Percentage Change		
	2012	2011	2010	2012 Compared to 2011	2011 Compared to 2010	
Revenue:						
Software licenses	34	% 35	% 36	% (10)% —	%
Maintenance and services	66	65	64	(5	) 4	
Total revenue	100	100	100	(7	) 3	
Costs of revenue:						
Cost of software licenses	2	2	1	13	4	
Cost of maintenance and services	11	10	9	(3	) 24	
Amortization of acquired intangibles	—	1	2	(52	) (55)
Total costs of revenue	13	13	12	(4	) 10	
Gross profit	87	87	88	(8	) 2	
Operating expenses:						
Sales and marketing	35	28	26	15	12	
Product development	16	12	14	18	(10)
General and administrative	19	17	15	—	20	
Amortization of acquired intangibles	—	1	1	—	(66)
Restructuring expenses	2	1	6	*	*	
Acquisition-related expenses	—	—	—	*	*	
Total operating expenses	72	59	62	13	(2)
Income from operations	15	28	26	(51	) 11	
Other income (expense)	—	—	1	138	(114)
Income from continuing operations before income taxes	15	28	27	(51	) 6	
Provision for income taxes	5	10	9	(50	) 5	
Income from continuing operations	10	18	18	(51	) 6	
Income (loss) from discontinued operations, net	4	(2	) (4	) 321	54	

Net income		14	% 16	% 14	% (20	)% 24	%
*	Not meaningful						

17

Fiscal Year 2012 Compared to Fiscal Year 2011

Revenue

(In thousands)	Fiscal Year Ended		Percentage Change	
	November 30, 2012	November 30, 2011	As Reported	Constant Currency
Revenue	\$ 335,205	\$ 360,704	(7)%	(4)%

Total revenue decreased \$25.5 million in fiscal year 2012 as compared to fiscal year 2011. Revenue would have decreased by 4% if exchange rates had been constant in fiscal year 2012 as compared to exchange rates in effect in fiscal year 2011. The decrease in revenue in fiscal year 2012 was primarily a result of the disruption caused by the announcement of our Plan and its impact on our employees, customers and partners. In particular, we encountered a delay in purchasing decisions, which resulted in deal slippage at a greater rate than normal. We believe this was caused both by uncertainty surrounding our Plan and generally deteriorating macroeconomic conditions, primarily in Europe.

Changes in prices from fiscal year 2012 to fiscal year 2011 did not have a significant impact on our revenue. Changes in foreign currency exchange rates negatively impacted our reported revenues.

License Revenue

(In thousands)	Fiscal Year Ended		Percentage Change	
	November 30, 2012	November 30, 2011	As Reported	Constant Currency
License	\$ 113,270	\$ 125,966	(10)%	(8)%
As a percentage of total revenue	34 %	35 %		

Software license revenue decreased \$12.7 million in fiscal year 2012 as compared to fiscal year 2011. Software license revenue would have decreased by 8% if exchange rates had been constant in fiscal year 2012 as compared to exchange rates in effect in fiscal year 2011. Excluding the impact of changes in exchange rates, the decrease in license revenue is due to the disruption caused by the announcement of our Plan and was also due to a number of large non-recurring direct deals, particularly in EMEA, in the first half of fiscal year 2011 as compared to the same period in fiscal year 2012.

Maintenance and Services Revenue

(In thousands)	Fiscal Year Ended		Percentage Change	
	November 30, 2012	November 30, 2011	As Reported	Constant Currency
Maintenance	\$ 208,846	\$ 217,372	(4)%	— %
As a percentage of total revenue	62 %	60 %		
Professional services	\$ 13,089	\$ 17,366	(25)%	(22)%
As a percentage of total revenue	4 %	5 %		
Total maintenance and services revenue	\$ 221,935	\$ 234,738	(5)%	(2)%
As a percentage of total revenue	66 %	65 %		

Maintenance and services revenue decreased \$12.8 million in fiscal year 2012 as compared to fiscal year 2011. Maintenance and services revenue would have decreased by 2% if exchange rates had been constant in fiscal year

2012 as compared to exchange rates in effect in fiscal year 2011. Excluding the impact of changes in exchange rates, the decrease in maintenance and services revenue was primarily the result of lower license revenue due to the associated services that are attached to license sales. The decrease in professional services revenue was also impacted by the shift away from our RPM strategy. Our maintenance renewal rate in fiscal year 2012 was approximately 90%.

Revenue by Segment

(In thousands)	Fiscal Year Ended		Percentage Change	
	November 30, 2012	November 30, 2011	As Reported	Constant Currency
Core segment	\$335,205	\$360,704	(7)	(4)
As a percentage of total revenue	100	% 100	%	%
Non-Core segment	\$—	\$—	—	—
As a percentage of total revenue	—	% —	%	%

Revenue from our Core segment is representative of revenue from our continuing operations since the results of all non-Core products lines are included in discontinued operations. See discussion of fluctuations in our Core and continuing operations revenue in this Results of Operations section. For an understanding of how our internal measure of segment revenue is determined, see Note 17 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report.

Revenue by Region

(In thousands)	Fiscal Year Ended		Percentage Change	
	November 30, 2012	November 30, 2011	As Reported	Constant Currency
North America	\$146,374	\$146,572	—	—
As a percentage of total revenue	44	% 41	%	%
EMEA	\$131,151	\$153,206	(14)	(10)
As a percentage of total revenue	39	% 42	%	%
Latin America	\$31,407	\$34,349	(9)	4
As a percentage of total revenue	9	% 10	%	%
Asia Pacific	\$26,273	\$26,577	(1)	(2)
As a percentage of total revenue	8	% 7	%	%

Total revenue generated in North America decreased \$0.2 million, and total revenue generated outside North America decreased \$25.3 million, in fiscal year 2012 as compared to fiscal year 2011. The decrease in revenue in EMEA was primarily the result of deteriorating macroeconomic conditions in Europe, as well as the announcement of our Plan. Total revenue generated in markets outside North America represented 56% of total revenue in fiscal year 2012 compared to 59% of total revenue in fiscal year 2011. Total revenue generated in markets outside North America would have represented 58% of total revenue if exchange rates had been constant in fiscal year 2012 as compared to the exchange rates in effect in fiscal year 2011.

Cost of Software Licenses

(In thousands)	Fiscal Year Ended		Percentage Change
	November 30, 2012	November 30, 2011	
Cost of software licenses	\$6,112	\$5,430	13
As a percentage of software license revenue	5	% 4	%
As a percentage of total revenue	2	% 2	%

Cost of software licenses consists primarily of costs of royalties, electronic software distribution costs, duplication and packaging. Cost of software licenses increased \$0.7 million in fiscal year 2012 as compared to fiscal year 2011, and increased as a percentage of software license revenue from 4% to 5%. The dollar increase was primarily due to higher royalty expense for products and technologies licensed or resold from third parties. Cost of software licenses as a percentage of software license revenue varies from period to period depending upon the relative product mix.

Cost of Maintenance and Services

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
Cost of maintenance and services	\$36,192	\$37,238	(3)%
As a percentage of maintenance and services revenue	16	% 16	%
As a percentage of total revenue	11	% 10	%

Cost of maintenance and services consists primarily of costs of providing customer support, education and consulting. Cost of maintenance and services decreased \$1.0 million in fiscal year 2012 as compared to fiscal year 2011 and remained flat as a percentage of maintenance and services revenue at 16%. The total dollar amount of expense in fiscal year 2012 decreased as a result of lower maintenance and professional services revenue in fiscal year 2012 as compared with fiscal year 2011.

Amortization of Acquired Intangibles

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
Amortization of acquired intangibles	\$1,259	\$2,600	(52)%
As a percentage of total revenue	—	% 1	%

Amortization of acquired intangibles included in costs of revenue primarily represents the amortization of the value assigned to intangible assets for technology obtained in business combinations. Amortization of acquired intangibles decreased \$1.3 million in fiscal year 2012 as compared to fiscal year 2011. The decrease was due to the completion of amortization of certain intangible assets acquired in prior years, and is offset by amortization of intangible asset acquired with the Corticon acquisition, which was completed in the fourth quarter of fiscal year 2011.

Gross Profit

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
Gross profit	\$291,642	\$315,436	(8)%
As a percentage of total revenue	87	% 87	%

Our gross profit decreased \$23.8 million in fiscal year 2012 as compared to fiscal year 2011, and our gross profit as a percentage of total revenue remained at 87%. The dollar decrease in our gross profit was due to lower revenues, partially offset by lower costs of revenue from our cost saving measures and lower amortization expense of acquired intangibles, as described above.

Sales and Marketing

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
Sales and marketing	\$117,855	\$102,618	15%
As a percentage of total revenue	35	% 28	%

Sales and marketing expenses increased \$15.2 million in fiscal year 2012 as compared to fiscal year 2011, and increased as a percentage of total revenue from 28% to 35%. The increase in sales and marketing expense was due to a \$9.8 million increase in compensation-related expenses due to the focus on our Core product lines and \$1.7 million of incremental compensation-

20

related expenses due to the separation of two of our sales and marketing executives. The increase was partially offset by cost control measures initiated during the strategic planning process.

Product Development

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
Product development	\$53,017	\$44,876	18 %
As a percentage of total revenue	16	% 12	%

Product development expenses increased \$8.1 million in fiscal year 2012 as compared to fiscal year 2011, and increased as a percentage of revenue from 12% to 16%. The increase in product development expenses is primarily due to higher headcount from the Corticon acquisition, which was completed in the fourth quarter of fiscal year 2011. The increases in product development expenses were partially offset by cost savings from our restructuring actions undertaken as part of the Plan.

General and Administrative

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
General and administrative	\$62,053	\$61,816	— %
As a percentage of total revenue	19	% 17	%

General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses increased \$0.2 million in fiscal year 2012 as compared to fiscal year 2011, and increased as a percentage of revenue from 17% to 19%. The increase in fiscal year 2012 was primarily due to stock-based compensation costs associated with the hiring of a new Chief Executive Officer in December 2011, incremental compensation-related expenses due to the separation of our Chief Financial Officer in April 2012, a \$0.9 million litigation settlement, proxy contest-related costs and costs associated with the Plan. The increases were partially offset by cost savings from our restructuring actions and other cost control measures and increased compensation-related costs in fiscal year 2011 related to the severance agreement entered into with Richard D. Reidy, a former Chief Executive Officer.

Amortization of Acquired Intangibles

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
Amortization of acquired intangibles	\$962	\$966	— %
As a percentage of total revenue	—	% 1	%

Amortization of acquired intangibles included in operating expenses primarily represents the amortization of value assigned to intangible assets obtained in business combinations other than assets identified as purchased technology. Amortization of these acquired intangibles remained flat in fiscal year 2012 as compared to fiscal year 2011. The amortization of certain intangible assets acquired in prior years was completed in fiscal year 2012, but is offset by amortization of intangible asset acquired with the Corticon acquisition, which was completed in the fourth quarter of fiscal year 2011.

Restructuring Expenses

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
Restructuring expenses	\$8,100	\$3,383	*
As a percentage of total revenue	2	% 1	%

21

We incurred restructuring expenses of \$8.1 million in fiscal year 2012 as compared to \$3.4 million in fiscal year 2011. Restructuring expenses in fiscal year 2012 relate to the restructuring actions announced as part of the Plan. See Note 14 to the Consolidated Financial Statements in Item 8 of this Annual Report for additional details, including types of expenses incurred and the timing of future expenses and cash payments. See also the Liquidity and Capital Resources section of this Item 7 of this Annual Report.

Restructuring expenses in fiscal year 2011 included ongoing costs related to the decisions from our restructuring activities occurring in the third quarter of fiscal year 2010.

Acquisition-Related Expenses

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
Acquisition-related expenses	\$215	\$536	*
As a percentage of total revenue	—	% —	%

Acquisition-related expenses in fiscal years 2012 and 2011 are transaction-related costs, primarily professional services fees, employee severance and facility closing costs associated with the acquisition of Corticon.

Income from Operations

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
Income from operations	\$49,440	\$101,241	(51)%
As a percentage of total revenue	15	% 28	%

Income from operations decreased \$51.8 million in fiscal year 2012 as compared to fiscal year 2011, and decreased as a percentage of total revenue from 28% to 15%. As discussed above, the decrease was primarily the result of lower revenues and higher operating expenses in fiscal year 2012 as compared to fiscal year 2011.

Income from Operations by Segment

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	Percentage Change
Core segment	\$111,276	\$161,900	(31)%
As a percentage of total revenue	33	% 45	%
Non-Core segment	\$(27,030)	\$(32,306)	16%
As a percentage of total revenue	(8)%	(9)%	
Unallocated items	\$(34,806)	\$(28,353)	(23)%
As a percentage of total revenue	(10)%	(8)%	

On a segment basis, income from operations of our Core segment decreased \$50.6 million in fiscal year 2012 as compared to fiscal year 2011. The decrease is primarily the result of lower revenues in fiscal year 2012 and the impact of the fiscal year 2010 restructuring efforts to fiscal year 2011 operating expenses. The operating loss of our non-Core segment represents indirect expenses required to operate the non-Core segment, and which are not directly related to

any of the product lines within the non-Core segment which would qualify for discontinued operations classification. The decrease in these costs in fiscal year 2012 is the result of costs savings and cost control measures related to the Plan. For an understanding of how our internal measure of segment income from operations is determined, see Note 17 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report.

Other Income (Expense)

(In thousands)	Fiscal Year Ended			Percentage Change
	November 30, 2012	November 30, 2011		
Interest income and other	\$2,574	\$1,999	29	%
Foreign currency loss	(2,378)	(2,518)	6	
Total other income (expense), net	\$196	\$(519)	138	%
As a percentage of total revenue	—	%	—	%

Other income (expense) increased \$0.7 million in fiscal year 2012 as compared to fiscal year 2011. The increase was due to an increase in miscellaneous income and the decreases in foreign currency losses.

Provision for Income Taxes

(In thousands)	Fiscal Year Ended			Percentage Change
	November 30, 2012	November 30, 2011		
Provision for income taxes	\$17,032	\$34,380	(50)	%
As a percentage of total revenue	5	%	10	%

Our effective tax rate remained flat at 34% in fiscal years 2012 and 2011. Fiscal year 2011 benefited from a reinstatement of the research and development credit in the tax code in December 2010 with a retroactive effective date to January 1, 2010 that allowed us to benefit from the credit in fiscal year 2011 for the period of January to November 2010. Fiscal year 2012 benefited from a reduction in state tax due to a partial release of valuation allowances on state tax credit carryforwards, which will be utilized to offset certain gains on our dispositions, and due to a lower effective tax rate on foreign earnings.

Net Income

(In thousands)	Fiscal Year Ended			Percentage Change
	November 30, 2012	November 30, 2011		
Income from continuing operations	\$32,604	\$66,342	(51)	%
Income (loss) from discontinued operations	14,840	(6,713)	321	
Net income	\$47,444	\$59,629	(20)	%

Income (loss) from discontinued operations includes the revenues and direct expenses of the product lines included in our non-Core segment, all of which qualify for treatment as discontinued operations at November 30, 2012. In fiscal year 2012, it also includes the gains on sales of our FuseSource and Shadow product lines of \$19.8 million and \$25.3 million, respectively. In addition, we recorded an impairment loss of \$8.6 million related to our Artix, Orbacus and Orbix assets, which are classified as held for sale in our consolidated balance sheet at November 30, 2012. The impairment loss represents the write down of the assets to fair value. See Note 7 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report for additional information related to our discontinued product lines.

Fiscal 2011 Compared to Fiscal 2010

Revenue

(In thousands)	Fiscal Year Ended		Percentage Change		
	November 30, 2011	November 30, 2010	As Reported	Constant Currency	
Revenue	\$360,704	\$351,610	3	%	— %

Total revenue increased \$9.1 million in fiscal year 2011 as compared to fiscal year 2010, principally due to increased revenue from maintenance. Changes in prices from fiscal year 2011 to fiscal year 2010 did not have a significant impact on our revenue.

License Revenue

(In thousands)	Fiscal Year Ended		Percentage Change		
	November 30, 2011	November 30, 2010	As Reported	Constant Currency	
License	\$125,966	\$125,680	—	%	(2) %
As a percentage of total revenue	35	% 36	%		

Software license revenue remained relatively stable in fiscal year 2011 as compared to fiscal year 2010. Software license revenue would have decreased by 2% if exchange rates had been constant in fiscal year 2011 as compared to exchange rates in effect in fiscal year 2010. Excluding the impact of changes in exchange rates, software license revenue from direct end-users decreased in fiscal year 2011 as compared to fiscal year 2010, but increased from indirect channels, primarily from OpenEdge application partners.

Maintenance and Services Revenue

(In thousands)	Fiscal Year Ended		Percentage Change		
	November 30, 2011	November 30, 2010	As Reported	Constant Currency	
Maintenance	\$217,372	\$209,073	4	%	1 %
As a percentage of total revenue	60	% 59	%		
Professional services	\$17,366	\$16,857	3	%	— %
As a percentage of total revenue	5	% 5	%		
Total maintenance and services revenue	\$234,738	\$225,930	4	%	1 %
As a percentage of total revenue	65	% 64	%		

Maintenance and services revenue increased \$8.8 million in fiscal year 2011 as compared to fiscal year 2010. Maintenance and services revenue would have increased by 1% if exchange rates had been constant in fiscal year 2011 as compared to exchange rates in effect in fiscal year 2010. Excluding the impact of changes in exchange rates, the increase in maintenance and services revenue was primarily the result of an increase in our installed customer base for maintenance renewals. Our maintenance renewal rate in fiscal year 2011 was approximately 90%.

Revenue by Segment

(In thousands)	Fiscal Year Ended		Percentage Change			
	November 30, 2011	November 30, 2010	As Reported	Constant Currency		
Core segment	\$360,704	\$351,610	3	%	—	%
As a percentage of total revenue	100	% 100	%			
Non-Core segment	\$—	\$—	—	%	—	%
As a percentage of total revenue	—	% —	%			

Revenue from our Core segment is representative of revenue from our continuing operations, since the results of all non-Core product lines are included in discontinued operations. See discussion of fluctuations in our Core and continuing operations revenue in this Results of Operations section. For an understanding of how our internal measure of segment revenue is determined, see Note 17 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report.

Revenue by Region

(In thousands)	Fiscal Year Ended		Percentage Change			
	November 30, 2011	November 30, 2010	As Reported	Constant Currency		
North America	\$146,572	\$142,046	3	%	3	%
As a percentage of total revenue	41	% 40	%			
EMEA	\$153,206	\$146,643	4	%	—	%
As a percentage of total revenue	42	% 42	%			
Latin America	\$34,349	\$36,302	(5)	)%	(10))%
As a percentage of total revenue	10	% 10	%			
Asia Pacific	\$26,577	\$26,619	—	%	(10))%
As a percentage of total revenue	7	% 8	%			

Total revenue generated in North America increased \$4.5 million, and total revenue generated outside North America increased \$4.6 million, in fiscal year 2011 as compared to fiscal year 2010. Total revenue generated in markets outside North America represented 59% of total revenue in fiscal year 2011 compared to 60% of total revenue in fiscal year 2010. Total revenue generated in markets outside North America would have represented 58% of total revenue if exchange rates had been constant in fiscal year 2011 as compared to the exchange rates in effect in fiscal 2010.

Cost of Software Licenses

(In thousands)	Fiscal Year Ended		Percentage Change	
	November 30, 2011	November 30, 2010	Change	
Cost of software licenses	\$5,430	\$5,229	4	%
As a percentage of software license revenue	4	% 4	%	
As a percentage of total revenue	2	% 1	%	

Cost of software licenses consists primarily of costs of royalties, electronic software distribution costs, duplication and packaging. Cost of software licenses increased \$0.2 million in fiscal year 2011 as compared to fiscal year 2010, and remained flat as a percentage of software license revenue at 4%. The dollar increase was primarily due to higher royalty expense for products and technologies licensed or resold from third parties due to higher license revenues.

Cost of software licenses as a percentage of software license revenue varies from period to period depending upon the relative product mix.

Cost of Maintenance and Services

(In thousands)	Fiscal Year Ended			Percentage Change
	November 30, 2011	November 30, 2010		
Cost of maintenance and services	\$37,238	\$30,144	24	%
As a percentage of maintenance and services revenue	16	% 13	%	
As a percentage of total revenue	10	% 9	%	

Cost of maintenance and services consists primarily of costs of providing customer support, education and consulting. Cost of maintenance and services increased \$7.1 million in fiscal year 2011 as compared to fiscal year 2010 and increased as a percentage of maintenance and services revenue from 13% to 16%. The total dollar amount of expense in fiscal year 2011 increased due to higher professional services costs associated with increased investment in the infrastructure of our professional services organization and fixed term services contracts with early adopters of the Progress RPM technology.

Amortization of Acquired Intangibles

(In thousands)	Fiscal Year Ended			Percentage Change
	November 30, 2011	November 30, 2010		
Amortization of acquired intangibles	\$2,600	\$5,780	(55)%
As a percentage of total revenue	1	% 2	%	

Amortization of acquired intangibles included in costs of revenue primarily represents the amortization of the value assigned to intangible assets for technology obtained in business combinations. Amortization of acquired intangibles decreased \$3.2 million in fiscal year 2011 as compared to fiscal year 2010. The decrease was due to the completion of amortization of certain intangible assets acquired in prior years.

Gross Profit

(In thousands)	Fiscal Year Ended			Percentage Change
	November 30, 2011	November 30, 2010		
Gross profit	\$315,436	\$310,457	2	%
As a percentage of total revenue	87	% 88	%	

Our gross profit increased \$5.0 million in fiscal year 2011 as compared to fiscal year 2010, and our gross profit as a percentage of total revenue decreased from 88% to 87%. The dollar increase in our gross profit was primarily due to the increase in total revenue and decrease in amortization of acquired intangibles, as discussed above.

Sales and Marketing

(In thousands)	Fiscal Year Ended			Percentage Change
	November 30, 2011	November 30, 2010		
Sales and marketing	\$102,618	\$91,974	12	%
As a percentage of total revenue	28	% 26	%	

Sales and marketing expenses increased \$10.6 million in fiscal year 2011 as compared to fiscal year 2010, and increased as a percentage of total revenue from 26% to 28%. The increase in sales and marketing expenses was due to higher headcount related expenses, additional marketing programs and costs associated with investments in the field organization in support of the industry vertical and solutions focus in fiscal year 2011.

Product Development

(In thousands)	Fiscal Year Ended		Percentage Change
	November 30, 2011	November 30, 2010	
Product development	\$44,876	\$50,080	(10)%
As a percentage of total revenue	12	% 14	%

Product development expenses decreased \$5.2 million in fiscal year 2011 as compared to fiscal year 2010, and decreased as a percentage of revenue from 14% to 12%. The decrease in product development expenses is due to headcount related savings from the restructuring and off-shoring activities that occurred in fiscal year 2010.

General and Administrative

(In thousands)	Fiscal Year Ended		Percentage Change
	November 30, 2011	November 30, 2010	
General and administrative	\$61,816	\$51,413	20 %
As a percentage of total revenue	17	% 15	%

General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses increased \$10.4 million in fiscal year 2011 as compared to fiscal year 2010, and increased as a percentage of revenue from 15% to 17%. The increase was primarily due to increased litigation costs and \$7.1 million of employee separation costs related to the amended separation arrangements we entered into with Richard D. Reidy, our former President and Chief Executive Officer, in July 2011. The separation costs included a charge of \$4.6 million of stock-based compensation and \$2.5 million of future cash payments.

Amortization of Acquired Intangibles

(In thousands)	Fiscal Year Ended		Percentage Change
	November 30, 2011	November 30, 2010	
Amortization of acquired intangibles	\$966	\$2,803	(66)%
As a percentage of total revenue	1	% 1	%

Amortization of acquired intangibles included in operating expenses primarily represents the amortization of value assigned to intangible assets obtained in business combinations other than assets identified as purchased technology. Amortization of these acquired intangibles decreased \$1.8 million in fiscal year 2011 as compared to fiscal year 2010. The decrease was due to the completion of amortization of certain intangible assets acquired in prior years.

Restructuring Expenses

(In thousands)	Fiscal Year Ended		Percentage Change
	November 30, 2011	November 30, 2010	
Restructuring expenses	\$3,383	\$22,711	*
As a percentage of total revenue	1	% 6	%

We incurred restructuring expenses of \$3.4 million in fiscal year 2011 as compared to \$22.7 million in fiscal year 2010. Restructuring expenses in fiscal year 2011 included ongoing costs related to the decisions from our restructuring activities in the third quarter of fiscal year 2010. Restructuring expenses in fiscal year 2010 included employee severance costs, excess facilities costs for unused space and termination costs of automobile leases for terminated employees in connection with the large workforce reductions undertaken in fiscal year 2010.

27

Acquisition-Related Expenses

(In thousands)	Fiscal Year Ended		Percentage Change
	November 30, 2011	November 30, 2010	
Acquisition-related expenses	\$536	\$—	*
As a percentage of total revenue	—	% —	%

Acquisition-related expenses in fiscal year 2011 are transaction-related costs, primarily professional services fees, employee severance and facility closing costs associated with the acquisition of Corticon.

Income from Operations

(In thousands)	Fiscal Year Ended		Percentage Change
	November 30, 2011	November 30, 2010	
Income from operations	\$101,241	\$91,476	11 %
As a percentage of total revenue	28	% 26	%

Income from operations increased \$9.8 million in fiscal year 2011 as compared to fiscal year 2010, and increased as a percentage of total revenue from 26% to 28%. The increase in fiscal year 2011 was primarily the result of higher revenue and costs savings associated with our restructuring activities, partially offset by the restructuring charges that occurred in the first and third quarters of fiscal year 2010.

Income from Operations by Segment

(In thousands)	Fiscal Year Ended		Percentage Change
	November 30, 2011	November 30, 2010	
Core segment	\$161,900	\$173,662	(7) %
As a percentage of total revenue	45 %	49 %	
Non-Core segment	\$(32,306)	\$(39,149)	17 %
As a percentage of total revenue	(9) %	(11) %	
Unallocated items	\$(28,353)	\$(43,037)	34 %
As a percentage of total revenue	(8) %	(12) %	

On a segment basis, income from operations of our Core segment decreased \$11.8 million in fiscal year 2011 as compared to fiscal year 2010. The decrease is the result of the various programs implemented in fiscal year 2011, which caused expenses to increase as a percentage of revenue, and are partially offset by the savings from the restructuring efforts in fiscal year 2010. The operating loss of our non-Core segment represents indirect expenses required to operate the non-Core segment, and which are not directly related to any of the product lines within the non-Core segment which would qualify for discontinued operations classification. The decrease in these costs in fiscal year 2011 are the result of costs savings from our restructuring efforts in fiscal year 2010. For an understanding of how our internal measure of segment income from operations is determined, see Note 17 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report.

Other (Expense) Income

(In thousands)	Fiscal Year Ended		Percentage Change	
	November 30, 2011	November 30, 2010		
Interest income and other	\$1,999	\$3,132	(36)%
Foreign currency (loss) gain	(2,518	) 626	(502)
Total other (expense) income, net	\$(519	) \$3,758	(114)%
As a percentage of total revenue	—	% 1	%	

Other (expense) income decreased \$4.3 million in fiscal year 2011 as compared to fiscal year 2010. The income in fiscal year 2010 was primarily attributable to an increase in the value of our foreign currency average rate option contracts, which do not qualify for hedge accounting treatment and are marked-to-market each period, and an insurance settlement gain related to a pre-acquisition matter.

Provision for Income Taxes

(In thousands)	Fiscal Year Ended		Percentage Change	
	November 30, 2011	November 30, 2010		
Provision for income taxes	\$34,380	\$32,666	5	%
As a percentage of total revenue	10	% 9	%	

Our effective tax rate remained flat at 34% in fiscal years 2011 and 2010. Fiscal year 2010 benefited from a non-recurring change in estimate of our foreign earnings and profits utilized to determine the tax characteristics of certain international cash repatriation, partially offset by resolution of certain of our uncertain tax positions. Fiscal year 2011 benefited from a reinstatement of the research and development credit in the tax code in December 2010 with a retroactive effective date of January 1, 2010 that allowed us to benefit from the credit in fiscal year 2011 for the period of January to November 2010.

Net Income

(In thousands)	Fiscal Year Ended		Percentage Change	
	November 30, 2011	November 30, 2010		
Income from continuing operations	\$66,342	\$62,568	6	%
Loss from discontinued operations	(6,713	) (14,470	) 54	
Net income	\$59,629	\$48,098	24	%

Loss from discontinued operations includes the revenues and direct expenses of the product lines included in our non-Core segment, all of which qualify for treatment as discontinued operations at November 30, 2012. Any gains and losses on the sales of the product lines are recorded in the periods in fiscal year 2012 or the first quarter of fiscal year 2013, in which the sales closed. See Note 7 of the Consolidated Financial Statements appearing in Item 8 this Annual Report for additional information related to our discontinued product lines.

Liquidity and Capital Resources

Cash, Cash Equivalents and Short-Term Investments

(In thousands)	November 30, 2012	November 30, 2011
Cash and cash equivalents	\$301,792	\$161,095
Short-term investments	53,425	100,321
Total cash, cash equivalents and short-term investments	\$355,217	\$261,416

The increase in cash, cash equivalents and short-term investments of \$93.8 million since the end of fiscal year 2011 was primarily due to cash generated from operations, proceeds from the sales of our FuseSource and Shadow product lines and issuances of common stock upon exercise of stock options. The increase was partially offset by repurchases of our common stock. Except as described below, there are no limitations on our ability to access our cash, cash equivalents and short-term investments.

Cash, cash equivalents and short-term investments held by our foreign subsidiaries was \$138.2 million at November 30, 2012 and 2011. At November 30, 2012, \$33.2 million relates to the net undistributed earnings of our foreign subsidiaries which are considered to be permanently reinvested, and as such, they are not available to fund our domestic operations. If we were to repatriate the earnings, they would be subject to taxation in the U.S., but would be offset by foreign tax credits. We do not believe this has a material impact on our liquidity.

Share Repurchase Program

During the second quarter of fiscal year 2012, as part of the Plan, the Board of Directors authorized a \$350.0 million return of capital to shareholders in the form of a share repurchase through fiscal year 2013. In October 2012, we announced the adoption of a 10b5-1 plan, under the Board of Directors previous authorization, to repurchase up to \$250.0 million of our common stock through June 30, 2013, or earlier. We have repurchased 4.5 million shares of our common stock for \$88.4 million through November 30, 2012 and 7.6 million shares for \$155.3 million through January 22, 2013.

Divestiture of Non-Core Product Lines

As part of the Plan, we announced our intention to divest our ten non-Core product lines before the end of fiscal year 2013. As of November 30, 2012, we have completed the divestiture of two of the product lines for net proceeds of \$46.6 million. We expect proceeds from the sales of the remaining divestitures to be received in the first quarter of fiscal year 2013. Total consideration for the sales of our Actional, DataXtend, ObjectStore, Savvion and Sonic product lines in the first quarter of fiscal year 2013 was \$60.5 million, which is offset by direct transaction costs incurred. Total consideration for the sale of the remaining product lines of Artix, Orbacus and Orbix is expected to be \$15.0 million, which is also partially offset by direct transaction costs incurred.

The cash flows of our continuing and discontinued operations have not been segregated in our statements of cash flows. The divestitures of these product lines will impact our cash flows in future periods, including our operating cash flows, due to the loss of revenue and elimination of direct expenses. We cannot be certain that the impact will be positive, as indirect expenses of these divestitures (e.g. general and administrative costs) will remain in our continuing cash flows until our remaining product lines can absorb those costs or until these costs are otherwise reduced.

Restructuring Activities

In the second quarter of fiscal year 2012, as part of the Plan, our management approved, committed to and initiated certain operational restructuring initiatives to reduce annual costs, including the simplification of our organizational structure and the consolidation of facilities.

The total costs of the restructuring primarily relate to employee costs, including severance, health benefits, outplacement services and transition divestiture incentives, but excluding stock-based compensation. Facilities costs include fees to terminate lease agreements and costs for unused space, net of sublease assumptions. Other costs include costs to terminate automobile leases of employees included in the workforce reduction, asset impairment charges for assets no longer deployed as

part of cost reduction strategies, costs for unused software licenses as part of the workforce reduction and other costs directly associated with the restructuring actions taken.

As part of the 2012 restructuring, we incurred expenses in fiscal year 2012 totaling \$19.0 million, of which \$2.6 million represents excess facilities and other costs and \$16.4 million represents employee severances and related benefits. We expect to incur additional costs through the first half of fiscal year 2013 of approximately \$2.9 million. The total cost of the 2012 restructuring is expected to be approximately \$5.1 million for excess facilities and other costs and approximately \$16.8 million for employee severance and related benefits. As of November 30, 2012, \$7.0 million of the \$19.0 million expensed in fiscal year 2012 remains unpaid. We expect to pay the majority of the remaining liability in the next twelve months, including the additional expenses not yet recorded in the consolidated financial statements.

During the first and third quarters of 2010, we also undertook restructuring activities to improve efficiencies in our operations. As of November 30, 2012, \$0.3 million of the restructuring charges remain unpaid. We expect to pay the remaining liability in fiscal year 2013.

Revolving Credit Facility

On August 15, 2011, we entered into a credit agreement (the "Credit Agreement") for an unsecured credit facility with J.P. Morgan and other lenders that matures on August 15, 2016, at which time all amounts outstanding must be repaid. The credit facility provides for a revolving line of credit in the amount of \$150.0 million, with a sublimit for the issuance of standby letters of credit in a face amount up to \$25.0 million and swing line loans up to \$20.0 million. The credit facility also permits us to increase the revolving line of credit by up to an additional \$75.0 million subject to receiving further commitments from lenders and certain other conditions. We intend to utilize the line of credit for general corporate purposes, including acquisitions, stock repurchases and working capital.

Revolving loans accrue interest at a per annum rate based on our choice of either (i) the LIBOR rate plus a margin ranging from 1.25% to 1.75% or (ii) the base rate plus a margin ranging from 0.25% to 0.75%, both depending on our consolidated leverage ratio. The base rate is defined as the highest of (i) the administrative agent's prime rate (ii) the federal funds rate plus 1/2 of 1.00%, and (iii) the LIBOR rate for a one month interest period plus a margin equal to 1.00%. A quarterly commitment fee on the undrawn portion of the revolving credit facility is required, at a per annum rate ranging from 0.25% to 0.35%, depending on our consolidated leverage ratio. The loan origination fee and issuance costs incurred upon consummation of the Credit Agreement are being amortized through interest expense using the effective interest rate method, over the five-year term of the facility. Other customary fees and letter of credit fees may be charged and will be expensed as they are incurred.

Accrued interest on the loans is payable quarterly in arrears with respect to base rate loans and at the end of each interest rate period (or at each three month interval in the case of loans with interest periods greater than three months) with respect to LIBOR rate loans. We may prepay, terminate or reduce the loan commitments in whole or in part at any time, without premium or penalty, subject to certain conditions and reimbursement of certain costs in the case of LIBOR rate loans.

The Credit Agreement contains customary affirmative and negative covenants, including a requirement to maintain a balance of at least \$100.0 million in cash and cash equivalents while repurchasing shares of our common stock or making other restricted equity-related payments (e.g. cash dividend distributions). We are also required to maintain compliance with a consolidated leverage ratio of no greater than 3.00 to 1.00 and a consolidated interest coverage ratio of at least 3.00 to 1.00. As of November 30, 2012, there were no amounts outstanding under the revolving line and \$0.3 million of letters of credit outstanding. We are in compliance with our covenants by a significant margin.

Auction Rate Securities

In addition to the \$355.2 million of cash, cash equivalents and short-term investments, we had investments with a fair value of \$26.3 million related to auction rate securities (ARS). These ARS are floating rate securities with longer-term maturities that were marketed by financial institutions with auction reset dates at primarily 28 or 35 day intervals to provide short-term liquidity. The remaining contractual maturities of these securities range from 11 to 30 years. The underlying collateral of the ARS consist of municipal bonds, which are insured by monoline insurance companies, and student loans, which are supported by the federal government as part of the Federal Family Education Loan Program (FFELP) and by the monoline insurance companies.

Beginning in February 2008, auctions for these securities began to fail, and the interest rates for these ARS reset to the maximum rate per the applicable investment offering document. As of November 30, 2012, our ARS investments totaled \$30.7 million at par value. These ARS are classified as available-for-sale securities.

For each of the ARS classified as available-for-sales, we evaluated the risks related to the structure, collateral and liquidity of the investment, and forecasted the probability of issuer default, auction failure and a successful auction at par or a redemption at par for each future auction period. The weighted average cash flow for each period was then discounted back to present value for each security. Based on this methodology, we determined that the fair value of our ARS investments is \$26.3 million at November 30, 2012, and we have recorded a temporary impairment charge in accumulated other comprehensive income of \$4.4 million to reduce the value of our available-for-sale ARS investments.

We will not be able to access these remaining funds until a future auction for these ARS is successful, we sell the securities in a secondary market, or they are redeemed by the issuer. As such, these remaining investments currently lack short-term liquidity and are therefore classified as long-term investments on our consolidated balance sheet at November 30, 2012.

Based on our cash and short-term investments balance of \$355.2 million, expected operating cash flows and the availability of funds under our revolving credit facility, we do not anticipate the lack of liquidity associated with these ARS to adversely affect our ability to conduct business and believe we have the ability to hold the affected securities throughout the currently estimated recovery period. Therefore, the impairment on these securities is considered only temporary in nature. If the credit rating of either the security issuer or the third-party insurer underlying the investments deteriorates significantly, we may be required to adjust the carrying value of the ARS through an impairment charge.

Cash Flows from Operating Activities

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Net income	\$47,444	\$59,629	\$48,098
Non-cash reconciling items included in net income	23,561	65,549	65,319
Changes in operating assets and liabilities	33,110	1,116	(17,216)
Net cash flows from operating activities	\$104,115	\$126,294	\$96,201

The decrease in cash generated from operations in fiscal year 2012 as compared to fiscal year 2011 was primarily due to lower profitability, and the increase from fiscal year 2011 to fiscal year 2010 was primarily due to higher profitability.

Our gross accounts receivable as of November 30, 2012 decreased by \$43.8 million from the end of fiscal year 2011, which primarily related to the receivables sold or transferred to assets held for sale as part of the divestitures of our non-Core products lines (see Note 7 to the Consolidated Financial Statements included in Item 8 of this Annual Report). Gross accounts receivable also decreased due to lower days sales outstanding (DSO) and the write-off of receivables that had been previously reserved. DSO in accounts receivable from continuing operations was 70 days at the end of fiscal year 2012. DSO as previously reported was 73 days and 74 days at the end of fiscal years 2011 and 2010, respectively, for our consolidated results prior to discontinued operations. We target a DSO range of 60 to 80 days.

Cash Flows from Investing Activities

(In thousands)	Fiscal Year Ended
----------------	-------------------

Edgar Filing: PROGRESS SOFTWARE CORP /MA - Form 10-K

	November 30, 2012	November 30, 2011	November 30, 2010
Net investment activity	\$55,096	\$(61,917)	\$13,661
Purchases of property and equipment	(7,735)	(17,047)	(9,664)
Payments for acquisitions, net of cash acquired	—	(22,900)	(49,186)
Proceeds from divestitures	46,590	—	—
Other investing activities	189	(433)	26
Net cash flows from investing activities	\$94,140	\$(102,297)	\$(45,163)

Net cash inflows and outflows of our net investment activity is primarily a result of the timing of our purchases and maturities of securities which are classified as cash equivalents or short-term investments. We purchased \$7.7 million of property and equipment in fiscal year 2012 as compared to \$17.0 million in the fiscal year 2011 and \$9.7 million in fiscal year 2010.

Spending slowed in fiscal year 2012 as we near the implementation of the upgrades to our order management system. Overall purchases consisted primarily of computer equipment and software and building and leasehold improvements.

In fiscal year 2011, we acquired all of the equity interest in Corticon, a privately held business enterprise software company for \$23.0 million. In fiscal year 2010, we acquired Savvion, Inc. (Savvion), a privately-held company, for an aggregate purchase price of \$49.2 million.

In fiscal year 2012, we divested two of our non-Core product lines. The FuseSource product line was sold to Red Hat, Inc. for \$21.3 million in September 2012. The Shadow product line was sold to Rocket Software, Inc. for \$31.9 million in October 2012.

Cash Flows from Financing Activities

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Proceeds from stock-based compensation plans	\$29,208	\$49,672	\$93,670
Repurchases of common stock	(81,316)	(200,009)	(29,336)
Other financing activities	(2,920)	2,349	3,830
Net cash flows from financing activities	\$(55,028)	\$(147,988)	\$68,164

We received \$29.2 million in fiscal year 2012 from the exercise of stock options and the issuance of shares under our employee stock purchase plan as compared to \$49.7 million in fiscal year 2011 and \$93.7 million in fiscal year 2010. In fiscal year 2012, we repurchased \$81.3 million, net of unsettled trades, of our common stock under our \$350.0 million stock repurchase plan, which was approved by the Board of Directors in April 2012. In fiscal years 2011 and 2010, we repurchased \$200.0 million and \$29.3 million, respectively, of our common stock under a previously announced share repurchase plan, which was completed in fiscal year 2011.

Indemnification Obligations

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

Liquidity Outlook

We believe that existing cash balances, together with funds generated from operations, amounts available under the Credit Agreement and proceeds from our divestitures, will be sufficient to finance our operations and meet our foreseeable cash requirements through at least the next twelve months, and does not contemplate a need for any foreign repatriation of the earnings which we have deemed permanently reinvested. Our foreseeable cash needs include our planned capital expenditures and share repurchases, lease commitments, restructuring obligations and other long-term obligations.

Revenue Backlog

(In thousands)	November 30, 2012	November 30, 2011
Deferred revenue, primarily related to unexpired maintenance and support contracts ⁽¹⁾	\$ 110,391	\$ 152,346
Multi-year licensing arrangements ⁽²⁾	21,554	14,484
Open software license orders received but not shipped ⁽²⁾	11,913	9,355
Total revenue backlog	\$ 143,858	\$ 176,185

Deferred revenue as of November 30, 2012 excludes the deferred revenue that has been included in net assets sold or is held for sale as part of our non-Core product line divestitures, and includes \$3.6 million of contractual maintenance which has not been invoiced or included on our balance sheet. There is \$26.3 million of deferred revenue included on our balance sheet as liabilities held for sale as of November 30, 2012. The contractual maintenance which has not been invoiced relates to a customer who changed its invoicing schedule and if excluded, amounts would not be comparable to the prior period presented.

(1) Our backlog of orders not included on the balance sheet is not subject to our normal accounting controls for information that is either reported in or derived from our basic financial statements.

We typically fulfill most of our software license orders within 30 days of acceptance of a purchase order. Assuming all other revenue recognition criteria have been met, we recognize software license revenue upon shipment of the product, or if delivered electronically, when the customer has the right to access the software. Because there are many elements governing when revenue is recognized, including when orders are shipped, credit approval obtained, completion of internal control processes over revenue recognition and other factors, management has some control in determining the period in which certain revenue is recognized. We frequently have open software license orders at the end of a quarter which have not shipped or have otherwise not met all the required criteria for revenue recognition. Although the amount of open software license orders may vary at any time, we generally do not believe that the amount, if any, of such software license orders at the end of a particular quarter is a reliable indicator of future performance. In addition, there is no industry standard for the definition of backlog and there may be an element of estimation in determining the amount. As such, direct comparisons with other companies may be difficult or potentially misleading.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Contractual Obligations

The following table details our contractual obligations as of November 30, 2012 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	\$21,467	\$8,045	\$8,324	\$2,862	\$2,236
Unrecognized tax benefits ⁽¹⁾	2,192	—	—	—	—
Total	\$23,659	\$8,045	\$8,324	\$2,862	\$2,236

(1) The liability is not subject to fixed payment terms and the amount and timing of payments, if any, which we will make related to this liability are not known. See Note 15 of the Consolidated Financial Statements appearing in

Item 8 of this Annual Report for additional information.

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.

We have identified the following critical accounting policies that require the use of significant judgments and estimates in the preparation of our consolidated financial statements. This listing is not a comprehensive list of all of our accounting policies.

34

For further information regarding the application of these and other accounting policies, see Note 1 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report.

Revenue Recognition

We derive our revenue from software licenses and maintenance and services. Our revenue arrangements generally contain multiple elements. The primary judgments used in evaluating revenue recognized in each period involve: determining whether collection is probable, assessing whether the fee is fixed or determinable, and determining the fair value of the maintenance and services elements included in multiple-element software arrangements. Our revenue recognition policy is significant because revenue is a key component affecting results of operations. In determining when to recognize revenue from a customer arrangement, we are often required to exercise judgment regarding the application of our accounting policies to a particular arrangement.

In making an assessment of collectability, we consider customer credit-worthiness, a customer's historical payment experience, economic conditions in the customer's industry and geographic location and general economic conditions. In assessing whether the fee is fixed or determinable, we consider the payment terms of the transaction, including transactions that extend beyond our customary payment terms.

We generally use the residual method to recognize revenue from software arrangements that include one or more elements to be delivered at a future date when evidence of fair value of all undelivered elements exists. Vendor-specific objective evidence (VSOE) of fair value of maintenance and services is determined based on our recent pricing for those services when sold separately, or based on a substantive maintenance renewal clause within a customer contract. We consider maintenance rates in excess of 12% of license value to be substantive based on our analysis of the cost to provide post-contract support. Substantially all license arrangements indicate the renewal rate for which customers may, at their option, renew their maintenance agreement. We review services sold separately on a periodic basis and update, when appropriate, our VSOE of fair value for such maintenance and services to ensure that it reflects our recent pricing experience.

Such judgments can materially impact the amount of revenue that we record in a given period. While we follow specific and detailed rules and guidelines related to revenue recognition, we make and use significant management judgments and estimates in connection with the revenue recognized in any reporting period, particularly in the areas described above. If management made different estimates or judgments, material differences in the timing of the recognition of revenue could occur.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. We establish this allowance using estimates that we make based on factors such as the composition of the accounts receivable aging, historical bad debts, changes in payment patterns, changes to customer creditworthiness and current economic trends. Historically, our actual losses have been consistent with the allowances recorded. However, if we used different estimates, or if the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, we would require additional provisions for doubtful accounts that would increase bad debt expense.

Goodwill and Intangible Asset Impairment

We have goodwill and net intangible assets of \$231.2 million at November 30, 2012. We assess the impairment of goodwill on an annual basis and whenever events or changes in circumstances indicate that the carrying value of the

asset may not be recoverable. We assess our amortizing intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

We would record an impairment charge if such an assessment were to indicate that the fair value of such assets was less than the carrying value. When we evaluate potential impairments outside of our annual measurement date, judgment is required in determining whether an event has occurred that may impair the value of goodwill or intangible assets. Factors that could indicate that an impairment may exist include significant underperformance relative to plan or long-term projections, significant changes in business strategy, significant negative industry or economic trends or a significant decline in our stock price or in the value of one of our reporting units for a sustained period of time. We utilize either discounted cash flow models or other valuation models, such as comparative transactions and market multiples, to determine the fair value of our reporting units. We must make assumptions about future cash flows, future operating plans, discount rates, comparable companies, market multiples, purchase price premiums and other factors in those models. Different assumptions and judgment determinations could yield different conclusions that would result in an impairment charge to income in the period that such change or determination was made.

The determination of reporting units also requires management judgment. We consider whether a reporting unit exists within a reportable segment based on the availability of discrete financial information that is regularly reviewed by segment management.

During the second quarter of fiscal year 2012, as a result of continued declines in the performance of certain of our old reporting units and in connection with the announcement of the Plan, we determined an impairment triggering event occurred that required us to perform an interim goodwill impairment test. The test indicated that our old reporting units had an estimated fair value that was in excess of their carrying values. However, the difference between the carrying value and fair value of our old Enterprise Business Solutions reporting unit had decreased since the December 15, 2011 annual test as a result of updates to our internal forecasts and projected cash flows.

During the third quarter of fiscal year 2012, in furtherance of the Plan, we changed the structure of our internal organization and the way we manage our business. As a result, our reportable segment information has been restated to reflect the current structure. Our evaluation of reporting units has also been reassessed and changed to reflect the current structure and operations. Under our new structure, our reportable segments are also our reporting units for goodwill impairment testing purposes. We have not aggregated any reporting units. During the third quarter of fiscal year 2012, we reassigned goodwill to the new reporting units and reportable segments based on the relative fair values of the reporting units.

In connection with the reassignment of goodwill to our new reporting units, we determined an impairment triggering event occurred that required us to perform an interim goodwill impairment test. We performed the test for both our old and new reporting units to ensure no impairment existed prior to the reassignment of goodwill or resulted after the reassignment of goodwill. The tests indicated that our reporting units under our old and new structures had estimated fair values that were in excess of their carrying values, and thus, no impairment was present. The fair values of our reporting units under our new segment structure are substantially in excess of their carrying values. As the organization continues to evolve under the Plan, we may have a change in reporting units in future periods, which could trigger additional interim impairment tests.

At the time of our filing of this Annual Report on Form 10-K, we have completed our annual goodwill impairment test for fiscal year 2013. At the testing date, the only goodwill remaining was that of our Core segment and reporting unit. The test indicated the reporting unit had an estimated fair value that was substantially in excess of the carrying value.

Income Tax Accounting

We have a net deferred tax asset of \$41.8 million at November 30, 2012. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. We consider scheduled reversals of temporary differences, projected future taxable income, ongoing tax planning strategies and other matters in assessing the need for and the amount of a valuation allowance. If we were to change our assumptions or otherwise determine that we were unable to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period that such change or determination was made.

Management judgment is also required in evaluating whether a tax position taken or expected to be taken in a tax return, based on the weight of available evidence, indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. Management judgment is also required in measuring the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. If management made different estimates or judgments, material differences in the amount accrued for uncertain tax positions would occur.

Stock-Based Compensation

We recognize stock-based compensation based on the fair value of stock-based awards measured at the date of grant. Stock-based compensation is recognized over the requisite service period, which is generally the vesting period of the award, and is adjusted each period for anticipated forfeitures.

We estimate the fair value of each stock-based award on the measurement date using either the current market price or the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to the expected stock price volatility, the expected term of the option, a risk-free interest rate and a dividend yield. The expected volatility is based on the historical volatility of our stock price. The expected term is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free interest rate is based on the yield of zero-coupon U.S. Treasury securities for the period that is commensurate with the expected option term at the time of grant. The expected

dividend yield is based on our historical behavior and future expectations of dividend declarations. Many of these assumptions are highly subjective and require the exercise of management judgment. If management made different estimates or judgments, material differences in the amount of stock-based compensation may occur.

Investments in Debt Securities

We have approximately \$26.3 million at fair value (par value of \$30.7 million) in investments related to ARS, all of which are classified as noncurrent at November 30, 2012. For each of our ARS, we evaluate the risks related to the structure, collateral and liquidity of the investment, and forecast the probability of issuer default, auction failure and a successful auction at par, or a redemption at par, for each future auction period. Based on the results of this assessment, we record either a mark-to-market adjustment in accumulated other comprehensive income or an other-than-temporary impairment charge in other income in our consolidated statements of income. If we use different assumptions or the credit rating of either the security issuer or the third-party insurer underlying the investments deteriorates, we may be required to adjust the carrying value of our available-for-sale ARS through an other-than-temporary impairment charge in current period earnings.

Restructuring Charges

We periodically record restructuring charges resulting from restructuring our operations (including consolidations and/or relocations of operations), changes to our strategic plan, or managerial responses to declines in demand, increasing costs, or other market factors. The determination of restructuring charges requires management judgment and may include costs related to employee benefits, such as costs of severance and termination benefits, and estimates of costs for future lease commitments on excess facilities, net of estimated future sublease income. In determining the amount of the facilities charge, we are required to estimate such factors as future vacancy rates, the time required to sublet properties and sublease rates. These estimates are reviewed quarterly based on known real estate market conditions and the credit-worthiness of subtenants, and may result in revisions to established facility reserves.

Business Combinations

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The estimates used to value the net assets acquired are based in part on historical experience and information obtained from the management of the acquired company. We generally value the identifiable intangible assets acquired using a discounted cash flow model. The significant estimates used in valuing certain of the intangible assets include, but are not limited to: future expected cash flows of the asset, discount rates to determine the present value of the future cash flows, attrition rates of customers, and expected technology life cycles. We also estimate the useful lives of the intangible assets based on the expected period over which we anticipate generating economic benefit from the asset.

Our estimates of fair value are based on assumptions believed to be reasonable at that time. If management made different estimates or judgments, material differences in the fair values of the net assets acquired may result.

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment (ASU 2011-08), to allow entities to use a qualitative approach to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If after performing the qualitative assessment an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to

perform the first step of the two-step goodwill impairment test. ASU 2011-08 is effective for us in fiscal year 2013. We adopted ASU 2011-08 for our fiscal year 2013 annual impairment test, which occurs in our first quarter and was completed prior to the filing of this Annual Report. The adoption did not have any impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) — Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05 (ASU 2011-12), which defers the effective date of only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. ASU 2011-05 is effective for us in our

first quarter of fiscal year 2013 and should be applied retrospectively. The adoption of ASU 2011-05 and ASU 2011-12 is not anticipated to have any impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. We adopted ASU 2011-04 in our second quarter of fiscal year 2012 and have applied the provisions prospectively. The adoption of ASU 2011-04 did not have any impact on our financial position, results of operations or cash flows, but increased the disclosures included in the notes to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of risks, including changes in interest rates affecting the return on our investments and foreign currency fluctuations. We have established policies and procedures to manage our exposure to fluctuations in interest rates and foreign currency exchange rates.

Exposure to market rate risk for changes in interest rates relates to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. We place our investments with high-quality issuers and have policies limiting, among other things, the amount of credit exposure to any one issuer. We seek to limit default risk by purchasing only investment-grade securities. Our investments have an average remaining maturity of less than two years or interest-rate resets of less than 60 days and are primarily fixed-rate instruments. In addition, we have classified the majority of our debt securities as available-for-sale. The available-for-sale classification reduces the consolidated statements of income exposure to interest rate risk if such investments are held until their maturity date because changes in fair value due to market changes in interest rates are recorded on the consolidated balance sheet in accumulated other comprehensive income. Based on a hypothetical 10% adverse movement in interest rates, the potential losses in future earnings, fair value of risk-sensitive instruments and cash flows are immaterial. Additionally, see further discussion regarding market risks with our investments in auction rate securities under Liquidity and Capital Resources in Item 7 of this Annual Report.

We generally use foreign currency option contracts that are not designated as hedging instruments to hedge economically a portion of forecasted international cash flows for up to one year in the future. Principal currencies hedged include the euro, British pound, Brazilian real, Japanese yen and Australian dollar. We do not enter into derivative instruments for speculative purposes. During fiscal year 2012, we did not hold any foreign currency option contracts.

We also use forward contracts that are not designated as hedging instruments to hedge economically the impact of the variability in exchange rates on accounts receivable and collections 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 in other current assets on the consolidated balance sheets at the end of each reporting period and expire within 90 days. In fiscal year 2012, realized and unrealized losses of \$0.2 million from our forward contracts were recognized in other income in the consolidated statement of income. These losses were substantially offset by realized and unrealized gains on the offsetting positions.

Foreign currency translation exposure from a 10% movement of currency exchange rates would have a material impact on our reported revenue and net income. Based on a hypothetical 10% adverse movement in all foreign currency exchange rates, our revenue would be adversely affected by approximately 5% and our net income would be adversely affected by approximately 10% (excluding any offsetting positive impact from our ongoing hedging

programs), although the actual effects may differ materially from the hypothetical analysis.

The table below details outstanding foreign currency forward and option contracts at November 30, 2012 and 2011 where the notional amount is determined using contract exchange rates (in thousands):

	November 30, 2012		November 30, 2011	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	\$6,453	\$4	\$2,180	\$(54)
Forward contracts to purchase U.S. dollars	31,465	(190)	36,275	106
Total	\$37,918	\$(186)	\$38,455	\$52

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Progress Software Corporation
Bedford, Massachusetts

We have audited the accompanying consolidated balance sheets of Progress Software Corporation and subsidiaries (the "Company") as of November 30, 2012 and 2011, and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for each of the three years in the period ended November 30, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Progress Software Corporation and subsidiaries as of November 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, the Company is divesting the product lines within its non-core segment. The operating results as well as any gains or losses on sales are included in income (loss) from discontinued operations, net in the accompanying financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of November 30, 2012, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 29, 2013 expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
January 29, 2013

Consolidated Financial Statements

Consolidated Balance Sheets

(In thousands, except share data)	November 30, 2012	November 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$301,792	\$161,095
Short-term investments	53,425	100,321
Total cash, cash equivalents and short-term investments	355,217	261,416
Accounts receivable (less allowances of \$3,024 in 2012 and \$6,683 in 2011)	70,793	110,927
Other current assets	16,478	22,110
Deferred tax assets	16,301	13,458
Assets held for sale	68,029	—
Total current assets	526,818	407,911
Property and equipment, net	63,071	66,206
Intangible assets, net	5,119	64,408
Goodwill	226,110	256,211
Deferred tax assets	26,565	30,361
Investments in auction rate securities	26,321	33,539
Other assets	10,973	5,627
Total assets	\$884,977	\$864,263
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt	\$—	\$357
Accounts payable	10,477	7,039
Accrued compensation and related taxes	39,105	31,245
Income taxes payable	21,486	6,048
Other accrued liabilities	39,876	35,728
Short-term deferred revenue	103,925	145,727
Liabilities held for sale	25,285	—
Total current liabilities	240,154	226,144
Long-term deferred revenue	2,817	6,619
Deferred tax liabilities	1,032	1,533
Other noncurrent liabilities	2,575	4,857
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, \$.01 par value; authorized, 1,000,000 shares; issued, none	—	—
Common stock, \$.01 par value; authorized, 200,000,000 shares; issued and outstanding, 59,594,961 in 2012 and 61,788,629 in 2011	596	619
Additional paid-in capital	299,737	308,602
Retained earnings	348,830	327,542
Accumulated other comprehensive loss	(10,764)	(11,653)
Total shareholders' equity	638,399	625,110
Total liabilities and shareholders' equity	\$884,977	\$864,263

See notes to consolidated financial statements.

Consolidated Statements of Income

(In thousands, except per share data)	Fiscal Year Ended			
	November 30, 2012	November 30, 2011	November 30, 2010	
Revenue:				
Software licenses	\$ 113,270	\$ 125,966	\$ 125,680	
Maintenance and services	221,935	234,738	225,930	
Total revenue	335,205	360,704	351,610	
Costs of revenue:				
Cost of software licenses	6,112	5,430	5,229	
Cost of maintenance and services	36,192	37,238	30,144	
Amortization of acquired intangibles	1,259	2,600	5,780	
Total costs of revenue	43,563	45,268	41,153	
Gross profit	291,642	315,436	310,457	
Operating expenses:				
Sales and marketing	117,855	102,618	91,974	
Product development	53,017	44,876	50,080	
General and administrative	62,053	61,816	51,413	
Amortization of acquired intangibles	962	966	2,803	
Restructuring expenses	8,100	3,383	22,711	
Acquisition-related expenses	215	536	—	
Total operating expenses	242,202	214,195	218,981	
Income from operations	49,440	101,241	91,476	
Other income (expense):				
Interest income and other	2,574	1,999	3,132	
Foreign currency (loss) gain	(2,378	) (2,518	) 626
Total other income (expense), net	196	(519	) 3,758
Income from continuing operations before income taxes	49,636	100,722	95,234	
Provision for income taxes	17,032	34,380	32,666	
Income from continuing operations	32,604	66,342	62,568	
Income (loss) from discontinued operations, net	14,840	(6,713) (14,470)
Net income	\$47,444	\$59,629	\$48,098	
Earnings per share:				
Basic:				
Continuing operations	\$0.52	\$1.01	\$0.98	
Discontinued operations	0.24	(0.10) (0.23)
Net income per share	\$0.75	\$0.91	\$0.75	
Diluted:				
Continuing operations	\$0.51	\$0.98	\$0.94	
Discontinued operations	0.23	(0.10) (0.22)
Net income per share	\$0.74	\$0.88	\$0.73	
Weighted average shares outstanding:				
Basic	62,881	65,705	63,957	
Diluted	63,741	67,540	66,212	

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

(in thousands)	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Comprehensive Income
	Number of Shares	Amount					
Balance, December 1, 2009	60,906	\$ 609	\$ 246,656	\$ 312,588	\$ (1,986)	\$ 557,867	
Issuance of stock under employee stock purchase plan	604	6	6,203	—	—	6,209	
Exercise of stock options	6,291	63	87,398	—	—	87,461	
Issuance of shares to Board of Directors	24	—	—	—	—	—	
Vesting of restricted stock units	285	3	—	—	—	3	
Withholding tax payments related to net issuance of restricted stock units	(86)	(1)	(1,858)	—	—	(1,859)	
Tax benefit arising from employee stock purchase plan, stock options and restricted share activity	—	—	9,463	—	—	9,463	
Stock-based compensation	—	—	18,121	—	—	18,121	
Treasury stock repurchases and retirements	(1,496)	(15)	(19,045)	(10,277)	—	(29,337)	
Unrealized loss on investments, net of tax of \$294	—	—	—	—	(207)	(207)	\$ (207)
Net income	—	—	—	48,098	—	48,098	48,098
Translation adjustment	—	—	—	—	(5,546)	(5,546)	(5,546)
Balance, November 30, 2010	66,528	665	346,938	350,409	(7,739)	690,273	42,345
Issuance of stock under employee stock purchase plan	594	6	6,838	—	—	6,844	
Exercise of stock options	2,755	28	42,800	—	—	42,828	
Issuance of shares to Board of Directors	31	—	—	—	—	—	
Vesting of restricted stock units	386	4	—	—	—	4	
Withholding tax payments related to net issuance of restricted stock units	(114)	(1)	(2,705)	—	—	(2,706)	
Tax benefit arising from employee stock purchase plan, stock options and restricted share activity	—	—	6,162	—	—	6,162	
Stock-based compensation	—	—	25,999	—	—	25,999	
	(8,391)	(84)	(117,429)	(82,496)	—	(200,009)	

Treasury stock repurchases and retirements								
Unrealized gain on investments, net of tax of \$76	—	—	—	—	354	354	354	
Net income	—	—	—	59,629	—	59,629	59,629	
Translation adjustment	—	—	—	—	(4,268)	(4,268)	(4,268)	
Balance, November 30, 2011	61,789	618	308,603	327,542	(11,653)	625,110	55,715	

42

Issuance of stock under employee stock purchase plan	376	4	5,650	—	—	5,654	
Exercise of stock options	1,488	15	23,420	—	—	23,435	
Vesting of restricted stock units	625	6	—	—	—	6	
Withholding tax payments related to net issuance of restricted stock units	(189)	(2)	(4,153)	—	—	(4,155)	
Tax benefit arising from employee stock purchase plan, stock options and restricted share activity	—	—	167	—	—	167	
Stock-based compensation	—	—	28,233	—	—	28,233	
Treasury stock repurchases and retirements	(4,494)	(45)	(62,183)	(26,156)	—	(88,384)	
Unrealized gain on investments, net of tax of \$527	—	—	—	—	1,527	1,527	1,527
Net income	—	—	—	47,444	—	47,444	47,444
Translation adjustment	—	—	—	—	(638)	(638)	(638)
Balance, November 30, 2012	59,595	\$596	\$299,737	\$348,830	\$(10,764)	\$638,399	\$48,333

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Cash flows from operating activities:			
Net income	\$47,444	\$59,629	\$48,098
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	9,305	8,832	10,859
Amortization of acquired intangibles and other	21,660	26,246	30,558
Stock-based compensation	28,233	25,999	18,121
Gain on sale of dispositions	(45,105)) —	—
Impairment loss on assets held for sale	8,601	—	—
Loss on sale of auction rate security	270	—	—
Loss on disposal of property and equipment	—	114	—
Asset impairment	898	—	—
Deferred income taxes	(22)	) 2,468	3,762
Tax benefit from stock plans	171	6,165	9,465
Excess tax benefits from stock plans	(1,590)	) (6,238)	) (6,046)
Allowances for accounts receivable	1,140	1,963	(1,400)
Changes in operating assets and liabilities:			
Accounts receivable	14,373	8,053	(18,971)
Other assets	1,547	2,709	(3,159)
Accounts payable and accrued liabilities	7,484	(24,679)	) 12,469
Income taxes payable and uncertain tax positions	17,617	9,640	(6,632)
Deferred revenue	(7,911)	) 5,393	(923)
Net cash flows from operating activities	104,115	126,294	96,201
Cash flows from investing activities:			
Purchases of investments	(27,924)	) (152,658)	) (38,632)
Sales and maturities of investments	74,065	84,441	33,318
Redemptions and sales of auction rate securities - available-for-sale	8,955	6,300	1,235
Redemptions of auction rate securities - trading	—	—	17,740
Purchases of property and equipment	(7,735)	) (17,047)	) (9,664)
Payments for acquisitions, net of cash acquired	—	(22,900)	) (49,186)
Proceeds from divestitures, net	46,590	—	—
Decrease (increase) in other noncurrent assets	189	(433)	) 26
Net cash flows from investing activities	94,140	(102,297)	) (45,163)
Cash flows from financing activities:			
Proceeds from stock-based compensation plans	29,208	49,672	93,670
Purchase of common stock related to withholding taxes from issuance of restricted stock units	(4,153)	) (2,706)	) (1,858)
Repurchase of common stock	(81,316)	) (200,009)	) (29,336)
Excess tax benefit from stock plans	1,590	6,238	6,046
Payment of long-term debt	(357)	) (388)	) (358)
Payment of issuance costs for line of credit	—	(795)) —
Net cash flows from financing activities	(55,028)	) (147,988)	) 68,164
Effect of exchange rate changes on cash	(2,530)	) (1,473)	) (8,516)
Net increase (decrease) in cash and equivalents	140,697	(125,464)	) 110,686

Edgar Filing: PROGRESS SOFTWARE CORP /MA - Form 10-K

Cash and equivalents, beginning of year	161,095	286,559	175,873
Cash and equivalents, end of year	\$301,792	\$161,095	\$286,559

Supplemental disclosure:

Cash paid for income taxes, net of refunds of \$1,987 in 2012, \$9,183 in 2011 and \$2,127 in 2010	\$15,337	\$9,545	\$15,911
Non-cash financing activity:			
Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested	\$13,886	\$9,160	\$6,333
Unsettled repurchases of common stock	\$7,068	\$—	\$—

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1: Nature of Business and Summary of Significant Accounting Policies

The Company

We are a global software company that simplifies and enables the development, deployment and management of business applications on-premise or on any Cloud, on any platform and on any device with minimal IT complexity and low total cost of ownership. Our products are generally sold as perpetual licenses, but certain products and business activities also use term or subscription licensing models. We also provide product maintenance, consulting, training, and customer support services.

During the second quarter of fiscal year 2012, we announced a new strategic plan (the "Plan"). Under the Plan, we have begun to combine our OpenEdge, DataDirect and Decision Analytics (comprised of Apama, Corticon and the Progress Control Tower) product lines (the "Core" product lines) into a single, cohesive offering. Under the Plan, we have also largely completed the process of divesting our ten non-Core product lines: Actional, Artix, DataXtend, FuseSource, ObjectStore, Orbacus, Orbix, Savvion, Shadow and Sonic.

Accounting Principles

We prepare our consolidated financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of Consolidation

The consolidated financial statements include our accounts and those of our subsidiaries (all of which are wholly-owned). We eliminate all intercompany balances and transactions.

Foreign Currency Translation

The functional currency of most of our foreign subsidiaries is the local currency in which the subsidiary operates. For foreign operations where the local currency is considered to be the functional currency, we translate assets and liabilities into U.S. dollars at the exchange rate on the balance sheet date. We translate income and expense items at average rates of exchange prevailing during each period. We accumulate translation adjustments in accumulated other comprehensive loss, a component of shareholders' equity.

For foreign operations where the U.S. dollar is considered to be the functional currency, we translate monetary assets and liabilities into U.S. dollars at the exchange rate on the balance sheet date. We re-measure non-monetary assets and liabilities into U.S. dollars at historical exchange rates. We translate income and expense items at average rates of exchange prevailing during each period. We recognize translation adjustments currently as a component of foreign currency (loss) gain in the statements of income.

Immaterial Correction of Prior Period Amounts

In the third quarter of fiscal 2012, in connection with the filing of our Federal income tax return, we undertook a review of our income taxes payable. As part of the review, we identified errors relating to prior fiscal year financial statements. The errors relate to improper entries to income taxes payable as part of accounting for uncertain tax positions, purchase accounting, accounting for deferred tax assets and return to provision adjustments and had the cumulative impact of overstating income taxes payable, goodwill, deferred tax assets and the provision for income taxes in prior periods.

The errors are immaterial to all annual and quarterly periods previously presented. However, because the cumulative impact of the errors would have been significant to the current period consolidated statement of income if corrected in the current period, we have corrected the prior period financial statements to reflect the corrections in the periods they occurred (see "Adjustment" column in the tables below).

The effect of the corrections to the consolidated balance sheet as of November 30, 2011, is as follows (in thousands):

	As Previously Reported	Impact of Purchase Accounting Measurement Period Adjustments	Adjustment	As Corrected
Assets:				
Other current assets	\$21,143	—	\$967	\$22,110
Deferred tax assets	14,291	—	(833)	) 13,458
Total current assets	407,777	—	134	407,911
Goodwill	263,239	(5,415)	) (1,613)	) 256,211
Total assets	865,310	432	(1,479)	) 864,263
Liabilities and shareholders' equity:				
Income taxes payable	11,412	—	(5,364)	) 6,048
Total current liabilities	231,508	—	(5,364)	) 226,144
Other noncurrent liabilities	3,350	432	1,075	4,857
Retained earnings	326,135	—	1,407	327,542
Accumulated other comprehensive loss	(13,056)	) —	1,403	(11,653)
Total shareholders' equity	622,300	—	2,810	625,110
Total liabilities and shareholders' equity	865,310	432	(1,479)	) 864,263

The effect of the corrections to the consolidated statement of income for the year ended November 30, 2011, is as follows (in thousands, except per share data; per share data may not foot due to rounding):

	As Previously Reported	Impact of Discontinued Operations	Adjustment	As Corrected
Provision for income taxes	\$28,943	\$6,305	\$(868)	) \$34,380
Income from continuing operations	—	65,474	868	66,342
Net income	58,761	—	868	59,629
Earnings per share:				
Basic:				
Continuing operations	—	1.00	0.01	1.01
Net income per share	0.89	—	0.01	0.91
Diluted:				
Continuing operations	—	0.97	0.01	0.98
Net income per share	0.87	—	0.01	0.88

The effect of the corrections to the consolidated statement of income for the year ended November 30, 2010, is as follows (in thousands, except per share data; per share data may not foot due to rounding):

	As Previously Reported	Impact of Discontinued Operations	Adjustment	As Corrected
Provision for income taxes	\$22,857	\$9,565	\$244	\$32,666
Income from continuing operations	—	62,812	(244)	62,568
Loss from discontinued operations	—	(14,241)	(229)	(14,470)
Net income	48,571	—	(473)	48,098
Earnings per share:				
Basic:				
Continuing operations	—	0.98	—	0.98
Discontinued operations	—	(0.22)	—	(0.23)
Net income per share	0.76	—	(0.01)	0.75
Diluted:				
Continuing operations	—	0.95	—	0.94
Discontinued operations	—	(0.22)	—	(0.22)
Net income per share	0.73	—	(0.01)	0.73

The effect of the corrections to the consolidated statements of shareholders' equity for the years ended November 30, 2011 and 2010, is as follows (in thousands):

	Fiscal Year Ended 2011			Fiscal Year Ended 2010		
	As Previously Reported	Adjustment	As Corrected	As Previously Reported	Adjustment	As Corrected
Total stockholders' equity, beginning of period	\$688,331	\$1,942	\$690,273	\$555,452	\$2,415	\$557,867
Retained earnings:						
Retained earnings, beginning of year	349,870	539	350,409	311,576	1,012	312,588
Net income	58,761	868	59,629	48,571	(473)	48,098
Retained earnings, end of year	326,135	1,407	327,542	349,870	539	350,409
Accumulated other comprehensive loss:						
Accumulated other comprehensive loss, beginning of year	(9,142)	1,403	(7,739)	(3,389)	1,403	(1,986)
Accumulated other comprehensive loss, end of year	(13,056)	1,403	(11,653)	(9,142)	1,403	(7,739)
Total stockholders' equity, end of period	622,300	2,810	625,110	688,331	1,942	690,273

The effect of the corrections to the consolidated statements of cash flows for the years ended November 30, 2011 and 2010, is as follows (in thousands):

	Fiscal Year Ended 2011			Fiscal Year Ended 2010		
	As Previously Reported	Adjustment	As Corrected	As Previously Reported	Adjustment	As Corrected
Cash flows from operating activities:						
Net income	\$58,761	\$868	\$59,629	\$48,571	\$(473)	\$48,098
Adjustments to reconcile net income to net cash provided by operating activities:						
Deferred income taxes	1,869	599	2,468	4,004	(242)	3,762
Changes in operating assets and liabilities:						
Income taxes payable and uncertain tax positions	11,107	(1,467)	9,640	(7,347)	715	(6,632)

Cash Equivalents and Investments

Cash equivalents include short-term, highly liquid investments purchased with remaining maturities of three months or less. We classify investments, which consist of auction rate securities (ARS), state and municipal bond obligations, U.S. government securities, certificates of deposit and corporate bonds and notes, as investments available-for-sale, which are stated at fair value. We include aggregate unrealized holding gains and losses, net of taxes, on available-for-sale securities as a component of accumulated other comprehensive loss in shareholders' equity. We classify investments in mutual funds where the underlying securities are predominantly Brazilian government bonds as trading securities, which are stated at fair value. We include realized and unrealized gains and losses on trading securities in other (expense) income on the consolidated statements of income.

During fiscal year 2011, we determined certain highly-liquid bond obligations and Brazilian mutual funds, which had previously been classified as cash equivalents, did not meet the definition of a cash equivalent. At November 30, 2011 we have classified these securities as short-term investments. At November 30, 2010, \$9.0 million was classified as cash equivalents but should have been classified as short-term investments. This amount was also reflected in our cash and equivalents balance in our consolidated statements of cash flows for the year ended November 30, 2010, but should have been reflected in our cash flows from investing activities. We evaluated the error and do not believe the amount is material to our consolidated financial statements for any prior period. We have not restated our previously issued consolidated financial statements, or revised any prior period amounts within these financial statements as a result of this item.

We monitor our investment portfolio for impairment on a periodic basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other than temporary, an impairment charge is recorded and a new cost basis for the investment is established.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. We establish this allowance using estimates that we make based on factors such as the composition of the accounts receivable aging, historical bad debts, changes in payment patterns, changes to customer

creditworthiness and current economic trends.

A summary of activity in the allowances for doubtful accounts is as follows (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Beginning balance	\$6,683	\$4,980	\$7,650
Charge (benefit) to costs and expenses	1,140	1,963	(1,400)
Write-offs and other	(5,094)	(117)	(981)
Translation adjustments	295	(143)	(289)
Ending balance	\$3,024	\$6,683	\$4,980

In fiscal year 2012, we wrote-off significantly aged receivables which had been previously allowed for. Our net accounts receivable balance and bad debt expense were not impacted, but our gross accounts receivable and allowance for doubtful accounts balances decreased.

Concentrations of Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments, derivative instruments and trade receivables. We have cash investment policies which, among other things, limit investments to investment-grade securities. We hold our cash and cash equivalents, investments and derivative instrument contracts with high quality financial institutions and we monitor the credit ratings of those institutions. We perform ongoing credit evaluations of our customers, and the risk with respect to trade receivables is further mitigated by the diversity, both by geography and by industry, of the customer base. No single customer represented more than 10% of consolidated accounts receivable or revenue in fiscal years 2012, 2011 or 2010.

Fair Value of Financial Instruments

The carrying amount of our cash and cash equivalents, accounts receivable and accounts payable approximates fair value due to the short-term nature of these items. We base the fair value of short-term investments on quoted market prices at the balance sheet date. The fair value of ARS is based on a valuation methodology utilizing discounted cash flow models (Note 2) due to the absence of quoted market prices. We measure and record derivative financial instruments at fair value (Note 3). We elect fair value measurement for certain financial assets on a case-by-case basis.

Derivative Instruments

We record all derivatives, whether designated in hedging relationships or not, on the consolidated balance sheets at fair value. We use derivative instruments to manage exposures to fluctuations in the value of foreign currencies, which exist as part of our ongoing business operations. Certain assets and forecasted transactions are exposed to foreign currency risk. Our objective for holding derivatives is to eliminate or reduce the impact of these exposures. We periodically monitor our foreign currency exposures to enhance the overall economical effectiveness of our foreign currency hedge positions. Principal currencies hedged include the euro, British pound, Brazilian real, Japanese yen and Australian dollar. We do not enter into derivative instruments for speculative purposes, nor do we hold or issue any derivative instruments for trading purposes.

We enter into certain derivative instruments that do not qualify for hedge accounting and are not designated as hedges. Although these derivatives do not qualify for hedge accounting, we believe that such instruments are closely correlated with the underlying exposure, thus managing the associated risk. The gains or losses from changes in the fair value of such derivative instruments that are not accounted for as hedges are recognized in earnings in other

income (expense) in the consolidated statements of income.

Property and Equipment

We record property and equipment at cost. We record property and equipment purchased in business combinations at fair values which are then treated as the cost. We provide for depreciation and amortization on the straight-line method over the estimated useful lives of the related assets or the remaining initial or current terms of leases, whichever is shorter. Useful lives by major asset class are as follows: computer equipment and software, three to seven years; buildings and improvements, five to thirty-nine years; and furniture and fixtures, five to seven years.

Goodwill, Intangible Assets and Long-Lived Assets

Goodwill is the amount by which the cost of acquired net assets in a business combination exceeded the fair value of net identifiable assets on the date of purchase. We evaluate goodwill and other intangible assets with indefinite useful lives, if any, for impairment annually on December 15 or on an interim basis when events and circumstances arise that indicate impairment may have occurred. To conduct these impairment tests of goodwill, we compare the fair value of a reporting unit to its carrying value. If the reporting unit's carrying value exceeds its fair value, we record an impairment loss to the extent that the carrying value of goodwill exceeds its implied fair value. We estimate the fair values of our reporting units using discounted cash flow models or other valuation models, such as comparative transactions and market multiples.

We periodically review long-lived assets (primarily property and equipment) and intangible assets with finite lives (purchased technology, capitalized software and customer-related intangibles, which we amortize using the pattern in which the economic benefit will be realized or using the straight-line method if a pattern cannot be reliably determined) for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of those assets are no longer appropriate. We base each impairment test on a comparison of the undiscounted cash flows to the carrying value of the asset. If impairment is indicated, we write down the asset to its estimated fair value based on a discounted cash flow analysis. We recorded no impairment losses in fiscal years 2011 and 2010. In fiscal year 2012 we recorded an impairment loss of \$0.9 million related to assets no longer deployed as part of cost reduction strategies associated with our restructuring action.

Comprehensive Loss

The components of comprehensive loss include, in addition to net income, unrealized gains and losses on investments and foreign currency translation adjustments.

Accumulated other comprehensive loss is comprised of the following components (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Accumulated unrealized losses on investments	\$(2,581)	\$(4,108)	\$(4,462)
Cumulative translation adjustment	(8,183)	(7,545)	(3,277)
Total accumulated comprehensive loss, net of tax	\$(10,764)	\$(11,653)	\$(7,739)

The tax effect on accumulated unrealized losses on investments was \$1.5 million, \$2.0 million and \$2.1 million at November 30, 2012, 2011 and 2010, respectively.

Revenue Recognition

We recognize software license revenue upon shipment of the product or, if delivered electronically, when the customer has the right to access the software, provided that the license fee is fixed or determinable, persuasive evidence of an arrangement exists and collection is probable. We do not license our software with a right of return and generally do not license our software with conditions of acceptance. If an arrangement does contain conditions of acceptance, we defer recognition of the revenue until the acceptance criteria are met or the period of acceptance has passed. If software licenses are sold on a subscription basis, we recognize the license fee ratably over the subscription period. We generally recognize revenue for products distributed through application partners and distributors when sold through to the end-user.

We generally sell our software licenses with maintenance services and, in some cases, also with consulting services. For the undelivered elements, we determine vendor-specific objective evidence (VSOE) of fair value to be the price charged when the undelivered element is sold separately. We determine VSOE for maintenance sold in connection with a software license based on the amount that will be separately charged for the maintenance renewal period. We determine VSOE for consulting services by reference to the amount charged for similar engagements when a software license sale is not involved.

We generally recognize revenue from software licenses sold together with maintenance and/or consulting services upon shipment using the residual method, provided that the above criteria have been met. If VSOE of fair value for the undelivered elements cannot be established, we defer all revenue from the arrangement until the earlier of the point at which such sufficient VSOE does exist or all elements of the arrangement have been delivered, or if the only undelivered element is maintenance,

then we recognize the entire fee ratably over the maintenance period. If payment of the software license fees is dependent upon the performance of consulting services or the consulting services are essential to the functionality of the licensed software, then we recognize both the software license and consulting fees using the completed contract method. We recognize maintenance revenue ratably over the term of the applicable agreement. We generally recognize revenue from services, primarily consulting and customer education, as the related services are performed.

Product Development Costs

We expense product development costs as incurred. We did not capitalize any software development costs related to product development in fiscal years 2012, 2011 or 2010.

Advertising Costs

Advertising costs are expensed as incurred and were \$1.5 million, \$2.9 million and \$2.5 million in fiscal years 2012, 2011 and 2010, respectively.

Warranty Costs

We make periodic provisions for expected warranty costs. Historically, warranty costs have been insignificant.

Stock-Based Compensation

Stock-based compensation expense reflects the fair value of stock-based awards 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 either the current market price of the stock or the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to stock price volatility, the expected life of options, a risk-free interest rate and dividend yield. We recognize stock-based compensation expense on a straight-line basis over the service period of the award, which is generally 4 or 5 years for options, and 3 years for restricted stock units and restricted stock awards.

Restructuring Charges

Our restructuring charges are comprised primarily of costs related to property abandonment, including future lease commitments, net of any sublease income, and associated leasehold improvements; and employee termination costs related to headcount reductions. We recognize and measure restructuring liabilities initially at fair value when the liability is incurred.

Income Taxes

We provide for deferred income taxes resulting from temporary differences between financial and taxable income. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized.

We recognize and measure uncertain tax positions taken or expected to be taken in a tax return utilizing a two-step approach. We first determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is that we measure the tax benefit as the largest amount that is more likely than not to be realized upon ultimate settlement. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes on our consolidated statements of income.

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment (ASU 2011-08), to allow entities to use a qualitative approach to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If after performing the qualitative assessment an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step goodwill impairment test. ASU 2011-08 is effective for us in fiscal year 2013. We adopted ASU 2011-08 for our fiscal year 2013 annual impairment test, which occurs in our first quarter and was completed prior to the filing of this Annual Report. The adoption did not have any impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) — Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05 (ASU 2011-12), which defers the effective date of only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. ASU 2011-05 is effective for us in our first quarter of fiscal year 2013 and should be applied retrospectively. The adoption of ASU 2011-05 and ASU 2011-12 is not anticipated to have any impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. We adopted ASU 2011-04 in our second quarter of fiscal year 2012 and have applied the provisions prospectively. The adoption of ASU 2011-04 did not have any impact on our financial position, results of operations or cash flows, but increased the disclosures included in the notes to the consolidated financial statements.

Note 2: Cash, Cash Equivalents and Investments

A summary of our cash, cash equivalents and available-for-sale investments at November 30, 2012 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	\$176,201	\$—	\$—	\$176,201
Money market funds	125,591	—	—	125,591
State and municipal bond obligations	50,565	255	(2	) 50,818
Auction rate securities – municipal bonds	27,175	—	(3,755	) 23,420
Auction rate securities – student loans	3,500	—	(599	) 2,901
Corporate bonds	2,608	—	(1	) 2,607
Total	\$385,640	\$255	\$(4,357	) \$381,538

A summary of our cash, cash equivalents and trading and available-for-sale investments at November 30, 2011 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	\$134,890	\$—	\$—	\$134,890
Money market funds	24,220	—	—	24,220
State and municipal bond obligations	84,193	221	(16	) 84,398
Brazilian mutual funds	15,346	—	—	15,346
Auction rate securities – municipal bonds	27,200	—	(4,269	) 22,931
Auction rate securities – student loans	12,700	—	(2,092	) 10,608
Corporate bonds	2,562	—	—	2,562
Total	\$301,111	\$221	\$(6,377	) \$294,955

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

	November 30, 2012			November 30, 2011		
	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	\$176,201	\$—	\$—	\$134,890	\$—	\$—
Money market funds	125,591	—	—	24,220	—	—
State and municipal bond obligations	—	50,818	—	1,985	82,413	—
Brazilian mutual funds	—	—	—	—	15,346	—
Auction rate securities – municipal bonds	—	—	23,420	—	—	22,931
Auction rate securities – student loans	—	—	2,901	—	—	10,608
Corporate bonds	—	2,607	—	—	2,562	—
Total	\$301,792	\$53,425	\$26,321	\$161,095	\$100,321	\$33,539

For each of the ARS, we evaluated the risks related to the structure, collateral and liquidity of the investment, and forecasted the probability of issuer default, auction failure and a successful auction at par or a redemption at par for each future auction period. The weighted average cash flow for each period was then discounted back to present value for each security. Based on this methodology, we determined that the fair value of our ARS investments is \$26.3 million and \$33.5 million at November 30, 2012 and 2011, respectively. The temporary impairment recorded in accumulated other comprehensive loss to reduce the value of our available-for-sale ARS investments was \$4.4 million and \$6.4 million at November 30, 2012 and 2011, respectively.

We will not be able to access the funds associated with our ARS investments until a future auction for these ARS is successful, we sell the securities in a secondary market, or they are redeemed by the issuer. As such, these remaining investments currently lack short-term liquidity and are therefore classified as long-term investments on the consolidated balance sheets at November 30, 2012 and 2011.

Based on our cash, cash equivalents and short-term investments balance of \$355.2 million, expected operating cash flows and the availability of funds under our revolving credit facility, we do not anticipate that the lack of liquidity associated with our ARS will adversely affect our ability to conduct business and believe we have the ability to hold the affected securities throughout the currently estimated recovery period. Therefore, the impairment of these securities is considered only temporary in nature. If the credit rating of either the security issuer or the third-party insurer underlying the investments deteriorates significantly, we may be required to adjust the carrying value of the ARS through an other-than-temporary impairment charge to earnings.

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

	November 30, 2012	November 30, 2011
Due in one year or less ⁽¹⁾	\$55,001	\$104,620
Due after one year	24,745	31,225
Total	\$79,746	\$135,845

Includes ARS which are tendered for interest-rate setting purposes periodically throughout the year. Beginning in (1) February 2008, auctions for these securities began to fail, and therefore these investments currently lack short-term liquidity. The remaining contractual maturities of these securities range from 11 to 30 years.

Investments with continuous unrealized losses and their related fair values are as follows at November 30, 2012 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipal bond obligations	\$5,818	\$(1)	\$472	\$(1)	\$6,290	\$(2)
Auction rate securities – municipal bonds	—	—	23,420	(3,755)	23,420	(3,755)
Auction rate securities – student loans	—	—	2,901	(599)	2,901	(599)
Corporate bonds	2,607	(1)	—	—	2,607	(1)
Total	\$8,425	\$(2)	\$26,793	\$(4,355)	\$35,218	\$(4,357)

Investments with continuous unrealized losses and their related fair values are as follows at November 30, 2011 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipal bond obligations	\$24,585	\$(16)	\$—	\$—	\$24,585	\$(16)
Auction rate securities – municipal bonds	—	—	22,931	(4,269)	22,931	(4,269)
Auction rate securities – student loans	—	—	10,608	(2,092)	10,608	(2,092)
Total	\$24,585	\$(16)	\$33,539	\$(6,361)	\$58,124	\$(6,377)

The unrealized losses associated with state and municipal bond obligations and corporate bonds are attributable to changes in interest rates. The unrealized losses associated with ARS are discussed above. Management does not believe any unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of November 30, 2012.

Note 3: Derivative Instruments

We generally use foreign currency option contracts that are not designated as hedging instruments to hedge economically a portion of forecasted international cash flows for up to one year in the future. All foreign currency option contracts are recorded at fair value in other current assets on the consolidated balance sheets at the end of each reporting period and expire within one year. In fiscal years 2011 and 2010, mark-to-market (losses) gains of \$(0.5) million and \$3.1 million, respectively, on foreign currency option contracts were recorded in other income (expense) in the consolidated statements of income. We did not hold any option contracts during fiscal year 2012.

We also use forward contracts that are not designated as hedging instruments to hedge economically the impact of the variability in exchange rates on accounts receivable and collections 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 in other current assets on the consolidated balance sheets at the end of each reporting period and expire within