PROGRESS SOFTWARE CORP /MA
Form 10-Q
October 07, 2016
Table of Contents

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

FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 31, 2016

¨ 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)

DELAWARE	04-2746201
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

14 Oak Park
Bedford, Massachusetts 01730
(Address of principal executive offices)(Zip code)
Telephone Number: (781) 280-4000

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 ý 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
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 the definitions "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	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 ý
As of September 29, 2016, there were 48,592,417 shares of the registrant's common stock, $.01 par value per share, outstanding.

Table of Contents

PROGRESS SOFTWARE CORPORATION
FORM 10-Q
FOR THE NINE MONTHS ENDED AUGUST 31, 2016
INDEX

PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	3
	Condensed Consolidated Balance Sheets as of August 31, 2016 and November 30, 2015	3
	Condensed Consolidated Statements of Operations for the three and nine months ended August 31, 2016 and 2015	4
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended August 31, 2016 and 2015	5
	Condensed Consolidated Statements of Cash Flows for the nine months ended August 31, 2016 and 2015	6
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	35
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	36
Item 1A.	Risk Factors	36
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 5.	Other Matters	42
Item 6.	Exhibits	42
	Signatures	43
	Exhibit Index	44

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets

(In thousands, except share data)	August 31, 2016	November 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 188,084	$ 212,379
Short-term investments	44,600	28,900
Total cash, cash equivalents and short-term investments	232,684	241,279
Accounts receivable (less allowances of $1,565 and $2,193, respectively)	55,758	66,459
Other current assets	20,521	15,671
Total current assets	308,963	323,409
Property and equipment, net	50,778	54,226
Intangible assets, net	87,684	114,113
Goodwill	370,097	
Current liabilities		
Accounts payable	$ 1,741	$ 1,859
Current maturities of long-term debt		2,000
Deferred revenue	1,016	1,672
Accrued expenses	7,042	9,392
Total current liabilities	9,799	14,923
Long-term debt, net of current maturities	69,813	69,813
Deferred tax liability	24,435	25,411
Other liabilities	98	201
Total liabilities	104,145	110,348
Commitments and contingencies (Note 5)		
Stockholders equity		
Preferred stock, $.001 par value; 10,000 shares authorized; none issued		
Common stock, $.001 par value, 100,000 shares authorized; 31,968 shares issued and 31,952 shares outstanding at March 31, 2010 and 31,816 shares issued and 31,800 outstanding at December 31, 2009	32	32
Additional paid-in-capital	190,529	189,601
Treasury stock (16 shares, at cost)	(57)	(57)
Accumulated other comprehensive loss	(1,953)	(1,521)
Accumulated deficit	(55,970)	(56,430)
Total stockholders equity	132,581	131,625
Total liabilities and stockholders equity	$ 236,726	$ 241,973

The accompanying notes are an integral part of these condensed consolidated financial statements.

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenues	$ 34,844	$ 34,299
Operating expenses		
Direct costs and expenses for advisors	18,481	14,865
Selling, general and administrative	12,338	15,009
Depreciation and amortization	2,359	2,372
Operating income	1,666	2,053
Interest income	35	163
Interest expense	(794)	(1,303)
Foreign currency transaction loss	(105)	(12)
Income before taxes	802	901
Income tax provision	342	360
Net income	$ 460	$ 541
Weighted average shares outstanding:		
Basic	31,922	31,418
Diluted	32,134	31,465
Earnings per share:		
Basic	$ 0.01	$ 0.02
Diluted	$ 0.01	$ 0.02

The accompanying notes are an integral part of these condensed consolidated financial statements.

INFORMATION SERVICES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31, 2010	2009
Cash flows from operating activities		
Net income	$ 460	$ 541
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation expense	381	336
Amortization of intangibles	1,978	2,036
Amortization of deferred financing costs	92	123
Compensation costs related to stock-based awards	848	693
Bad debt expense	68	406
Deferred tax benefit	(679)	(664)
Loss on disposal of furniture, fixtures and equipment	7	3
Changes in operating assets and liabilities:		
Accounts receivable	(2,237)	(610)
Prepaid expense and other current assets	(177)	(456)
Accounts payable	(118)	843
Deferred revenue	(656)	111
Accrued liabilities	(2,453)	(12,453)
Net cash used in operating activities	(2,486)	(9,091)
Cash flows from investing activities		
Purchase of furniture, fixtures and equipment	(255)	(469)
Net cash used in investing activities	(255)	(469)
Cash flows from financing activities		
Principal payments on borrowings	(2,000)	(238)
Proceeds from issuance of ESPP shares	79	
Net cash used in financing activities	(1,921)	(238)
Effect of exchange rate changes on cash	(304)	(747)
Net decrease in cash and cash equivalents	(4,966)	(10,545)
Cash and cash equivalents, beginning of period	42,786	61,146
Cash and cash equivalents, end of period	$ 37,820	$ 50,601

The accompanying notes are an integral part of these condensed consolidated financial statements.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands, except per share data)

(unaudited)

NOTE 1 DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

Information Services Group, Inc. (the Company) was incorporated in Delaware on July 20, 2006. The Company was formed to acquire, through a merger, capital stock exchange, asset or stock acquisition or other similar business combination, one or more domestic or international operating businesses.

On November 16, 2007 (the Acquisition Date), the Company consummated the acquisition of TPI Advisory Services Americas, Inc., (the Acquisition) a Texas corporation (TPI), pursuant to a Purchase Agreement (the Purchase Agreement) dated April 24, 2007, as amended on September 30, 2007, by and between MCP-TPI Holdings, LLC, a Texas limited liability company, and the Company.

The Company operates as a fact-based sourcing advisory firm specializing in the assessment, evaluation, negotiation and management of service contracts between our clients and those clients outside service providers and their internal shared service organizations. These service contracts typically involve the clients information technology (IT) infrastructure or software applications development, data and voice communications, or IT-enabled business processes such as the clients internal finance and accounting functions, human resources, call center operations, or supply chain procurement. The majority of our clients are Forbes Global 2000 corporations in the United States, Canada, Western Europe, Asia and Australia who are seeking to enter into or streamline their third-party outsourcing contracts. Clients are primarily charged on an hourly basis plus expenses. We also enter into a limited number of fixed fee arrangements. Services are rendered by our consultants who are primarily based throughout the Americas, Europe, and Asia Pacific.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements as of March 31, 2010 and for the three months ended March 31, 2010 and 2009, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial statements and pursuant to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made that are considered necessary for a fair presentation of the financial position of the Company as of March 31, 2010 and the results of operations and cash flows for the three months ended March 31, 2010 and 2009. The condensed consolidated balance sheet as of December 31, 2009 has been derived from the Company s audited consolidated financial statements. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Certain information and disclosures normally included in the notes to annual financial statements prepared in accordance with GAAP have been omitted from these interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2009, which are included in the Company s 2009 Form 10-K filed with the SEC.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Derivative Instruments

We may enter into derivative financial transactions to hedge existing or projected transactional exposures due to changing foreign currency exchange rates. We do not enter into derivative transactions for speculative or trading purposes. We recognize all derivative transactions on the balance sheet at fair value which are reflected through the results of operations and included in foreign currency gain (loss) in our consolidated statements of operations. While derivative instruments are subject to fluctuations in value, the fluctuations are generally offset by the value of the underlying transactional exposures being managed. The use of some derivative transactions may limit our ability to benefit from favorable fluctuations in foreign exchange rates. Our derivatives are not designated as hedges for accounting purposes.

Earnings Per Common Share

Basic earnings per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would share in the net income of the Company. At March 31, 2010, the effect of 35.6 million warrants, 0.3 million stock appreciation rights (SARs) and 1.4 million Units (each Unit comprising one common share and one warrant) associated with the Company s IPO underwriters purchase option have not been considered in the

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

diluted earnings per share calculation, since the market price of the Company s common stock was less than the exercise price during the period in the computation. In addition, 0.5 million restricted shares and 0.3 million SARs have not been considered in the diluted earnings per share calculation for the three months ended March 31, 2010, as the effect would be anti-dilutive. At March 31, 2009, the effect of 35.6 million warrants, 0.7 million SARS and 1.4 million Units have not been considered in the diluted earnings per share, since the market price of the stock was less than the exercise price during the period in the computation. In addition, 2.0 million restricted shares have not been considered in the diluted earnings per share calculation for the three months ended March 31, 2009, as the effect would be anti-dilutive.

The following tables set forth the computation of basic and diluted earnings per share:

	Three Months Ended March 31, 2010	2009
Numerator:		
Net income	$ 460	$ 541
Denominator:		
Basic weighted average shares	31,922	31,418
Dilutive effect of SARs, restricted shares, Employee Stock Purchase Plan shares and warrants	212	47
	32,134	31,465
Basic earnings per share	$ 0.01	$ 0.02
Diluted earnings per share	$ 0.01	$ 0.02

Recently Issued Accounting Pronouncements

In January 2010, FASB issued an accounting standards update that clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. This update is effective for fiscal years beginning after December 15, 2009. Early application is prohibited. The adoption of this standard did not have a material impact on the Company s consolidated financial statements.

In January 2010, the FASB issued an update to existing standards on fair value measurements, which requires new disclosures about inputs and valuation techniques used in recurring and non-recurring fair value measurements and about significant transfers between the three levels of fair value measurements. The new disclosure requirements are effective for interim and annual periods beginning after December 15, 2009. The accounting update did not have a material impact on the Company s consolidated financial statements.

In February 2010, the FASB revised the authoritative guidance for subsequent events recognition and disclosure requirements. Among the various amendments, the FASB eliminated the requirement for companies who are SEC filers to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The revised authoritative guidance is effective upon issuance. The adoption of this standard did not have a material impact on the Company s consolidated financial statements.

NOTE 4 INCOME TAXES

The Company s effective tax rate for the three months ended March 31, 2010 is 42.6% compared to 40.0% for the three months ended March 31, 2009. The Company s operations resulted in a pre-tax income of $0.8 million and a tax expense of $0.3 million at the 42.6% effective tax rate for the three months ended March 31, 2010.

As of March 31, 2010, the Company had total unrecognized tax benefits of approximately $0.3 million of which approximately $0.1 million of this benefit would impact the Company s effective tax rate if recognized. The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax provision in its consolidated statement of operations. As of March 31, 2010, the Company s accrual of interest and penalties was immaterial.

INFORMATION SERVICES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(continued)

(tabular amounts in thousands, except per share data)

(unaudited)

The Company entered into a settlement with the Internal Revenue Service during the quarter to close the audit of its federal tax returns filed for the periods ended November 16, 2007 and December 31, 2006. There was no change to the Company s tax liability and no impact to the Company s earnings as a result of the audit.

NOTE 5 COMMITMENTS AND CONTINGENCIES

The Company is subject to contingencies which arise through the ordinary course of business. All liabilities of which management is aware are properly reflected in the financial statements at March 31, 2010 and December 31, 2009.

NOTE 6 COMPREHENSIVE INCOME

The following table presents the components of comprehensive income for the periods presented.

	Three Months Ended March 31,			
	2010		2009	
Net income	$	460	$	541
Other comprehensive income:				
Foreign currency translation adjustments, net of tax of $(264) and $(278)		(433)		(454)
Comprehensive income	$	27	$	87

NOTE 7 SEGMENT AND GEOGRAPHICAL INFORMATION

The Company operates in one segment consisting primarily of fact-based sourcing advisory services. The Company operates principally in the Americas, Europe and Asia Pacific.

Geographical information for the segment is as follows:

	Three Months Ended March 31, 2010		2009	
Revenues				
Americas	$	21,157	$	20,156
Europe		10,255		11,302
Asia Pacific		3,432		2,841
	$	34,844	$	34,299

The segregation of revenues by geographic region is based upon the location of the legal entity performing the services. The Company does not measure or monitor gross profit or operating income by geography for the purposes of making operating decisions or allocating resources.

NOTE 8 FINANCING ARRANGEMENTS AND LONG-TERM DEBT

On November 16, 2007, in connection with the Acquisition of TPI, International Consulting Acquisition Corp., a wholly-owned indirect subsidiary of ISG (the Borrower), entered into a senior secured credit facility comprised of a $95.0 million term loan facility and a $10.0 million revolving credit facility (collectively referred to as the 2007 Credit Agreement). On November 16, 2007, the Borrower borrowed $95.0 million under the term loan facility to finance the purchase of TPI. In accordance with the terms of the amended 2007 Credit Agreement, the Company made a $2.0 million principal repayment on March 31, 2010 to reduce the outstanding term loan balance to $69.8 million. The remaining mandatory term loan principal repayment will be due on November 16, 2014, which is the maturity date for the term loan. There were no borrowings under the revolving credit facility during the first quarter of 2010. The carrying amount of long-term debt owed to banks approximates fair value based on interest rates that are currently available to the Company for issuance of debt with similar terms and maturities.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our financial statements and related notes included elsewhere in this report. Except for historical information, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as may, should, could, predict, potential, continue, expect, anticipa intend, plan, believe, estimate, forecast and similar expressions (or the negative of such expressions.) Forward-looking statements include statements concerning 2010 revenue growth rates and capital expenditures. Forward-looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, the volatility of our stock price, and current competitive conditions. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion in our 2009 Form 10-K titled Risk Factors.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND MARCH 31, 2009

Revenues

Revenues are generally derived from engagements priced on a time and materials basis, and are recorded based on actual time worked and are recognized as the services are performed. Revenues related to materials (mainly out-of-pocket expenses such as airfare, lodging and meals) required during an engagement generally do not include a profit mark-up and can be charged and reimbursed discretely or as part of the overall fee structure. Invoices are issued to clients at least monthly.

The Company operates in one segment, fact-based sourcing advisory services. The Company operates principally in the Americas, Europe, and Asia Pacific. The Company s foreign operations are subject to local government regulations and to the uncertainties of the economic and political conditions of those areas.

Geographical information for the segment is as follows:

	Three Months Ended March 31, (in thousands)			
Geographic Area	**2010**	**2009**	**Change**	**Percent Change**
Americas	$ 21,157	$ 20,156	$ 1,001	5%
Europe	10,255	11,302	(1,047)	(9)%
Asia Pacific	3,432	2,841	591	21%
Total revenues	$ 34,844	$ 34,299	$ 545	2%

The net increase in revenues of $0.5 million or 2% in 2010 was attributable principally to a 5% increase in Americas revenues to $21.2 million and a 21% increase in Asia Pacific revenues to $3.4 million. The increase in revenues is primarily due to higher levels of sourcing activity, particularly in the U.S. and Asia Pacific, attributable to increases in information technology (IT) and post contract governance services which offset decline in business process outsourcing. These increases were partially offset by a 9% reduction in Europe primarily due to lower volumes in sourcing related engagements. The translation of foreign currency into US dollars also favorably impacted performance compared to prior year.

Operating Expenses

The following table presents a breakdown of our operating expenses by category:

	Three Months Ended March 31, (in thousands)			
Operating Expenses	**2010**	**2009**	**Change**	**Percent Change**
Direct costs and expenses for advisors	$ 18,481	$ 14,865	$ 3,616	24%
Selling, general and administrative	12,338	15,009	(2,671)	(18)%
Depreciation and amortization	2,359	2,372	(13)	(1)%
Total operating expenses	$ 33,178	$ 32,246	$ 932	3%

Total operating expenses increased $0.9 million or 3% for the quarter with increases in direct expenses (24%) partially offset by reduction in selling, general and administrative (SG&A) (18%) due primarily to increases in variable compensation programs, outside professional services, share-based compensation and travel expenses. These cost increases were only partially offset by lower compensation due to lower headcount levels, reductions in training expense and bad debt reserves. The impact of foreign currency translation into US dollars drove costs higher compared to the same prior 2009 period. Regarding the increase in direct costs which was partially offset by a corresponding decrease in SG&A costs, this was driven by the greater percentage of advisor time that was spent on billable activities in the quarter which are charged to direct costs versus non-billable activities that are charged as SG&A costs compared to prior year. Billable advisor time was lower in 2009 due to the impacts of the global recession which drove a higher level of SG&A costs.

Compensation costs consist of a mix of fixed and variable salaries, annual bonuses, benefits and pension plan contributions. A portion of compensation expenses for certain billable employees are allocated between direct costs and selling, general and administrative costs based on relative time spent between billable and non-billable activities. Bonus compensation is determined based on achievement against Company financial and individual targets, and is accrued monthly throughout the year based on management s estimates of target achievement. Statutory and elective pension plans are offered to employees as appropriate. Direct costs also include employee taxes, health insurance, workers compensation and disability insurance.

Sales and marketing costs consist principally of compensation expense related to business development, proposal preparation and delivery and negotiation of new client contracts. Costs also include travel expenses relating to the pursuit of sales opportunities, expenses for hosting periodic client conferences, public relations activities, participation in industry conferences, industry relations, website maintenance and business intelligence activities. The Company maintains a dedicated global marketing function responsible for developing and managing sales campaigns, brand promotion, the TPI Index and assembling proposals.

The Company maintains a comprehensive program for training and professional development. Related expenses include product training, updates on new service offerings or methodologies and development of project management skills. Also included in training and professional development are expenses associated with the development, enhancement and maintenance of our proprietary methodologies and tools and the systems that support them.

General and administrative expenses consist principally of executive management compensation, allocations of billable employee compensation related to general management activities, IT infrastructure, and costs for the finance, accounting, information technology and human resource functions. General and administrative costs also reflect continued investment associated with implementing and operating client and employee management systems. Because our billable personnel operate primarily on client premises, all occupancy expenses are recorded as general and administrative.

Depreciation and Amortization Expense

Depreciation and amortization expense in the first quarter of 2010 and 2009 was $2.4 million. The Company s fixed assets consist of furniture, fixtures, equipment (mainly personal computers) and leasehold improvements. Depreciation expense is generally computed by applying the straight-line method over the estimated useful lives of assets. The Company also capitalizes some costs associated with the purchase and development of internal-use software, system conversions and website development costs. These costs are amortized over the estimated useful life of the software or system.

The Company amortizes its intangible assets (e.g. client relationships and databases) over their estimated useful lives. Goodwill, trademark and trade names related to acquisitions are not amortized but are subject to annual impairment testing.

Other (Expense), Net

The following table presents a breakdown of other (expense), net:

	Three Months Ended March 31, (in thousands)			
	2010	2009	Change	Percent Change
Interest income	$ 35	$ 163	$ (128)	(79)%
Interest expense	(794)	(1,303)	509	39%
Foreign currency loss	(105)	(12)	(93)	(775)%
Total other expense, net	$ (864)	$ (1,152)	$ 288	25%

The decrease of $0.3 million was primarily the result of lower interest expense given reduced debt levels which was partially offset by foreign currency related losses and lower interest income.

Income Tax Expense

The Company s effective tax rate varies from period to period based on the mix of earnings among the various state and foreign tax jurisdictions in which business is conducted and the level of non-deductible expenses incurred in any given period. The Company s effective tax rate for the three months ended March 31, 2010 was 42.6% compared to 40.0% for the three months ended March 31, 2009. The Company s operations resulted in a pre-tax income of $0.8 million and a tax expense of $0.3 million at the 42.6% effective tax rate for the three months ended March 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company s primary sources of liquidity are cash flows from operations, existing cash and cash equivalents and the Company s revolving credit facility. Operating assets and liabilities consist primarily of receivables from billed and unbilled services, accounts payable, accrued expenses, and accrued payroll and related benefits. The volume of billings and timing of collections and payments affect these account balances.

As of March 31, 2010, our cash and cash equivalents were $37.8 million, a net decrease of $5.0 million from December 31, 2009, which was primarily attributable to the following:

- net cash outflows from operating activities of $2.5 million primarily related to estimated income tax payments and the payout of bonuses earned during 2009;

- capital expenditures for furniture, fixtures and equipment of $0.3 million; and

- payment of principal amounts due on the debt of $2.0 million.

Capital Resources

On November 16, 2007, in connection with the Acquisition of TPI, International Consulting Acquisition Corp., a wholly-owned indirect subsidiary of ISG (the Borrower), entered into a senior secured credit facility comprised of a $95.0 million term loan facility and a $10.0 million revolving credit facility (collectively referred to as the 2007 Credit Agreement). On November 16, 2007, the Borrower borrowed $95.0 million under the term loan facility to finance the purchase of TPI. In accordance with the terms of the amended 2007 Credit Agreement, the Company made a $2.0 million principal repayment on March 31, 2010 to reduce the outstanding term loan balance to $69.8 million. The remaining mandatory term loan principal repayment will be due on November 16, 2014, which is the maturity date for the term loan. There were no borrowings under the revolving credit facility during the first quarter of 2010. The carrying amount of long-term debt owed to banks approximates fair value based on interest rates that are currently available to the Company for issuance of debt with similar terms and maturities.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet financing arrangements or liabilities, guarantee contracts, retained or contingent interests in transferred assets or any obligation arising out of a material variable interest in an unconsolidated entity.

Recently Issued Accounting Pronouncements

See Note 3 to our condensed consolidated financial statements included elsewhere in this report.

Critical Accounting Policies and Accounting Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. We prepare these financial statements in conformity with U.S. generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience, available information and various other assumptions we believe to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates; however, actual results may differ from these estimates under different assumptions or conditions. There have been no material changes or developments in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Form 10-K, for the year ended December 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to financial market risks primarily related to changes in interest rates and manages these risks by employing a variety of debt instruments. Although we do not believe a change in interest rates will materially affect our financial position or results of financial operations, we have purchased an interest rate cap to limit our exposure for forty percent of the total term loan value to an increase in LIBOR rates beyond seven percent. A 100 basis point change in interest rates would result in an annual change in the results of operations of $0.7 million pre-tax.

The Company operates in a number of international areas which exposes us to significant foreign currency exchange rate risk. The Company has significant international revenue, which is generally collected in local currency. The Company currently does not hold or issue forward exchange contracts or other derivative instruments for hedging or speculative purposes. The percentage of total revenues generated outside the U.S. increased from 22% in 2004 to 42% in 2009. It is expected that the Company s international revenues will continue to grow as European, Asian and other markets adopt sourcing solutions. The Company recorded a foreign exchange transaction loss of $0.1 million for the three months ended March 31, 2010. The translation of our revenues into U.S. dollars, as well as our costs of operating internationally, may adversely affect our business, results of operations and financial condition.

The Company has not invested in foreign operations in highly inflationary economies; however, we may do so in future periods.

Concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. All cash and cash equivalents are on deposit in fully liquid form in high quality financial institutions. We extend credit to our clients based on an evaluation of each client s financial condition.

The Company s 20 largest clients accounted for approximately 44% of revenue in 2009 and 48% in 2008. In particular, revenues from clients in the automotive sector collectively accounted for approximately 15% of our 2009 annual revenue. Although only General Motors Corporation accounted for more than 10% of our revenues in 2009, if one or more of our large clients terminate or significantly reduce their engagements or fail to remain a viable business, then our revenues could be materially and adversely affected. In addition, our large clients generally maintain sizable receivable balances at any given time and our ability to collect such receivables could be jeopardized if any fails to remain a viable business.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2010, as required by the Rule 13a-15(b) under the Exchange Act. Based

on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of March 31, 2010.

Internal Control Over Financial Reporting

There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

The risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 have not materially changed.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

There were no repurchases that were made during the three months ended March 31, 2010.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

Exhibit Number		Description
31.1	*	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a).
31.2	*	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a).
32.1	*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Filed herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INFORMATION SERVICES GROUP, INC.

Date: May 7, 2010	/s/ Michael P. Connors Michael P. Connors, Chairman of the Board and Chief Executive Officer
Date: May 7, 2010	/s/ David E. Berger David E. Berger, Executive Vice President and Chief Financial Officer

id #000000;">
$
(4,026
)
Forward contracts to purchase U.S. dollars
2,209

4

2,077

5

Total
$
86,201

$
(5,166
)

$
78,825

$
(4,021
)

10

Table of Contents

Note 4: Fair Value Measurements

Recurring Fair Value Measurements

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at August 31, 2016 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	Level 1	Level 2	Level 3
Assets				
Money market funds	$ 8,536	$ 8,536	$ —	$ —
State and municipal bond obligations	34,532	—	34,532	—
U.S. treasury bonds	6,534	—	6,534	—
U.S. government agency bonds	522	—	522	—
Corporate bonds	3,012	—	3,012	—
Liabilities				
Foreign exchange derivatives	$ (5,166)	$ —	$ (5,166)	$ —

The following table details the fair value measurements within the fair value hierarchy of our financial assets and liabilities at November 30, 2015 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	Level 1	Level 2	Level 3
Assets				
Money market funds	$ 26,138	$ 26,138	$ —	$ —
State and municipal bond obligations	20,417	—	20,417	—
U.S. treasury bonds	3,094	—	3,094	—
U.S. government agency bonds	1,641	—	1,641	—
Corporate bonds	3,748	—	3,748	—
Liabilities				
Foreign exchange derivatives	$ (4,021)	$ —	$ (4,021)	$ —

When developing fair value estimates, we maximize the use of observable inputs and minimize the use of unobservable inputs. When available, we use quoted market prices to measure fair value. The valuation technique used to measure fair value for our Level 1 and Level 2 assets is a market approach, using prices and other relevant information generated by market transactions involving identical or comparable assets. If market prices are not available, the fair value measurement is based on models that use primarily market based parameters including yield curves, volatilities, credit ratings and currency rates. In certain cases where market rate assumptions are not available, we are required to make judgments about assumptions market participants would use to estimate the fair value of a financial instrument.

The following table reflects the activity for our liabilities measured at fair value using Level 3 inputs, which relate to a contingent consideration obligation in connection with a prior acquisition, for each period presented (in thousands):

	Three Months Ended August 31, 2016	Three Months Ended August 31, 2015	Nine Months Ended August 31, 2016	Nine Months Ended August 31, 2015
Balance, beginning of period	$—	$295	$—	$1,717
Changes in fair value of contingent consideration obligation	—	(295)	—	(1,508)
Transfer to Level 2 fair value measurement	—	—	—	(209)
Balance, end of period	$—	$—	$—	$—

Table of Contents

We recorded credits of approximately $0.3 million and $1.5 million during the three and nine months ended August 31, 2015, respectively, due to the change in fair value of a contingent consideration obligation in connection with a prior acquisition, which is included in acquisition-related expenses in our condensed consolidated statement of operations. The contingent consideration obligation was reduced to $0 during the fiscal year ended November 30, 2015.

Nonrecurring Fair Value Measurements

During the third quarter of fiscal year 2016, certain assets have been measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3). Based on the fair value measurement, we recorded a $5.1 million asset impairment charge as of August 31, 2016, which was applicable to the intangible assets obtained in connection with our acquisition of Modulus during the second quarter of fiscal year 2014 (Note 5).

The following table presents nonrecurring fair value measurements as of August 31, 2016 (in thousands):

	Total Fair Value	Total Losses
Intangible assets	$ —	$ 5,051

The fair value measurement was determined using an income-based valuation methodology, which incorporates unobservable inputs, including expected cash flows over the remaining estimated useful life of the technology, thereby classifying the fair value as a Level 3 measurement within the fair value hierarchy. The expected cash flows include subscription fees to be collected from existing customers using the platform, offset by hosting fees and compensation related costs to be incurred over the remaining estimated useful life.

Note 5: Intangible Assets and Goodwill

Intangible Assets

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

	August 31, 2016			November 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	$109,880	$ (64,438)	$45,442	$117,151	$ (54,963)	$62,188
Customer-related	67,602	(33,257)	34,345	67,602	(25,493)	42,109
Trademarks and trade names	15,140	(7,243)	7,897	15,330	(5,514)	9,816
Total	$192,622	$ (104,938)	$87,684	$200,083	$ (85,970)	$114,113

During the third quarter of fiscal year 2016, we evaluated the ongoing value of the intangible assets associated with the technology obtained in connection with the acquisition of Modulus. As a result of our decision to abandon the related assets due to a change in our expected ability to use the technology internally, we determined that the intangible assets were fully impaired. As a result, we incurred an impairment charge of $5.1 million in the third quarter of fiscal year 2016.

In the three and nine months ended August 31, 2016, amortization expense related to intangible assets was $7.1 million and $21.4 million, respectively. In the three and nine months ended August 31, 2015, amortization expense

related to intangible assets was $7.3 million and $22.4 million, respectively.

Table of Contents

Future amortization expense for intangible assets as of August 31, 2016, is as follows (in thousands):

Remainder of 2016	$6,852
2017	27,426
2018	26,613
2019	25,489
2020	714
Thereafter	590
Total	$87,684

Goodwill

Changes in the carrying amount of goodwill in the nine months ended August 31, 2016 are as follows (in thousands):

Balance, November 30, 2015	$369,985
Translation adjustments	112
Balance, August 31, 2016	$370,097

Changes in the goodwill balances by reportable segment in the nine months ended August 31, 2016 are as follows (in thousands):

	November 30, 2015	Translation Adjustments	August 31, 2016
OpenEdge	$211,980	$ 112	$212,092
Data Connectivity and Integration	19,040	—	19,040
Application Development and Deployment	138,965	—	138,965
Total goodwill	$369,985	$ 112	$370,097

During the fourth quarter of fiscal year 2015, we completed our annual testing for impairment of goodwill and, based on those tests, concluded that no impairment of goodwill existed as of October 31, 2015. During the quarter ending August 31, 2016, no triggering events have occurred that would indicate that it is more likely than not that the carrying values of any of our reporting units exceeded their fair values.

Note 6: Business Combinations

Telerik Acquisition

On December 2, 2014, we completed the acquisition of all of the outstanding securities of Telerik AD (Telerik), a leading provider of application development tools based in Sofia, Bulgaria, for total consideration of $262.5 million. Approximately $10.5 million of the total consideration was paid to Telerik’s founders and certain other key employees in restricted stock units, subject to a vesting schedule and continued employment. Under the Securities Purchase Agreement, 10% of the total consideration was deposited into an escrow account to secure certain indemnification and other obligations of the sellers to Progress. In accordance with the agreement, the full amount of the escrow was released to the former equity holders in June 2016.

Through this acquisition, we now provide comprehensive cloud and on-premise platform offerings that enable developers to rapidly create applications, driven by data for any web, desktop or mobile platform. We funded the acquisition through a combination of existing cash resources and a $150 million term loan (Note 7).

Acquisition-related transaction costs (e.g., legal, due diligence, valuation, and other professional fees) and certain acquisition restructuring and related charges are not included as a component of consideration transferred, but are required to be expensed as incurred. We incurred $0 and $0.3 million of acquisition-related costs during the three and nine months ended August 31, 2016, respectively, and $0.8 million and $2.7 million during the three and nine months ended August 31, 2015, respectively, which are included in acquisition-related expenses in our condensed consolidated statement of operations.

Table of Contents

In connection with the acquisition of Telerik, we agreed to provide retention bonuses to certain Telerik employees as an incentive for those employees to remain with Telerik for at least one year following the acquisition. We concluded that the retention bonuses for these individuals, which totaled approximately $2.2 million, are compensation arrangements and recognized these costs over the one-year service period. During the three and nine months ended August 31, 2015, we incurred $0.6 million and $1.8 million of expense related to the retention bonuses, respectively, which is included in the acquisition-related expenses in our consolidated statement of operations. There were no additional expenses related to the retention bonuses incurred during the three and nine months ended August 31, 2016 and the entire amount accrued during fiscal year 2015 was paid in December 2015.

The operations of Telerik are included in our operating results as part of the Application Development and Deployment segment from the date of acquisition. The amount of revenue of Telerik included in our condensed consolidated statement of operations during the three and nine months ended August 31, 2016 was $19.4 million and $56.0 million, respectively. The amount of revenue of Telerik included in our condensed consolidated statement of operations during the three and nine months ended August 31, 2015 was $12.5 million and $26.2 million, respectively. The revenue from sales of Telerik products and maintenance is primarily recognized ratably over the maintenance period, which is generally one year, as vendor specific objective evidence of fair value cannot be established for such maintenance. The amount of pretax losses of Telerik included in our condensed consolidated statement of operations during the three and nine months ended August 31, 2016 was $7.0 million and $20.2 million, respectively. The amount of pretax losses of Telerik included in our condensed consolidated statement of operations during the three and nine months ended August 31, 2015 was $10.2 million and $41.2 million, respectively. The pretax losses in each three and nine month period includes the amortization expense of approximately $6.2 million and $18.5 million, respectively, related to the acquired intangible assets discussed above. In addition, the pretax losses in the three and nine months ended August 31, 2016 includes stock-based compensation expense of approximately $2.2 million and $6.5 million, respectively.

Note 7: Term Loan and Line of Credit

Our credit agreement provides for a $150 million secured term loan and a $150 million secured revolving credit facility, which may be made available in U.S. Dollars and certain other currencies. The revolving credit facility may be increased by up to an additional $75 million if the existing or additional lenders are willing to make such increased commitments. We borrowed the $150 million term loan included in our credit agreement to partially fund our acquisition of Telerik, as described in Note 6. The revolving credit facility has sublimits for swing line loans up to $25.0 million and for the issuance of standby letters of credit in a face amount up to $25.0 million. We expect to use the revolving credit facility for general corporate purposes, including acquisitions of other businesses, and may also use it for working capital.

The credit facility matures on December 2, 2019, when all amounts outstanding will be due and payable in full. The revolving credit facility does not require amortization of principal. The outstanding balance of the $150 million term loan as of August 31, 2016 was $136.9 million, with $13.1 million due in the next 12 months. The term loan requires repayment of principal at the end of each fiscal quarter, beginning with the fiscal quarter ended February 28, 2015. The first eight payments are in the principal amount of $1.9 million each, the following eight payments are in the principal amount of $3.8 million each, the following three payments are in the principal amount of $5.6 million each, and the last payment is of the remaining principal amount. The term loan may be prepaid before maturity in whole or in part at our option without penalty or premium. As of August 31, 2016, the carrying value of the term loan approximates the fair value, based on Level 2 inputs (observable market prices in less than active markets), as the interest rate is variable over the selected interest period and is similar to current rates at which we can borrow funds. The interest rate of the credit facility as of August 31, 2016 was 2.25%.

Costs incurred to obtain our long-term debt of $1.8 million were recorded as debt issuance costs within other assets in our consolidated balance sheet as of August 31, 2016 and are being amortized over the term of the debt agreement using the effective interest rate method. Amortization expense related to debt issuance costs of $0.1 million and $0.3 million for the three and nine months ended August 31, 2016, respectively, and $0.1 million and $0.3 million for the three and nine months ended August 31, 2015, respectively, is recorded within interest expense in our condensed consolidated statements of operations.

Revolving loans may be borrowed, repaid and reborrowed until December 2, 2019, at which time all amounts outstanding must be repaid. As of August 31, 2016, there were no amounts outstanding under the revolving line and $0.5 million of letters of credit.

Table of Contents

As of August 31, 2016, aggregate principal payments of long-term debt for the next five years and thereafter are (in thousands):

Remainder of 2016	$1,875
2017	15,000
2018	15,000
2019	105,000
Total	$136,875

Note 8: Common Stock Repurchases

We repurchased and retired 0.4 million shares of our common stock for $11.5 million in the three months ended August 31, 2016 and 2.8 million shares for $71.5 million in the nine months ended August 31, 2016. We did not repurchase shares of our common stock during the three months ended August 31, 2015 and in the nine months ended August 31, 2015, we repurchased and retired 1.3 million shares for $32.9 million. The shares were repurchased in both periods as part of our Board of Directors authorized share repurchase program.

In March 2016, our Board of Directors authorized a new $100.0 million share repurchase program, which increased the total authorization to $202.8 million. As of August 31, 2016, there is $143.0 million remaining under this current authorization.

Note 9: 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 the current market price of the stock or the Black-Scholes option valuation model. In addition, during the first quarter of fiscal year 2014, each of the first three quarters of fiscal year 2015, and the first and third quarters of fiscal year 2016, we granted performance-based restricted stock units to members of executive management that include a three-year market condition. In order to estimate the fair value of such awards, we used a Monte Carlo Simulation valuation model. The Black-Scholes and Monte Carlo Simulation valuation models incorporate assumptions as to stock price volatility, the expected life of options or awards, a risk-free interest rate and dividend yield. We recognize stock-based compensation expense related to options and restricted stock units on a straight-line basis over the service period of the award, which is generally 4 or 5 years for options and 3 years for restricted stock units. We recognize stock-based compensation expense related to performance stock units and our employee stock purchase plan using an accelerated attribution method.

The following table provides the classification of stock-based compensation as reflected in our condensed consolidated statements of operations (in thousands):

	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Cost of maintenance and services	$223	$ 144	$599	$ 462
Sales and marketing	751	1,604	2,792	4,328
Product development	2,524	912	7,600	3,476
General and administrative	2,281	3,878	8,018	10,546
Total stock-based compensation	$5,779	$ 6,538	$19,009	$ 18,812

15

Table of Contents

Note 10: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated balances of other comprehensive loss during the nine months ended August 31, 2016 (in thousands):

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Investments	Accumulated Other Comprehensive Loss
Balance, December 1, 2015	$ (24,582)	$ (46)	$ (24,628)
Other comprehensive loss before reclassifications, net of tax	485	27	512
Amounts reclassified from accumulated other comprehensive loss to realized losses included in earnings	256	—	256
Balance, August 31, 2016	$ (23,841)	$ (19)	$ (23,860)

The tax effect on accumulated unrealized gains (losses) on investments was minimal as of August 31, 2016 and November 30, 2015.

Note 11: Restructuring Charges

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

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2015	$ 412	$ 2,949	$ 3,361
Costs incurred	338	(109)	229
Cash disbursements	(514)	(2,487)	(3,001)
Translation adjustments and other	4	20	24
Balance, August 31, 2016	$ 240	$ 373	$ 613

2015 Restructurings

During the first quarter of fiscal year 2015, we restructured our operations in connection with the acquisition of Telerik. This restructuring resulted in a reduction of redundant positions primarily within the administrative functions. This restructuring also resulted in the closing of two facilities as well as asset impairment charges for assets no longer deployed as a result of the acquisition. During the second and third quarters of fiscal year 2015, we incurred additional costs with respect to this restructuring, including reduction of redundant positions primarily within the product development function, as well as an impairment charge discussed further below.

Restructuring expenses are related to employee costs, including severance, health benefits and outplacement services (but excluding stock-based compensation), facilities costs, which include fees to terminate lease agreements and costs for unused space, net of sublease assumptions, and other costs, which include asset impairment charges.

During the second quarter of fiscal year 2015, we decided to replace our existing cloud-based mobile application development technology with technology acquired in connection with the acquisition of Telerik. Accordingly, we evaluated the ongoing value of the assets associated with this prior mobile technology and, based on this evaluation, we determined that the long-lived assets with a carrying amount of $4.0 million were no longer recoverable and were

impaired and wrote them down to their estimated fair value of $0.1 million. Fair value was based on expected future cash flows using Level 3 inputs under ASC 820.

As part of this first quarter of fiscal year 2015 restructuring, for the three months ended August 31, 2016 we incurred minimal expenses and for the nine months ended August 31, 2016 we incurred expenses of $0.3 million. For the three and nine months ended August 31, 2015, we incurred expenses of $2.5 million and $7.4 million, respectively. The expenses are recorded as restructuring expenses in the condensed consolidated statements of operations. We do not expect to incur additional material costs with respect to this restructuring.

Table of Contents

A summary of the first nine months of fiscal year 2016 activity for this restructuring action is as follows (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2015	$ 209	$ 309	$ 518
Costs incurred	323	(43)	280
Cash disbursements	(358)	(267)	(625)
Translation adjustments and other	4	3	7
Balance, August 31, 2016	$ 178	$ 2	$ 180

Cash disbursements for expenses incurred to date under this restructuring are expected to be made through the fourth quarter of fiscal year 2016. As a result, the total amount of the restructuring reserve of $0.2 million is included in other accrued liabilities on the condensed consolidated balance sheet at August 31, 2016.

During the fourth quarter of fiscal year 2015, our management approved, committed to and initiated plans to make strategic changes to our organization to further build on the focus gained from operating under our business segment structure and to enable stronger cross-collaboration among product management, marketing and sales teams and a tighter integration of the product management and product development teams. In connection with the new organizational structure, we no longer have presidents of our three segments, as well as certain other positions within the administrative organization. Our Chief Operating Officer, appointed during fiscal year 2015, assumed responsibility for driving the operations of our three segments. The organizational changes did not result in the closing of any of our facilities.

Restructuring expenses are related to employee costs, including severance, health benefits and outplacement services (but excluding stock-based compensation), and other costs, which include charges for the abandonment of certain assets.

As part of this fourth quarter of fiscal year 2015 restructuring, for the three and nine months ended August 31, 2016, we recorded a minimal credit to restructuring expenses in the consolidated statements of operations due to changes in estimates of severance to be paid. We do not expect to incur additional material costs with respect to this restructuring.

A summary of the first nine months of fiscal year 2016 activity for this restructuring action is as follows (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2015	$ —	$ 2,617	$ 2,617
Costs incurred	—	(42)	(42)
Cash disbursements	—	(2,220)	(2,220)
Translation adjustments and other	—	16	16
Balance, August 31, 2016	$ —	$ 371	$ 371

Cash disbursements for expenses incurred to date under this restructuring are expected to be made through the fourth quarter of fiscal year 2016. As a result, the total amount of the restructuring reserve of $0.4 million is included in other accrued liabilities on the condensed consolidated balance sheet at August 31, 2016.

2012 - 2014 Restructurings

During fiscal years 2012, 2013, and 2014, our management approved, committed to and initiated plans to make strategic changes to our organization to provide greater focus and agility in the delivery of next generation application development, deployment and integration solutions. During each of these fiscal years, we took restructuring actions that involved the elimination of personnel and/or the closure of facilities.

As part of these restructuring actions, for the three and nine months ended August 31, 2016, we incurred minimal expenses, and for the three and nine months ended August 31, 2015, we incurred expenses of $0 and $1.3 million, respectively, which are related to employee costs, including severance, health benefits, and outplacement services (but excluding stock-based

Table of Contents

compensation), and facilities costs, which include fees to terminate lease agreements and costs for unused space, net of sublease assumptions. The expenses are recorded as restructuring expenses in the condensed consolidated statements of operations. We do not expect to incur additional material costs with respect to the 2012, 2013, and 2014 restructuring actions. The restructuring reserve of $0.1 million is included in other accrued liabilities on the condensed consolidated balance sheet as of August 31, 2016.

Note 12: Income Taxes

Our income tax provision for the third quarter of fiscal years 2016 and 2015 reflects our estimates of the effective tax rates expected to be applicable for the full fiscal years, adjusted for any discrete events which are recorded in the period they occur. The estimates are reevaluated each quarter based on our estimated tax expense for the full fiscal year.

The decrease in our effective tax rate in the nine months ended August 31, 2016 compared to the same period in the prior year is primarily due to the jurisdictional mix of profits as a result of the acquisition of Telerik, where substantial losses were incurred in Bulgaria in fiscal year 2015 and tax effected at a 10% statutory rate and other jurisdictions' earnings, primarily in the United States, were taxed at higher rates.

In addition, during the preparation of our condensed consolidated financial statements for the three months ended May 31, 2016, we identified an error in our prior year income tax provision whereby income tax expense was overstated for the year ended November 30, 2015 by $2.7 million related to our tax treatment of an intercompany gain. We determined that the error is not material to the prior year financial statements. We also concluded that recording an out-of-period correction would not be material and have therefore corrected this error by recording an out-of-period $2.7 million tax benefit in our interim financial statements for the periods ended May 31, 2016.

The Internal Revenue Service is currently examining our U.S. Federal income tax returns for fiscal years 2013 and 2014. Our Federal income tax returns have been examined or are closed by statute for all years prior to fiscal year 2012, and we are no longer subject to audit for those periods. Our state income tax returns have been examined or are closed by statute for all years prior to fiscal year 2011, and we are no longer subject to audit for those periods.

Tax authorities for certain non-U.S. jurisdictions are also examining returns, none of which are material to our consolidated balance sheets, cash flows or statements of income. With some exceptions, we are generally no longer subject to tax examinations in non-U.S. jurisdictions for years prior to fiscal year 2010.

Note 13: Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Net income (loss)	$7,576	$ (4,126)	$18,067	$ 670
Weighted average shares outstanding	48,611	50,120	49,765	50,377
Dilutive impact from common stock equivalents	524	—	545	740

Diluted weighted average shares outstanding	49,135	50,120	50,310	51,117
Basic earnings per share	$0.16	$ (0.08)	$0.36	$ 0.01
Diluted earnings per share	$0.15	$ (0.08)	$0.36	$ 0.01

We excluded stock awards representing approximately 287,000 shares and 423,000 shares of common stock from the calculation of diluted earnings per share in the three and nine months ended August 31, 2016, respectively, because these awards were anti-dilutive. In the three and nine months ended August 31, 2015, we excluded stock awards representing 1,173,000 shares and 296,000 shares of common stock, respectively, from the calculation of diluted earnings per share as they were anti-dilutive.

Table of Contents

Note 14: Business Segments and International Operations

Operating segments are components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and assess performance. Our chief operating decision maker is the combination of our Chief Executive Officer and Chief Operating Officer.

We do not manage our assets or capital expenditures by segment or assign other income (expense) and income taxes to segments. We manage and report such items on a consolidated company basis.

The following table provides revenue and contribution from our reportable segments and reconciles to the consolidated income (loss) before income taxes:

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Segment revenue:				
OpenEdge	$67,534	$73,398	$198,595	$214,775
Data Connectivity and Integration	14,251	8,281	30,852	22,669
Application Development and Deployment	20,233	12,958	58,170	27,392
Total revenue	102,018	94,637	287,617	264,836
Segment costs of revenue and operating expenses:				
OpenEdge	18,180	18,550	53,539	56,529
Data Connectivity and Integration	2,828	3,180	8,863	9,563
Application Development and Deployment	11,021	9,933	29,555	30,169
Total costs of revenue and operating expenses	32,029	31,663	91,957	96,261
Segment contribution:				
OpenEdge	49,354	54,848	145,056	158,246
Data Connectivity and Integration	11,423	5,101	21,989	13,106
Application Development and Deployment	9,212	3,025	28,615	(2,777)
Total contribution	69,989	62,974	195,660	168,575
Other unallocated expenses (1)	56,383	54,380	163,005	173,903
Income (loss) from operations	13,606	8,594	32,655	(5,328)
Other (expense) income, net	(1,288)	(1,165)	(4,474)	(1,258)
Income (loss) before income taxes	$12,318	$7,429	$28,181	$(6,586)

(1) The following expenses are not allocated to our segments as we manage and report our business in these functional areas on a consolidated basis only: product development, corporate marketing, administration, amortization and impairment of acquired intangibles, stock-based compensation, restructuring, and acquisition related expenses.

Our revenues are derived from licensing our products, and from related services, which consist of maintenance and consulting and education. Information relating to revenue from customers by revenue type is as follows (in thousands):

(In thousands)	Three Months Ended	Nine Months Ended

	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Software licenses	$33,624	$31,840	$86,366	$85,794
Maintenance	60,368	55,365	178,189	157,259
Professional services	8,026	7,432	23,062	21,783
Total	$102,018	$94,637	$287,617	$264,836

Table of Contents

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

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
North America	$58,275	$49,810	$160,732	$139,454
EMEA	32,719	30,656	95,517	89,667
Latin America	4,667	4,621	12,749	13,977
Asia Pacific	6,357	9,550	18,619	21,738
Total	$102,018	$94,637	$287,617	$264,836

Note 15: Subsequent Events

On September 27, 2016, our Board of Directors approved the initiation of a quarterly cash dividend to Progress shareholders. The first quarterly dividend of $0.125 per share of common stock will be paid on December 15, 2016 to shareholders of record as of the close of business on December 1, 2016.

On September 28, 2016, we announced the appointment of Kurt J. Abkemeier as our new chief financial officer. As CFO, Mr. Abkemeier will oversee the company's global finance and accounting operations and be a member of the company's executive leadership team, reporting to Phil Pead, president and chief executive officer. Mr. Abkemeier succeeds Chris E. Perkins, who informed the company in March 2016 that he would retire as CFO upon the appointment of his successor. Mr. Abkemeier began as CFO at Progress on September 28, 2016.

Table of Contents

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

Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. This Form 10-Q, and other information provided by us or statements made by our directors, officers or employees from time to time, may contain "forward-looking" statements and information, which involve risks and uncertainties. Actual future results may differ materially. Statements indicating that we "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, including but not limited to the following: (1) Economic, geopolitical and market conditions, including the continued difficult economic environment in Brazil, and the continued slow economic recovery in Europe, parts of the U.S. and other parts of the world, can adversely affect our business, results of operations and financial condition, including our revenue growth and profitability, which in turn could adversely affect our stock price. (2) We may fail to achieve our financial forecasts due to such factors as delays or size reductions in transactions, fewer large transactions in a particular quarter, fluctuations in currency exchange rates, or a decline in our renewal rates for contracts. (3) Our ability to successfully manage transitions to new business models and markets, including an increased emphasis on a cloud and subscription strategy, may not be successful. (4) If we are unable to develop new or sufficiently differentiated products and services, or to enhance and improve our existing products and services in a timely manner to meet market demand, partners and customers may not purchase new software licenses or subscriptions or purchase or renew support contracts. (5) We depend upon our extensive partner channel and we may not be successful in retaining or expanding our relationships with channel partners. (6) Our international sales and operations subject us to additional risks that can adversely affect our operating results, including risks relating to foreign currency gains and losses. (7) If the security measures for our software, services or other offerings are compromised or subject to a successful cyber-attack, or if such offerings contain significant coding or configuration errors, we may experience reputational harm, legal claims and financial exposure. (8) We may make acquisitions in the future and those acquisitions may not be successful, may involve unanticipated costs or other integration issues or may disrupt our existing operations and those factors discussed in Part II, Item 1A (Risk Factors) in this Quarterly Report on Form 10-Q, and in Part I, Item 1A (Risk Factors) in our Annual Report on Form 10-K for the fiscal year ended November 30, 2015. Although we have sought to identify the most significant risks to our business, we cannot predict whether, or to what extent, any of such risks may be realized. We also cannot assure you that we have identified all possible issues which we might face. We undertake no obligation to update any forward-looking statements that we make.

Use of Constant Currency

Revenue from our international operations has historically represented a substantial portion of our total revenue. As a result, our revenue results have been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. For example, if the local currencies of our foreign subsidiaries 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).

Overview

We are a global leader in application development, empowering the digital transformation organizations need to create and sustain engaging user experiences in today's evolving marketplace. With offerings spanning web, mobile and data for on-premise and cloud environments, we power startups and industry titans worldwide. Our solutions are used across a variety of industries. We operate as three distinct segments: OpenEdge, Data Connectivity and Integration, and Application Development and Deployment, each with dedicated product management and product marketing functions.

At the beginning of fiscal year 2015, we acquired Telerik AD, a leading provider of application development tools. Telerik enables its 1.9 million strong developer community to create compelling user experiences across cloud, web, mobile and desktop applications. Through this acquisition, we provide comprehensive cloud and on-premise platform offerings that enable developers to rapidly create applications, driven by data for any web, desktop or mobile platform.

Table of Contents

The revenue of Telerik is being recognized ratably over the maintenance period, which is generally one year, as vendor specific objective evidence (or VSOE) of fair value cannot be established for such maintenance. As a result of acquisition accounting, the acquired deferred revenue balance was significantly reduced to reflect its fair value as of the acquisition date. However, we are still incurring the associated costs to fulfill the acquired deferred revenue, which are reflected in our consolidated statement of operations. As a result, during fiscal year 2015, our expenses as a percentage of total revenue were higher than we expect they will be in future periods once this acquired deferred revenue balance is recognized. The impact of this on fiscal year 2016 has been, and is expected to continue to be, minimal.

In the first nine months of fiscal year 2016, our results were adversely impacted by decreases in sales to OpenEdge direct enterprise customers. During the past three fiscal years, our results have benefited from several large license sales to OpenEdge direct enterprise customers. These large transactions are difficult to predict as they are subject to longer sales cycles and the timing of completion is often uncertain. If we fail to complete these large transactions or if completion is delayed, our results will be adversely impacted.

In March 2016, our Board of Directors authorized a new $100.0 million share repurchase program, which increased the total authorization to $202.8 million. During the three months ended August 31, 2016, we repurchased and retired 0.4 million shares of our common stock for $11.5 million. As of August 31, 2016, there is $143.0 million remaining under the current authorization.

In September 2016, our Board of Directors approved the initiation of a quarterly cash dividend to Progress shareholders. The first quarterly dividend of $0.125 per share of common stock will be paid on December 15, 2016 to shareholders of record as of the close of business on December 1, 2016.

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. Beginning in the fourth quarter of 2014, the value of the U.S. dollar strengthened in comparison to certain foreign currencies, including in Europe, Brazil and Australia, and continued to strengthen during the first half of 2015. The U.S. dollar has remained strong in comparison to foreign currencies in 2016. Since approximately one-third of our revenue is denominated in foreign currency, our revenue results have been negatively impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates.

In addition, the announcement of the Referendum of the United Kingdom’s (or the U.K.) Membership of the European Union (E.U.) (referred to as Brexit), advising for the exit of the United Kingdom from the European Union, has resulted in significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the further strengthening of the U.S. dollar against foreign currencies. The announcement of Brexit may create further global economic uncertainty, which may cause our customers to closely monitor their costs and reduce their spending budget on our products and services. If the Referendum is passed into law, there could be further uncertainty as the U.K. determines the future terms of its relationship with the E.U. Any of these effects of Brexit, among others, could materially adversely affect our business, results of operations and financial condition.

We have evaluated, and expect to continue to evaluate, possible acquisitions and other strategic transactions designed to expand our business and/or add complementary products and technologies to our existing product sets. As a result, our expected uses of cash could change, our cash position could be reduced and we may incur additional debt obligations to the extent we complete additional acquisitions.

We believe that existing cash balances, together with funds generated from operations and amounts available under our credit facility, will be sufficient to finance our operations and meet our foreseeable cash requirements, including

our newly announced quarterly cash dividend to Progress shareholders, through at least the next twelve months.

Table of Contents

Results of Operations

Revenue

	Three Months Ended		Percentage Change	
(In thousands)	August 31, 2016	August 31, 2015	As Reported	Constant Currency
Revenue	$102,018	$94,637	8 %	9 %

	Nine Months Ended		Percentage Change	
(In thousands)	August 31, 2016	August 31, 2015	As Reported	Constant Currency
Revenue	$287,617	$264,836	9 %	11 %

Total revenue increased $7.4 million, or 8%, in the third quarter of fiscal year 2016 as compared to the same quarter last year. Revenue would have increased by 9% if exchange rates had been constant during the period as compared to exchange rates in the same quarter last year. In addition, total revenue increased $22.8 million, or 11% on a constant currency basis and 9% using actual exchange rates, in the first nine months of fiscal year 2016 as compared to the same period last year. The increase in all periods was primarily a result of an increase in maintenance and services revenue as further described below. Changes in prices from fiscal year 2015 to 2016 did not have a significant impact on our revenue.

License Revenue

	Three Months Ended		Percentage Change	
(In thousands)	August 31, 2016	August 31, 2015	As Reported	Constant Currency
License	$33,624	$31,840	6 %	6 %
As a percentage of total revenue	33 %	34 %		

	Nine Months Ended		Percentage Change	
(In thousands)	August 31, 2016	August 31, 2015	As Reported	Constant Currency
License	$86,366	$85,794	1 %	2 %
As a percentage of total revenue	30 %	32 %		

License revenue increased $1.8 million, or 6%, in the third quarter of fiscal year 2016 as compared to the same quarter last year and increased $0.6 million, or 1%, in the first nine months of fiscal year 2016 as compared to the same period last year. The increase in license revenue was primarily due to an increase in Data Connectivity and Integration license sales, partially offset by decreases in sales to OpenEdge customers and in Corticon license sales.

Maintenance and Services Revenue

	Three Months Ended		Percentage Change	
(In thousands)	August 31, 2016	August 31, 2015	As Reported	Constant Currency

Maintenance	$60,368		$55,365		9 %	11	%
As a percentage of total revenue	59	%	59	%			
Services	8,026		7,432		8 %	8	%
As a percentage of total revenue	8	%	8	%			
Total maintenance and services revenue	$68,394		$62,797		9 %	10	%
As a percentage of total revenue	67	%	66	%			

23

Table of Contents

(In thousands)	Nine Months Ended		Percentage Change	
	August 31, 2016	August 31, 2015	As Reported	Constant Currency
Maintenance	$178,189	$157,259	13 %	16 %
As a percentage of total revenue	62 %	59 %		
Services	23,062	21,783	6 %	6 %
As a percentage of total revenue	8 %	8 %		
Total maintenance and services revenue	$201,251	$179,042	12 %	14 %
As a percentage of total revenue	70 %	68 %		

Maintenance and services revenue increased $5.6 million in the third quarter of fiscal year 2016 as compared to the same quarter last year. Maintenance revenue increased 9% and professional services revenue increased 8% in the third quarter of fiscal year 2016 as compared to the third quarter of fiscal year 2015. Maintenance and services revenue increased $22.2 million in the first nine months of fiscal year 2016 as compared to the same period last year. Maintenance revenue increased 13% and professional services revenue increased 6% in the first nine months of fiscal year 2016 as compared to the same period of fiscal year 2015.

The increase in maintenance revenue is primarily due to the impact of the Telerik acquisition during the first quarter of fiscal year 2015. As a result of acquisition accounting, the acquired deferred revenue balance was significantly reduced to reflect its fair value as of the acquisition date. Therefore, the reduction of the acquisition date deferred revenue had a negative impact on revenue in the first nine months of fiscal year 2015. However, in the first nine months of fiscal year 2016 we recognized revenue related to the full value of Telerik deferred revenue that was generated during fiscal years 2015 and 2016. The increase in services revenue in the third quarter and first nine months of fiscal year 2016 was primarily due to higher software-as-a-service (SaaS) revenue generated by our Application Development and Deployment segment compared to the same period last year.

Revenue by Region

(In thousands)	Three Months Ended		Percentage Change	
	August 31, 2016	August 31, 2015	As Reported	Constant Currency
North America	$58,275	$49,810	17 %	17 %
As a percentage of total revenue	57 %	53 %		
EMEA	$32,719	$30,656	7 %	10 %
As a percentage of total revenue	32 %	32 %		
Latin America	$4,667	$4,621	1 %	2 %
As a percentage of total revenue	5 %	5 %		
Asia Pacific	$6,357	$9,550	(33)%	(34)%
As a percentage of total revenue	6 %	10 %		

(In thousands)	Nine Months Ended		Percentage Change	
	August 31, 2016	August 31, 2015	As Reported	Constant Currency
North America	$160,732	$139,454	15 %	15 %
As a percentage of total revenue	56 %	53 %		
EMEA	$95,517	$89,667	7 %	10 %
As a percentage of total revenue	33 %	34 %		

Latin America	$12,749	$13,977	(9)%	4 %
As a percentage of total revenue	5 %	5 %		
Asia Pacific	$18,619	$21,738	(14	