



June 29, 2016

## Progress Reports 2016 Fiscal Second Quarter Results

BEDFORD, Mass.--(BUSINESS WIRE)-- Progress (NASDAQ: PRGS) today announced results for its fiscal second quarter ended May 31, 2016.

Revenue was \$96.1 million during the quarter compared to \$88.8 million in the same quarter last year, a year over year increase of 8% on an actual currency basis and 9% on a constant currency basis. On a non-GAAP basis, revenue was \$96.7 million during the quarter compared to \$100.9 million in the same quarter last year, a decrease of 4% on an actual currency basis and 3% on a constant currency basis.

Additional financial highlights included:

On a GAAP basis in the fiscal second quarter of 2016:

- | Revenue was \$96.1 million compared to \$88.8 million in the same quarter in fiscal year 2015;
- | Income from operations was \$12.3 million compared to a loss from operations of \$2.7 million in the same quarter last year;
- | Net income was \$7.3 million compared to \$5.8 million in the same quarter last year;
- | Diluted earnings per share was \$0.14 compared to \$0.11 in the same quarter last year; and
- | Cash from operations was \$26.8 million compared to \$20.8 million in the same quarter last year.

On a non-GAAP basis in the fiscal second quarter of 2016:

- | Revenue was \$96.7 million compared to \$100.9 million in the same quarter last year;
- | Income from operations was \$27.0 million compared to \$27.8 million in the same quarter last year;
- | Operating margin was 28% compared to 28% in the same quarter last year;
- | Net income was \$16.4 million compared to \$18.1 million in the same quarter last year;
- | Diluted earnings per share was \$0.33 compared to \$0.35 in the same quarter last year; and
- | Adjusted free cash flow was \$26.4 million compared to \$18.8 million in the same quarter last year.

Phil Pead, CEO at Progress, said, "We are pleased with our second quarter performance. We had another solid quarter from our OpenEdge partners, strong growth from our data products and increased momentum in our Telerik bookings. We also announced our Digital Factory solutions during the quarter, which will enable us to take advantage of the longer-term growth opportunities available in the digital transformation market."

Other fiscal second quarter 2016 metrics and recent results included:

- | Cash, cash equivalents and short-term investments were \$229.1 million at the end of the quarter;
- | DSO was 45 days, compared to 50 days in the fiscal second quarter of 2015; and
- | Under the previously announced authorization by the Board of Directors to repurchase up to \$200 million of shares of common stock, Progress repurchased 1.9 million shares for \$48.3 million during the fiscal second quarter of 2016.

### Business Outlook

Progress provides the following guidance for the fiscal year ending November 30, 2016 and the third fiscal quarter ending August 31, 2016:

<i>(In millions, except percentages and per share amounts)</i>	FY 2016	FY 2016	Q3 2016	Q3 2016
	GAAP	Non-GAAP	GAAP	Non-GAAP
Revenue	\$410 - \$416	\$412 - \$418	\$103 - \$106	\$103 - \$106

Earnings per share	\$0.63 - \$0.68	\$1.57 - \$1.63	\$0.17 - \$0.20	\$0.43 - \$0.46
Operating margin	15% - 16%	29% - 30%	*	*
Adjusted free cash flow	*	\$80 - \$85	*	*
Effective tax rate	45%	32% - 33%	*	*

\*We do not provide guidance for this financial measure.

Progress' fiscal 2016 financial guidance is based on current exchange rates. The negative currency translation impact on Progress' fiscal year 2016 business outlook compared to 2015 exchange rates is approximately \$6.0 million to \$7.0 million on non-GAAP revenue and \$0.03 to \$0.04 on non-GAAP earnings per share. The negative currency translation impact on Progress' fiscal Q3 2016 business outlook compared to 2015 exchange rates is approximately \$1.5 million on non-GAAP revenue and \$0.01 on non-GAAP earnings per share. To the extent that there are further changes in exchange rates versus the current environment, this may have an additional impact on Progress' business outlook.

## Conference Call

The Progress quarterly investor conference call to review its fiscal second quarter of 2016 will be broadcast live at 5:00 p.m. ET on Wednesday, June 29, 2016 and can be accessed on the investor relations section of the company's website, located at [www.progress.com](http://www.progress.com). Additionally, you can listen to the call by telephone by dialing 1-877-440-5788, pass code 1530142. The conference call will include brief comments followed by questions and answers. An archived version of the conference call and supporting materials will be available on the Progress website within the investor relations section after the live conference call.

## Non-GAAP Financial Information

Progress provides non-GAAP supplemental information to its financial results.

We use this non-GAAP information to evaluate our period-over-period operating performance because our management believes the information helps illustrate underlying trends in our business and provides us with a more comparable measure of our continuing business, as well as a greater understanding of the results from the primary operations of our business, by excluding the effects of certain items that do not reflect the ordinary earnings of our operations. Management also uses this non-GAAP financial information to establish budgets and operational goals, which are communicated internally and externally, evaluate performance, and allocate resources. In addition, compensation of our executives and non-executive employees is based in part on the performance of our business evaluated using this same non-GAAP information.

However, this non-GAAP information is not in accordance with, or an alternative to, generally accepted accounting principles in the United States (GAAP) and should be considered in conjunction with our GAAP results as the items excluded from the non-GAAP information often have a material impact on Progress' financial results. A reconciliation of non-GAAP adjustments to Progress' GAAP financial results is included in the tables below and is available on the Progress website at [www.progress.com](http://www.progress.com) within the investor relations section.

As described in more detail below, non-GAAP revenue, non-GAAP costs of sales and operating expenses, non-GAAP income from operations and operating margin, non-GAAP net income, and non-GAAP diluted earnings per share exclude the effect of purchase accounting on the fair value of acquired deferred revenue, amortization of acquired intangible assets, stock-based compensation expense, restructuring charges, acquisition-related expenses, certain identified non-operating gains and losses, and the related tax effects of the preceding items. We also provide guidance on adjusted free cash flow, which is equal to cash flows from operating activities less purchases of property and equipment and capitalized software development costs, plus restructuring payments.

In the noted fiscal periods, we adjusted for the following items from our GAAP financial results to arrive at our non-GAAP financial measures:

- 1 *Acquisition-related revenue* - In all periods presented, we include acquisition-related revenue, which constitutes revenue reflected as pre-acquisition deferred revenue by Telerik AD ("Telerik") that would otherwise have been recognized but for the purchase accounting treatment of the acquisition of Telerik. We acquired Telerik on December 2, 2014. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. We believe these adjustments are useful to management and investors as a measure of the ongoing performance of the business because, although we cannot be certain that customers will renew their contracts, we (and Telerik) have historically experienced high renewal rates on maintenance and support agreements and other customer contracts. Additionally, although acquisition-related revenue adjustments are non-recurring with respect to past acquisitions, we expect to incur these adjustments in connection with any future acquisitions.
- 1 *Amortization of acquired intangibles* - In all periods presented, we exclude amortization of acquired intangibles because those expenses are unrelated to our core operating performance and the intangible assets acquired vary significantly based on the timing and magnitude of our acquisition transactions and the maturities of the businesses acquired.
- 1 *Stock-based compensation* - In all periods presented, we exclude stock-based compensation to be consistent with the

way management and the financial community evaluates our performance and the methods used by analysts to calculate consensus estimates. The expense related to stock-based awards is generally not controllable in the short-term and can vary significantly based on the timing, size and nature of awards granted. As such, we do not include these charges in operating plans. Stock-based compensation will continue in future periods.

- | *Restructuring expenses* - In all periods presented, we exclude restructuring expenses incurred because those expenses distort trends and are not part of our core operating results.
- | *Acquisition-related and transition expenses* - In all periods presented, we exclude acquisition-related expenses because those expenses distort trends and are not part of our core operating results. In recent years, we have completed a number of acquisitions, which result in our incurring operating expenses which would not otherwise have been incurred. By excluding certain transition, integration and other acquisition-related expense items in connection with acquisitions, this provides more meaningful comparisons of the financial results to our historical operations and forward looking guidance and the financial results of less acquisitive peer companies. We consider these types of costs and adjustments, to a great extent, to be unpredictable and dependent on a significant number of factors that are outside of our control. Furthermore, we do not consider these acquisition-related costs and adjustments to be related to the organic continuing operations of the acquired businesses and are generally not relevant to assessing or estimating the long-term performance of the acquired assets. In addition, the size, complexity and/or volume of past acquisitions, which often drives the magnitude of acquisition related costs, may not be indicative of the size, complexity and/or volume of future acquisitions.
- | *Income tax adjustment* - In all periods presented, we adjust our income tax provision by excluding the tax impact of the non-GAAP adjustments discussed above. In addition, in the current period, we adjusted our income tax provision to remove from non-GAAP income the positive impact of an out-of-period adjustment recorded to the income tax provision during the fiscal second quarter of 2016.

### **Constant Currency**

Revenue from our international operations has historically represented approximately 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 present revenue growth rates on a constant currency basis, which helps improve the understanding of our revenue results and our performance in comparison to prior periods. The constant currency information presented is calculated by translating current period results using prior period weighted average foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP.

### **Note Regarding Forward-Looking Statements**

This press release contains statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Progress has identified some of these forward-looking statements with words like "believe," "may," "could," "would," "might," "should," "expect," "intend," "plan," "target," "anticipate" and "continue," the negative of these words, other terms of similar meaning or the use of future dates.

Forward-looking statements in this press release include, but are not limited to, statements regarding Progress' business outlook and financial guidance. There are a number of factors that could cause actual results or future events to differ materially from those anticipated by the forward-looking statements, including, without limitation:

(1) Economic, geopolitical and market conditions, including the uncertain economic environment in Europe as a result of the recent Brexit vote, and the continued difficult economic environment in Brazil 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. For further information regarding risks and uncertainties associated with Progress' business, please refer to Progress'

filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended November 30, 2015. Progress undertakes no obligation to update any forward-looking statements, which speak only as of the date of this press release.

## About Progress

[Progress](#) (NASDAQ: PRGS) is 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, Progress powers startups and industry titans worldwide, promoting success one customer at a time. Learn about Progress at [www.progress.com](http://www.progress.com) or 1-781-280-4000.

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## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended			Six Months Ended		
	May 31, 2016	May 31, 2015	% Change	May 31, 2016	May 31, 2015	% Change
<i>(In thousands, except per share data)</i>						
Revenue:						
Software licenses	\$28,787	\$28,722	—%	\$52,742	\$53,953	(2)%
Maintenance and services	67,331	60,095	12%	132,857	116,245	14%
Total revenue	96,118	88,817	8%	185,599	170,198	9%
Costs of revenue:						
Cost of software licenses	1,233	1,365	(10)%	2,715	3,085	(12)%
Cost of maintenance and services	11,063	10,288	8%	21,392	21,563	(1)%
Amortization of acquired intangibles	3,939	4,093	(4)%	7,878	8,726	(10)%
Total costs of revenue	16,235	15,746	3%	31,985	33,374	(4)%
Gross profit	79,883	73,071	9%	153,614	136,824	12%
Operating expenses:						
Sales and marketing	29,138	31,852	(9)%	58,796	62,602	(6)%
Product development	22,297	22,290	—%	44,094	45,111	(2)%
General and administrative	12,264	13,673	(10)%	24,644	27,988	(12)%
Amortization of acquired intangibles	3,185	3,171	—%	6,370	6,373	—%
Restructuring expenses	331	3,810	(91)%	265	6,153	(96)%
Acquisition-related expenses	324	1,010	(68)%	396	2,518	(84)%
Total operating expenses	67,539	75,806	(11)%	134,565	150,745	(11)%
Income (loss) from operations	12,344	(2,735)	551%	19,049	(13,921)	237%
Other expense, net	(1,361)	(1,025)	33%	(3,186)	(93)	3,326%
Income (loss) before income taxes	10,983	(3,760)	392%	15,863	(14,014)	213%
Provision (benefit) for income taxes	3,708	(9,529)	(139)%	5,372	(18,812)	(129)%
Net income	\$ 7,275	\$ 5,769	26%	\$10,491	\$ 4,798	119%
Earnings per share:						
Basic	\$ 0.15	\$ 0.11	36%	\$ 0.21	\$ 0.10	110%
Diluted	\$ 0.14	\$ 0.11	27%	\$ 0.21	\$ 0.09	133%
Weighted average shares outstanding:						
Basic	49,873	50,342	(1)%	50,341	50,505	—%
Diluted	50,354	51,085	(1)%	50,897	51,224	(1)%

## CONDENSED CONSOLIDATED BALANCE SHEETS

	May 31, 2016	November 30, 2015
<i>(In thousands)</i>		
Assets		
Current assets:		
Cash, cash equivalents and short-term investments	\$229,109	\$ 241,279
Accounts receivable, net	48,294	66,459
Other current assets	21,970	15,671
Total current assets	299,373	323,409

Property and equipment, net	51,760	54,226
Goodwill and intangible assets, net	469,888	484,098
Other assets	13,209	15,390
Total assets	<u>\$834,230</u>	<u>\$ 877,123</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$ 51,168	\$ 65,314
Current portion of long-term debt	11,250	9,375
Short-term deferred revenue	133,006	125,227
Total current liabilities	<u>195,424</u>	<u>199,916</u>
Long-term deferred revenue	9,229	8,844
Long-term debt	127,500	135,000
Other long-term liabilities	10,674	10,899
Shareholders' equity:		
Common stock and additional paid-in capital	231,043	227,930
Retained earnings	260,360	294,534
Total shareholders' equity	<u>491,403</u>	<u>522,464</u>
Total liabilities and shareholders' equity	<u>\$834,230</u>	<u>\$ 877,123</u>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Cash flows from operating activities:				
Net income	\$ 7,275	\$ 5,769	\$ 10,491	\$ 4,798
Depreciation and amortization	9,969	10,360	19,909	21,495
Stock-based compensation	6,293	6,439	13,231	12,275
Other non-cash adjustments	1,691	(7,509)	977	(25,408)
Changes in operating assets and liabilities	1,532	5,732	4,654	44,771
Net cash flows from operating activities	<u>26,760</u>	<u>20,791</u>	<u>49,262</u>	<u>57,931</u>
Capital expenditures	(1,204)	(3,147)	(2,617)	(5,788)
Issuances of common stock, net of repurchases	(47,137)	(22,023)	(52,509)	(26,512)
Payments for acquisitions	—	—	—	(246,275)
Proceeds from the issuance of debt, net of payments of principle and debt issuance costs	(1,875)	(1,875)	(5,625)	144,543
Proceeds from divestitures, net	—	—	—	4,500
Other	1,074	(5,789)	(681)	(12,546)
Net change in cash, cash equivalents and short-term investments	<u>(22,382)</u>	<u>(12,043)</u>	<u>(12,170)</u>	<u>(84,147)</u>
Cash, cash equivalents and short-term investments, beginning of period	251,491	211,164	241,279	283,268
Cash, cash equivalents and short-term investments, end of period	<u>\$229,109</u>	<u>\$199,121</u>	<u>\$229,109</u>	<u>\$199,121</u>

## RESULTS OF OPERATIONS BY SEGMENT

<i>(In thousands)</i>	Three Months Ended			Six Months Ended		
	May 31, 2016	May 31, 2015	% Change	May 31, 2016	May 31, 2015	% Change
Segment revenue:						
OpenEdge	\$66,928	\$71,906	(7)%	\$131,061	\$141,377	(7)%
Data Connectivity and Integration	10,005	7,275	38%	16,601	14,388	15%
Application Development and Deployment	19,185	9,636	99%	37,937	14,433	163%
Total revenue	<u>96,118</u>	<u>88,817</u>	<u>8%</u>	<u>185,599</u>	<u>170,198</u>	<u>9%</u>
Segment costs of revenue and operating expenses:						
OpenEdge	17,296	18,446	(6)%	35,360	37,980	(7)%
Data Connectivity and Integration	3,134	3,133	—%	6,035	6,383	(5)%
Application Development and Deployment	9,724	10,851	(10)%	18,535	20,235	(8)%

Total costs of revenue and operating expenses	<u>30,154</u>	<u>32,430</u>	<u>(7)%</u>	<u>59,930</u>	<u>64,598</u>	<u>(7)%</u>
Segment contribution:						
OpenEdge	49,632	53,460	(7)%	95,701	103,397	(7)%
Data Connectivity and Integration	6,871	4,142	66%	10,566	8,005	32%
Application Development and Deployment	9,461	(1,215)	879%	19,402	(5,802)	434%
Total contribution	<u>65,964</u>	<u>56,387</u>	<u>17%</u>	<u>125,669</u>	<u>105,600</u>	<u>19%</u>
Other unallocated expenses (1)	<u>53,620</u>	<u>59,122</u>	<u>(9)%</u>	<u>106,620</u>	<u>119,521</u>	<u>(11)%</u>
Income (loss) from operations	<u>12,344</u>	<u>(2,735)</u>	<u>551%</u>	<u>19,049</u>	<u>(13,921)</u>	<u>237%</u>
Other expense, net	<u>(1,361)</u>	<u>(1,025)</u>	<u>33%</u>	<u>(3,186)</u>	<u>(93)</u>	<u>3,326%</u>
Income (loss) before provision for income taxes	<u>\$10,983</u>	<u>\$(3,760)</u>	<u>392%</u>	<u>\$ 15,863</u>	<u>\$(14,014)</u>	<u>213%</u>

(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 of acquired intangibles, stock-based compensation, restructuring, and acquisition related expenses.

## SUPPLEMENTAL INFORMATION

### Revenue by Type

<i>(In thousands)</i>	<u>Q2 2015</u>	<u>Q3 2015</u>	<u>Q4 2015</u>	<u>Q1 2016</u>	<u>Q2 2016</u>
License	\$28,722	\$31,840	\$ 44,457	\$23,955	\$ 28,787
Maintenance	52,656	55,365	60,458	58,336	59,485
Services	7,439	7,432	7,803	7,190	7,846
Total revenue	<u>\$88,817</u>	<u>\$94,637</u>	<u>\$112,718</u>	<u>\$89,481</u>	<u>\$ 96,118</u>

### Revenue by Region

<i>(In thousands)</i>	<u>Q2 2015</u>	<u>Q3 2015</u>	<u>Q4 2015</u>	<u>Q1 2016</u>	<u>Q2 2016</u>
North America	\$47,520	\$49,810	\$ 68,112	\$49,065	\$ 53,392
EMEA	31,146	30,656	34,504	31,221	31,577
Latin America	4,388	4,621	3,617	3,693	4,389
Asia Pacific	5,763	9,550	6,485	5,502	6,760
Total revenue	<u>\$88,817</u>	<u>\$94,637</u>	<u>\$112,718</u>	<u>\$89,481</u>	<u>\$ 96,118</u>

### Revenue by Segment

<i>(In thousands)</i>	<u>Q2 2015</u>	<u>Q3 2015</u>	<u>Q4 2015</u>	<u>Q1 2016</u>	<u>Q2 2016</u>
OpenEdge	\$71,906	\$73,398	\$ 81,159	\$64,133	\$ 66,928
Data Connectivity and Integration	7,275	8,281	15,257	6,596	10,005
Application Development and Deployment	9,636	12,958	16,302	18,752	19,185
Total revenue	<u>\$88,817</u>	<u>\$94,637</u>	<u>\$112,718</u>	<u>\$89,481</u>	<u>\$ 96,118</u>

## RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES - QTD

	Three Months Ended May 31,						%
	2016		2015			Change	
<i>(In thousands, except per share data)</i>	GAAP	Adj.	Non-GAAP	GAAP	Adj.	Non-GAAP	
<b>TOTAL REVENUE</b>	\$96,118	\$ 564	\$96,682	\$88,817	\$ 12,034	\$100,851	(4)%
Software licenses (1)	28,787	93	28,880	28,722	3,018	31,740	(9)%
Maintenance and services (1)	67,331	471	67,802	60,095	9,016	69,111	(2)%
<b>TOTAL COSTS OF REVENUE</b>	\$16,235	\$(4,119)	\$12,116	\$15,746	\$(4,247)	\$ 11,499	5%
Amortization of acquired intangibles	3,939	(3,939)	—	4,093	(4,093)	—	

Stock-based compensation (2)	180	(180)	—	154	(154)	—	
<b>GROSS MARGIN %</b>	83%		87%	82%		89%	(2)%
<b>TOTAL OPERATING EXPENSES</b>	\$67,539	\$(9,953)	\$57,586	\$75,806	\$(14,276)	\$ 61,530	(6)%
Amortization of acquired intangibles	3,185	(3,185)	—	3,171	(3,171)	—	
Restructuring expenses	331	(331)	—	3,810	(3,810)	—	
Acquisition-related expenses	324	(324)	—	1,010	(1,010)	—	
Stock-based compensation (2)	6,113	(6,113)	—	6,285	(6,285)	—	
<b>INCOME (LOSS) FROM OPERATIONS</b>	\$12,344	\$14,636	\$26,980	\$(2,735)	\$ 30,557	\$ 27,822	(3)%
<b>OPERATING MARGIN</b>	13%		28%	(3)%		28%	—%
<b>TOTAL OTHER EXPENSE, NET</b>	\$(1,361)	\$ —	\$(1,361)	\$(1,025)	\$ —	\$(1,025)	33%
<b>PROVISION (BENEFIT) FOR INCOME TAXES (3)</b>	\$ 3,708	\$ 5,478	\$ 9,186	\$(9,529)	\$ 18,198	\$ 8,669	6%
<b>NET INCOME</b>	\$ 7,275	\$ 9,158	\$16,433	\$ 5,769	\$ 12,359	\$ 18,128	(9)%
<b>DILUTED EARNINGS PER SHARE</b>	\$ 0.14	\$ 0.19	\$ 0.33	\$ 0.11	\$ 0.24	\$ 0.35	(6)%
<b>WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED</b>	50,354	—	50,354	51,085	—	51,085	(1)%

(1) Adjustments to revenue relate to acquisition-related revenue, which constitutes revenue reflected as pre-acquisition deferred revenue by Telerik that would otherwise have been recognized but for the purchase accounting treatment of the acquisition of Telerik. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments entirely relate to Progress' Application Development and Deployment business unit.

(2) Stock-based compensation is included in the GAAP statements of income, as follows:

Cost of revenue	180	154
Sales and marketing	962	1,488
Product development	2,397	1,062
General and administrative	2,754	3,735
Total	<u>\$ 6,293</u>	<u>\$ 6,439</u>

(3) In the current period, the Company identified an error in its prior year income tax provision whereby income tax expense was overstated for the year ended November 30, 2015 related to the Company's tax treatment of an intercompany gain. We corrected this error by recording an out of period \$2.7 million tax benefit in its quarter ended May 31, 2016 financial statements. We adjusted our income tax provision to remove from non-GAAP income the positive impact of this out-of-period adjustment.

#### RECONCILIATIONS OF GAAP TO NON-GAAP SELECTED FINANCIAL MEASURES - YTD

	Six Months Ended May 31,						% Change
	2016			2015			
(In thousands, except per share data)	GAAP	Adj.	Non-GAAP	GAAP	Adj.	Non-GAAP	Non-GAAP
<b>TOTAL REVENUE</b>	\$185,599	\$ 1,321	\$186,920	\$170,198	\$ 26,107	\$196,305	(5)%
Software licenses (1)	52,742	208	52,950	53,953	6,764	60,717	(13)%
Maintenance and services (1)	132,857	1,113	133,970	116,245	19,343	135,588	(1)%
<b>TOTAL COSTS OF REVENUE</b>	\$ 31,985	\$ (8,255)	\$ 23,730	\$ 33,374	\$ (9,045)	\$ 24,329	(2)%
Amortization of acquired intangibles	7,878	(7,878)	—	8,726	(8,726)	—	
Stock-based compensation (2)	376	(376)	—	319	(319)	—	
<b>GROSS MARGIN %</b>	83%		87%	80%		88%	(1)%
<b>TOTAL OPERATING EXPENSES</b>	\$134,565	\$(19,888)	\$114,677	\$150,745	\$(27,000)	\$123,745	(7)%

Amortization of acquired intangibles	6,370	(6,370)	—	6,373	(6,373)	—	
Restructuring expenses	265	(265)	—	6,153	(6,153)	—	
Acquisition-related expenses	396	(396)	—	2,518	(2,518)	—	
Stock-based compensation (2)	12,855	(12,855)	—	11,956	(11,956)	—	
<b>INCOME (LOSS) FROM OPERATIONS</b>	\$ 19,049	\$ 29,464	\$ 48,513	\$ (13,921)	\$ 62,152	\$ 48,231	1%
<b>OPERATING MARGIN</b>	10%		26%	(8)%		25%	1%
<b>TOTAL OTHER (EXPENSE) INCOME, NET (3)</b>	\$ (3,186)	\$ —	\$ (3,186)	\$ (93)	\$ 266	\$ 173	(1,942)%
<b>PROVISION (BENEFIT) FOR INCOME TAXES (4)</b>	\$ 5,372	\$ 9,736	\$ 15,108	\$ (18,812)	\$ 33,950	\$ 15,138	—%
<b>NET INCOME</b>	\$ 10,491	\$ 19,728	\$ 30,219	\$ 4,798	\$ 28,468	\$ 33,266	(9)%
<b>DILUTED EARNINGS PER SHARE</b>	\$ 0.21	\$ 0.38	\$ 0.59	\$ 0.09	\$ 0.56	\$ 0.65	(9)%
<b>WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED</b>	50,897	—	50,897	51,224	—	51,224	(1)%

(1) Adjustments to revenue relate to acquisition-related revenue, which constitutes revenue reflected as pre-acquisition deferred revenue by Telerik that would otherwise have been recognized but for the purchase accounting treatment of the acquisition of Telerik. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments entirely relate to Progress' Application Development and Deployment business unit.

(2) Stock-based compensation is included in the GAAP statements of income, as follows:

Cost of revenue	376	319
Sales and marketing	2,041	2,725
Product development	5,077	2,564
General and administrative	5,737	6,667
Total	<u>\$ 13,231</u>	<u>\$ 12,275</u>

(3) In the prior year period, the adjustment to other income (expense), net relates to the termination of Progress' prior revolving credit facility in connection with entering into the new credit facility. Upon termination, the outstanding debt issuance costs related to the prior revolving credit facility were written off to other income (expense) in the GAAP statements of income.

(4) In the current period, the Company identified an error in its prior year income tax provision whereby income tax expense was overstated for the year ended November 30, 2015 related to the Company's tax treatment of an intercompany gain. We corrected this error by recording an out of period \$2.7 million tax benefit in its quarter ended May 31, 2016 financial statements. We adjusted our income tax provision to remove from non-GAAP income the positive impact of this out-of-period adjustment.

## OTHER NON-GAAP FINANCIAL MEASURES - QTD

### Revenue by Type

(In thousands)	Q2 2016	Non-GAAP Adjustment (1)	Non-GAAP Revenue
License	\$ 28,787	\$ 93	\$ 28,880
Maintenance	59,485	471	59,956
Services	7,846	—	7,846
Total revenue	<u>\$ 96,118</u>	<u>\$ 564</u>	<u>\$ 96,682</u>

### Revenue by Region

(In thousands)	Q2 2016	Non-GAAP Adjustment (1)	Non-GAAP Revenue
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North America	\$ 53,392	\$ 490	\$ 53,882
EMEA	31,577	60	31,637
Latin America	4,389	2	4,391
Asia Pacific	6,760	12	6,772
Total revenue	<u>\$ 96,118</u>	<u>\$ 564</u>	<u>\$ 96,682</u>

### Revenue by Segment

<i>(In thousands)</i>	Q2 2016	Non-GAAP Adjustment (1)	Non-GAAP Revenue
OpenEdge	\$ 66,928	\$ —	\$ 66,928
Data Connectivity and Integration	10,005	—	10,005
Application Development and Deployment	19,185	564	19,749
Total revenue	<u>\$ 96,118</u>	<u>\$ 564</u>	<u>\$ 96,682</u>

(1) Adjustments to revenue relate to acquisition-related revenue, which constitutes revenue reflected as pre-acquisition deferred revenue by Telerik that would otherwise have been recognized but for the purchase accounting treatment of the acquisition of Telerik. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments entirely relate to Progress' Application Development and Deployment business unit.

### Adjusted Free Cash Flow

<i>(In thousands)</i>	Q2 2016	Q2 2015	% Change
Cash flows from operations	\$ 26,760	\$ 20,791	29%
Purchases of property and equipment	\$ (1,204)	\$ (2,070)	(42)%
Capitalized software development costs	\$ —	\$ (1,077)	(100)%
Free cash flow	\$ 25,556	\$ 17,644	45%
Add back: restructuring payments	\$ 891	\$ 1,189	(25)%
Adjusted free cash flow	<u>\$ 26,447</u>	<u>\$ 18,833</u>	<u>40%</u>

### OTHER NON-GAAP FINANCIAL MEASURES - YTD

#### Revenue by Type

<i>(In thousands)</i>	YTD 2016	Non-GAAP Adjustment (1)	Non-GAAP Revenue
License	\$ 52,742	\$ 208	\$ 52,950
Maintenance	117,821	1,113	118,934
Services	15,036	—	15,036
Total revenue	<u>\$ 185,599</u>	<u>\$ 1,321</u>	<u>\$ 186,920</u>

#### Revenue by Region

<i>(In thousands)</i>	YTD 2016	Non-GAAP Adjustment (1)	Non-GAAP Revenue
North America	\$ 102,457	\$ 1,150	\$ 103,607
EMEA	62,798	140	62,938
Latin America	8,082	4	8,086
Asia Pacific	12,262	27	12,289
Total revenue	<u>\$ 185,599</u>	<u>\$ 1,321</u>	<u>\$ 186,920</u>

#### Revenue by Segment

<i>(In thousands)</i>	YTD 2016	Non-GAAP Adjustment (1)	Non-GAAP Revenue
OpenEdge	\$ 131,061	\$ —	\$ 131,061
Data Connectivity and Integration	16,601	—	16,601
Application Development and Deployment	37,937	1,321	39,258
Total revenue	<u>\$ 185,599</u>	<u>\$ 1,321</u>	<u>\$ 186,920</u>

(1) Adjustments to revenue relate to acquisition-related revenue, which constitutes revenue reflected as pre-acquisition deferred revenue by Telerik that would otherwise have been recognized but for the purchase accounting treatment of the acquisition of Telerik. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities. Note that acquisition-related revenue adjustments entirely relate to Progress' Application Development and Deployment business unit.

### Adjusted Free Cash Flow

<i>(In thousands)</i>	YTD 2016	YTD Q2 2015	% Change
Cash flows from operations	\$ 49,262	\$ 57,931	(15)%
Purchases of property and equipment	\$ (2,617)	\$ (4,405)	(41)%
Capitalized software development costs	\$ —	\$ (1,383)	(100)%
Free cash flow	\$ 46,645	\$ 52,143	(11)%
Add back: restructuring payments	\$ 2,483	\$ 2,444	2%
Adjusted free cash flow	\$ 49,128	\$ 54,587	(10)%

### Non-GAAP Bookings from Application Development and Deployment Segment

<i>(In thousands)</i>	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016
GAAP revenue	\$ 4,797	\$ 9,636	\$12,958	\$16,302	\$43,693	\$18,752	\$ 19,185
Add: change in deferred revenue							
Beginning balance	108	23,081	33,440	41,012	108	49,252	49,237
Ending balance	23,081	33,440	41,012	49,252	49,252	49,237	51,693
Change in deferred revenue	22,973	10,359	7,572	8,240	49,144	(15)	2,456
Less: acquired deferred revenue balance from Telerik	(7,915)	—	—	—	(7,915)	—	—
Non-GAAP bookings	\$19,855	\$19,995	\$20,530	\$24,542	\$84,922	\$18,737	\$ 21,641

### SaaS Revenue (Hosted Services) from Application Development and Deployment Segment

<i>(In thousands)</i>	Q1 2015	Q2 2015	Q3 2015	Q4 2015	FY 2015	Q1 2016	Q2 2016
SaaS Revenue - Application Development and Deployment	567	713	765	975	3,020	1,071	1,079

### RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR FISCAL YEAR 2016 GUIDANCE (Unaudited)

#### Fiscal Year 2016 Revenue Growth Guidance

<i>(In millions)</i>	Fiscal Year Ended	Fiscal Year Ending			
	November 30, 2015	November 30, 2016		November 30, 2016	
		Low	% Change	High	% Change
GAAP revenue	\$ 377.6	\$410.0	9%	\$416.0	10%
Acquisition-related adjustments - revenue (1)	\$ 34.8	\$ 2.0	(94)%	\$ 2.0	(94)%
Non-GAAP revenue	\$ 412.4	\$412.0	—%	\$418.0	1%

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue by Telerik that would otherwise have been recognized but for the purchase accounting treatment of the acquisition of Telerik. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities.

#### Fiscal Year 2016 Non-GAAP Operating Margin Guidance

<i>(In millions)</i>	Fiscal Year Ending November 30, 2016	
	Low	High
GAAP income from operations	\$ 62.9	\$ 66.6
GAAP operating margins	15%	16%

Acquisition-related revenue	2.0	2.0
Stock-based compensation	26.8	26.8
Amortization of intangibles	28.2	28.2
Acquisition-related expense	0.5	0.5
Restructuring expense	0.3	0.3
Total adjustments	<u>57.8</u>	<u>57.8</u>
Non-GAAP income from operations	<u>\$ 120.7</u>	<u>\$ 124.4</u>
Non-GAAP operating margin	29%	30%

### Fiscal Year 2016 Non-GAAP Earnings per Share and Effective Tax Rate Guidance

(In millions, except per share data)	Fiscal Year Ending November 30, 2016	
	Low	High
GAAP net income	\$ 31.5	\$ 33.5
Adjustments (from previous table)	57.8	57.8
Income tax adjustment (2)	(11.1)	(11.2)
Non-GAAP net income	<u>\$ 78.2</u>	<u>\$ 80.1</u>
GAAP diluted earnings per share	\$ 0.63	\$ 0.68
Non-GAAP diluted earnings per share	\$ 1.57	\$ 1.63
Diluted weighted average shares outstanding	49.8	49.3

(2) Tax adjustment is based on a non-GAAP effective tax rate of 32% for Low and 33% for High, calculated as follows:

Non-GAAP income from operations	\$ 120.7	\$ 124.4
Other income (expense)	(5.7)	(5.7)
Non-GAAP income from continuing operations before income taxes	<u>115.0</u>	<u>118.7</u>
Non-GAAP net income	<u>78.2</u>	<u>80.1</u>
Tax provision	<u>\$ 36.8</u>	<u>\$ 38.6</u>
Non-GAAP tax rate	32%	33%

### RECONCILIATIONS OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR Q3 2016 GUIDANCE

(Unaudited)

#### Q3 2016 Revenue Growth Guidance

(In millions)	Three Months Ended	Three Months Ending			
	August 31, 2015	August 31, 2016		August 31, 2016	
		Low	% Change	High	% Change
GAAP revenue	\$ 94.6	\$102.6	8%	\$105.6	12%
Acquisition-related adjustments - revenue (1)	\$ 6.1	\$ 0.4	(93)%	\$ 0.4	(93)%
Non-GAAP revenue	<u>\$ 100.7</u>	<u>\$103.0</u>	<u>2%</u>	<u>\$106.0</u>	<u>5%</u>

(1) Acquisition-related revenue constitutes revenue reflected as pre-acquisition deferred revenue by Telerik that would otherwise have been recognized but for the purchase accounting treatment of the acquisition of Telerik. Since GAAP accounting requires the elimination of this revenue, GAAP results alone do not fully capture all of our economic activities.

#### Q3 2016 Non-GAAP Earnings per Share Guidance

	Three Months Ending August 31, 2016	
	Low	High
GAAP diluted earnings per share	\$ 0.17	\$ 0.20
Acquisition-related revenue	0.01	0.01
Stock-based compensation	0.14	0.14
Amortization of intangibles	0.15	0.15
Total adjustments	<u>0.30</u>	<u>0.30</u>
Income tax adjustment	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>
Non-GAAP diluted earnings per share	<u>\$ 0.43</u>	<u>\$ 0.46</u>

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