PROGRESS SOFTWARE CORP /MA
Form 10-Q
October 09, 2013
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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, 2013

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

Commission File Number: 0-19417

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

MASSACHUSETTS	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 October 2, 2013, there were 51,917,408 shares of the registrant's common stock, $.01 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets

(In thousands, except share data)	August 31, 2013	November 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$215,342	$301,792
Short-term investments	26,640	53,425
Total cash, cash equivalents and short-term investments	241,982	355,217
Accounts receivable (less allowances of $2,392 and $3,024, respectively)	53,620	70,793
Other current assets	27,252	16,478
Deferred tax assets	12,783	16,301
Assets held for sale	—	68,029
Total current assets	335,637	526,818
Property and equipment, net	56,889	63,071
Intangible assets, net	10,690	5,119
Goodwill	224,290	226,110
Deferred tax assets	24,197	26,565
Investments in auction rate securities	26,573	26,321
Other assets	8,314	10,973
Total assets	$686,590	$884,977
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	5,797	10,477
Accrued compensation and related taxes	23,813	39,105
Income taxes payable	—	21,486
Other accrued liabilities	37,626	39,876
Short-term deferred revenue	96,534	103,925
Liabilities held for sale	—	25,285
Total current liabilities	163,770	240,154
Long-term deferred revenue	1,044	2,817
Deferred tax liabilities	477	1,032
Other noncurrent liabilities	1,944	2,575
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $0.01 par value; authorized, 1,000,000 shares; issued, none	—	—
Common stock, $0.01 par value, and additional paid-in capital; authorized, 200,000,000 shares; issued and outstanding, 52,311,645 shares in 2013 and 59,594,961 shares in 2012	214,915	300,333
Retained earnings, including accumulated other comprehensive loss of $14,676 in 2013 and $10,764 in 2012	304,440	338,066
Total shareholders' equity	519,355	638,399
Total liabilities and shareholders' equity	$686,590	$884,977

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Income

(In thousands, except per share data)	Three Months Ended August 31, 2013	Three Months Ended August 31, 2012	Nine Months Ended August 31, 2013	Nine Months Ended August 31, 2012
Revenue:				
Software licenses	$25,666	$22,637	$84,920	$72,816
Maintenance and services	51,912	51,734	158,096	158,154
Total revenue	77,578	74,371	243,016	230,970
Costs of revenue:				
Cost of software licenses	1,587	1,375	5,033	4,117
Cost of maintenance and services	6,403	7,974	21,043	22,013
Amortization of acquired intangibles	529	139	811	522
Total costs of revenue	8,519	9,488	26,887	26,652
Gross profit	69,059	64,883	216,129	204,318
Operating expenses:				
Sales and marketing	24,554	24,970	79,086	67,085
Product development	14,615	12,631	42,908	33,330
General and administrative	13,660	14,375	42,390	47,789
Amortization of acquired intangibles	211	207	549	622
Restructuring expenses	5,401	1,411	9,127	6,147
Acquisition-related expenses	957	—	2,229	215
Total operating expenses	59,398	53,594	176,289	155,188
Income from operations	9,661	11,289	39,840	49,130
Other (expense) income:				
Interest income and other	371	1,017	1,146	2,352
Foreign currency loss, net	(194)	(660)	(1,809)	(1,476)
Total other (expense) income, net	177	357	(663)	876
Income from continuing operations before income taxes	9,838	11,646	39,177	50,006
Provision for income taxes	2,634	3,902	14,018	17,546
Income from continuing operations	7,204	7,744	25,159	32,460
Income (loss) from discontinued operations, net	17,639	(1,906)	34,712	(21,041)
Net income	$24,843	$5,838	$59,871	$11,419
Earnings per share:				
Basic:				
Continuing operations	$0.13	$0.12	$0.45	$0.52
Discontinued operations	0.33	(0.03)	0.63	(0.33)
Net income per share	$0.46	$0.09	$1.08	$0.18
Diluted:				
Continuing operations	$0.13	$0.12	$0.45	$0.51
Discontinued operations	0.32	(0.03)	0.62	(0.33)
Net income per share	$0.46	$0.09	$1.06	$0.18
Weighted average shares outstanding:				
Basic	53,532	63,469	55,451	62,888
Diluted	54,389	64,105	56,292	63,795

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Comprehensive Income

(In thousands)	Three Months Ended August 31, 2013	Three Months Ended August 31, 2012	Nine Months Ended August 31, 2013	Nine Months Ended August 31, 2012
Net income	$24,843	$5,838	$59,871	$11,419
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(1,548)	658	(4,010)	(1,365)
Unrealized gain (loss) on investments, net of tax provision of $6 and $57 for the third quarter and the first nine months of 2013 and net of tax benefit of $54 and tax provision of $37 for the third quarter and first nine months of 2012, respectively	11	(93)	98	726
Total other comprehensive (loss) income, net of tax	(1,537)	565	(3,912)	(639)
Comprehensive income	$23,306	$6,403	$55,959	$10,780

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended August 31, 2013	August 31, 2012
Cash flows from operating activities:		
Net income	$59,871	$11,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	8,402	6,990
Amortization of acquired intangibles and other	2,972	18,379
Stock-based compensation	16,360	21,504
Gain on dispositions	(70,991)	—
Asset impairment	111	875
Deferred income taxes	2,179	888
Tax (deficiency) benefit from stock plans	(532)	563
Excess tax benefit from stock plans	(1,188)	(1,338)
Allowances for accounts receivable	(123)	774
Changes in operating assets and liabilities:		
Accounts receivable	19,967	30,250
Other assets	(5,690)	(5,412)
Accounts payable and accrued liabilities	(17,416)	4,201
Income taxes payable and uncertain tax positions	(22,762)	(2,760)
Deferred revenue	(4,439)	(10,619)
Net cash flows (used in) from operating activities	(13,279)	75,714
Cash flows from investing activities:		
Purchases of investments	—	(27,924)
Sales and maturities of investments	25,685	70,185
Redemptions and sales of auction rate securities	25	2,925
Purchases of property and equipment	(2,989)	(6,606)
Payments for acquisitions, net of cash acquired	(9,450)	—
Proceeds from divestitures, net	111,120	—
Increase in other noncurrent assets	835	247
Net cash flows from investing activities	125,226	38,827
Cash flows from financing activities:		
Proceeds from stock-based compensation plans	49,109	24,284
Purchases of common stock related to withholding taxes from the issuance of restricted stock units	(2,823)	(2,681)
Repurchases of common stock	(241,184)	—
Excess tax benefit from stock plans	1,188	1,338
Payment of long-term debt	—	(357)
Net cash flows (used in) from financing activities	(193,710)	22,584
Effect of exchange rate changes on cash	(4,687)	(3,822)
Net (decrease) increase in cash and cash equivalents	(86,450)	133,303
Cash and cash equivalents, beginning of period	301,792	161,095
Cash and cash equivalents, end of period	$215,342	$294,398

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Condensed Consolidated Statements of Cash Flows, continued

	Nine Months Ended	
	August 31, 2013	August 31, 2012
Supplemental disclosure:		
Cash paid for income taxes, net of refunds of $4,324 in 2013 and $632 in 2012	$66,596	$13,912
Non-cash financing activities:		
Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested	$9,890	$8,669
Unsettled repurchases of common stock	$3,301	$—

See notes to unaudited condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

Note 1: Basis of Presentation

We prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements and these unaudited financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2012.

We made no significant changes in the application of our significant accounting policies that were disclosed in our Annual Report on Form 10-K for the fiscal year ended November 30, 2012. We have prepared the accompanying unaudited condensed consolidated financial statements on the same basis as the audited financial statements included in our Annual Report on Form 10-K, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full fiscal year.

During the fourth quarter of fiscal year 2012 and the first quarter of fiscal year 2013, we completed the divestitures of the ten product lines which were not considered core product lines of our business: Actional, Artix, DataXtend, FuseSource, ObjectStore, Orbacus, Orbix, Savvion, Shadow and Sonic. The divestitures were part of the new strategic plan (the "Plan") we announced during fiscal year 2012. After the announcement of the Plan, we began reporting our results in two reportable segments: Core and non-Core. Since the non-Core segment ceased to exist during the first quarter of fiscal year 2013, after the closing of all these divestitures, we now operate as one reportable segment. In addition, the revenues and direct expenses of the product lines divested are included in discontinued operations in our condensed consolidated statements of income, including prior period amounts which have been revised to reflect the presentation.

In June 2013, we entered into a definitive purchase and sale agreement to divest our Apama product line to Software AG. The target market, deployment and sales model for the Apama product line differed significantly from those of our application development platform and the divestiture allowed us to focus entirely on providing leading cloud and mobile application development technologies through a single cohesive platform. The sale closed in July 2013 for a purchase price of $44.3 million. The revenue and direct expenses of the Apama product line are included in discontinued operations in our consolidated statements of income, including prior period amounts which have been revised to reflect the presentation.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). ASU 2013-11 clarifies guidance and eliminates diversity in practice on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance is effective on a prospective basis for fiscal years and interim reporting periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 is not expected to have a material impact on our financial position, results of operations or cash flows.
In March 2013, the FASB issued Accounting Standards Update No. 2013-05, Foreign Currency Matters (Topic 830): Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05). ASU 2013-05 provides guidance on releasing cumulative translation adjustments when a reporting entity (parent) ceases to have a controlling

financial interest in a subsidiary or a business within a foreign entity. ASU 2013-05 is effective on a prospective basis for fiscal years and interim reporting periods within those years, beginning after December 15, 2013. Early adoption is permitted. The adoption of ASU 2013-05 is not expected to have a material impact on our financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified out of Accumulative Other Comprehensive Income (ASU 2013-02), which replaces the presentation requirements for reclassifications out of accumulated other comprehensive income in ASU 2011-05 and ASU 2011-12. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and to present significant amounts reclassified out of accumulated other comprehensive income by respective line items of net income if the amount reclassified is required to be reclassified to net income in its entirety. We adopted ASU 2013-02 in the second quarter of fiscal year 2013 and applied it prospectively. The adoption of ASU 2013-02 did not have any impact on our financial position, results of operations or cash flows.

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

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

Note 2: Cash, Cash Equivalents and Investments

A summary of our cash, cash equivalents and available-for-sale investments at August 31, 2013 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$156,428	$—	$—	$156,428
Money market funds	58,914	—	—	58,914
State and municipal bond obligations	26,504	137	(1)	26,640
Auction rate securities – municipal bonds	27,150	—	(3,443)	23,707
Auction rate securities – student loans	3,500	—	(634)	2,866
Total	$272,496	$137	$(4,078)	$268,555

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

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$176,201	$—	$—	$176,201
Money market funds	125,591	—	—	125,591
State and municipal bond obligations	50,565	255	(2)	50,818
Auction rate securities – municipal bonds	27,175	—	(3,755)	23,420
Auction rate securities – student loans	3,500	—	(599)	2,901

Corporate bonds	2,608	—	(1	) 2,607
Total	$385,640	$255	$(4,357	) $381,538

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

	August 31, 2013			November 30, 2012		
	Cash and Equivalents	Short-Term Investments	Long-Term Investments	Cash and Equivalents	Short-Term Investments	Long-Term Investments
Cash	$156,428	$—	$—	$176,201	$—	$—
Money market funds	58,914	—	—	125,591	—	—
State and municipal bond obligations	—	26,640	—	—	50,818	—
Auction rate securities – municipal bonds	—	—	23,707	—	—	23,420
Auction rate securities – student loans	—	—	2,866	—	—	2,901
Corporate bonds	—	—	—	—	2,607	—
Total	$215,342	$26,640	$26,573	$301,792	$53,425	$26,321

The valuation methodologies for our auction rate securities (ARS) are described in Note 4. Based on these methodologies, we determined that the fair value of our ARS investments is $26.6 million and $26.3 million at August 31, 2013 and November 30, 2012, respectively. The temporary impairment recorded in accumulated other comprehensive loss to reduce the value of our available-for-sale ARS investments was $4.1 million and $4.4 million at August 31, 2013 and November 30, 2012, respectively.

We will not be able to access the funds associated with our ARS investments until future auctions for these ARS are successful, we sell the securities in a secondary market, or they are redeemed by the issuer. As such, these remaining investments currently lack short-term liquidity and are therefore classified as long-term investments on the condensed consolidated balance sheets at August 31, 2013 and November 30, 2012.

Based on our cash, cash equivalents and short-term investments balance of $242.0 million, expected operating cash flows and the availability of funds under our revolving credit facility, we do not anticipate that the lack of liquidity associated with our ARS will adversely affect our ability to conduct business and we believe that we have the ability to hold the affected securities throughout the currently estimated recovery period. Therefore, the impairment of these securities is considered only temporary in nature. If the credit rating of either the security issuer or the third-party insurer underlying the investments deteriorates significantly, we may be required to adjust the carrying value of the ARS through an other-than-temporary impairment charge to earnings.

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

	August 31, 2013	November 30, 2012
Due in one year or less (1)	$39,011	$55,001
Due after one year	14,202	24,745
Total	$53,213	$79,746

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

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Investments with continuous unrealized losses and their related fair values are as follows at August 31, 2013 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipal bond obligations	$956	$(1)	$—	$—	$956	$(1)
Auction rate securities – municipal bonds	—	—	23,707	(3,443)	23,707	(3,443)
Auction rate securities – student loans	—	—	2,866	(634)	2,866	(634)
Total	$956	$(1)	$26,573	$(4,077)	$27,529	$(4,078)

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

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

The unrealized losses associated with state and municipal bond obligations and corporate bonds are attributable to changes in interest rates. The unrealized losses associated with ARS are discussed above. Management does not believe any unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence as of August 31, 2013 and November 30, 2012.

Note 3: Derivative Instruments

We use forward contracts that are not designated as hedging instruments to hedge economically the impact of the variability in exchange rates on accounts receivable and collections denominated in certain foreign currencies. We generally do not hedge the net assets of our international subsidiaries. All forward contracts are recorded at fair value in other current assets on the condensed consolidated balance sheets at the end of each reporting period and expire within 90 days. In the three and nine months ended August 31, 2013, realized and unrealized gains of $1.3 million and $0.8 million, respectively, from our forward contracts were recognized in other income (expense) in the condensed consolidated statements of income. In the three and nine months ended August 31, 2012, realized and unrealized losses of $0.3 million and $0.0 million, respectively, from our forward contracts were recognized in other income (expense) in the condensed consolidated statements of income. These losses were substantially offset by realized and unrealized gains on the offsetting positions.

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

	August 31, 2013		November 30, 2012	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	$24,098	$(38)	$6,453	$4
Forward contracts to purchase U.S. dollars	19,873	(49)	31,465	(190)
Total	$43,971	$(87)	$37,918	$(186)

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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, 2013 (in thousands):

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets				
Money market funds	$58,914	$58,914	$—	$—
State and municipal bond obligations	26,640	—	26,640	—
Auction rate securities – municipal bonds	23,707	—	—	23,707
Auction rate securities – student loans	2,866	—	—	2,866
Foreign exchange derivatives	(87)	—	(87)	—
Liabilities				
Contingent consideration	$383	$—	$—	$383

The following table details the fair value measurements within the fair value hierarchy of our financial assets at November 30, 2012 (in thousands):

	Total Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Money market funds	$125,591	$125,591	$—	$—
State and municipal bond obligations	50,818	—	50,818	—
Auction rate securities – municipal bonds	23,420	—	—	23,420
Auction rate securities – student loans	2,901	—	—	2,901
Corporate bonds	2,607	—	2,607	—
Foreign exchange derivatives	(186)	—	(186)	—

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 valuation technique used to measure fair value for our Level 3 assets, which consists of our ARS, is primarily an income approach, where the expected weighted average future cash flows are discounted back to present value for each asset. The significant unobservable inputs used in the fair value measurement of our ARS are the probability of earning the maximum rate until maturity, the probability of principal return prior to maturity, the probability of default, the liquidity risk premium and the recovery rate in default. Generally, interrelationships are such that a change in the assumptions used for the probability of principal return prior to maturity is accompanied by a directionally opposite change in one or more the following assumptions: the probability of earning the maximum rate until maturity, the probability of default and the liquidity risk premium. The recovery rate in default is somewhat independent and based upon the ARS' specific underlying assets and published recovery rate studies.

One issuer of our ARS is currently in default, but the underlying bond insurer is making interest payments on the issuer's behalf. In this situation, we used a market approach, where the significant unobservable inputs are the market credit default swap spread and the credit rating of the insurer.

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The following table provides additional quantitative information about the unobservable inputs used in our Level 3 asset valuations as of August 31, 2013:

	Valuation Technique	Unobservable Input	Range (Weighted Average)
Auction rate securities	Discounted cash flow	Probability of earning the maximum rate until maturity	0.2% - 9.9% (1.7%)
		Probability of principal return prior to maturity	75.7% - 95.1% (87.0%)
		Probability of default	4.1% - 24.1% (11.3%)
		Liquidity risk premium	4.0%
		Recovery rate in default	50% - 70% (56.5%)
	Market valuation	Market credit default swap spread of insurer	4.05%
		Credit rating of insurer	AA-

Significant increases or decreases in the underlying assumptions used to value the ARS could significantly increase or decrease the fair value estimates recorded in the consolidated balance sheets.

The following table reflects the activity for our financial assets measured at fair value using Level 3 inputs for each period presented (in thousands):

	Three Months Ended		Nine Months Ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Balance, beginning of period	$26,500	$31,448	$26,321	$33,539
Redemptions and repurchases	—	—	(25)	(225)
Transfer to Level 2 fair value measurement	—	—	—	(2,700)
Unrealized gains (losses) included in accumulated other comprehensive loss	73	(163)	277	671
Balance, end of period	$26,573	$31,285	$26,573	$31,285

During the second quarter of fiscal year 2012, we received a redemption notice for one of our ARS at par value. We transferred the ARS to a Level 2 fair value measurement, as the value at May 31, 2012 was based on observable inputs. The ARS was redeemed in the third quarter of fiscal year 2012.

We have classified contingent consideration related to the Rollbase, Inc. acquisition (Rollbase), which occurred in the second quarter of fiscal year 2013 (Note 7), within Level 3 of the fair value hierarchy because the fair value is derived using significant unobservable inputs, which include discount rates and probability-weighted cash flows. We determined the fair value of our contingent consideration obligations based on a probability-weighted income approach derived from probability assessments of the attainment of certain milestones. We establish discount rates to be utilized in our valuation models based on the cost to borrow that would be required by a market participant for similar instruments. In determining the probability of attaining certain milestones, we utilize data regarding similar milestone events from our own experience. On a quarterly basis, we reassess the probability factors associated with the milestones for our contingent consideration obligations. Significant judgment is employed in determining the appropriateness of these key assumptions as of the acquisition date and for each subsequent period.

The key assumptions as of August 31, 2013 related to the contingent consideration for the acquisition of Rollbase used in the model are probabilities in excess of 95% that the milestones associated with the contingent consideration will be achieved and a discount rate of 4.8%. A decrease in the probabilities of achievement could result in a significant decrease to the estimated fair value of the contingent consideration liability. During the three and nine months ended August 31, 2013, the change in the fair value of the liability was minimal.

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Nonrecurring Fair Value Measurements

The following table details our nonrecurring fair value measurements at November 30, 2012 (in thousands):

	Total Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Losses
Disposal group	$16,487	$—	$16,487	$—	$8,601

The disposal group included the assets and liabilities held for sale of the Artix, Orbacus and Orbix product lines, which had a fair value of $16.5 million as of November 30, 2012. The carrying value at November 30, 2012 of $25.1 million was written down to fair value, less costs to sell, resulting in a loss of $8.6 million. The loss was recorded in income (loss) from discontinued operations in fiscal year 2012. The assets and liabilities held for sale were divested in the first quarter of fiscal year 2013 (Note 6).

We evaluate all of our assets held for sale using undiscounted cash flow models or other valuation models, such as comparative transactions and market multiples, to determine their fair values. However, a market approach was more heavily used to value the assets held for sale related to the divestitures of our non-core product lines. As bid and transaction values became apparent as we moved through the marketing and divestiture process, the fair values of the assets held for sale were established. The impairment loss recorded for the Artix, Orbacus and Orbix product lines was primarily based on our expectations of a sale price as compared to our estimation of the net assets to be sold at closing.

Note 5: Intangible Assets and Goodwill

Intangible Assets

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

	August 31, 2013			November 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	$44,730	$(36,117)	$8,613	$42,520	$(40,066)	$2,454
Customer-related and other	19,537	(17,460)	2,077	26,477	(23,812)	2,665
Total	$64,267	$(53,577)	$10,690	$68,997	$(63,878)	$5,119

As a result of the Rollbase acquisition in the second quarter of fiscal year 2013 (Note 7), we recorded $7.8 million of purchased technology and $0.2 million of customer relationships as intangible assets during the nine months ended August 31, 2013. As of the date of acquisition, the acquired intangible assets have a weighted average amortization period of 4.9 years. This was offset by a decrease in the gross carrying amount of our intangible assets due to the disposition of the Apama product line (Note 6).

In the three and nine months ended August 31, 2013, amortization expense related to intangible assets was $0.7 million and $1.4 million, respectively. In the three and nine months ended August 31, 2012, amortization expense related to intangible assets was $0.3 million and $1.1 million, respectively.

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Future amortization expense for intangible assets as of August 31, 2013, is as follows (in thousands):

Remainder of 2013	$739
2014	2,638
2015	2,409
2016	1,906
2017	1,906
Thereafter	1,092
Total	$10,690

Goodwill

Changes in the carrying amount of goodwill for the nine months ended August 31, 2013, are as follows (in thousands):

Balance, November 30, 2012	$226,110
Addition	4,798
Disposal	(6,377)
Translation adjustments	(241)
Balance, August 31, 2013	$224,290

The addition to goodwill during fiscal year 2013 is related to the acquisition of Rollbase (Note 7). The disposal is related to the sale of the Apama product line (Note 6).

During the first quarter of fiscal year 2013, we completed our annual testing for impairment of goodwill and, based on those tests, concluded that no impairment of goodwill existed as of December 15, 2012. During the second quarter of fiscal year 2013, we evaluated the impact of the disposition of the Apama product line, which was part of our single reportable segment, on goodwill and concluded that no impairment existed. Through the date and time our condensed consolidated financial statements were issued, no other trigger events have occurred that would indicate a potential impairment of goodwill exists.

Note 6: Divestitures

Under the Plan, we announced that we would divest all product lines which were not considered core product lines of our business: Actional, Artix, DataXtend, FuseSource, ObjectStore, Orbacus, Orbix, Savvion, Shadow and Sonic. The FuseSource and Shadow product lines were divested in fiscal year 2012. The remaining product lines were divested in the first quarter of fiscal year 2013.

In the second quarter of fiscal year 2013, we entered into a definitive purchase and sale agreement to divest our Apama product line to Software AG. The sale closed in July 2013 for a purchase price of $44.3 million.

Revenues and direct expenses of the divested product lines have been reclassified as discontinued operations for all periods presented. The fiscal year 2012 results include revenues and direct expenses of all divested product lines, since we earned revenues and incurred direct expenses for all or part of fiscal year 2012 for each of those product lines. The fiscal year 2013 results include the revenues and direct expenses of the product lines which had not been divested prior to the start of fiscal year 2013.

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The components included in discontinued operations on the condensed consolidated statements of income are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Revenue	$537	$37,610	$16,143	$120,033
Income (loss) before income taxes	(6,221)	(979)	(9,338)	(30,697)
Income tax (benefit) provision	(1,790)	927	(2,223)	(9,656)
Gain on sale, net of tax	22,070	—	41,827	—
Income (loss) from discontinued operations, net	$17,639	$(1,906)	$34,712	$(21,041)

Apama

In the second quarter of fiscal year 2013, we entered into a definitive purchase and sale agreement to divest our Apama product line to Software AG. The sale closed in July 2013 for a purchase price of $44.3 million. Of the total consideration, $4.5 million is held in escrow to secure indemnification claims, if any, for up to 18 months. As of August 31, 2013, the escrow is included in other assets on the consolidated balance sheet. In connection with the sale, we also entered into a three year distributor license agreement with Software AG for $0.7 million for one of our DataDirect products. The distributor license agreement does not constitute direct cash flows or significant continuing involvement of the Apama product line, and thus does not preclude us from discontinued operations treatment.

The gain on the sale of the Apama product line is calculated as follows (in thousands):

Purchase price	$44,268
Less: transaction costs	2,029
Less: net assets	
Accounts receivable	2,426
Other current assets	428
Goodwill and intangible assets	6,991
Other long-term assets	426
Deferred revenue	(3,917)
Gain on sale	35,885
Tax provision	13,815
Gain on sale, net of tax	$22,070

Artix, Orbacus and Orbix

In the first quarter of fiscal year 2013, we entered into a definitive purchase and sale agreement to divest our Artix, Orbacus and Orbix product lines to a subsidiary of Micro Focus International plc (Micro Focus). The divestiture of these product lines was part of the Plan. The sale closed in February 2013 for total consideration of $15.0 million.

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The gain on sale of the Artix, Orbacus and Orbix product lines is calculated as follows (in thousands):

Purchase price	$15,000
Less: transaction costs	826
Less: indemnification obligation	1,000
Less: net assets	
Accounts receivables	2,300
Goodwill and intangible assets	24,325
Other assets	20
Impairment reserve	(8,601)
Deferred revenue	(5,893)
Gain on sale	1,023
Tax provision	—
Gain on sale, net of tax	$1,023

In February 2013, upon the closing of the sale of Artix, Orbacus and Orbix, we amended the definitive purchase and sale agreement with Micro Focus to provide an additional indemnification obligation with respect to a specified vendor. The fair value of the indemnification obligation on the date the sale closed and the carrying value at August 31, 2013 is $1.0 million, and is included in other accrued liabilities in the condensed consolidated balance sheet. Our maximum indemnification obligation with respect to this matter is $11.3 million. The term of the indemnification is indefinite; however, we expect the matter to be substantially resolved within the next six months.

In the fourth quarter of fiscal year 2012, we recorded an $8.6 million impairment loss on the Artix, Orbacus and Orbix assets held for sale based on our expectations of a sales price as compared to our estimation of the net assets to be sold at closing. The impairment loss was recorded as a reserve against the assets held for sale as of November 30, 2012. The gain recorded in the first quarter of fiscal year 2013 was the result of differences in our estimation of net assets to be sold at closing versus the actual value of the net assets sold at closing.

Actional, DataXtend, ObjectStore, Savvion and Sonic

In the fourth quarter of fiscal year 2012, we entered into a definitive purchase and sale agreement to divest our Actional, DataXtend, Savvion and Sonic product lines to the investment arm of Trilogy Enterprises. In December 2012, the agreement was amended to include the sale of our ObjectStore product line. The divestiture of these product lines was part of the Plan. The sale closed in December 2012 for total consideration of $60.5 million.

The gain on sale of the Actional, DataXtend, ObjectStore, Savvion and Sonic product lines is calculated as follows (in thousands):

Purchase price	$60,500
Less: transaction costs	1,211
Less: net assets	
Accounts receivables	12,004
Goodwill and intangible assets	31,693
Other assets	976
Deferred revenue	(19,168)
Other liabilities	(299)
Gain on sale	34,083
Tax provision	15,349
Gain on sale, net of tax	$18,734

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Note 7: Business Combinations

On May 24, 2013, we acquired 100% of the equity interests in Rollbase, Inc. (Rollbase), a privately held software vendor based in Saratoga, California, for $9.9 million. The purchase consideration consisted of $9.5 million in cash paid and $0.4 million of contingent consideration, expected to be paid out over a two year period. The fair value of the contingent consideration was estimated to be $0.4 million at the date of acquisition. Rollbase provides Application Platform-as-a-Service (aPaas) technology that allows the rapid design, development and deployment of on-demand business applications. The purpose of the acquisition was to further the Plan in which we intend to become a leading provider of a next-generation, context-aware application development and deployment platform in the Cloud for the aPaas market. The acquisition was accounted for as a business combination, and accordingly, the results of operations of Rollbase are included in our operating results from the date of acquisition. We paid the purchase price in cash from available funds.

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

	Total		Life
Cash	$50		
Acquired intangible assets	7,960		1 to 5 years
Goodwill	4,798		
Deferred taxes	(2,921	)	
Accounts payable and other liabilities	(8	)	
Net assets acquired	$9,879		

The purchase consideration includes contingent consideration payable by the Company based on the achievement of certain milestones. The Company determined the fair value of the contingent consideration obligations by calculating the probability-weighted earn-out payments based on the assessment of the likelihood that the milestones will be achieved. The probability-weighted earn-out payments were then discounted using a discount rate commensurate with the credit risk of the Company. During the three and nine months ended August 31, 2013, the change in the fair value of the contingent consideration payable was minimal.

The stock purchase agreement included contingent earn-out provisions requiring the Company to make payments to former Rollbase owners now employed by the Company. We have concluded that the earn-out provisions for the individuals now employed by the Company, which total approximately $5.0 million, are compensation arrangements and we will accrue the maximum payouts ratably over the two year performance period, as we believe it is probable that the criteria will be met. We have incurred $1.0 million of expense related to the contingent earn-out provisions for the three and nine months ended August 31, 2013. These amounts are recorded as acquisition-related expenses in our consolidated statement of operations.

We recorded the excess of the purchase price over the identified tangible and intangible assets as goodwill. We believe that the investment value of the future enhancement of our product and solution offerings created as a result of this acquisition has principally contributed to a purchase price that resulted in the recognition of $4.8 million of goodwill, which is not deductible for tax purposes. The allocation of the purchase price was completed in the third quarter of fiscal year 2013 upon the finalization of our valuation of identifiable intangible assets and acquired deferred tax liabilities.

We incurred $1.0 million and $2.2 million of acquisition-related costs which are included in acquisition-related expenses in our consolidated statement of operations for the three and nine months ended August 31, 2013, respectively. The acquisition-related expenses for the nine months ended August 31, 2013 includes a $1.0 million termination fee related to a pre-existing license arrangement between Rollbase and another third-party.

We have not disclosed the amount of revenues and earnings of Rollbase since acquisition, nor pro forma financial information, as those amounts are not significant to our condensed consolidated financial statements.

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Note 8: Line of Credit

Our credit facility provides for a revolving line of credit in the amount of $150.0 million, with a sublimit for the issuance of standby letters of credit in a face amount up to $25.0 million and swing line loans up to $20.0 million. The credit facility also permits us to increase the revolving line of credit by up to an additional $75.0 million subject to receiving further commitments from lenders and certain other conditions. As of August 31, 2013, there were no amounts outstanding under the revolving line and $0.4 million of letters of credit.

Note 9: Common Stock Repurchases

We repurchased and retired 10.3 million shares of our common stock for $237.4 million in the nine months ended August 31, 2013. The shares were repurchased as part of our Board of Directors authorized return of capital to shareholders in the form of share repurchases through December 31, 2013 of $360.0 million. No shares were repurchased in the nine months ended August 31, 2012.

Note 10: Stock-Based Compensation

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

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

	Three Months Ended		Nine Months Ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Cost of software licenses	$—	$4	$—	$7
Cost of maintenance and services	133	153	500	582
Sales and marketing	748	701	2,668	2,848
Product development	999	861	3,687	2,375
General and administrative	2,720	3,040	7,215	8,246
Stock-based compensation from continuing operations	4,600	4,759	14,070	14,058
Income (loss) from discontinued operations	973	2,985	2,290	7,446
Total stock-based compensation	$5,573	$7,744	$16,360	$21,504

During the second quarter of fiscal year 2013, in connection with the divestiture of the Apama product line, we entered into transition agreements with five executives. As part of the agreements, the executives were entitled to accelerated vesting of certain stock-based awards upon the completion of the divestiture. All employees associated with the Apama product line were also entitled to accelerated vesting of certain stock-based awards upon the completion of the divestiture. Due to the accelerated vesting, we recognized additional stock-based compensation of $0.8 million and $1.4 million in the three and nine months ended August 31, 2013, respectively, in discontinued operations.

During the nine months ended August 31, 2012, the employment of three of our executives terminated. As part of the separation agreements, the executives were entitled to accelerated vesting of certain stock-based awards. Due to the separation and accelerated vesting, we recognized additional stock-based compensation of $1.8 million in the nine months ended August 31, 2012.

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Note 11: Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated balances of other comprehensive loss during the nine months ended August 31, 2013 (in thousands):

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on investments	Accumulated Other Comprehensive Loss
Balance, December 1, 2012	$(8,183)	$(2,581)	$(10,764)
Other comprehensive income (loss) before reclassifications, net of tax	(4,010)	98	(3,912)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—
Balance, August 31, 2013	$(12,193)	$(2,483)	$(14,676)

The tax effect on accumulated unrealized losses on investments was $1.4 million and $1.5 million as of August 31, 2013 and November 30, 2012, respectively.

Note 12: Restructuring Charges

2013 Restructuring

During the third quarter of fiscal year 2013, our management approved, committed to and initiated plans to restructure and improve efficiencies in our operations as a result of the sale of the Apama product line and the divestitures completed during the fourth quarter of fiscal year 2012 and the first quarter of fiscal year 2013. We reduced our global workforce primarily within the administrative and sales organizations. This workforce reduction was conducted across all geographies and also resulted in the closing of certain facilities.

Restructuring expenses primarily relate to employee costs, including severance, health benefits, outplacement services and transition divestiture arrangements, but excluding stock-based compensation. Facilities costs include fees to terminate lease agreements and costs for unused space, net of sublease assumptions. Other costs include costs to terminate automobile leases of employees included in the workforce reduction, asset impairment charges for assets no longer deployed as part of cost reduction strategies, costs for unused software licenses as part of the workforce reduction and other costs directly associated with the restructuring actions taken.

As part of the 2013 restructuring, for the three and nine months ended August 31, 2013, we incurred expenses totaling $6.1 million, of which $0.4 million represents excess facilities and other costs and $5.7 million represents employee severance and related benefits. The expenses are recorded as restructuring expenses in the condensed consolidated statements of income, with the exception of $0.4 million included in income (loss) from discontinued operations for the three and nine months ended August 31, 2013. We expect to incur additional costs with respect to the 2013 restructuring through the remainder of fiscal year 2013. The total cost of the 2013 restructuring is expected to be approximately $1.3 million for excess facilities and other costs and approximately $6.5 million for employee severance and related benefits. The estimated costs not yet recorded in the condensed consolidated statement of income relate to excess facilities costs, net of sublease assumptions, and employee severance-related costs.

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A summary of activity for the 2013 restructuring action is as follows (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2012	$—	$—	$—
Costs incurred	388	5,716	6,104
Cash disbursements	(20)	(1,020)	(1,040)
Asset impairment	—	—	—
Translation adjustments and other	—	14	14
Balance, August 31, 2013	$368	$4,710	$5,078

Cash disbursements for expenses incurred to date under the 2013 restructuring are expected to be made through the first quarter of fiscal year 2014. The restructuring reserve of $5.1 million is included in other accrued liabilities on the condensed consolidated balance sheet at August 31, 2013.

2012 Restructuring

In the second quarter of fiscal year 2012, our management approved, committed to and initiated certain operational restructuring initiatives to reduce annual costs, including the simplification of our organizational structure and the consolidation of facilities. In addition, as part of the Plan, we have divested the product lines not considered core to our business. Our restructuring actions include both our cost reduction efforts and qualifying costs associated with our divestitures.

As part of the 2012 restructuring, for the nine months ended August 31, 2013, we incurred expenses totaling $4.0 million, of which $1.2 million represents excess facilities and other costs and $2.8 million represents employee severance and related benefits. The expenses are recorded as restructuring expenses in the condensed consolidated statements of income, with the exception of $0.6 million included in income (loss) from discontinued operations for the nine months ended August 31, 2013. Cumulative expenses of the 2012 restructuring through the first nine months of fiscal year 2013 are $23.1 million, of which $3.9 million represents excess facilities and other costs and $19.2 million represents employee severance and related benefits. We do not expect to incur additional material costs with respect to the 2012 restructuring.

A summary of activity for the 2012 restructuring action during the nine months ended August 31, 2013, is as follows (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2012	$603	$6,429	$7,032
Costs incurred	1,213	2,844	4,057
Cash disbursements	(668)	(8,544)	(9,212)
Asset impairment	(111)	—	(111)
Translation adjustments and other	(5)	27	22
Balance, August 31, 2013	$1,032	$756	$1,788

Cash disbursements under the 2012 restructuring are expected to be made through fiscal year 2016. The short-term portion of the restructuring reserve of $1.6 million is included in other accrued liabilities and the long-term portion of

$0.2 million is included in other noncurrent liabilities on the condensed consolidated balance sheet at August 31, 2013.

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Note 13: Income Taxes

Our income tax provision for the third quarter of fiscal year 2013 and 2012 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 research and development credit was retroactively reinstated in January 2013. As a result, in the first quarter of fiscal year 2013 we recorded a tax benefit of $0.4 million related to qualifying research and development activities for the period from January 2012 to November 2012.

The Internal Revenue Service finalized its examination of our U.S. Federal income tax returns for fiscal years 2009 and 2010 during the second quarter of fiscal year 2013. In the first quarter of fiscal year 2013, we had effectively settled certain unrecognized tax benefits which had been reserved in previous periods, reducing our unrecognized tax benefits liability by $1.2 million.

Our Federal 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. State taxing authorities are currently examining our income tax returns for years through fiscal year 2010. Our state income tax returns have been examined or are closed by statute for all years prior to fiscal year 2005, and we are no longer subject to audit for those periods.

Tax authorities for certain non-U.S. jurisdictions are also examining returns affecting unrecognized tax benefits, none of which are material to our condensed 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 2007.

Note 14: 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 from continuing operations on an interim basis (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Income from continuing operations	$7,204	$7,744	$25,159	$32,460
Weighted average shares outstanding	53,532	63,469	55,451	62,888
Dilutive impact from common stock equivalents	857	636	841	907
Diluted weighted average shares outstanding	54,389	64,105	56,292	63,795
Basic earnings per share from continuing operations	$0.13	$0.12	$0.45	$0.52
Diluted earnings per share from continuing operations	$0.13	$0.12	$0.45	$0.51

We excluded stock awards representing approximately 455,000 shares, 875,000 shares, 3,098,000 shares and 1,386,000 shares of common stock from the calculation of diluted earnings per share in the three and nine months ended August 31, 2013 and 2012, respectively, because these awards were anti-dilutive.

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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: the receipt and shipment of new orders; the timely release and market acceptance of new products and/or enhancements to our existing products; the growth rates of certain market segments; the positioning of our products in those market segments; the customer demand and acceptance of any new product initiative; variations in the demand for professional services and technical support; pricing pressures and the competitive environment in the software industry; the continued uncertainty in the U.S. and international economies, which could result in fewer sales of our products and may otherwise harm our business; business and consumer use of the Internet; our ability to complete and integrate acquisitions; our ability to realize the expected benefits and anticipated synergies from acquired businesses; our ability to penetrate international markets and manage our international operations; our ability to execute on the strategic and operational initiatives we are currently undertaking, including any resulting disruption to our business, employees, customers and the manner in which we finance our operations; our ability to absorb allocated costs, primarily general and administrative, into our operations subsequent to the divestitures occurring; 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, 2012. 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 more than half of our total revenue. As a result, our revenue results have been impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates. For example, if the local currencies of our foreign subsidiaries weaken, our consolidated results stated in U.S. dollars are negatively impacted.

As exchange rates are an important factor in understanding period to period comparisons, we believe the presentation of revenue growth rates on a constant currency basis enhances the understanding of our revenue results and evaluation of our performance in comparison to prior periods. The constant currency information presented is calculated by translating current period results using prior period weighted average foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with accounting principles generally accepted in the United States of America (GAAP).

Revised Prior Period Amounts

Our financial results for prior periods have been revised, in accordance with GAAP, to reflect certain changes to the business. Prior period amounts have been revised for the impact of discontinued operations due to the sales of our product lines not considered core to our business and the Apama product line. Refer to Note 6 of Item 1 of this Quarterly Report on Form 10-Q for an additional description of this item.

Overview

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

The Plan is being executed in two phases. In the first phase, we invested in our OpenEdge and DataDirect product lines to make them more Cloud-ready. We also divested ten product lines which we did not consider core to our business: Actional,

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Artix, DataXtend, FuseSource, ObjectStore, Orbacus, Orbix, Savvion, Shadow and Sonic. In the second half of fiscal year 2012, we also executed on cost reductions as part of the Plan, including the reduction of 11% of our workforce.

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

In fiscal year 2012 and the first quarter of fiscal year 2013, we entered into definitive purchase and sale agreements to divest the product lines which we did not consider core to our business. All divestitures were completed by the end of the first quarter of fiscal year 2013. The aggregate purchase price was approximately $130.0 million. As a result of the divestitures of all the product lines not considered core to our business, we ceased reporting the results of those operations as a separate reportable segment. Beginning in fiscal year 2013, we now operate as one reportable segment.

In June 2013, we entered into a definitive purchase and sale agreement to divest our Apama product line to Software AG. The target market, deployment and sales model for the Apama product line differed significantly from those of our aPaas strategy and the divestiture allowed us to focus entirely on providing leading cloud and mobile application development technologies through a single cohesive platform. The sale closed in July 2013 for a purchase price of $44.3 million. Our operating performance was adversely impacted by temporarily higher expense levels and restructuring costs as we transitioned away from the product lines we divested.

In the second phase of the Plan, we have begun to unify the product capabilities of our core product lines, which will refine and enhance our next generation, feature-rich application development and deployment solution targeting the new market category of aPaaS. To that end, during the first nine months of fiscal year 2013, we added new functionalities to our existing products in furtherance of the Plan. We also completed the acquisition of Rollbase, Inc., a provider of Application Platform-as-a-Service (aPaas) technology that allows the rapid design, development and deployment of on-demand business applications. Lastly, in July 2013, we announced the release of Progress Pacific, an easy-to-use platform for building and managing "connected apps" on any cloud, mobile or social platform, combining Rollbase with our existing Open Edge, DataDirect and Corticon products in a single platform.

As a result of the enhancements to our existing products and renewed focus on our core products, we have experienced improved financial performance during the first nine months of fiscal year 2013. However, we are still in the early stages of our transition to becoming a leading vendor in the cloud-based aPaas market. As a result, we anticipate continued reinvestment in our products will be necessary and sustainable increases in revenue may not be foreseeable in the near term. Overall, our investments to improve our product lines require time to impact performance. Until these investments are realized, our operating margins will be adversely impacted.

In addition, our new business focus and new strategy has required us to restructure our organization and the way we go to market, how we implement product roadmaps and how we operate and report our financial results, all of which caused additional disruption and could cause additional disruption in the future as we implement our new go to market plans. Our cloud strategy will require continued investment in product development and cloud operations as well as a change in the way we price and deliver our products. Over time, we may experience some shift from perpetual license sales and distribution of our software if our customers desire the right to access certain of our software in a hosted environment or use downloaded software for a specified subscription period.

Our Board of Directors also authorized us to repurchase $360.0 million of our common stock through December 2013. In October 2012, under the authorization, we announced the adoption of a 10b5-1 plan to repurchase up to $250.0 million of our common stock through June 30, 2013, or earlier. We completed the 10b5-1 plan in May 2013, having repurchased 11.7 million shares of our common stock for $250.0 million.

In June 2013, we announced the adoption of a Rule 10b5-1 share repurchase plan for the purpose of repurchasing up to $100.0 million of our common stock as part of our previously announced repurchase authorization. The plan will be active from July 1, 2013 until December 31, 2013 or, if earlier, upon the repurchase of $100.0 million of our common stock under the plan. Through August 31, 2013, we have repurchased 2.7 million shares for $67.9 million under this plan. As of October 2, 2013, we have repurchased 3.4 million shares of our common stock for $84.7 million under the 10b5-1 plan.

We derive a significant portion of our revenue from international operations, which are primarily conducted in foreign

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currencies. As a result, changes in the value of these foreign currencies relative to the U.S. dollar have significantly impacted our results of operations and may impact our future results of operations.

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

Results of Operations

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

	Percentage of Total Revenue				Percentage Change	
	Three Months Ended		Nine Months Ended		Three Months Ended	Nine Months Ended
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012		
Revenue:						
Software licenses	33 %	30 %	35 %	32 %	13 %	17 %
Maintenance and services	67	70	65	68	—	—
Total revenue	100	100	100	100	4	5
Costs of revenue:						
Cost of software licenses	2	2	2	2	15	22
Cost of maintenance and services	8	11	9	10	(20)	(4)
Amortization of acquired intangibles	1	—	—	—	281	55
Total costs of revenue	11	13	11	12	(10)	1
Gross profit	89	87	89	88	6	6
Operating expenses:						
Sales and marketing	32	34	33	29	(2)	18
Product development	19	17	18	14	16	29
General and administrative	18	19	17	21	(5)	(11)
Amortization of acquired intangibles	—	—	—	—	2	(12)
Restructuring expenses	7	2	4	3	283	48
Acquisition-related expenses	1	—	1	—	100	937
Total operating expenses	77	72	73	67	11	14
Income from operations	12	15	16	21	(14)	(19)
Other (expense) income	—	—	—	—	(50)	(176)
Income from continuing operations before income taxes	12	15	16	21	(16)	(22)
Provision for income taxes	3	5	6	8	(32)	(20)
Income from continuing operations	9	10	10	13	(7)	(22)
Income (loss) from discontinued operations, net	23	(3)	14	(9)	1,025	265
Net income	32 %	7 %	24 %	4 %	326 %	424 %

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Revenue

	Three Months Ended		Percentage Change	
(In thousands)	August 31, 2013	August 31, 2012	As Reported	Constant Currency
Revenue	$77,578	$74,371	4 %	4 %

	Nine Months Ended		Percentage Change	
(In thousands)	August 31, 2013	August 31, 2012	As Reported	Constant Currency
Revenue	$243,016	$230,970	5 %	6 %

Total revenue increased $3.2 million, or 4% on an actual and constant currency basis, in the third quarter of fiscal year 2013 as compared to the same quarter last year and increased $12.0 million, or 6% on a constant currency basis and 5% using actual exchange rates, in the first nine months of fiscal year 2013 as compared to the same period in the prior year. The increase was primarily a result of an increase in license revenue as further described below.

Changes in prices from fiscal year 2012 to 2013 did not have a significant impact on our revenue. Changes in foreign currency exchange rates did not significantly impact our reported revenues on a consolidated basis.

License Revenue

	Three Months Ended		Percentage Change	
(In thousands)	August 31, 2013	August 31, 2012	As Reported	Constant Currency
License	$25,666	$22,637	13 %	13 %
As a percentage of total revenue	33 %	30 %		

	Nine Months Ended		Percentage Change	
(In thousands)	August 31, 2013	August 31, 2012	As Reported	Constant Currency
License	$84,920	$72,816	17 %	17 %
As a percentage of total revenue	35 %	32 %		

License revenue increased $3.0 million, or 13%, in the third quarter of fiscal year 2013 as compared to the same quarter last year, and increased $12.1 million, or 17%, in the first nine months of fiscal year 2013 as compared to the same period last year. The increase in license revenue for the third quarter of fiscal year 2013 was primarily driven by higher revenue for our OpenEdge and Corticon products in the EMEA and Asia Pacific regions, offset by lower revenue for DataDirect products due to timing of deal closures and revenue recognition on multi-year OEM agreements. The increase in license revenue for the first nine months of fiscal year 2013 was primarily driven by higher revenue for our OpenEdge and Corticon products in the North America, EMEA and Asia Pacific regions, offset by lower revenue for DataDirect products due to timing of deal closures and revenue recognition on multi-year OEM agreements.

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Maintenance and Services Revenue

(In thousands)	Three Months Ended August 31, 2013	Three Months Ended August 31, 2012	Percentage Change As Reported	Percentage Change Constant Currency
Maintenance	$49,752	$50,285	(1)%	(1)%
As a percentage of total revenue	64 %	68 %		
Professional services	2,160	1,449	49 %	47 %
As a percentage of total revenue	3 %	2 %		
Total maintenance and services revenue	$51,912	$51,734	— %	— %
As a percentage of total revenue	67 %	70 %		

(In thousands)	Nine Months Ended August 31, 2013	Nine Months Ended August 31, 2012	Percentage Change As Reported	Percentage Change Constant Currency
Maintenance	$151,627	$151,800	— %	— %
As a percentage of total revenue	62 %	66 %		
Professional services	6,469	6,354	2 %	2 %
As a percentage of total revenue	3 %	2 %		
Total maintenance and services revenue	$158,096	$158,154	— %	— %
As a percentage of total revenue	65 %	68 %		

Maintenance and services revenue increased $0.2 million in the third quarter of fiscal year 2013 as compared to the same quarter last year. Maintenance revenue decreased 1% and professional services revenue increased 49% in the third quarter of fiscal year 2013 as compared to the third quarter of fiscal year 2012.

Maintenance and services revenue was flat in the first nine months of fiscal year 2013 as compared to the same period last year. Professional services revenue increased 2% in the first nine months of fiscal year 2013 as compared to the first nine months of fiscal year 2012.

Maintenance revenue remained flat in the third quarter of fiscal year 2013 and the first nine months of fiscal year 2013 compared to the same time periods of the previous year as the loss of revenue from non-renewing customers offset the growth in maintenance revenue associated with new license sales. Professional services revenue increased in the third quarter of fiscal year 2013 compared to the same time period of the previous year due to the timing of professional services engagements.

Revenue by Region

(In thousands)	Three Months Ended August 31, 2013	Three Months Ended August 31, 2012	Percentage Change As Reported	Percentage Change Constant Currency
North America	$34,596	$34,548	— %	— %
As a percentage of total revenue	45 %	47 %		
EMEA	$32,315	$28,155	15 %	10 %
As a percentage of total revenue	42 %	38 %		
Latin America	$5,496			