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

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 0-19417

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý
As of September 29, 2016, there were 48,592,417 shares of the registrant’s common stock, $.01 par value per share, outstanding.

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FORM 10-Q
FOR THE NINE MONTHS ENDED AUGUST 31, 2016
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets

(In thousands, except share data)	August 31, 2016	November 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	$188,084	$212,379
Short-term investments	44,600	28,900
Total cash, cash equivalents and short-term investments	232,684	241,279
Accounts receivable (less allowances of $1,565 and $2,193, respectively)	55,758	66,459
Other current assets	20,521	15,671
Total current assets	308,963	323,409
Property and equipment, net	50,778	54,226
Intangible assets, net	87,684	114,113
Goodwill	370,097	369,985
Deferred tax assets	11,626	10,971
Other assets	3,631	4,419
Total assets	$832,779	$877,123
Liabilities and shareholders’ equity		
Current liabilities:		
Current portion of long-term debt	$13,125	$9,375
Accounts payable	9,647	11,188
Accrued compensation and related taxes	20,967	29,720
Income taxes payable	5,098	2,941
Other accrued liabilities	17,796	21,465
Short-term deferred revenue	129,354	125,227
Total current liabilities	195,987	199,916
Long-term debt	123,750	135,000
Long-term deferred revenue	8,529	8,844
Deferred tax liabilities	6,149	7,112
Other noncurrent liabilities	3,785	3,787
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, 48,575,307 shares in 2016 and 50,579,539 shares in 2015	237,136	227,930
Retained earnings	281,303	319,162
Accumulated other comprehensive loss	(23,860)	(24,628)
Total shareholders’ equity	494,579	522,464
Total liabilities and shareholders’ equity	$832,779	$877,123

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Operations

(In thousands, except per share data)	Three Months Ended August 31, 2016	Three Months Ended August 31, 2015	Nine Months Ended August 31, 2016	Nine Months Ended August 31, 2015
Revenue:				
Software licenses	$33,624	$31,840	$86,366	$85,794
Maintenance and services	68,394	62,797	201,251	179,042
Total revenue	102,018	94,637	287,617	264,836
Costs of revenue:				
Cost of software licenses	1,424	1,441	4,139	4,526
Cost of maintenance and services	11,825	9,612	33,217	31,174
Amortization of acquired intangibles	3,940	4,079	11,818	12,805
Total costs of revenue	17,189	15,132	49,174	48,505
Gross profit	84,829	79,505	238,443	216,331
Operating expenses:				
Sales and marketing	29,852	30,004	88,648	92,607
Product development	21,706	20,422	65,800	65,533
General and administrative	11,411	14,076	36,055	42,065
Amortization of acquired intangibles	3,186	3,186	9,556	9,559
Impairment of intangible assets	5,051	—	5,051	—
Restructuring expenses	(36)	2,561	229	8,715
Acquisition-related expenses	53	662	449	3,180
Total operating expenses	71,223	70,911	205,788	221,659
Income (loss) from operations	13,606	8,594	32,655	(5,328)
Other (expense) income:				
Interest expense	(1,174)	(987)	(3,244)	(2,808)
Interest income and other, net	260	450	686	1,153
Foreign currency (loss) gain, net	(374)	(628)	(1,916)	397
Total other (expense) income, net	(1,288)	(1,165)	(4,474)	(1,258)
Income (loss) before income taxes	12,318	7,429	28,181	(6,586)
Provision (benefit) for income taxes	4,742	11,555	10,114	(7,256)
Net income (loss)	$7,576	$(4,126)	$18,067	$670
Earnings per share:				
Basic	$0.16	$(0.08)	$0.36	$0.01
Diluted	$0.15	$(0.08)	$0.36	$0.01
Weighted average shares outstanding:				
Basic	48,611	50,120	49,765	50,377
Diluted	49,135	50,120	50,310	51,117

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Comprehensive Income (Loss)

(In thousands)	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Net income (loss)	$7,576	$ (4,126)	$18,067	$ 670
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(1,332)	(257)	485	(8,411)
Reclassification adjustment for losses included in net income, net of tax of $0 for the third quarter and first nine months of 2016	—	—	256	—
Unrealized gains (losses) on investments, net of tax of $16 for the third quarter and first nine months of 2016 and $0 for the third quarter and first nine months of 2015	30	(17)	27	(52)
Total other comprehensive income (loss), net of tax	(1,302)	(274)	768	(8,463)
Comprehensive income (loss)	$6,274	$ (4,400)	$18,835	$ (7,793)

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, 2016	August 31, 2015
Cash flows from operating activities:		
Net income	$ 18,067	$ 670
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	6,480	7,209
Amortization of intangibles and other	23,316	24,420
Stock-based compensation	19,009	18,812
Loss on disposal of property	364	—
Asset impairment	5,051	3,999
Deferred income taxes	(996)	(23,067)
Excess tax benefit from stock plans	(305)	(1,107)
Allowances for accounts receivable	(334)	356
Changes in operating assets and liabilities:		
Accounts receivable	11,209	11,160
Other assets	(3,866)	(508)
Accounts payable and accrued liabilities	(14,920)	(3,378)
Income taxes payable	2,025	7,367
Deferred revenue	3,810	31,255
Net cash flows from operating activities	68,910	77,188
Cash flows used in investing activities:		
Purchases of investments	(33,861)	(20,068)
Sales and maturities of investments	17,275	10,436
Purchases of property and equipment	(3,747)	(6,079)
Capitalized software development costs	—	(1,661)
Payments for acquisitions, net of cash	—	(246,275)

acquired						
Proceeds from divestitures, net	—			4,500		
Net cash flows used in investing activities	(20,333		)	(259,147		)
Cash flows (used in) from financing activities:						
Proceeds from stock-based compensation plans	8,166			10,459		
Purchases of stock related to withholding taxes from the issuance of restricted stock units	(2,751		)	(2,850		)
Repurchases of common stock	(71,507		)	(32,868		)
Excess tax benefit from stock plans	305			1,107		
Payment of contingent consideration	—			(209		)
Proceeds from the issuance of debt	—			150,000		
Payment of long-term debt	(7,500		)	(5,625		)
Payment of issuance costs for long-term debt	—			(1,787		)
Net cash flows (used in) from financing activities	(73,287		)	118,227		
Effect of exchange rate changes on cash	415			(10,237		)
Net decrease in cash and cash equivalents	(24,295		)	(73,969		)
Cash and cash equivalents, beginning of period	212,379			263,082		
Cash and cash equivalents, end of period	$	188,084		$	189,113	

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Condensed Consolidated Statements of Cash Flows, continued

	Nine Months Ended	
	August 31, 2016	August 31, 2015
Supplemental disclosure:		
Cash paid for income taxes, net of refunds of $781 in 2016 and $1,887 in 2015	$11,918	$ 7,329
Cash paid for interest	$2,348	$ 2,150
Non-cash financing activities:		
Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested	$12,137	$ 9,963

See notes to unaudited condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

Note 1: Basis of Presentation

Company Overview - We are a global leader in application development, empowering the digital transformation organizations need to create and sustain engaging user experiences in today's evolving marketplace. With offerings spanning web, mobile and data for on-premise and cloud environments, we power startups and industry titans worldwide. Our solutions are used across a variety of industries.

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

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

Basis of Presentation and Significant Accounting Policies - We prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements and these unaudited financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2015.

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, 2015. 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 for the fiscal year ended November 30, 2015, 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.

Recent Accounting Pronouncements - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The guidance in ASU 2016-15 is required for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated statement of cash flows.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 is intended to simplify various aspects of the accounting for employee share-based payment transactions, including accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance in ASU 2016-09 is required for annual reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (ASU 2016-02), which requires lessees to record most leases on their balance sheets, recognizing a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The guidance in ASU 2016-02 is required for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We currently expect that most of our operating lease commitments will be subject to the update and recognized as operating lease liabilities and right-of-use assets upon adoption. However, we are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

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In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The guidance in ASU 2015-03 is required for annual reporting periods beginning after December 15, 2015, including interim periods within the reporting period. Early adoption is permitted for financial statements that have not been previously issued. We estimate that the impact on our consolidated balance sheets will be a reclassification of up to $1.1 million from other assets to long-term debt as of December 1, 2016.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new guidance is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early adoption is not permitted. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. In July 2015, the FASB voted to defer the effective date of this ASU by one year for reporting periods beginning after December 15, 2017, with early adoption permitted as of the original effective date. As a result, the new effective date for the Company will be December 1, 2018. This update will impact the timing and amounts of revenue recognized. Management is currently assessing the impact the adoption of this ASU will have on the Company’s consolidated financial statements.

Note 2: Cash, Cash Equivalents and Investments

A summary of our cash, cash equivalents and available-for-sale investments at August 31, 2016 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 179,548	$ —		$ 179,548
Money market funds	8,536	—		8,536
State and municipal bond obligations	34,489	43		34,532
U.S. treasury bonds	6,534	—		6,534
U.S. government agency bonds	525	1	(4)	522
Corporate bonds	3,006	6		3,012
Total	$ 232,638	$ 50	$ (4)	$ 232,684

A summary of our cash, cash equivalents and available-for-sale investments at November 30, 2015 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash	$ 186,241	$ —	$ —	$ 186,241
Money market funds	26,138	—	—	26,138
State and municipal bond obligations	20,387	30	—	20,417
U.S. treasury bonds	3,109	—	(15)	3,094
U.S. government agency bonds	1,645	—	(4)	1,641
Corporate bonds	3,756	—	(8)	3,748
Total	$ 241,276	$ 30	$ (27)	$ 241,279

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

	August 31, 2016		November 30, 2015	
	Cash and Equivalents	Short-Term Investments	Cash and Equivalents	Short-Term Investments
Cash	$179,548	$ —	$186,241	$ —
Money market funds	8,536	—	26,138	—
State and municipal bond obligations	—	34,532	—	20,417
U.S. treasury bonds	—	6,534	—	3,094
U.S. government agency bonds	—	522	—	1,641
Corporate bonds	—	3,012	—	3,748
Total	$188,084	$ 44,600	$212,379	$ 28,900

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

	August 31, 2016	November 30, 2015
Due in one year or less	$ 23,474	$ 15,945
Due after one year [(1)]	21,126	12,955
Total	$ 44,600	$ 28,900

(1) Includes state and municipal bond obligations and corporate bonds, which are securities representing investments available for current operations and are classified as current in the consolidated balance sheets.

We did not hold any investments with continuous unrealized losses as of August 31, 2016 and as of November 30, 2015.

Note 3: Derivative Instruments

We generally use forward contracts that are not designated as hedging instruments to hedge economically the impact of the variability in exchange rates on intercompany accounts receivable and loans receivable denominated in certain foreign currencies. We generally do not hedge the net assets of our international subsidiaries. All forward contracts are recorded at fair value in other current assets or other accrued liabilities on the consolidated balance sheets at the end of each reporting period and expire from 30 days to one year. In the three and nine months ended August 31, 2016, realized and unrealized gains of $2.2 million and $1.4 million, respectively, from our forward contracts were recognized in foreign currency (loss) gain, net, in the condensed consolidated statements of operations. In the three and nine months ended August 31, 2015, realized and unrealized gains of $0.6 million and realized and unrealized losses of $1.9 million, respectively, from our forward contracts were recognized in foreign currency gain (loss), net, in the condensed consolidated statements of operations. The gains and losses were substantially offset by realized and unrealized losses and 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, 2016		November 30, 2015	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	$83,992	$ (5,170)	$76,748	$ (4,026)
Forward contracts to purchase U.S. dollars	2,209	4	2,077	5
Total	$86,201	$ (5,166)	$78,825	$ (4,021)

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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, 2016 (in thousands):

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

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

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

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

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

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

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

Nonrecurring Fair Value Measurements

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

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

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

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

Note 5: Intangible Assets and Goodwill

Intangible Assets

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

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

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

In the three and nine months ended August 31, 2016, amortization expense related to intangible assets was $7.1 million and $21.4 million, respectively. In the three and nine months ended August 31, 2015, amortization expense related to intangible assets was $7.3 million and $22.4 million, respectively.

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

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

Goodwill

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

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

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

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

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

Note 6: Business Combinations

Telerik Acquisition

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

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

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

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

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

Note 7: Term Loan and Line of Credit

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

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

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

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

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

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

Note 8: Common Stock Repurchases

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

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

Note 9: Stock-Based Compensation

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

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

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

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Note 10: Accumulated Other Comprehensive Loss

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

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

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

Note 11: Restructuring Charges

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

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

2015 Restructurings

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

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

During the second quarter of fiscal year 2015, we decided to replace our existing cloud-based mobile application development technology with technology acquired in connection with the acquisition of Telerik. Accordingly, we evaluated the ongoing value of the assets associated with this prior mobile technology and, based on this evaluation, we determined that the long-lived assets with a carrying amount of $4.0 million were no longer recoverable and were impaired and wrote them down to their estimated fair value of $0.1 million. Fair value was based on expected future cash flows using Level 3 inputs under ASC 820.

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

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

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

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

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

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

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

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

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

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

2012 - 2014 Restructurings

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

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

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

Note 12: Income Taxes

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

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

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

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

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

Note 13: Earnings Per Share

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

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

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

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

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Note 14: Business Segments and International Operations

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

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

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

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

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

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

(In thousands)	Three Months Ended	Nine Months Ended

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

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

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

Note 15: Subsequent Events

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

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

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

Use of Constant Currency

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

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

Overview

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

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

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

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

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

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

We derive a significant portion of our revenue from international operations, which are primarily conducted in foreign currencies. As a result, changes in the value of these foreign currencies relative to the U.S. dollar have significantly impacted our results of operations and may impact our future results of operations. Beginning in the fourth quarter of 2014, the value of the U.S. dollar strengthened in comparison to certain foreign currencies, including in Europe, Brazil and Australia, and continued to strengthen during the first half of 2015. The U.S. dollar has remained strong in comparison to foreign currencies in 2016. Since approximately one-third of our revenue is denominated in foreign currency, our revenue results have been negatively impacted, and we expect will continue to be impacted, by fluctuations in foreign currency exchange rates.

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

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

We believe that existing cash balances, together with funds generated from operations and amounts available under our credit facility, will be sufficient to finance our operations and meet our foreseeable cash requirements, including our newly announced quarterly cash dividend to Progress shareholders, through at least the next twelve months.