

PROGRESS SOFTWARE CORP /MA
Form 10-K/A
April 01, 2013

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

FORM 10-K/A
(Amendment No. 1)

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

For the Fiscal Year Ended November 30, 2012
or

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

Commission File Number: 0-19417

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

MASSACHUSETTS
(State or other jurisdiction of
incorporation or organization)

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

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

Telephone Number: (781) 280-4000

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

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

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

As of February 28, 2013, there were 56,488,000 common shares outstanding.

Documents Incorporated by Reference

None

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EXPLANATORY NOTE

Progress Software Corporation (referred to as Progress, the company, we, us or our) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment”) to its Annual Report on Form 10-K for the year ended November 30, 2012, originally filed on January 29, 2013 (the “Original Report”), for the sole purpose of including the information required by Part III of Form 10-K. Accordingly, Items 10, 11, 12, 13 and 14 of Part III of our Original Report are replaced in their entirety with the information provided herein. This Form 10-K/A does not amend, update or change any other items or disclosure in the Original Report or reflect events that occurred after the date of the Original Report. Therefore, this Amendment should be read in conjunction with our Original Report and our other filings made with the United States Securities and Exchange Commission (“SEC”) subsequent to the filing of the Original Report. This Form 10-K/A also includes as exhibits the certifications required by Rule 13a-14(a) of the Securities Exchange Act of 1934.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Board of Directors

Currently, our Board of Directors is comprised of seven members. Each director has been elected to hold office until the next annual meeting of shareholders or special meeting in lieu of such annual meeting and until his successor has been duly elected and qualified, or until his earlier death, resignation or removal. There are no family relationships among any of our executive officers or directors.

The following table sets forth our directors, their ages, and the positions currently held by each person with our company. In addition, for each person we have included information regarding the business or other experience, qualifications, attributes or skills considered in determining that each person should serve as a director.

Name	Age	Position
Barry N. Bycoff	64	Director
John R. Egan ⁽³⁾	55	Non-Executive Chairman of the Board
Ram Gupta ⁽¹⁾⁽²⁾	51	Director
Charles F. Kane ⁽¹⁾⁽³⁾	55	Director
David A. Krall ⁽²⁾⁽³⁾	52	Director
Michael L. Mark ⁽¹⁾⁽²⁾	67	Director
Philip M. Pead	60	President and Chief Executive Officer and Director

(1)Member of Audit Committee

(2)Member of Nominating and Corporate Governance Committee

(3)Member of Compensation Committee

Mr. Bycoff has been a director since May 2007. Mr. Bycoff was our Executive Chairman from March 2009 until April 2011. From May 2005 to July 2007, Mr. Bycoff was a venture partner of Pequot Ventures, the venture capital arm of Pequot Capital Management, Inc. Mr. Bycoff was previously Executive Chairman of Day Software Holding AG. As the founder and former Chief Executive Officer of Netegrity, a public technology company, Mr. Bycoff demonstrated leadership, management and strategic experience, as well as significant financial, operational and corporate governance experience. Mr. Bycoff also has significant management experience from working in a variety of software companies. Mr. Bycoff also has valuable experience as a current and former board member of a number of public and private technology-related companies. Mr. Bycoff also brings to the Board of Directors his investing experience from his tenure at Pequot Ventures.

Mr. Egan became our Non-Executive Chairman of the Board in December 2012. Mr. Egan has been a director since September 2011. Mr. Egan is managing partner of Egan-Managed Capital, a Boston based venture capital fund he founded in October 1998 that specializes in technology and early stage investments. From October 1986 until September 1998, Mr. Egan served in a number of executive positions with EMC Corporation, including Executive

Vice President, Products and Offerings, Executive Vice President, Sales and Marketing, Executive Vice President, Operations and Executive Vice President, International Sales. Mr. Egan also serves on the Board of Directors for other publicly-traded and privately-held companies. They include: EMC Corporation (NYSE: EMC), where he has served on the Board of Directors for almost twenty years;

VMWare, Inc. (NYSE: VMW); and NetScout Systems, Inc. (OTC: NTCT), where he serves as Lead Director. Mr. Egan also serves in a variety of leadership roles within the Board of Directors of several privately-held technology companies, including HighRoads Corporation, Platform Computing Corporation and Healthrageous, Inc.

Mr. Egan brings to our Board of Directors extensive understanding and expertise in the information technology industry as a result of his service on other boards of directors combined with his executive leadership roles at EMC Corp. His broad experience ranges from venture capital investments in early-stage technology companies to extensive sales and marketing experience, to executive leadership and management roles. Mr. Egan brings to the Board business acumen, substantial operational experience, and expertise in corporate strategy development. Mr. Egan also has extensive experience serving as a director of publicly-traded companies.

Mr. Gupta has been a director since May 2008. From May 2007 until May 2010, Mr. Gupta was Executive Chairman of CAST Iron Systems, Inc., a leading Software as a Service (SaaS) and cloud application integration provider. Prior to that time, from November 2005 until May 2007, Mr. Gupta was President and Chief Executive Officer of CAST Iron Systems, Inc. Mr. Gupta is also a director of S1 Corp. and was previously a director of Source Forge, Inc. Mr. Gupta also has served in a variety of leadership roles within the Board of Directors of several privately-held technology companies including Platform Computing Corporation, Persistent Systems, Accruent Inc. and Yodlee Inc. Mr. Gupta has extensive strategic marketing and management expertise at global technology companies, including responsibility for strategy, marketing, development, customer support, alliances and mergers and acquisitions. As a former executive and current board member of several technology-related public companies, Mr. Gupta offers industry specific, public company board experience to our Board of Directors. His extensive experience in the software industry, particularly in the area of strategy and marketing, is a significant asset to the Board of Directors.

Mr. Kane has been a director since November 2006. Mr. Kane is an adjunct professor of International Finance at the MIT Sloan Graduate Business School of Management. Mr. Kane is currently a Director and Strategic Advisor of One Laptop Per Child, a non-profit organization that provides computing and internet access for students in the developing world, for whom he served as President and Chief Operating Officer from 2008 until 2009. Mr. Kane served as Executive Vice President and Chief Administrative Officer of Global BPO Services Corp., a special purpose acquisition corporation, from July 2007 until March 2008, and as Chief Financial Officer of Global BPO from August 2007 until March 2008. Prior to joining Global BPO, he served as Chief Financial Officer of RSA Security Inc., a provider of e-security solutions, from May 2006 until RSA was acquired by EMC Corporation in October 2006. From July 2003 until May 2006, he served as Chief Financial Officer of Aspen Technology, Inc., a provider of supply chain management software and professional services. Mr. Kane is currently a director of Demandware, Inc. (NYSE: DWRE), a leading provider of software-as-a-service (SaaS) ecommerce solutions that enable companies to deliver customized shopping experiences to consumers in the digital world, and Carbonite, Inc. (NASDAQ: CARB), a leading provider of online backup solutions for consumers and small and medium sized businesses. Mr. Kane was previously a director of Netezza Corporation, Borland Software Corporation and Applix Inc.

As our Audit Committee financial expert and Chairman of the Audit Committee, Mr. Kane provides a high level of expertise and leadership experience in the areas of finance, accounting, audit oversight and risk analysis derived from his experience as the chief financial officer of publicly-traded technology companies. Mr. Kane also offers substantial public company board experience to our Board of Directors.

Mr. Krall has been a director since February 2008. Mr. Krall is currently Chairman of the Board of Directors of Audinate Pty Ltd, a leader in IP audio-visual media network solutions. Mr. Krall also serves on the Board of Directors of Quantum Corp. (NYSE: QTM) and Universal Audio, a privately-held leading manufacturer of professional audio recording hardware and production software. Mr. Krall also currently serves as a Strategic Advisor to Roku, Inc., a leading manufacturer of streaming media players, a position he assumed in January 2011. Mr. Krall joined Roku, Inc. in February 2010 as President and Chief Operating Officer. Prior to that time, Mr. Krall was President and Chief Executive Officer and a member of the Board of Directors of QSecure, Inc., a maker of electronic credit cards, with whom he currently serves as Executive Chairman. From 2000 to 2007, Mr. Krall was President, Chief Executive Officer and a member of the Board of Directors of Avid Technology, Inc.

Mr. Krall has significant leadership, management and operational experience through his service in a broad range of executive positions within the software and technology industries. From working in companies ranging from small

startups to public companies with thousands of employees serving worldwide marketplaces, Mr. Krall brings experience in the areas of new product development, integration of complex software and hardware solutions, strategy formation, and general management.

Mr. Mark has been a director since July 1987. He was our Non-Executive Chairman of the Board from April 2011 until May 2012 and also from December 2006 until March 2009. From March 2009 until April 2011, Mr. Mark served as Lead Independent Director. Mr. Mark is a private investor and member of Walnut Venture Associates, an investment group seeking

opportunities in early-stage and emerging high-tech companies in New England. Mr. Mark has been a founder and investor in numerous early-stage companies and serves on several private boards of directors, including Pixability, Inc., PlayRific, Code-On and Third Solutions.

Mr. Mark has served on our Board of Directors for twenty-five years, spanning the entire time that we have been a public company. As a result, Mr. Mark provides our Board of Directors with critical historical knowledge and insights on our business and the software industry generally. Mr. Mark also has extensive experience as a director of public and private companies.

Mr. Pead became our President and Chief Executive Officer on December 7, 2012. Prior to that time, Mr. Pead was our Interim Chief Executive Officer, a position he assumed on November 2, 2012. Mr. Pead served as Executive Chairman of the Board from October 8, 2012 until December 7, 2012. Mr. Pead was our Non-Executive Chairman of the Board from May, 2012 until October 2012. Mr. Pead has been a director since July 2011. Mr. Pead was formerly the Chairman of the Board of Directors of Allscripts Health Solutions (NASDAQ: MDRX), a leading health care information technology company. Mr. Pead was also the President and Chief Executive Officer of Eclipsys Corporation, a leading provider of enterprise clinical and financial software for hospitals, which was merged with Allscripts in August 2010. From March 2007 to May 2009, Mr. Pead served as the Managing Partner of Beacon Point Partners LLC, a healthcare consulting firm. Mr. Pead served as President and Chief Executive Officer of Per-Se Technologies Inc., a provider of healthcare information technology services, from November 2000 until its acquisition by McKesson Corporation in January 2007.

As our Chief Executive Officer, Mr. Pead provides key insight and advice with respect to corporate strategy and management development and a deeper understanding of our products, technology and market opportunities. Furthermore, Mr. Pead provides our company with industry insight and knowledge as a result of his over twenty-five years experience in the software industry, working in executive roles in several publicly- and privately-held companies, including Per-Se Technologies, Dun & Bradstreet Corporation and Attachmate Corporation. In addition to Progress Software Corporation and Allscripts Health Solutions, Mr. Pead previously served on the board of directors of publicly-traded Emdeon Inc. (NYSE: EM).
Executive Officers

The following table sets forth certain information regarding our executive officers and other direct reports of the Chief Executive Officer as of the date of this Form 10-K/A.

Name	Age	Position
Joseph A. Andrews	57	Senior Vice President, Human Resources
Antonio J. Aquilina	45	Senior Vice President, Strategy and Corporate Development
John Bates	42	Chief Technology Officer and Decision Analytics Business Line Leader
Michael Benedict	40	Vice President, Data Connectivity Business Line Leader
David A. Benson	53	Executive Vice President and Chief Information Officer
Stephen H. Faberman	43	Vice President and General Counsel
John P. Goodson	48	Senior Vice President, Engineering
Karen T. Padir	44	Senior Vice President, Application Development Business Line Leader
Chris E. Perkins*	50	Senior Vice President, Finance & Administration and Chief Financial Officer
Jennifer Smith	37	Vice President and Chief Marketing Officer
Andrew E. Zupsic*	50	Senior Vice President, Global Field Operations

* Denotes Executive Officer

Mr. Andrews became Senior Vice President, Human Resources in April 2010. Prior to that time, Mr. Andrews was Vice President, Human Resources, a position he held since he joined us in February 1997.

Mr. Aquilina became Senior Vice President, Strategy and Corporate Development in January 2012. Prior to that time, from February 2011 until January 2012, Mr. Aquilina was Vice President of Corporate Development at Autodesk, Inc., where he was employed beginning in 2005. From 2005 until February 2011, Mr. Aquilina was Director of Business Development within the Architecture, Engineering and Construction Services Division at Autodesk, Inc.

Dr. Bates became the Decision Analytics Business Line Leader in May 2012, as well as retaining the position of Executive Vice President and Chief Technology Officer. Dr. Bates became Chief Technology Officer and Head of Corporate Development in December 2009. Prior to that time, Dr. Bates was Vice President and General Manager, Apama Division from July 2007 to November 2009. Prior to that time, he was Vice President, Apama Products. Dr. Bates co-founded Apama Limited, a predecessor company we acquired, in 1995.

Mr. Benedict became Vice President, Data Connectivity Business Line Leader in May 2012. From March 2011 to May 2012, Mr. Benedict was Vice President of Product Management. Prior to that time, Mr. Benedict held several Senior Director and Director positions in the Products and Sales organizations, since joining our company upon the acquisition of DataDirect in 2003.

Mr. Benson became Executive Vice President and Chief Information Officer in April 2010. From July 2012 until September 2012, Mr. Benson also served as the Application Development Business Line Leader on an interim basis. Mr. Benson joined us in June 2009 as Senior Vice President and Chief Information Officer. Prior to joining us, Mr. Benson served as Senior Vice President, Chief Information Officer for News Corporation, a diversified media and entertainment company, from May 2003 to August 2008.

Mr. Faberman became Vice President and General Counsel in December 2012. From October 2012 until December 2012, Mr. Faberman served as Vice President and Acting General Counsel. From January 2012 to October 2012, Mr. Faberman was Vice President and Deputy General Counsel. Mr. Faberman joined our company in May 2008 as Associate General Counsel and became Deputy General Counsel in September 2009. Prior to joining us, Mr. Faberman was Of Counsel at Greenberg Traurig LLP from November 2007 until May 2008. Prior to that time, he was Vice President, Corporate Counsel for Heritage Property Investment Trust, a publicly-traded commercial real estate investment trust, from October 2003 until March 2007.

Mr. Goodson became Senior Vice President, Engineering in May 2012. Prior to that time, beginning in October 2010, Mr. Goodson served as Senior Vice President, Products in October 2010 and acted as our Interim Chief Product Officer. Prior to that time, from June 2010 until October 2010, Mr. Goodson was Senior Vice President and General Manager, Enterprise Data Solutions and Enterprise Business Solutions. In April 2009, Mr. Goodson became a Senior Vice President. Mr. Goodson had been a Vice President and General Manager, DataDirect Technologies Division since December 2007. Prior to December 2007, Mr. Goodson was Vice President, Product Operations, for DataDirect Technologies Division. Mr. Goodson joined DataDirect Technologies Limited, a predecessor company acquired by us, in 1992.

Ms. Padir became Senior Vice President, Application Development Business Line Leader in September 2012. Prior to joining us, from March 2010 to September 2012, Ms. Padir was Executive Vice President, Products and Engineering at EnterpriseDB. From October 2005 to February 2010, Ms. Padir was Vice President, Engineering at Sun Microsystems, and from October 2004 to September 2005, she was Vice President, Engineering at Red Hat.

Mr. Perkins became Senior Vice President, Finance & Administration and Chief Financial Officer in February 2013. Prior to joining us, Mr. Perkins was previously a member of the Board of Directors of Immucor, Inc. from August 2008 until August 2011. From July 2009 through August 2010, Mr. Perkins was Executive Vice President and Chief Financial Officer of Eclipsys Corporation. From August 2010 through December 2010, Mr. Perkins led the post-merger integration of Allscripts Healthcare Solutions, Inc. with Eclipsys. From December 2007 until July 2008, Mr. Perkins was Chief Operating Officer at Emageon, Inc. From April 2006 until January 2007, Mr. Perkins was Executive Vice President and Chief Operating Officer of Per-Se Technologies, Inc.

Ms. Smith became Vice President, Chief Marketing Officer in January 2013. Prior to that time, from May 2012 to January 2013, Ms. Smith was Vice President, Corporate Marketing, and from January 2010 to April 2012, Ms. Smith was Vice President, Worldwide Field Marketing. Prior to that time, Ms. Smith held several positions in our marketing organization since joining Progress in October 2007.

Mr. Zupsic became Senior Vice President, Global Field Operations in April 2012. Prior to joining us, from September 2009 to April 2012, Mr. Zupsic was Senior Vice President of Americas Enterprise Sales at Juniper Networks, Inc. From July 2007 to September 2009, Mr. Zupsic was Vice President, Sales, Marketing and Services, Latin America, at Microsoft Corporation. Prior to July 2007, Mr. Zupsic held several Director and Manager positions at Microsoft, where he was employed since 1993.

Audit Committee

The Audit Committee of our Board of Directors currently consists of Messrs. Gupta, Kane and Mark, with Mr. Kane serving as Chairman. During the fiscal year ended November 30, 2012, the Audit Committee consisted of Messrs. Egan, Kane and Mark. Mr. Egan stepped down as a member of the Audit Committee in December 2012 following his

appointment as Non-Executive Chairman of the Board of Directors.

Our Board of Directors has determined that each member of the Audit Committee meets the independence requirements promulgated by NASDAQ and the SEC, including Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended, or the Exchange Act. In addition, our Board of Directors has determined that each member of the Audit Committee is financially literate and that Mr. Kane qualifies as an “audit committee financial expert” under the rules of the SEC.

The Audit Committee operates under a written charter adopted by our Board of Directors, a copy of which can be found on our website at www.progress.com under the heading “Corporate Governance” located on the “About Progress/Who We Are” page.

The Audit Committee assists our Board of Directors in fulfilling its oversight responsibilities for accounting and financial reporting compliance. The Audit Committee meets with management and with our independent registered public accounting firm to discuss our financial reporting policies and procedures, our internal control over financial reporting, the results of the independent auditor's examinations, our critical accounting policies and the overall quality of our financial reporting, and the Audit Committee reports on these matters to our Board of Directors. The Audit Committee meets with the independent registered public accounting firm with and without our management present.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers and holders of more than 10% of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. These reporting persons are required by regulations of the SEC to furnish us with copies of all such filings. Based solely on a review of the copies of such forms that we have received, we believe that, with respect to the fiscal year ended November 30, 2012, our directors, officers and 10% shareholders complied with all applicable Section 16(a) filing requirements, except that each of our executive officers inadvertently filed a Form 4 late in connection with shares withheld by us to pay withholding taxes upon vesting on October 1, 2012 of restricted stock units previously awarded to those executive officers.

Codes of Conduct

Our Board of Directors has adopted a Finance Code of Professional Ethics that applies to the Chief Executive Officer, Chief Financial Officer, Corporate Controller and other employees of our finance organization and a Code of Conduct that applies to all of our officers, directors and employees. Copies of the Code of Conduct and the Finance Code of Professional Ethics can be found on our website at www.progress.com under the Corporate Governance page located on the “About Progress/Who We Are” page. We intend to disclose any amendment or waiver of the Code of Conduct and the Finance Code of Professional Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Corporate Controller or persons performing similar functions, by posting such information on our website as listed above.

Item 11. Executive Compensation

Compensation Discussion and Analysis

This “Compensation Discussion and Analysis” section describes the material elements of our compensation programs for our executive officers. This section also provides an overview of our executive compensation philosophy and analyzes how and why the Compensation Committee of our Board of Directors arrives at specific compensation decisions and policies.

We describe below our compensation philosophy, policies and practices relating to the fiscal year ended November 30, 2012 (“FY12”) with respect to the following individuals:

• Philip M. Pead, who became our Executive Chairman on October 8, 2012 and our Interim Chief Executive Officer on November 2, 2012;

• Jay H. Bhatt, who served as our Chief Executive Officer from December 5, 2011 until November 2, 2012;

• Melissa H. Cruz, who became our Chief Financial Officer on July 16, 2012;

• Charles F. Wagner, Jr., who served as our Chief Financial Officer until March 22, 2012;

• Andrew E. Zupsic, who became our Senior Vice President, Global Field Operations on April 2, 2012;

• Antonio J. Aquilina, who became our Senior Vice President, Strategy and Corporate Development on January 9, 2012; and

• John P. Goodson, who served as our Senior Vice President, Engineering for all of FY12.

In August 2011, we announced that Richard D. Reidy, who was then our Chief Executive Officer, would leave our company when his successor was named. Mr. Reidy remained our Chief Executive Officer until December 5, 2011, when he resigned in connection with the appointment of Mr. Bhatt as our new Chief Executive Officer. Because Mr. Reidy served as our Chief Executive Officer during a portion of FY12, we are required to include Mr. Reidy as a named executive officer in the “Summary Compensation Table.” However, because Mr. Reidy was Chief Executive Officer for only five days of FY12 and his successor was determined prior to the beginning of FY12, Mr. Reidy's compensation is not discussed in this section.

We refer to the individuals named above and Mr. Reidy collectively, as our named executive officers.

Between March 22, 2012 and July 16, 2012, Mr. Bhatt served as Acting Chief Financial Officer. Mr. Bhatt received no additional compensation in connection with his service as Acting Chief Financial Officer.

Messrs. Aquilina and Goodson were not serving in executive officer capacities at the end of FY12. However, because they would have been among our three other most highly compensated executive officers during FY12 had they served in executive officer capacities at the end of FY12, we are required by SEC rules to include Messrs. Aquilina and Goodson as named executive officers.

Subsequent to FY12, on December 7, 2012, Mr. Pead was appointed Chief Executive Officer and resigned as Executive Chairman, and on February 1, 2013, Ms. Cruz retired as Chief Financial Officer. On February 1, 2013, Chris E. Perkins became our Chief Financial Officer. Because Mr. Perkins became our Chief Financial Officer subsequent to FY12, the terms of his compensation are not described in this section.

Executive Summary

FY12 Performance

In April 2012, we announced a new strategic plan in which we intend to become a leading provider of next-generation, context-aware application development and deployment platform in the Cloud for the Application Platform-as-a-Service market by investing in our OpenEdge, DataDirect and Decision Analytics product lines and integrating them into a single, cohesive offering. As part of the new strategic plan, we divested ten product lines which were not considered core to our business, with the last of these divestitures having been completed in February 2013. During 2012, we also executed on cost reductions as part of the plan, which included a reduction in our global workforce of 11%. Lastly, as part of the plan, we changed the structure of our internal organization and the way we manage our business.

Our financial results for FY12 were adversely impacted by factors related to the development, announcement and execution of the plan, including the undertaking of large restructuring efforts and the marketing for divestiture and actual sale of non-core products. These factors contributed to a very uncertain environment for our company, partners, customers and employees. In particular, during the second and third quarters of FY12, 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 addition, our announcement of the proposed divestiture of the non-core products had an adverse impact on the financial performance of these products.

However, with substantially all of the non-core products divested or under agreement to be divested, our financial performance improved significantly during the fourth quarter of FY12, resulting in better than expected results for the second half of FY12. After several quarters of declining performance in our core products, we achieved flat revenue growth during the fourth quarter of FY12 and improved operating margin performance.

Executive Compensation Philosophy

Our philosophy is to reward executives based upon corporate performance, as well as to provide long-term incentives for the achievement of future financial and strategic goals. We emphasize pay-for-performance compensation programs, which we believe advance both the short and long-term interests of our shareholders. We use a combination of total target cash compensation, composed of base salary and an annual cash bonus program, a long-term equity incentive compensation program, and a broad-based benefits program to create a competitive compensation package for our executive management team.

Objectives of our Executive Compensation Program

Our Compensation Committee is responsible for establishing and administering our policies governing the compensation of our executive officers, including salaries, cash incentives and equity incentive compensation. Our Compensation Committee has designed our overall executive compensation program to achieve the following objectives:

- attract and retain talented executives in today's highly competitive market;
- motivate and reward executives whose knowledge, skills and performance are critical to our success;
-

provide a competitive compensation package that aligns the interests of our executive management team and shareholders by tying a significant portion of an executive's cash compensation to the achievement of performance goals; and

- ensure fairness among the executive management team by recognizing the contributions each executive makes to our success.

Executive Officer Compensation Components

The following table summarizes the principal components of our executive compensation program in FY12.

Compensation Element	Objective	Key Features	Performance Metrics
		Set on average at 50th percentile of peer group	
Base Salary	To secure and retain services of key executive talent	Adjustments may be made to reflect market conditions for a position, changes in the status or duties associated with a position or internal equity	Not applicable
		Set on average of 50th percentile of peer group	Funding based on total corporate revenue and non-GAAP operating income
Annual Cash Bonus	To encourage and reward corporate performance that enhances long-term shareholder value	Performance goals and target bonus amounts established at beginning of fiscal year	Delivery based on individual performance ratings (except to CEO)
Equity Compensation:	To align executives' interests with those of shareholders	Target equity grant values set on average at between 50th and 75th percentile of peer group Subject to performance criteria aligned with 2012 business plan	
		Earned only to the extent the performance criteria are achieved	
Performance Share Units (PSUs)	To encourage and reward corporate financial performance that enhances long-term shareholder value	PSUs earned are subject to subsequent time-based vesting (one-third vests upon determination of achievement of the performance goals established for that year, one-third in each of the next two years if the executive remains employed on the vest date)	Total corporate revenue and non-GAAP operating income
Restricted Stock Units (RSUs)	To retain executive talent	Service-based vesting over three-year period	Not applicable

Compensation Governance

We maintain compensation governance and other compensation practices that are aligned with shareholder interests and our compensation philosophy, including the following:

• Our Compensation Committee is comprised of three directors who are “independent” under NASDAQ Stock Market rules.

• Our Compensation Committee's independent compensation consultant is retained directly by the Compensation Committee and performs no services directly for us other than to provide compensation surveys to our human resources department.

• Our Compensation Committee seeks input from our Chief Executive Officer and other internal personnel and advice from its external compensation consultant as to the amount and form of compensation established, but the

Compensation Committee ultimately determines our executive compensation policies and practices.

• Our long-term equity incentives generally vest over a period of three years to ensure that our executives maintain a long-term view of shareholder value.

• We are mindful of risks to the company that could be posed by our compensation policies and practices and design our compensation policies and practices to mitigate such risk.

• We do not provide significant perquisites or supplemental retirement benefits to our executives.

• Our executive agreements do not contain tax “gross-ups” on “golden parachute” payments in connection with a change in control.

Compensation Committee Responsibilities and Authority

Our Compensation Committee reviews and approves the annual salary and annual cash bonus awards as well as all long-term equity incentive awards for our executive officers and other direct reports of the Chief Executive Officer, establishes our general compensation policies, administers our equity plans, determines or consults with management regarding compensation and benefits for our other officers and other employees (as appropriate) and oversees our executive compensation and benefit plans and policies. Our Compensation Committee reviews, and recommends to our Board of Directors for its approval, the compensation of our Chief Executive Officer.

During FY12, our Compensation Committee consisted of members of our Board of Directors who met the independence requirements promulgated by NASDAQ. From December 1, 2011 until October 8, 2012, our Compensation Committee consisted of Messrs. Egan, Krall and Pead, with Mr. Krall serving as Chairman. In connection with his appointment as Executive Chairman, Mr. Pead resigned from the Compensation Committee on October 8, 2012 and was replaced by Mr. Kane, who served on the Compensation Committee, together with Messrs. Egan and Krall, until the end of FY12.

Our Compensation Committee operates under a written charter adopted by our Board of Directors, a copy of which can be found on our website at www.progress.com under the heading “Corporate Governance” located on the “About Progress/Who We Are” page.

In accordance with its charter, the Compensation Committee:

• oversees our overall executive compensation structure, policies and programs;