Mistras Group, Inc.
Form 10-Q
April 09, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2014

Or

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

For the transition period to

Commission file number 001- 34481

Mistras Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**22-3341267** (I.R.S. Employer Identification No.)
195 Clarksville Road **Princeton Junction, New Jersey** (Address of principal executive offices)	**08550** (Zip Code)

(609) 716-4000
(Registrant s telephone number, including area code)

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. x Yes o 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). x Yes o 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 of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 1, 2014, the registrant had 28,440,896 shares of common stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

Mistras Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	(unaudited) February 28, 2014	May 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9,950	$ 7,802
Accounts receivable, net	126,304	108,554
Inventories	12,516	12,504
Deferred income taxes	3,029	2,621
Prepaid expenses and other current assets	14,637	8,156
Total current assets	166,436	139,637
Property, plant and equipment, net	74,428	68,419
Intangible assets, net	52,180	51,992
Goodwill	132,321	115,270
Other assets	1,352	1,342
Total assets	$ 426,717	$ 376,660
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 11,078	$ 8,490
Accrued expenses and other current liabilities	48,212	47,839
Current portion of long-term debt	7,542	7,418
Current portion of capital lease obligations	7,147	6,766
Income taxes payable	1,485	1,703
Total current liabilities	75,464	72,216
Long-term debt, net of current portion	73,883	52,849
Obligations under capital leases, net of current portion	13,036	10,923
Deferred income taxes	13,862	11,614
Other long-term liabilities	19,152	18,778
Total liabilities	195,397	166,380
Commitments and contingencies		
Equity		
Preferred stock, 10,000,000 shares authorized		
Common stock, $0.01 par value, 200,000,000 shares authorized	284	282
Additional paid-in capital	199,254	195,241
Retained earnings	35,081	18,982
Accumulated other comprehensive loss	(3,573)	(4,452)

Total Mistras Group, Inc. stockholders equity		231,046		210,053
Noncontrolling interests		274		227
Total equity		231,320		210,280
Total liabilities and equity	$	426,717	$	376,660

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

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Mistras Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Income

(in thousands, except per share data)

	Three months ended February 28, 2014	Three months ended February 28, 2013	Nine months ended February 28, 2014	Nine months ended February 28, 2013
Revenues:				
Services	$ 142,967	$ 124,510	$ 414,448	$ 351,466
Products and systems	8,760	9,151	29,872	33,311
Total revenues	151,727	133,661	444,320	384,777
Cost of revenues:				
Cost of services	104,196	91,209	291,680	248,769
Cost of products and systems sold	3,702	3,527	12,965	13,022
Depreciation related to services	4,257	4,465	12,333	12,565
Depreciation related to products and systems	272	254	788	593
Total cost of revenues	112,427	99,455	317,766	274,949
Gross profit	39,300	34,206	126,554	109,828
Selling, general and administrative expenses	31,794	27,209	90,342	74,063
Research and engineering	757	754	2,186	1,801
Depreciation and amortization	2,771	2,473	7,729	6,535
Acquisition-related expense, net	978	(1,212)	(1,530)	(1,006)
Income from operations	3,000	4,982	27,827	28,435
Interest expense	792	882	2,309	2,458
Income before provision for income taxes	2,208	4,100	25,518	25,977
Provision for income taxes	984	1,349	9,375	9,749
Net income	1,224	2,751	16,143	16,228
Less: net income attributable to noncontrolling interests, net of taxes	(23)		(44)	(33)
Net income attributable to Mistras Group, Inc.	$ 1,201	$ 2,751	$ 16,099	$ 16,195
Earnings per common share				
Basic	$ 0.04	$ 0.10	$ 0.57	$ 0.58
Diluted	$ 0.04	$ 0.09	$ 0.55	$ 0.56
Weighted average common shares outstanding:				
Basic	28,396	28,175	28,338	28,121
Diluted	29,374	29,101	29,249	29,078

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

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Mistras Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Comprehensive (Loss)/Income

(in thousands)

	Three months ended February 28, 2014	Three months ended February 28, 2013	Nine months ended February 28, 2014	Nine months ended February 28, 2013
Net income	$ 1,224	$ 2,751	$ 16,143	$ 16,228
Other comprehensive (loss)/income, net of tax:				
Foreign currency translation adjustments	(1,553)	1,633	879	1,119
Comprehensive (loss)/income	(329)	4,384	17,022	17,347
less: comprehensive income attributable to noncontrolling interest	(23)		(44)	(33)
Comprehensive (loss)/income attributable to Mistras Group, Inc.	$ (352)	$ 4,384	$ 16,978	$ 17,314

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

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Mistras Group, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine months ended February 28, 2014	2013
Cash flows from operating activities		
Net income	$ 16,143	$ 16,228
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	20,850	19,693
Deferred income taxes	1,987	1,530
Share-based compensation expense	4,013	4,749
Fair value adjustment to contingent consideration liabilities	(2,414)	(2,256)
Other	106	(197)
Changes in operating assets and liabilities, net of effect of acquisitions of businesses:		
Accounts receivable	(13,235)	6,076
Inventories	(21)	985
Prepaid expenses and other current assets	(6,273)	(5,625)
Other assets	(92)	652
Accounts payable	2,419	(5,772)
Accrued expenses and other current liabilities	(261)	(7,772)
Income taxes payable	(633)	(743)
Net cash provided by operating activities	22,589	27,548
Cash flows from investing activities		
Purchase of property, plant and equipment	(11,661)	(8,915)
Purchase of intangible assets	(465)	(897)
Acquisition of businesses, net of cash acquired	(19,057)	(33,601)
Proceeds from sale of equipment	922	1,028
Net cash used in investing activities	(30,261)	(42,385)
Cash flows from financing activities		
Repayment of capital lease obligations	(5,965)	(5,054)
Repayment of long-term debt	(7,938)	(4,319)
Net borrowings against revolver	26,063	26,008
Payment of contingent consideration for business acquisitions	(909)	(1,887)
Taxes paid related to net share settlement of share-based awards	(1,004)	(806)
Excess tax benefit from share-based compensation	292	455
Proceeds from the exercise of stock options	712	673
Net cash provided by financing activities	11,251	15,070
Effect of exchange rate changes on cash and cash equivalents	(1,431)	260
Net change in cash and cash equivalents	2,148	493
Cash and cash equivalents		
Beginning of period	7,802	8,410
End of period	$ 9,950	$ 8,903
Supplemental disclosure of cash paid		
Interest	$ 2,426	$ 2,422
Income taxes	$ 11,345	$ 13,605
Noncash investing and financing		
Equipment acquired through capital lease obligations	$ 8,140	$ 2,896

Issuance of notes payable and other debt obligations primarily related to acquisitions	$		$	7,715

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

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Mistras Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

(tabular dollars in thousands, except per share data)

1. Description of Business & Basis of Presentation

Description of Business

Mistras Group, Inc. (the Company) is a leading one source global provider of technology-enabled asset protection solutions used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure. The Company combines industry leading products and technologies, expertise in mechanical integrity (MI), non-destructive testing (NDT) services, destructive testing services, and proprietary data analysis software to deliver a comprehensive portfolio of customized solutions, ranging from routine inspections to complex, and plant-wide asset integrity assessments. These mission critical solutions enhance customers ability to extend the useful life of their assets, increase productivity, minimize repair costs, comply with governmental safety and environmental regulations, manage risk and avoid catastrophic disasters. The Company serves a global customer base of companies with asset-intensive infrastructure, including companies in the oil and gas, aerospace and defense, fossil and nuclear power, alternative and renewable energy, public infrastructure, chemicals, transportation, primary metals and metalworking, pharmaceuticals and food processing industries.

Basis of Presentation

The condensed consolidated financial statements contained in this report are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods of the fiscal years ending May 31, 2014 and 2013. Reference to a fiscal year means the fiscal year ended May 31. Certain items included in these statements are based on management s estimates. Actual results may differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results expected for the year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to consolidated financial statements contained in the Company s Annual Report on Form 10-K (Annual Report) for fiscal 2013, as filed with the Securities and Exchange Commission on August 14, 2013.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Mistras Group, Inc. and its wholly and majority-owned subsidiaries. For subsidiaries in which the Company s ownership interest is less than 100%, the noncontrolling interests are reported in stockholders equity in the accompanying condensed consolidated balance sheets. The noncontrolling interests in operating results, net of tax, is classified separately in the accompanying condensed consolidated statements of income.

All significant intercompany accounts and transactions have been eliminated in consolidation. The fiscal year for Mistras Group, Inc. and its subsidiaries end on May 31, except for the companies in the International segment, which end on April 30. Accordingly, the Company s International segment subsidiaries are consolidated on a one-month lag. Therefore, in the fiscal quarter and year of acquisition, results of acquired subsidiaries in the International segment are generally included in consolidated results for one less month than the actual number of months from the acquisition date to the end of the reporting period. Management does not believe that any events occurred during the one-month lag period that would have a material effect on the Company s consolidated financial statements as of or for any period presented.

Reclassification

Certain amounts in prior periods have been reclassified to conform to the current year presentation. Such reclassifications did not have a material effect on the Company s financial condition or results of operations as previously reported.

Significant Accounting Policies

The Company s significant accounting policies are disclosed in Note 2 *Summary of Significant Accounting Policies* in the Annual Report. On an ongoing basis, the Company evaluates its estimates and assumptions, including, among other things those related to revenue recognition, valuations of accounts receivable, long-lived assets, goodwill, deferred tax assets and uncertain tax positions. Since the date of the Annual Report, there have been no material changes to the Company s significant accounting policies.

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Recent Accounting Pronouncements

In February 2013, the FASB issued Accounting Standard Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which expands the disclosure requirements for amounts reclassified out of accumulated other comprehensive income. The update does not change the current requirements for reporting net income or other comprehensive income in financial statements and is effective for annual and interim reporting periods beginning after December 15, 2012. The adoption of this pronouncement did not have a material impact on the Company s consolidated financial statements. Other recently issued accounting pronouncements did not, or are not believed by management to likely have a material impact on the Company s current or future consolidated financial statements.

2. Share-Based Compensation

The Company has share-based incentive awards outstanding to its eligible employees and directors under two employee stock ownership plans: (i) the 2007 Stock Option Plan (the 2007 Plan), and (ii) the 2009 Long-Term Incentive Plan (the 2009 Plan). No further awards may be granted under the 2007 Plan, although awards granted under the 2007 Plan remain outstanding in accordance with their terms. Awards granted under the 2009 Plan may be in the form of stock options, restricted stock units and other forms of share-based incentives, including performance share units, stock appreciation rights and deferred stock rights.

For the three months ended February 28, 2014 and 2013, the Company recognized share-based compensation expense related to stock option awards of less than $0.1 million and $0.8 million, respectively. For the nine months ended February 28, 2014 and 2013, the Company recognized share-based compensation expense related to stock option awards of $0.7 million and $2.3 million, respectively. As of February 28, 2014, there was less than $0.1 million of unrecognized compensation costs, net of estimated forfeitures, related to stock option awards, which are expected to be recognized over a remaining weighted average period of 2.0 years. Cash proceeds from, and the aggregate intrinsic value of, stock options exercised during the three and nine months ended February 28, 2014 and 2013 were as follows:

	Three months ended February 28,				Nine months ended February 28,			
	2014		2013		2014		2013	
Cash proceeds from options exercised	$	349	$	321	$	712	$	673
Aggregate intrinsic value of options exercised	$	458	$	370	$	836	$	856

No stock options were granted during the nine months ended February 28, 2014 and 2013.

The Company also recognized approximately $1.0 million and $0.8 million during the three months ended February 28, 2014 and 2013, respectively, in share-based compensation expense related to restricted stock unit awards. For the nine months ended February 28, 2014 and

2013, the Company recognized share-based compensation expense related to restricted stock unit awards of $2.9 million and $2.1 million, respectively. As of February 28, 2014, there was approximately $9.8 million of unrecognized compensation costs, net of estimated forfeitures, related to restricted stock unit awards, which are expected to be recognized over a remaining weighted average period of 2.6 years.

During the first nine months of fiscal 2014 and 2013, the Company granted approximately 19,000 and 13,000 shares of fully-vested common stock to its five non-employee directors, in connection with its non-employee director compensation plan. These shares had grant date fair values of approximately $0.4 million and $0.3 million, respectively, which was recorded as share-based compensation expense during the nine months ended February 28, 2014 and 2013.

During the first nine months of fiscal 2014 and 2013, respectively, approximately 178,000 and 123,000 restricted stock units vested. The fair value of these units was $3.3 million and $1.9 million, respectively. Upon vesting, restricted stock units are generally net share-settled to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock. The restricted stock units that vested in the first nine months of fiscal 2014 and 2013

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were net-share settled such that the Company withheld approximately 55,000 and 37,000 shares, respectively, having value equivalent to the employees minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The shares withheld were based on the value of the restricted stock units on their vesting date as determined by the Company s closing stock price. Payments to taxing authorities for employees tax obligations for the nine month periods ended February 28, 2014 and 2013 totaled $1.0 million and $0.8 million, respectively, and are reflected as a financing activity within the condensed consolidated statements of cash flows. These net-share settlements had the effect of share repurchases by the Company, as they reduced and retired the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to the Company.

3. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the sum of (1) the weighted-average number of shares of common stock outstanding during the period, and (2) the dilutive effect of assumed conversion of equity awards using the treasury stock method. With respect to the number of weighted-average shares outstanding (denominator), diluted shares reflects: (i) only the exercise of options to acquire common stock to the extent that the options exercise prices are less than the average market price of common shares during the period and (ii) the pro forma vesting of restricted stock units.

The following table sets forth the computations of basic and diluted earnings per share:

	Three months ended February 28, 2014	Three months ended February 28, 2013	Nine months ended February 28, 2014	Nine months ended February 28, 2013
Basic earnings per share				
Numerator:				
Net income attributable to Mistras Group, Inc.	$ 1,201	$ 2,751	$ 16,099	$ 16,195
Denominator:				
Weighted average common shares outstanding	28,396	28,175	28,338	28,121
Basic earnings per share	$ 0.04	$ 0.10	$ 0.57	$ 0.58
Diluted earnings per share:				
Numerator:				
Net income attributable to Mistras Group, Inc.	$ 1,201	$ 2,751	$ 16,099	$ 16,195
Denominator:				
Weighted average common shares outstanding	28,396	28,175	28,338	28,121
Dilutive effect of stock options outstanding	849	815	750	806
Dilutive effect of restricted stock units outstanding	129	111	161	151
	29,374	29,101	29,249	29,078
Diluted earnings per share	$ 0.04	$ 0.09	$ 0.55	$ 0.56

4. Acquisitions

In the third quarter of fiscal 2014, the Company completed the acquisitions of an asset protection business located in Texas and two businesses located in Canada to continue its market expansion strategy. The Company s initial cash payments for these acquisitions was $17.8 million. In addition to the initial cash payment, the Company may pay up to $5.7 million in contingent consideration which may be earned based upon the acquired companies achieving specific performance metrics over specified periods ranging from 2 to 3 years. The Company is in the process of completing the preliminary purchase price allocations.

In the second quarter of fiscal 2014, the Company completed an acquisition of a professional engineering consulting and technical training services company serving the hydrocarbon processing and other energy-related industries. This company was acquired to complement service offerings within the Company s Services segment and expand its technical capabilities. The Company acquired 100% of the common stock in exchange for $1.5 million in cash.

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The assets and liabilities of the acquired businesses were included in the Company s consolidated balance sheet based upon their estimated fair values on the date of acquisition as determined in a preliminary purchase price allocation, using available information and making assumptions management believes are reasonable. The Company is still in the process of completing its valuation of the assets, both tangible and intangible, and liabilities acquired. The results of operations for these acquisitions are included in the Services segment s results of operations from the dates of acquisition. The Company s preliminary allocation of purchase price for these acquisitions is included in the table below, which summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Number of Entities		4
Consideration transferred:		
Cash paid	$	19,329
Contingent consideration		3,676
Consideration transferred		23,005
Current assets		2,731
Property, plant and equipment		1,695
Deferred tax asset		(938)
Intangibles		5,758
Goodwill		15,982
Debt and other long-term liabilities		(2,223)
Net assets acquired	$	23,005

The amortization period of intangible assets acquired ranges from 3 to 5 years. The Company recorded approximately $16.0 million of goodwill in connection with these acquisitions, reflecting the strategic fit and revenue and earnings growth potential of these businesses.

Revenues and operating income from these acquisitions for the periods subsequent to the closing of these transactions were approximately $7.2 million and $0.5 million, respectively, for the three and nine month periods ended February 28, 2014. These acquisitions are not significant and no pro forma financial information has been included in this report.

During the three and nine month periods ended February 28, 2014, the Company incurred acquisition-related costs of $0.4 million and $0.9 million, respectively, in connection with due diligence, professional fees, and other expenses related to the completed acquisitions as well as its other acquisition activity. Additionally, the Company adjusted the fair value of certain previously recorded acquisition-related contingent consideration liabilities. For the three month period ended February 28, 2014, these adjustments resulted in a net increase of acquisition-related contingent consideration liabilities and a corresponding decrease in income from operations of approximately $0.6 million. For the nine month period ended February 28, 2014, these adjustments resulted in a net decrease of acquisition-related contingent consideration liabilities and a corresponding increase in income from operations of approximately $2.4 million. The Company s aggregate acquisition-related contingent consideration liabilities were approximately $15.5 million and $15.4 million as of February 28, 2014 and May 31, 2013, respectively.

During the three and nine month periods ended February 28, 2013, the Company incurred acquisition-related costs of $0.3 million and $1.2 million in connection with due diligence, professional fees, and other expenses for its acquisition activity. Additionally, the Company adjusted the fair value of certain acquisition-related contingent consideration liabilities. For the three and nine month periods ended February 28, 2013, these adjustments resulted in a net decrease of acquisition-related contingent consideration liabilities and a corresponding increase in income from operations of approximately $1.5 million and $2.2 million, respectively.

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The fair value adjustments to acquisition-related contingent consideration liabilities and the acquisition-related transaction costs have been classified as acquisition-related expense, net, in the condensed consolidated statements of income for the three and nine month periods ended February 28, 2014 and 2013.

5. Accounts Receivable, net

Accounts receivable consisted of the following:

	February 28, 2014	May 31, 2013
Trade accounts receivable	$ 128,364	$ 110,438
Allowance for doubtful accounts	(2,060)	(1,884)
Total	$ 126,304	$ 108,554

6. Inventories

Inventories consisted of the following:

	February 28, 2014	May 31, 2013
Raw materials	$ 3,409	$ 3,332
Work in process	2,457	2,310
Finished goods	3,431	4,355
Services-related consumable supplies	3,219	2,507
Total	$ 12,516	$ 12,504

7. Property, Plant and Equipment, net

Property, plant and equipment consisted of the following:

	Useful Life (Years)	February 28, 2014	May 31, 2013
Land		$ 1,927	$ 1,943
Buildings and improvements	30-40	22,704	20,973
Office furniture and equipment	5-8	6,804	5,543
Machinery and equipment	5-7	137,237	121,563
		168,672	150,022
Accumulated depreciation and amortization		(94,244)	(81,603)
Property, plant and equipment, net		$ 74,428	$ 68,419

Depreciation expense for the three months ended February 28, 2014 and 2013 was approximately $4.9 million and $5.0 million, respectively. Depreciation expense for the nine months ended February 28, 2014 and 2013 was approximately $14.1 million and $14.0 million, respectively.

8. Intangible Assets

The gross amount, accumulated amortization and net carrying amount of intangible assets are as follows:

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Mistras Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(tabular dollars in thousands, except per share data)

		February 28, 2014			May 31, 2013		
	Useful Life (Years)	Gross Amount	Accumulated Amortization	Net Carrying	Gross Amount	Accumulated Amortization	Net Carrying
Customer relationships	5-13	$ 74,292	$ (32,466)	$ 41,826	$ 69,901	$ (27,422)	$ 42,479
Software/Technology	3-15	14,969	(8,694)	6,275	14,336	(7,629)	6,707
Covenants not to compete	2-5	8,523	(7,724)	799	8,069	(7,523)	546
Other	2-5	6,743	(3,463)	3,280	5,195	(2,935)	2,260
		$ 104,527	$ (52,347)	$ 52,180	$ 97,501	$ (45,509)	$ 51,992

Amortization expense for the three months ended February 28, 2014 and 2013 was approximately $2.4 million and $2.2 million, respectively. Amortization expense for the nine months ended February 28, 2014 and 2013 was approximately $6.7 million and $5.7 million, respectively.

9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	February 28, 2014	May 31, 2013
Accrued salaries, wages and related employee benefits	$ 23,581	$ 23,662
Contingent consideration, current portion	3,314	5,144
Accrued workers compensation and health benefits	3,432	3,667
Deferred revenue	2,773	2,623
Other accrued expenses	15,112	12,743
Total	$ 48,212	$ 47,839

10. Long-Term Debt

Long-term debt consists of the following:

	February 28, 2014	May 31, 2013
Senior credit facility	$ 65,631	$ 39,567
Notes payable	10,537	15,740
Other	5,257	4,960

Total debt		81,425		60,267
Less: Current portion		(7,542)		(7,418)
Long-term debt, net of current portion	$	73,883	$	52,849

Senior Credit Facility

The Company has a credit agreement with a $125.0 million revolving line of credit, which, under certain circumstances, can be increased to $150.0 million, and a maturity date of December 20, 2016. The Company may borrow up to $30.0 million in non-U.S. dollar currencies and use up to $10.0 million of the credit limit for the issuance of letters of credit. As of February 28, 2014, borrowings of $65.6 million and letters of credit of $3.6 million were outstanding under the credit agreement.

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(tabular dollars in thousands, except per share data)

Loans under the credit agreement bear interest at LIBOR plus an applicable LIBOR margin ranging from 1% to 2%, or a base rate less a margin of 0.25% to 1.25%, at the option of the Company, or based upon the Company s Funded Debt Leverage Ratio. Funded Debt Leverage Ratio is generally the ratio of (1) all outstanding indebtedness for borrowed money and other interest-bearing indebtedness as of the date of determination to (2) EBITDA (which is defined in the agreement as (a) net income, less (b) income (or plus loss) from discontinued operations and extraordinary items, plus (c) income tax expenses, plus (d) interest expense, plus (e) depreciation, depletion, and amortization (including non-cash loss on retirement of assets), plus (f) share-based compensation expense, less (g) cash expense related to share-based compensation, plus or minus certain other adjustments) for the period of four consecutive fiscal quarters immediately preceding the date of determination. The Company has the benefit of the lowest margin if its Funded Debt Leverage Ratio is equal to or less than 0.5 to 1, and the margin increases as the ratio increases, to the maximum margin if the ratio is greater than 2.5 to 1. The Company will also bear additional costs for market disruption, regulatory changes effecting the lenders funding costs, and default pricing of an additional 2% interest rate margin if the Funded Debt Leverage Ratio exceeds 3.0 to 1. Amounts borrowed under the credit agreement are secured by liens on substantially all of the assets of the Company.

The credit agreement contains financial covenants requiring that the Company maintain a Funded Debt Leverage Ratio of less than 3.0 to 1 and an Interest Coverage Ratio of at least 3.0 to 1. Interest Coverage Ratio means the ratio, as of any date of determination, of (a) EBITDA for the 12 month period immediately preceding the date of determination, to (b) all interest, premium payments, debt discount, fees, charges and related expenses of the Company and its subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, paid during the 12 month period immediately preceding the date of determination. The credit agreement also limits the Company s ability to, among other things, create liens, make investments, incur more indebtedness, merge or consolidate, make dispositions of property, pay dividends and make distributions to stockholders, enter into a new line of business, enter into transactions with affiliates and enter into burdensome agreements. The credit agreement does not limit the Company s ability to acquire other businesses or companies except that the acquired business or company must be in the Company s line of business, the Company must be in compliance with the financial covenants on a pro forma basis after taking into account the acquisition, and, if the acquired business is a separate subsidiary, in certain circumstances the lenders will receive the benefit of a guaranty of the subsidiary and liens on its assets and a pledge of its stock.

As of February 28, 2014, the Company was in compliance with the terms of the credit agreement. The Company continuously monitors its compliance with its covenants.

Several of the Company s international subsidiaries have entered into a four million Euro facility agreement which enables each of them to borrow in Euros to finance the purchase of equipment. The Company has guaranteed the obligations of the subsidiaries under this facility agreement, and the interest rate charged on the loan balance is based upon the Company s Funded Debt Leverage Ratio under the Company s credit agreement. The facility agreement matures in October 2020.

Notes Payable and Other

In connection with some of its acquisitions made prior to the end of fiscal 2013, the Company issued subordinated notes payable to the sellers of the acquired businesses. The maturity of these notes range from three to five years from the date of acquisition, with stated interest rates ranging from 0% to 4%. The Company has discounted these obligations to reflect a 2% to 4% market interest rate. Unamortized discount on the notes was de minimis as of February 28, 2014 and May 31, 2013. Amortization is recorded as interest expense in the condensed consolidated statement of income.

The Company has evaluated current market conditions and borrower credit quality and has determined that the carrying value of its long-term debt approximates fair value. The fair value of the Company s notes payable and capital lease obligations approximates their carrying amounts based on anticipated interest rates which management believes would currently be available to the Company for similar issues of debt.

11. Fair Value Measurements

The Company performs fair value measurements in accordance with the guidance provided by ASC 820, Fair Value Measurements and Disclosures. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a three level hierarchy that prioritizes the inputs used to measure fair value. The three levels of the hierarchy are defined as follows:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

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(tabular dollars in thousands, except per share data)

Level 2 Observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs derived principally from or corroborated by observable market data.

Level 3 Unobservable inputs reflecting the Company s own assumptions about inputs that market participants would use in pricing the asset or liability based on the best information available.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company s financial liabilities that are required to be remeasured at fair value on a recurring basis:

	February 28, 2014			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent consideration	$	$	$ 15,463	$ 15,463
Total Liabilities	$	$	$ 15,463	$ 15,463

	May 31, 2013			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent consideration	$	$	$ 15,438	$ 15,438
Total Liabilities	$	$	$ 15,438	$ 15,438

The fair value of contingent consideration liabilities that was classified as Level 3 in the table above was estimated using a discounted cash flow technique with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in ASC 820. The significant inputs in the Level 3 measurement not supported by market activity include the probability assessments of expected future cash flows related to the acquisitions, appropriately discounted considering the uncertainties associated with the obligation, and as calculated in accordance with the terms of the applicable acquisition agreements.

12. Commitments and Contingencies

Litigation

The Company is subject to lawsuits, investigations and claims that arise in the ordinary course of business. Although the Company cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against it, the Company believes that, except for the matters discussed below, the reasonably possible range of loss for all other pending legal proceeding to which the Company is a party in the aggregate is immaterial. The costs of defense and amounts that may be paid in such matters may be covered by insurance.

In January 2012, the Company received notice of a governmental investigation concerning an environmental incident which occurred in February 2011 outside of the premises of its Cudahy, California location. No human injury or property damage was reported or appears to have been caused as a result of this incident. While management cannot predict the ultimate outcome of this matter, based on its internal investigation to date, the Company does not believe the outcome will have a material effect on its financial condition or results of operations.

Mistras Group, Inc. and Subsidiaries
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During fiscal 2013, the Company performed radiography work on the construction of a pipeline project in Georgia. The Company has received notice that the pipeline project owner contends that certain of the x-ray images the Company s technicians prepared regarding the project did not meet the code quality interpretation standards required by API (American Petroleum Institute) 1104. The project owner is claiming damages as a result of the alleged quality defects of the Company s x-ray images. No lawsuit has yet to be filed in this matter. At the present time, the Company is unable to determine the likely outcome or reasonably estimate the amount or range of potential liability related to this matter, and accordingly, has not established any reserves for this matter.

Acquisition-related contingencies

The Company is liable for contingent consideration in connection with certain of its acquisitions. As of February 28, 2014, total potential acquisition-related contingent consideration ranged from zero to approximately $31.0 million and would be payable upon the achievement of specific performance metrics by certain of the acquired companies over the next five years of operations. See Note 4 - *Acquisitions* and Note 11 *Fair Value Measurements* to these consolidated financial statements for further discussion of the Company s acquisitions.

13. Subsequent Event

Subsequent to February 28, 2014, the Company completed the acquisition of an asset protection business located in Russia to continue its market expansion strategy. The Company s cash outlay for this acquisition was approximately $0.5 million. In addition, the Company will pay deferred consideration of approximately $0.3 million over the next three years. The Company is in the process of completing the preliminary purchase price allocation. This acquisition is not significant and no pro forma information has been included.

14. Segment Disclosure

The Company s three operating segments are:

- *Services.* This segment provides asset protection solutions primarily in North America with the largest concentration in the United States and the Canadian services business, consisting primarily of non-destructive testing and inspection services that are used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure.

- *International.* This segment offers services, products and systems similar to those of the Company s other two segments to global markets, principally in Europe, the Middle East, Africa, Asia and South America, but not to customers in China and South Korea, which are served by the Products and Systems segment.

- *Products and Systems.* This segment designs, manufactures, sells, installs and services the Company s asset protection products and systems, including equipment and instrumentation, predominantly in the United States.

Allocations for general corporate services, including accounting, audit, and contract management, that are provided to the segments are reported within Corporate and eliminations. Sales to the International segment from the Products and Systems segment and subsequent sales by the International segment of the same items are recorded and reflected in the operating performance of both segments. Additionally, engineering charges and royalty fees charged to the Services and International segments by the Products and Systems segment are reflected in the operating performance of each segment. All such intersegment transactions are eliminated in the Company s consolidated financial reporting.

The accounting policies of the reportable segments are the same as those described in Note 1 *Description of Business and Basis of Presentation*. Segment income from operations is determined based on internal performance measures used by the Chief Executive Officer, who is the chief operating decision maker, to assess the performance of each business in a given period and to make decisions as to resource allocations. In connection with that assessment, the Chief Executive Officer may exclude matters such as charges for share-based compensation and certain other acquisition-related charges and balances, technology and product development costs, certain gains and losses from dispositions, and litigation

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settlements or other charges. Certain general and administrative costs such as human resources, information technology and training are allocated to the segments. Segment income from operations also excludes interest and other financial charges and income taxes. Corporate and other assets are comprised principally of cash, deposits, property, plant and equipment, domestic deferred taxes, deferred charges and other assets. Corporate loss from operations consists of depreciation on the corporate office facilities and equipment, administrative charges related to corporate personnel and other charges that cannot be readily identified for allocation to a particular segment.

Selected consolidated financial information by segment for the periods shown was as follows:

	Three months ended February 28,		Nine months ended February 28,	
	2014	2013	2014	2013
Revenues				
Services	$ 109,122	$ 90,537	$ 313,794	$ 278,147
International	38,064	37,516	119,032	88,722
Products and Systems	7,610	7,645	22,799	25,618
Corporate and eliminations	(3,069)	(2,037)	(11,305)	(7,710)
	$ 151,727	$ 133,661	$ 444,320	$ 384,777

	Three months ended February 28,		Nine months ended February 28,	
	2014	2013	2014	2013
Gross profit				
Services	$ 26,216	$ 20,496	$ 83,881	$ 72,128
International	10,086	9,851	33,499	24,231
Products and Systems	3,674	3,790	9,776	13,010
Corporate and eliminations	(676)	69	(602)	459
	$ 39,300	$ 34,206	$ 126,554	$ 109,828

	Three months ended February 28,		Nine months ended February 28,	
	2014	2013	2014	2013
Income from operations				
Services	$ 7,452	$ 6,293	$ 32,698	$ 28,597
International	84	586	9,192	3,457
Products and Systems	87	1,699	1,147	6,481
Corporate and eliminations	(4,623)	(3,596)	(15,210)	(10,100)
	$ 3,000	$ 4,982	$ 27,827	$ 28,435

Income by operating segment includes intercompany transactions, which are eliminated in Corporate and eliminations.

	Three months ended February 28,		Nine months ended February 28,	
	2014	2013	2014	2013
Depreciation and amortization				

Services	$ 4,591	$ 4,660	$ 12,982	$ 13,763
International	2,053	1,941	5,958	4,400
Products and Systems	597	617	1,763	1,596
Corporate and eliminations	59	(26)	147	(66)
	$ 7,300	$ 7,192	$ 20,850	$ 19,693

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Mistras Group, Inc. and Subsidiaries
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	February 28, 2014	May 31, 2013
Intangible assets, net		
Services	$ 16,775	$ 14,527
International	26,528	27,520
Products and Systems	8,623	9,600
Corporate and eliminations	254	345
	$ 52,180	$ 51,992

	February 28, 2014	May 31, 2013
Total assets		
Services	$ 240,047	$ 200,326
International	146,094	138,108
Products and Systems	37,179	37,948
Corporate and eliminations	3,397	278
	$ 426,717	$ 376,660

	February 28, 2014	May 31, 2013
Goodwill		
Services	$ 76,672	$ 61,285
International	42,452	40,788
Products and Systems	13,197	13,197
	$ 132,321	$ 115,270

Revenues by geographic area for the three and nine months ended February 28, 2014 and 2013, respectively, were as follows:

	Three months ended February 28,		Nine months ended February 28,	
	2014	2013	2014	2013
Revenues				
United States	$ 100,784	$ 83,273	$ 283,438	$ 255,108
Other Americas	12,417	13,234	39,589	41,163
Europe	33,636	32,897	106,441	72,878
Asia-Pacific	4,890	4,257	14,852	15,628
	$ 151,727	$ 133,661	$ 444,320	$ 384,777

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

The following Management s Discussion and Analysis (MD&A) includes a narrative explanation and analysis of our results of operations and financial condition for the three and nine months ended February 28, 2014 and 2013. The MD&A should be read together with our condensed consolidated financial statements and related notes included in Item 1 in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for fiscal 2013 (2013 Annual Report). In this quarterly report, our fiscal years, which end on May 31, are identified according to the calendar year in which they end (e.g., the fiscal year ending May 31, 2014 is referred to as fiscal 2014), and unless otherwise specified or the context otherwise requires, Mistras, the Company, we, us a our refer to Mistras Group, Inc. and its consolidated subsidiaries. The MD&A includes disclosure in the following areas:

- Forward-Looking Statements
- Overview
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates

Forward-Looking Statements

This report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (Securities Act), and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). Such forward-looking statements include those that express plans, anticipated events, intentions, contingencies, goals, targets or future development and/or otherwise are not statements of historical fact. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties known and unknown that could cause actual results and developments to differ materially from those expressed or implied in such statements.

In some cases, you can identify forward-looking statements by terminology, such as goals, or expects, anticipates, intends, plans, believes, estimates, , may, could, should, would, predicts, appears, projects, or the negative of such terms or other similar expressions. You ar to place undue reliance on any such forward-looking statements, any of which may turn out to be wrong due to inaccurate assumptions, unknown risks, uncertainties or other factors. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those discussed elsewhere in this Report in Part II, Item 1A Risk Factors and in the Business Forward-Looking Statements, and Risk Factors sections of our 2013 Annual Report as well as those discussed in our other Securities and Exchange Commission (SEC) filings.

Overview

We offer our customers one source for asset protection solutions and are a leading global provider of technology-enabled asset protection solutions used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure. We combine industry-leading products and technologies, expertise in mechanical integrity (MI), Non-Destructive Testing (NDT), Destructive Testing (DT) and predictive maintenance (PdM) services, proprietary data analysis and enterprise inspection warehousing software to deliver a comprehensive portfolio of customized solutions, ranging from routine inspections to complex, plant-wide asset integrity management and assessments. These mission critical solutions enhance our customers ability to comply with governmental safety and environmental regulations, extend the useful life of their assets, increase productivity, minimize repair costs, manage risk and avoid catastrophic disasters. Our operations consist of three reportable segments: Services, International and Products and Systems.

- *Services* provides asset protection solutions primarily in North America with the largest concentration in the United States and a growing Canadian services business, consisting primarily of non-destructive testing and inspection services that are used to evaluate the structural integrity and reliability of critical energy, industrial and public infrastructure.

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- *International* offers services, products and systems similar to those of the other segments to global markets, principally in Europe, the Middle East, Africa, Asia and South America, but not to customers in China and South Korea, which are served by the Products and Systems segment.

- *Products and Systems* designs, manufactures, sells, installs and services the Company s asset protection products and systems, including equipment and instrumentation, predominantly in the United States.

Given the role our solutions play in helping to ensure the safe and efficient operation of infrastructure, we have historically provided a majority of our services to our customers on a regular, recurring basis. We serve a global customer base of companies with asset-intensive infrastructure, including companies in the oil and gas (downstream, midstream, upstream and petrochemical), aerospace and defense, fossil and nuclear power, alternative and renewable energy, public infrastructure, chemicals, transportation, primary metals and metalworking, pharmaceuticals and food processing industries.

For the last several years, we have focused on introducing our advanced asset protection solutions to our customers using proprietary, technology-enabled software and testing instruments, including those developed by our Products and Systems segment. During this period, the demand for outsourced asset protection solutions, in general, has increased, creating demand from which our entire industry has benefited. We believe continued growth can be realized in all of our target markets. Concurrent with this growth, we have worked to build our infrastructure to profitably absorb additional growth and have made a number of acquisitions in an effort to leverage our fixed costs, grow our base of experienced, certified personnel, expand our product and technical capabilities and increase our geographical reach.

We have increased our capabilities and the size of our customer base through the development of applied technologies and managed support services, organic growth and the integration of acquired companies. These acquisitions have provided us with additional products, technologies, resources and customers that we believe will enhance our advantages over our competition.

The global economy has shown some signs of improvement, but continues to be fragile. Global financial markets continue to experience uncertainty, including tight liquidity and credit availability, relatively low consumer confidence, slow economic growth, high unemployment rates, volatile currency exchange rates and continued uncertainty about economic stability. However, we believe these conditions have allowed us to capitalize on an opportunity to selectively hire new talented individuals that otherwise might not have been available to us, to acquire and develop new technologies in order to aggressively expand our proprietary portfolio of customized solutions, and to make acquisitions of complementary businesses at reasonable valuations.

Results of Operations

Our consolidated results of operations for the three and nine months ended February 28, 2014 and 2013 were as follows:

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	Three months ended February 28, 2014	2013	Nine months ended February 28, 2014	2013
	($ in thousands)		($ in thousands)	
Revenues	$ 151,727	$ 133,661	$ 444,320	$ 384,777
Gross profit	39,300	34,206	126,554	109,828
Gross profit as a % of Revenue	26%	26		

(16) Includes 46,503 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 23, 2012 and 5,547 fully vested deferred stock units.

(17) On January 9, 2012, Mr. Larsen s employment with our company terminated. Included in Mr. Larsen s total beneficial ownership are 137,732 shares issuable upon the exercise of outstanding and vested options as of January 9, 2012.

(18) Includes 213,769 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 23, 2012 and 7,110 fully vested deferred stock units.

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(19) Includes 15,069 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 23, 2012 and 2,410 fully vested deferred stock units.

(20) On December 9, 2011, Mr. Reidy s employment with our company terminated. Included in Mr. Reidy s total beneficial ownership are 775,891 shares issuable upon the exercise of outstanding and vested options as of December 9, 2011.

(21) On March 23, 2012, Mr. Wagner s employment with our company terminated. Included in Mr. Wagner s total beneficial ownership are 104,048 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 23, 2012.

(22) Includes 1,963,233 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 23, 2012, 142,223 shares issuable upon vesting of RSUs that will vest within 60 days of March 23, 2012 and 56,501 fully vested deferred stock units.

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, and on written representations from certain reporting persons, we believe that, with respect to the fiscal year ended November 30, 2011, our directors, officers and 10% shareholders complied with all applicable Section 16(a) filing requirements.

CERTAIN RELATIONSHIPS

Review, Approval or Ratification of Transactions with Related Persons

Pursuant to the Audit Committee Charter, which can be found at www.progress.com, the Audit Committee is responsible for the review and approval of related person transactions. A related person is a director, executive officer, nominee for director or certain shareholders of our company since the beginning of the last fiscal year and their respective immediate family members. A related person transaction is a transaction involving: (1) our company and any related person when the amount involved exceeds $120,000, and (2) the related person has a material direct or indirect interest.

We identify transactions for review and approval through our Code of Conduct which can be found at www.progress.com. The Code of Conduct requires our employees to disclose any potential or actual conflicts of interest to his or her manager, our human resources department or our Chief Compliance Officer. This disclosure also applies to potential conflicts involving immediate family members of employees. Each year we require our directors and executive officers to complete a questionnaire intended to identify any transactions or potential transactions that must be reported according to SEC rules and regulations. This questionnaire also requires our directors and executive officers to promptly notify us of any changes during the course of the year.

Transactions with Related Persons

We have a contract with Salesforce.com, pursuant to which we purchased software and services relating to Salesforce.com s customer relationship management product, through which we record, track, manage, analyze and share information regarding our sales, customer service and support, and marketing operations. During fiscal year 2011, we paid approximately $2,472,621 to Salesforce.com. Craig Conway, the brother of Gary Conway, our Senior Vice President and Chief Marketing Officer, is a member of the Board of Directors of Salesforce.com. We entered into the contract with Salesforce.com prior to Mr. Conway joining our company.

We did not engage in any other transactions or series of similar transactions in which the amount involved exceeded $120,000 and in which any of our directors or executive officers, any holder of more than 5% of any class of our voting securities or any member of the immediate family of any of the foregoing persons had a direct or indirect material interest.

OTHER MATTERS

Our Board of Directors knows of no other matters to be brought before the annual meeting. If any other matters are properly brought before the annual meeting, the persons appointed as proxies for the meeting intend to vote the shares represented by that proxy in accordance with their best judgment on such matters.

PROPOSALS OF SHAREHOLDERS FOR 2013 ANNUAL MEETING

We anticipate that our 2013 Annual Meeting of Shareholders will be held on or about April 25, 2013. Proposals of shareholders intended to be presented at the 2013 annual meeting must, in order to be included in our proxy statement and the form of proxy for the 2013 annual meeting, be received at our principal executive offices by December 21, 2012.

Under our by-laws, any shareholder intending to present any proposal (other than a proposal made by, or at the direction of, our Board of Directors) at the 2013 annual meeting, must give written notice of that proposal (including certain information about any nominee or matter proposed and the proposing shareholder) to our Secretary not later than the close of business on the 90th day (March 2, 2013) nor earlier than the close of business on the 120th day (January 31, 2013) prior to the first anniversary of the preceding year s annual meeting. However, in the event that the date of the annual meeting is advanced by more than 30 days before or delayed by more than 60 days after that anniversary date, the notice must be delivered not earlier than the close of business on the 120th day prior to the annual meeting and not later than the close of business on the later of the 90th day prior to the annual meeting or the 10th day following the day on which public announcement of the date of the meeting is first made.

EXPENSES OF SOLICITATION

We will bear the cost of solicitation of proxies. We have retained MacKenzie Partners, Inc. to aid in soliciting proxies for a fee estimated not to exceed $250,000 plus expenses. We have agreed to indemnify MacKenzie Partners against certain liabilities arising under the federal securities laws. MacKenzie Partners has informed us that it intends to employ approximately 25 persons to solicit proxies. Proxies may be solicited through the mail and through telephonic or telegraphic communications to, or by meetings with, shareholders or their representatives by our directors, officers, and other employees who will receive no additional compensation therefor. *Annex A* sets forth information relating to our directors, nominees, executive officers and employees who are considered participants in our solicitation under SEC rules. Our expenses related to the solicitation (in excess of those normally spent for an annual meeting with an uncontested director election and excluding salaries and wages of our regular employees and officers) currently are expected to be approximately $2,000,000 of which approximately $500,000 has been spent to date.

In addition to soliciting shareholders by mail, we will reimburse banks, brokers and other custodians, nominees and fiduciaries for their reasonable out-of-pocket costs in forwarding proxy materials to the beneficial owners of shares held of record by them.

AVAILABLE INFORMATION

Shareholders of record on March 23, 2012 will receive with this proxy statement a copy of our 2011 Annual Report on Form 10-K, containing detailed financial information concerning our company. Our 2011 Annual Report on Form 10-K is also available on-line from the SEC s EDGAR database at the following address: www.sec.gov/cgi-bin/srch-edgar?progress+software

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We will furnish our 2011 Annual Report on Form 10-K, including the financial statements, free of charge upon written request. The exhibits to the 2011 Annual Report on Form 10-K not included in the proxy materials are available electronically at www.sec.gov. Written requests should be directed to our Secretary at the address above. Our 2011 Annual Report on Form 10-K (including exhibits thereto) is also available on our website at www.progress.com.

PROGRESS SOFTWARE CORPORATION

2012 ANNUAL MEETING OF SHAREHOLDERS

Goodwin Procter LLP

Exchange Place

53 State Street

Boston, MA 02109

Directions from Logan International Airport (BOS)

Head southeast. Keep left at the fork, follow signs for I-90 W/I-93 S/Williams Tunnel/Mass Pike and merge onto I-90 W. Take exit 25 toward S Boston. Slight right onto B St . Turn left onto Seaport Blvd. Take the 3rd right onto Atlantic Ave. Turn left onto State St.

Directions from the North traveling South on Rte. 93

From Points North Via I-93 South: Follow I-93 South into Boston. Take Exit #24A -Government Center. Left at the first traffic light onto Surface Road. Follow Surface to the third set of lights and turn right onto State Street. 53 State Street/Exchange Place will be on the left.

Directions from the South traveling North on Rte. 93

From Points South Via I-93 North: Follow I-93 North and take Exit #23-Government Center. Stay left off the exit following signs for Faneuil Hall. At the traffic light at the end of the off ramp, turn left onto Surface Road. Follow Surface Road to the fourth set of lights and turn right onto State Street. 53 State Street/Exchange Place will be on the left.

Directions from the West traveling the Massachusetts Turnpike (Interstate 90)

From Points West Via I-90 East (Massachusetts Turnpike): Follow I-90 (Mass Pike) East to Exit #24B and merge onto I-93 North. Follow I-93 North and take Exit #23-Government Center. Stay left of the exit following signs for Faneuil Hall. At the traffic light at the end of the off ramp, turn left onto Surface Road. Follow Surface Road to the fourth set of traffic lights and turn right onto State Street. 53 State Street/Exchange Place will be on the left.

Parking

75 State Street Garage

One Post Office Square Parking

Public Transportation

Subway

Massachusetts Bay Transportation Authority (MBTA)

Station: State

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Annex A

INFORMATION CONCERNING PERSONS WHO MAY BE DEEMED PARTICIPANTS IN

PROGRESS SOFTWARE S SOLICITATION OF PROXIES

The following sets forth the name, principal business address and the present principal occupation or employment, and the name, principal business and address of any corporation or other organization in which their employment is carried on, of the directors, director nominees and executive officers of Progress Software Corporation who, under SEC rules, may be deemed to be participants in our solicitation of proxies from our shareholders in connection with the 2012 Annual Meeting of Shareholders.

Directors and Nominees

The following table sets forth the names and business addresses of our current directors and nominees. The principal occupation or employment of each director or nominee who may be deemed to be a participant is set forth in the section of this proxy statement entitled Election of Directors.

Name	Business Address
Jay H. Bhatt	Progress Software Corporation 14 Oak Park Bedford, Massachusetts 01730
Barry N. Bycoff	Progress Software Corporation 14 Oak Park Bedford, Massachusetts 01730
John R. Egan	Egan Managed Capital 116 Flanders Road Westborough, Massachusetts 01581
Ram Gupta	Progress Software Corporation 14 Oak Park Bedford, Massachusetts 01730
Charles F. Kane	Progress Software Corporation 14 Oak Park Bedford, Massachusetts 01730
David A. Krall	Progress Software Corporation 14 Oak Park Bedford, Massachusetts 01730

Michael L. Mark	Progress Software Corporation 14 Oak Park Bedford, Massachusetts 01730
Philip M. Pead	Allscripts Health Solutions 3 Ravinia Dr., Suite 800 Atlanta, Georgia 30346

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Executive Officers and Other Employees

The principal occupations of our executive officers and other employees who may be deemed participants in our solicitation of proxies are set forth below. The principal occupation refers to such person s position with our company and the business address is Progress Software Corporation, 14 Oak Park, Bedford, Massachusetts 01730.

Name	**Position**
Jay H. Bhatt	President and Chief Executive Officer and Director
Joseph A. Andrews	Senior Vice President, Human Resources
Antonio J. Aquilina	Senior Vice President, Strategy and Corporate Development
John Bates	Executive Vice President and Chief Technology Officer
John P. Goodson	Senior Vice President, Products
Craig Newfield	Senior Vice President and General Counsel
Andrew E. Zupsic	Senior Vice President, Global Field Operations
Thomas A. Barth	Vice President, Investor Relations

Information Regarding Ownership of Our Securities by Participants

Except as described in this *Annex A*, or as otherwise indicated in the Information About Progress Software Common Stock Ownership section of this proxy statement, none of the persons listed above under Directors and Nominees and Executive Officers and Other Employees owns any of our securities of record but not beneficially. Except as described in this *Annex A*, the number of shares of our common stock held by directors, nominees and the named executive officers as of March 23, 2012, is set forth in the Information About Progress Software Common Stock Ownership section of this proxy statement. Andrew E. Zupsic, our Senior Vice President, Global Field Operations, joined our company on April 2, 2012 and did not beneficially own any shares of our common stock on March 23, 2012. Thomas A. Barth, our Vice President, Investor Relations, beneficially owned 4,860 shares of our common stock as of March 23, 2012, including 2,762 shares issuable upon the exercise of options which are currently exercisable or exercisable within 60 days of March 23, 2012.

Information Regarding Transactions in Our Securities by Participants

The following table sets forth purchases and sales during the past two years of shares of our common stock by the persons listed above under Directors and Nominees and Executive Officers and Other Employees . Unless otherwise indicated, all transactions were in the public market and none of the purchase price or market value of those shares is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities. To the extent that any part of the purchase price or market value of any of those shares is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities, the amount of the indebtedness as of the latest practicable date is set forth below. If those funds were borrowed or obtained otherwise than pursuant to a margin account or bank loan in the regular course of business of a bank, broker or dealer, a description of the transaction and the parties is set forth below.

Name	Date	Purchase/(Sale) of Common Stock (number of shares)*	Transaction Type
Joseph Andrews	4/22/2010	24,000	(3)
	4/22/2010	(25,874)	(9)
	4/27/2010	8,000	(1)
	6/30/2010	282	(7)
	10/1/2010	(636)	(8)
	11/18/2010	879	(3)
	11/18/2010	(879)	(9)
	11/19/2010	18,121	(3)
	11/19/2010	(18,121)	(9)
	3/31/2011	30,624	(3)
	3/31/2011	(30,624)	(9)
	3/31/2011	2,145	(7)
	4/1/2011	(955)	(8)
	4/28/2011	5,600	(1)
	10/1/2011	(1,250)	(8)
	10/25/2011	8,250	(3)
	10/25/2011	(8,250)	(9)
	10/27/2011	(3,045)	(9)
	4/2/2012	(1,324)	(8)
Antonio Aquilina	1/16/2012	16,000	(1)
Thomas Barth	4/28/2011	3,200	(1)
	9/30/2011	433	(7)
	10/11/12011	(341)	(8)
	10/14/2011	5,000	(1)
	12/31/2011	433	(7)
	4/1/2012	(447)	(8)
John Bates	4/27/2010	9,600	(1)
	10/11/2010	(5,163)	(9)
	2/14/2011	19,737	(3)
	2/14/2011	(19,737)	(9)
	3/31/2011	2,145	(7)
	4/15/2011	5,000	(3)
	4/15/2011	(9,002)	(9)
	4/28/2011	7,000	(1)
	10/1/2011	(1,642)	(8)
	10/14/2011	10,000	(1)
	1/24/2012	35,000	(3)
	1/24/2012	(35,000)	(9)
	4/2/2012	(1,639)	(8)

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Name	Date	Purchase/(Sale) of Common Stock (number of shares)*	Transaction Type
Jay Bhatt	12/5/2011	200,000	(1)
	4/2/2012	(16,653)	(8)
Barry Bycoff	5/12/2010	(6,388)	(8)
	10/27/2010	(4,980)	(8)
	12/27/2010	(6,000)	(5)
	1/6/2011	(2,234)	(9)
	1/7/2011	(25,378)	(9)
	4/27/2011	(6,184)	(8)
	4/27/2011	562	(10)
	10/14/2011	4,824	(10)
John Egan	10/14/2011	7,263	(6)
John Goodson	4/27/2010	7,200	(1)
	9/30/2010	72	(7)
	11/18/2010	4,293	(3)
	11/18/2010	(4,293)	(9)
	4/1/2011	(1,105)	(8)
	4/4/2011	3,001	(3)
	4/4/2011	(5,406)	(9)
	4/28/2011	10,500	(1)
	6/30/2011	2,145	(7)
	7/8/2011	(2,145)	(9)
	10/1/2011	(1,673)	(8)
	10/6/2011	(3,477)	(9)
	10/14/2011	10,000	(1)
	10/28/2011	3,876	(3)
	10/28/2011	(3,876)	(9)
	4/2/2012	(1,673)	(8)
Ram Gupta	4/27/2010	2,814	(10)
	10/15/2010	2,491	(10)
	12/28/2010	(2)	(9)
	12/29/2010	10,802	(3)
	12/29/2010	(19,378)	(9)
	12/30/2010	22,731	(3)
	12/30/2010	(22,731)	(9)
	12/31/2010	2,269	(3)
	12/31/2010	(2,269)	(9)
	4/28/2011	3,374	(10)
	5/2/2011	3,126	(3)
	5/2/2011	(3,126)	(4)
	5/4/2011	(3,374)	(4)
	6/1/2011	625	(3)
	6/1/2011	(625)	(4)
	7/1/2011	625	(3)
	7/1/2011	(625)	(4)
	8/1/2011	625	(3)
	8/1/2011	(625)	(4)
	9/1/2011	625	(3)
	9/1/2011	(625)	(4)
	10/3/2011	625	(3)

Name	Date	Purchase/(Sale) of Common Stock (number of shares)*	Transaction Type
	10/3/2011	(625)	(4)
	10/14/2011	4,824	(10)
	10/19/2011	(4,824)	(4)
	12/1/2011	625	(3)
	12/1/2011	(625)	(4)
	10/3/2011	625	(3)
	10/3/2011	(625)	(4)
	1/3/2012	625	(3)
	1/3/2012	(625)	(4)
	2/1/2012	625	(3)
	2/1/2012	(625)	(4)
	3/1/2012	625	(3)
	3/1/2012	(625)	(4)
Charles Kane	4/27/2010	2,814	(10)
	10/15/2010	2,491	(10)
	4/25/2011	26,293	(3)
	4/25/2011	(26,293)	(9)
	4/28/2011	3,374	(10)
	10/14/2011	4,824	(10)
David Krall	4/27/2010	2,814	(10)
	10/15/2010	2,491	(10)
	4/26/2011	12,954	(3)
	4/26/2011	(12,954)	(9)
	4/27/2011	10,162	(3)
	4/27/2011	(10,162)	(9)
	4/28/2011	3,374	(10)
	10/14/2011	4,824	(10)
Michael Mark	9/20/2010	5,000	(3)
	12/23/2010	(19,930)	(9)
	3/31/2011	(12,000)	(9)
	4/1/2011	(8,000)	(9)
	8/4/2011	7,500	(3)
	10/3/2011	12,000	(3)
	1/5/2012	14,250	(3)
Craig Newfield	9//2011	3,000	(2)
	10/14/2011	15,000	(1)
	4/2/2012	(793)	(8)
Philip Pead	10/14/2011	14,472	(6)
	1/11/2012	28,000	(2)

* We completed a 3-for-2 stock split on January 28, 2011. The share amounts in this column with respect to transactions prior to that date have not been adjusted to reflect the stock split.

(1) Acquired Restricted stock unit grant

(2) Acquired Open market purchase

(3) Acquired Option exercise

(4) Disposed Open market sale pursuant to Rule 10b5-1 plan

(5) Disposed Gift

(6) Acquired Deferred stock unit grant

(7) Acquired Purchase through employee stock purchase plan

(8) Disposed Shares withheld to satisfy tax withholding obligations in connection with the vesting of restricted stock unit awards. Vesting occurred with respect to: (a) for Mr. Andrews, 2,000 shares on each of October 1, 2010 and April 1, 2011 and 2,933 shares on each of October 1, 2011 and April 2, 2012; (b) for Mr. Bates, 3,833 shares on each date; (c) for Mr. Bhatt, 50,000 shares; (d) for Mr. Bycoff, 20,000 shares on May 12, 2010 and 12,895 shares on each other date; (e) for Mr. Goodson, 2,266 shares on April 1, 2011 and 4,016 shares on each other date; (f) for Mr. Newfield, 2,500 shares; and (g) for Mr. Barth, 533 shares on October 1, 2011 and 699 shares on April 1, 2012.

(9) Disposed Open market sale

(10) Acquired Director compensation

Miscellaneous Information Concerning Participants

Except as described in this *Annex A* or otherwise disclosed in this proxy statement, no person listed above under Directors and Nominees and Executive Officers and Other Employees or any of his associates beneficially owns (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, any shares or other securities of Progress Software or any of its subsidiaries. Furthermore, except as described in this *Annex A* or otherwise disclosed in this proxy statement, no such person or any of his associates is either a party to any transaction or series of similar transactions since January 1, 2011, or any currently proposed transaction or series of similar transactions (1) to which Progress Software or any of its subsidiaries was or is to be a party, (2) in which the amount involved exceeds $120,000 and (3) in which such person or associate had or will have a direct or indirect material interest.

Except as described in this *Annex A* or otherwise disclosed in this proxy statement, no person listed above under Directors and Nominees and Executive Officers and Other Employees or any of his associates has entered into any arrangement or understanding with any person with respect to (1) any future employment with Progress Software or its affiliates, or (2) any future transactions to which Progress Software or any of its affiliates will or may be a party. Except as described in this *Annex A* or otherwise disclosed in this proxy statement, there are no contracts, arrangements or understandings by any of the persons listed under Directors and Nominees and Executive Officers and Other Employees within the past year with any person with respect to any of our securities, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies.

Except as described in this *Annex A* or otherwise disclosed in this proxy statement, no persons listed under Directors and Nominees and Executive Officers and Other Employees has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the 2011 Annual Meeting of Shareholders (and no other person who is a party to an arrangement or understanding pursuant to which a nominee for election as director is proposed to be elected, has any such interests).

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Annex B

PROGRESS SOFTWARE CORPORATION

1991 EMPLOYEE STOCK PURCHASE PLAN

(Amended and Restated 4 April 2012)

1. PURPOSE

The Progress Software Corporation Employee Stock Purchase Plan (the Plan) is intended to provide a method whereby employees of Progress Software Corporation (the Company) will have an opportunity to acquire an ownership interest (or increase an existing ownership interest) in the Company through the purchase of shares of the Common Stock of the Company. It is the intention of the Company that the Plan qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended (the Code). The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. DEFINITIONS

(a) Eligible Compensation for purposes of the Plan means: (i) with respect to individuals who are hourly employees, base salary plus payments for overtime and bonuses or (ii) with respect to individuals who are salaried employees, base salary plus sales commissions and bonuses. Eligible Compensation shall not include any deferred compensation other than contributions by an individual through a salary reduction agreement to a cash or deferred plan pursuant to Section 401(k) of the Code or to a cafeteria plan pursuant to Section 125 of the Code.

(b) Board means the Board of Directors of the Company.

(c) Committee means the Compensation Committee of the Board.

(d) Common Stock means the common stock, $.01 par value per share, of the Company.

(e) Company shall also include any subsidiary of Progress Software Corporation designated as a participant in the Plan by the Board, unless the context otherwise requires.

(f) Employee means any person who is customarily employed at least 20 hours per week and more than five months in a calendar year by (i) the Company or (ii) any subsidiary corporation.

(g) Subsidiary Corporation shall mean any present or future corporation which is or would constitute a subsidiary corporation as that term is defined in Section 424(f) of the Code.

3. ELIGIBILITY

(a) Participation in the Plan is completely voluntary. Participation during any one or more of the Offering Periods, as hereafter defined, under the Plan shall neither limit, nor require, participation during any other Offering Period.

(b) Each Employee of the Company and its Subsidiary Corporations shall be eligible to participate in the Plan on any Offering Period commencement date, as hereafter identified, following the completion of three months of continuous service with the Company and/or its Subsidiary Corporations; provided, however, that no Employee shall be granted an option under the Plan:

(i) if, immediately after the grant, such Employee would own stock, and/or hold outstanding options to purchase stock, possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or any Subsidiary Corporation; for purposes of this Paragraph the rules of Section 424(d) of the Code shall apply in determining stock ownership of any employee; or

(ii) which permits his/her rights to purchase stock under all Section 423 employee stock purchase plans of the Company and its Subsidiary Corporations to exceed US $25,000 of the fair market value of the stock (determined at the time such option is granted) for each calendar year in which such option is outstanding; for purposes of this Paragraph, the rules of Section 423 (b)(8) of the Code shall apply.

4. OFFERING PERIOD / EXERCISE PERIOD

The right to purchase stock hereunder shall be made available by a series of Exercise Periods during an Offering Period to employees eligible in accordance with Paragraph 3 hereof.

Offering Period. Each participant in the Plan will be enrolled in an Offering Period. An Offering Period has a duration of 27 consecutive months unless a participant: withdraws from the Plan, ceases to be an eligible employee, or is automatically transferred to a new Offering Period. Offering Periods commence on each of the following dates: January 1, April 1, July 1, or October 1.

Notwithstanding the foregoing, no Offering Period shall commence if at any time it is determined that the Company is not then lawfully permitted to offer, issue and sell shares of Common Stock in accordance with the terms of this Plan pursuant to an effective registration statement under the Securities Act of 1933, as amended. If an Offering Period cannot commence upon any date for the reason set forth above, an Offering Period may commence upon a date other than January 1, April 1, July 1 or October 1, and such Offering Period may be for a duration of less than 27 months. Any determination as to whether an Offering Period shall so commence on another date, and the duration of such Offering Period, shall be in the sole discretion of the Committee.

Exercise Period. Each 27-month Offering Period consists of nine consecutive Exercise Periods lasting three months each. Exercise Periods start on January 1, April 1, July 1, and October 1.

Exercise Date. During each 27-month Offering Period there will be nine Exercise Dates. An Exercise Date is the last date of each Exercise Period. Therefore, Exercise Dates will be as follows: March 31, June 30, September 30, and December 31.

Notwithstanding the foregoing and subject to Paragraph 22, in the event that, on any Exercise Date provided for herein, it is determined that the Company is not then lawfully permitted to offer, issue and sell shares of Common Stock in accordance with the terms of this Plan pursuant to an effective registration statement under the Securities Act of 1933, as amended, such Exercise Date shall be of no force or effect.

5. PARTICIPATION

Any eligible employee may become a participant by completing a payroll deduction authorization form provided by the Company and filing it with their payroll department and the Plan administrator 20 days prior to an Offering Period commencement date.

A participant may be enrolled in only one Offering Period at a time. A participant will be re-enrolled automatically as a participant in future Offering Periods when an Offering Period in which such participant is currently enrolled ends, unless such participant withdraws from participation, is terminated or terminates employment, becomes ineligible to participate for any reason, or the Plan terminates.

6. PAYROLL DEDUCTIONS

(a) At the time a participant files his/her authorization for a payroll deduction, he/she shall specify a percentage of his/her Eligible Compensation to be deducted from his/her pay on each payday during any Offering Period in which he/she is a participant in the Plan. Such percentage shall be in increments of one percent (1%) up to a maximum percentage to be established for each Offering Period by the Committee.

(b) Payroll deductions for participants shall commence on the Offering Period commencement date following the effective date of his/her authorization for such payroll deductions.

(c) A participant may, at any time, reduce the percentage (but not below 1%) of his/her Eligible Compensation to be deducted on each payday that he/she participates in the Plan. A reduction in payroll deductions will be effective on the seventh business day following receipt of notice by the Company and will apply to the first full pay period commencing after such date.

(d) A participant may, at any time, increase the percentage (but not above the maximum established by the Committee) of his/her Eligible Compensation to be deducted on each payday that he/she participates in the Plan. An increase in payroll deductions will be effective on the seventh business day following receipt of notice by the Company and will apply to the first full Exercise Period commencing after such date.

(e) All payroll deductions made for a participant shall be credited to his/her account under the Plan. A participant may not make any separate cash payment into such account.

7. GRANTING OF OPTION / EXERCISE PRICE

(a) On the commencement date of each Offering Period, a participant in such Offering Period shall be deemed to have been granted an option to purchase on each Exercise Date during such Offering Period (at the per share exercise price) up to a number of shares of the Company s Common Stock determined by dividing such participant s payroll deductions accumulated during the applicable Exercise Period by eighty-five (85%) of the market value per share of the Company s Common Stock on the Offering Period commencement date or on the Exercise Date, whichever is lower, provided that the number of shares subject to the option shall not exceed 200% of the number of shares determined by dividing 10% of the participant s Eligible Compensation over the Offering Period (determined as of the Offering Period commencement date) by 85% of the market value per share of the Company s Common Stock on the Offering Period commencement date, subject to the limitations set forth in Section 3 (b) and 12 hereof. The Market value per share of the Company s Common Stock shall be determined as provided in Section 7(b) herein.

(b) The exercise price per share to be paid for Common Stock purchased under the Plan shall be equal to the lower of 85% of the market value per share of the Common Stock on the first day of the Offering Period in which the Exercise Date falls, or 85% of the market value per share of the Common Stock on the Exercise Date. Market value per share of the Common Stock on a particular date is the closing price (or closing bid, if no sales were reported) of the Common Stock on the National Association of Securities Dealers Automated Quotation System, Inc. (NASDAQ), or, in the event the Common Stock is listed on a stock exchange, the market value per share shall be the closing price on such exchange, for that date, as reported in the Wall Street Journal. If a closing price is not available for a particular date, then the market value per share to be used for that date will be the closing stock price as of the last preceding trading day on the NASDAQ or a stock exchange for which a closing price is available. If the Common Stock is not listed on the NASDAQ or a stock exchange then the market value per share will be determined by the Committee.

For purpose of calculating the number of shares of Common Stock to be purchased with payroll deductions from participants outside of the United States, the Company will use the exchange rate published in the Wall Street Journal on the Exercise Date.

8. EXERCISE OF OPTION

Unless a participant withdraws from the Plan or is terminated from participating in the Plan pursuant to paragraph 10 hereof, his/her option for the purchase of Common Stock will be deemed to have been exercised automatically on each Exercise Date for the purchase of the number of full shares of Common Stock which the accumulated payroll deductions in his/her account at that time will purchase at the price of the Common Stock as determined in Paragraph 7 (b). Fractional shares will not be issued under the Plan and any excess funds in a participant s account representing any fractional shares after Common Stock purchases made on each Exercise Date will be automatically carried forward to the next Exercise Period unless the participant elects, by written notice to their payroll department, to have the excess returned to him/her.

In the event that an Exercise Date is of no force or effect pursuant to the provisions of Paragraph 4 above, the automatic exercise described in this Paragraph shall occur on the next succeeding Exercise Date in such Offering Period that has not been determined to be of no force or effect. If there is no such Exercise Date in the Offering Period, all of the participant s outstanding payroll deductions for such Offering Period shall be returned to the participant, without interest.

9. NEW OFFERING PERIOD

If the market value of the Common Stock is lower on an Exercise Date than it was on the first day of the Offering Period, then all participants in such Offering Period will be automatically withdrawn from that Offering Period immediately after the participants exercise of the option on such Exercise Date, and such participants will be automatically re-enrolled in a new Offering Period commencing immediately after that Exercise Date. The old Offering Period terminates upon such automatic re-enrollment.

10. WITHDRAWAL AND TERMINATION

(a) Prior to the Exercise Date for each Exercise Period, any participant may withdraw all but not less than all of his/her payroll deductions under the Plan for such Exercise Period by giving written notice to his/her payroll department. All of the participant s payroll deductions credited to such account will be paid to him/her after receipt of notice of withdrawal, without interest, and no future payroll deductions will be made. Withdrawal from an Exercise Period will be deemed to be a withdrawal from the Offering Period which includes such Exercise Period. The Company will treat any attempt to borrow by a participant on the security of accumulated payroll deductions as an election to withdraw such deductions.

(b) A participant may elect not to exercise an option by giving written notice to their payroll department no less than seven (7) business days prior to the applicable Exercise Date. Any such election will be treated as a withdrawal pursuant to section (a) above.

(c) A participant s election not to participate in, or withdrawal from, any Offering Period or Exercise Period within such Offering Period will not have any effect upon his/her eligibility to participate in any succeeding Offering Period or in any similar plan which may hereafter be adopted by the Company.

(d) Upon termination of the participant s employment for any reason, including retirement but excluding death, all of his/her payroll deductions accrued during the relevant Exercise Period will be returned to the participant.

(e) Upon termination of the participant s employment because of death, the participant s beneficiary (as defined in Paragraph 14) shall have the right to elect, by written notice given to the participant s former payroll department prior to the expiration of a period of 90 days commencing with the date of the death of the participant but in no event later than the applicable Offering Period, either

(i) to withdraw all of the payroll deductions credited to the participant s account under the Plan; or

(ii) to exercise the participant s option for the purchase of stock on the Exercise Date next following the date of the participant s death for the purchase of the number of full shares which the participant s accumulated payroll deductions, at the date of the participant s death, will purchase at the applicable price, and any excess deductions will be returned to said beneficiary. In the event that no such written notice of election shall be duly received by the appropriate payroll department of the Company, the beneficiary shall automatically be deemed to have elected to withdraw the payroll deductions credited to the participant at the date of the participant s death and the same will be paid promptly to said beneficiary.

11. INTEREST

No interest will be paid or allowed on any money paid into the Plan or credited to any participant.

12. STOCK

(a) The maximum number of shares of Common Stock available for issuance and purchase by participants under the Plan, subject to adjustment upon changes in capitalization of the Company as provided in Paragraph 17, shall be 8,650,000 shares of Common Stock, par value $.01 per share, of the Company. If on a given

Exercise Date the number of shares with respect to which options are to be exercised exceeds the number of shares then available, the Company shall make a pro rata allocation of the shares available for delivery and distribution in an equitable manner, with the balances of payroll deductions credited to each participant under the Plan carried forward to the next Exercise Period in the applicable Offering Period or returned to the participant if the participant so chooses, by giving written notice to their payroll department to this effect.

(b) The participant will have no interest in stock underlying his/her option until such option has been exercised.

(c) The Committee, in its sole discretion, may establish a minimum holding period, if any, for shares of stock acquired pursuant hereto by any participant or his beneficiary pursuant to Paragraph 14 hereof. Certificates representing said shares of stock issued pursuant to this Plan may bear legends to that effect.

13. ADMINISTRATION

The Plan shall be administered by the Committee. The interpretation and construction of any provision of the Plan and adoption of rules and regulations for administering the Plan shall be made by the Committee. Determinations made by the Committee with respect to any matter or provision contained in the Plan shall be final, conclusive and binding upon the Company and upon all participants, their heirs or legal representatives. Any rule or regulation adopted by the Committee shall remain in full force and effect unless and until altered, amended, or repealed by the Committee.

14. DESIGNATION OF BENEFICIARY

A participant shall file with their payroll department a written designation of a beneficiary who is to receive any Common Stock and/or cash under the Plan. Such designation of beneficiary may be changed by the participant at any time by written notice. Upon the death of a participant and upon receipt by the Company of proof of the identity and existence at the participant s death of a beneficiary validly designated by him under the Plan, the Company shall deliver such Common Stock and/or cash to such beneficiary validly designated under the Plan who is living at the time of such participant s death, the Company shall deliver such Common Stock and/or cash to the executor or administrator of the estate of the participant. No beneficiary shall prior to the death of the participant by whom he has been designated, acquire any interest in the Common Stock and/or cash credited to the participant under the Plan.

15. TRANSFERABILITY

Neither payroll deductions credited to a participant nor any rights with regard to the exercise of an option or to receive Common Stock under the Plan may be assigned, transferred, pledged, or otherwise disposed of in any way by the participant other than by will or the laws of descent and distribution. Any such attempted assignment, transfer, pledge, or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Paragraph 10(a).

16. USE OF FUNDS

All payroll deductions received or held by the Company under this Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. EFFECT OF CHANGES OF COMMON STOCK

If the Company shall subdivide or reclassify the Common Stock which has been or may be optioned under this Plan, or shall declare thereon any dividend payable in shares of such Common Stock, or shall take any other action of a similar nature affecting such Common Stock, then the number and class of shares of Common Stock which may thereafter be optioned (in the aggregate and to any participant) shall be adjusted accordingly and in the case of each option outstanding at the time of any such action, the number and class of shares which may thereafter be purchased pursuant to such option and the option price per share shall be adjusted to such extent as may be determined by the Committee, with the approval of independent public accountants and counsel, to be necessary to preserve the rights of the holder of such option.

18. AMENDMENT OR TERMINATION

The Board may at any time terminate or amend the Plan. No such termination shall affect options previously granted, nor may an amendment make any change in any option theretofore granted which would adversely affect the rights of any participant holding options under the Plan.

19. NOTICES

All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received by the participant s payroll department.

20. MERGER OR CONSOLIDATION

If the Company shall at any time merge into or consolidate with another corporation, the holder of each option then outstanding will thereafter be entitled to receive at the next Exercise Date upon the exercise of such option for each share as to which such option shall be exercised, the securities or property which a holder of one share of the Common Stock was entitled to upon and at the time of such merger or consolidation. In accordance with this Paragraph and Paragraph 17, the Committee shall determine the kind and amount of such securities or property which such holder of an option shall be entitled to receive. A sale of all or substantially all of the assets of the Company shall be deemed a merger or consolidation for the foregoing purposes.

21. APPROVAL OF STOCKHOLDERS

The Plan is subject to the approval of the stockholders of the Company at their next annual meeting or at any special meeting of the stockholders for which one of the purposes of such a special meeting shall be to act upon the Plan.

22. GOVERNMENTAL AND OTHER REGULATIONS

The Plan, and the grant and exercise of the rights to purchase shares hereunder, and the Company s obligation to sell and deliver shares upon the exercise of rights to purchase shares, shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may, in the opinion of counsel for the Company, be required. The Plan shall be governed by, and construed and enforced in accordance with, the provisions of Sections 421, 423 and 424 of the Code and the substantive laws of the Commonwealth of Massachusetts. In the event of any inconsistency between such provisions of the Code and any such laws, said provisions of the Code shall govern to the extent necessary to preserve favorable federal income tax treatment afforded employee stock purchase plans under Section 423 of the Code.

Dear Shareholder:

Please take note of the important information enclosed with this proxy card. There are a number of issues related to the management and operation of your Company that require your immediate attention and approval. These are discussed in detail in the enclosed proxy materials.

Your vote counts, and you are strongly encouraged to exercise your right to vote your shares.

Please mark the boxes on this proxy card to indicate how your shares will be voted. Then sign the card, detach it and return your proxy vote in the enclosed postage paid envelope.

Your vote must be received prior to the Annual Meeting of Shareholders, May 31, 2012.

Thank you in advance for your prompt consideration of these matters.

Sincerely,

Progress Software Corporation

1 n

PROGRESS SOFTWARE CORPORATION

2012 ANNUAL MEETING OF SHAREHOLDERS

MAY 31, 2012

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned shareholder of Progress Software Corporation, revoking all prior proxies, hereby appoints Jay H. Bhatt and Craig Newfield, or either of them acting singly, proxies, with full power of substitution, to vote all shares of Common Stock of Progress Software Corporation which the undersigned is entitled to vote at the Annual Meeting of Shareholders of the Company to be held at the offices of Goodwin Procter LLP at Exchange Place, 53 State Street, Boston, Massachusetts on May 31, 2012, at 9:00 A.M., local time, and at any adjournments thereof, upon matters set forth in the Notice of Annual Meeting and Proxy Statement dated April 20, 2012, a copy of which has been received by the undersigned, and in their discretion, upon any other business that may properly come before the meeting or any adjournments thereof. **THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE COMPANY.** A SHAREHOLDER WISHING TO VOTE IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS NEED ONLY SIGN AND DATE THIS PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE. Attendance of the undersigned at the meeting or any adjourned session thereof will not be deemed to revoke the proxy unless the undersigned shall affirmatively indicate the intention of the undersigned to vote the shares represented hereby in person.

(Continued and to be signed on the reverse side)

COMMENTS:

ANNUAL MEETING OF SHAREHOLDERS OF

PROGRESS SOFTWARE CORPORATION

May 31, 2012

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:

The Notice of Meeting, proxy statement and proxy card

are available at http://materials.proxyvote.com/743312

Please sign, date and mail

your proxy card in the

envelope provided as soon

as possible.

i Please detach along perforated line and mail in the envelope provided. i

n 20630303000000000000 4 042710

THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, THE SHARES WILL BE VOTED FOR THE PROPOSALS SET FORTH HEREIN.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

1. Election of Directors.				FOR AGAINST ABSTAIN
¨ **FOR ALL NOMINEES**	**NOMINEES:**	2.	To approve an	¨ ¨ ¨
	O Jay H. Bhatt		amendment to the	
¨	O Barry N. Bycoff			
WITHHOLD AUTHORITY	O John R. Egan		Progress Software	
FOR ALL NOMINEES	O Ram Gupta		Corporation 1991	
¨	O Charles F. Kane			
	O David A. Krall		Employee Stock	
FOR ALL EXCEPT	O Michael L. Mark		Purchase Plan,	
(See instructions below)	O Philip M. Pead			

as amended, to increase the maximum number of shares that may be issued under that plan by 1,300,000

		FOR	AGAINST	ABSTAIN
3.	To approve the compensation of Progress Software Corporation s named executive officers	¨	¨	¨

		FOR	AGAINST	ABSTAIN
4.	To ratify the selection of	¨	¨	¨

Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year 2012

PLEASE COMPLETE, DATE AND SIGN THIS PROXY ON THE OTHER SIDE AND MAIL IT IN THE ENCLOSED ENVELOPE TO ENSURE REPRESENTATION OF YOUR SHARES. NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES. PLEASE SIGN EXACTLY AS NAME(S) APPEAR(S) ON STOCK CERTIFICATE(S). IF SHAREHOLDER IS A CORPORATION OR PARTNERSHIP, PLEASE HAVE AN AUTHORIZED OFFICER SIGN ON BEHALF OF THE CORPORATION OR PARTNERSHIP.

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: =

TO INCLUDE ANY COMMENTS, USE THE COMMENTS BOX ON THE REVERSE SIDE OF THIS CARD.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. o

Signature of Shareholder Date: Signature of Shareholder Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.