ALABAMA NATIONAL BANCORPORATION
Form 424B3
May 28, 2004
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FILED PURSUANT TO

RULE 424(B)(3)

REGISTRATION NO: 333-115603

MERGER PROPOSED YOUR VOTE IS

VERY IMPORTANT

Coquina Bank Shareholders:

The Board of Directors of Coquina Bank has agreed to a merger of Coquina Bank with a wholly owned subsidiary of Alabama National BanCorporation. Before we can complete this merger, the merger agreement must be approved by Coquina Bank s shareholders. We are sending you this proxy statement-prospectus to ask you to vote in favor of the merger.

If the merger is completed, for each share of Coquina Bank common stock that you own before the merger you will receive in exchange either (1) 0.6326 shares of common stock in Alabama National, subject to increase based on the average trading price of Alabama National common stock prior to the merger, or (2) at your option, but subject to certain limitations, an amount in cash in lieu of stock, determined based on the average trading price of Alabama National common stock prior to the merger. For a description of the possible increase in the exchange ratio of shares of Alabama National common stock to be received in exchange for your Coquina Bank common stock, refer to page 16. For a description of the calculation of optional cash consideration, the procedures for electing cash and the limitations on your ability to receive cash instead of Alabama National common stock in the merger, see APPROVAL OF THE MERGER AGREEMENT Merger Consideration Election to Receive Cash Consideration in Lieu of Common Stock and Procedures for Making a Cash Election on page 17. Shares of Alabama National common stock are quoted on the NASDAQ Stock Market under the symbol ALAB.

The merger cannot be completed unless holders of a majority of Coquina Bank s common stock approve it. We have scheduled a special shareholders meeting for you to vote on the merger.

Your vote is very important. Whether or not you plan to attend our special shareholders meeting, please take the time to vote by completing and mailing the enclosed proxy card. If you sign, date and mail your proxy card without indicating how you want to vote, we will vote your proxy in favor of the merger.

The date, time and place of the special meeting is:

Date: June 29, 2004
Time: 10:00 a.m.
Place: Oceanside Country Club

75 North Halifax Avenue

Ormond Beach, Florida 32176

This proxy statement-prospectus provides you with detailed information about the proposed merger. You can also get information about Alabama National from documents Alabama National has filed with the Securities and Exchange Commission. We encourage you to read this entire document carefully.

In particular, please see the section entitled Risk Factors beginning on page 10.

We are very enthusiastic about this merger and the strength and capabilities we expect to achieve from it.

Sincerely,

Joe P. Epton, Jr.

President and Chief Executive Officer

Coquina Bank

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this proxy statement-prospectus or determined if this proxy statement-prospectus is accurate or adequate. Any representation to the contrary is a criminal offense. These securities are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of any of the parties, and they are not insured by the Federal Deposit Insurance Corporation, the Bank Insurance Fund or any other governmental agency.

This proxy statement-prospectus is dated May 26, 2004

and was first mailed to shareholders on or about May 28, 2004

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We have not been authorized to give any information or make any representation about the merger or Coquina Bank or Alabama National that differs from, or adds to, the information in this proxy statement-prospectus or in documents that are publicly filed with the Securities and Exchange Commission. Therefore, if anyone does give you different or additional information, you should not rely on it.

REFERENCES TO ADDITIONAL INFORMATION

This proxy statement-prospectus incorporates important business and financial information about Alabama National that is not included or delivered with this document. This information is available to you without charge upon your written or oral request. You can obtain documents related to Alabama National that are incorporated by reference in this document through the Securities and Exchange Commission website at http://www.sec.gov or by requesting them in writing or by telephone from the company: Alabama National BanCorporation, 1927 First Avenue North, Birmingham, Alabama 35203, (205) 583-3600. If you would like to request documents, please do so by June 21, 2004 to receive them before Coquina Bank s special shareholders meeting. Instructions regarding how to obtain this information are contained on page 59 under the caption WHERE YOU CAN FIND MORE INFORMATION.

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COQUINA BANK

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To be held on June 29, 2004

Coquina Bank will hold a special meeting of shareholders at Oceanside Country Club, 75 North Halifax Avenue, Ormond Beach, Florida 32176 at 10:00 a.m. local time on Tuesday, June 29, 2004 to vote on:

1. The Agreement and Plan of Merger, dated as of March 30, 2004 (the merger agreement), by and between Alabama National BanCorporation, Coquina Bank and CQA Interim Bank, a wholly owned subsidiary of Alabama National, and the transactions contemplated by the merger agreement. These transactions include the merger of CQA Interim Bank with Coquina Bank and the issuance of Alabama National shares and payment of optional cash consideration to Coquina Bank s shareholders. As a result of the merger, Coquina Bank will be a wholly owned subsidiary of Alabama National. Shortly after the merger, Coquina Bank will be merged with Cypress Bank, another wholly owned subsidiary of Alabama National. This proposal is more fully described in the enclosed proxy statement-prospectus. You can find a copy of the merger agreement in Appendix A to this document.

2. Any other matters that properly come before the special meeting, or any adjournments or postponements of the special meeting.

Record holders of Coquina Bank common stock at the close of business on May 18, 2004, will receive notice of and may vote at the special meeting, including any adjournments or postponements of the special meeting. Florida law requires approval by a majority of the outstanding shares of Coquina Bank to approve the merger agreement.

A holder of Coquina Bank common stock who complies with the provisions of applicable law relating to dissenters rights applicable to the merger will be entitled to receive payment in cash of the value of only those shares held (i) which are voted against approval of the merger agreement at the special meeting (either in person or by proxy), or (ii) with respect to which the holder thereof has given written notice to Coquina Bank at or prior to the special meeting that the holder dissents from the merger agreement. We have attached a copy of the dissenters rights law as Appendix B to this document.

You are cordially invited to attend the special meeting in person, but regardless of whether you plan to attend, please return the enclosed proxy card.

Joe P. Epton, Jr.

President and Chief Executive Officer

May 26, 2004

Please mark, sign, date and return your proxy promptly, whether or not you plan to attend the special meeting.

Your Board of Directors unanimously recommends that you vote *FOR* approval of the merger agreement and the merger.

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Questions and Answers About the Merger

Q: What is this proxy statement-prospectus and why am I receiving it?

A: This proxy statement-prospectus describes in detail the proposed merger between Coquina Bank and CQA Interim Bank, a Florida banking corporation in organization and a wholly owned subsidiary of Alabama National BanCorporation. Because you are a shareholder of Coquina Bank, you are being asked to vote on the merger agreement at a special shareholders meeting to be held on June 29, 2004. This proxy statement-prospectus should answer any questions you may have about the merger.

Q: What will happen if the shareholders of Coquina Bank approve the merger agreement?

A: If the Coquina Bank shareholders approve the merger agreement, then shortly following the special meeting, subject to certain regulatory approvals and satisfaction of conditions, Coquina Bank will merge with CQA Interim Bank, and Coquina Bank will be the surviving corporation. Prior to the completion of the merger, Coquina Bank will pay a special cash dividend to its shareholders in the aggregate amount of $1.6 million (approximately $1.74 per fully diluted share).

Upon the completion of the merger, for each share of Coquina Bank common stock that you own, you will be entitled to receive 0.6326 shares of common stock in Alabama National, subject to increase based on the average trading price of Alabama National common stock prior to the merger. If you so elect, you have the option to receive an amount in cash in lieu of some or all of your stock, determined based on the average trading price of Alabama National common stock prior to the merger, subject to limitations on the aggregate amount of cash which Alabama National is obligated to pay. For a description of the possible increase in the exchange ratio of shares of Alabama National common stock to be received in exchange for your Coquina Bank common stock, refer to page 16. The procedure for electing cash, and the limitations on such election, are described in greater detail in the proxy statement-prospectus at page 17.

Q: What will happen to Coquina Bank following the merger?

A: As a result of the merger of CQA Interim Bank into Coquina Bank, Coquina Bank will become a wholly owned subsidiary of Alabama National. Shortly after the merger, Coquina Bank will be merged with Cypress Bank, a wholly owned subsidiary of Alabama National with headquarters in Palm Coast, Florida. The combined bank will operate under the name Cypress & Coquina Bank.

Q: What should I do now?

A: **Send in your proxy card.** After reviewing this document, indicate on your proxy card how you want to vote, and sign, date and mail it in the enclosed envelope addressed to Coquina Bank as soon as possible to ensure that your shares will be represented at the special meeting.

If you sign, date and send in your proxy and do not indicate how you want to vote, your proxy will be voted in favor of the merger agreement and the merger. If you do not sign and send in your proxy, and if you do not attend and cast your vote in person at the special meeting, it will have the same effect as a vote against the merger.

Send in your election form if you want to receive cash for your shares. If you wish to receive cash instead of Alabama National common stock for any or all of your shares of Coquina Bank common stock, follow the instructions for making a cash election that we describe on pages 17 and 18 of this document and on the cash election form enclosed. Please note, however, that you may not be able to exchange all of your shares for cash even if you make a proper cash election, because the total amount of cash Alabama National is obligated to pay in the merger is

limited.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will vote your shares of Coquina Bank common stock only if you provide your broker with instructions on how to vote. You should instruct your broker how to vote your shares by following the

directions your broker provides. If you do not provide instructions to your broker, your shares will not be voted on the merger. Please see the voting form provided by your broker for additional information regarding the voting of your shares.

Q: Can I revoke my proxy and change my mind?

A: Yes. You may revoke your proxy up to the time of the special meeting by taking any of the actions explained under GENERAL INFORMATION Proxies and Other Matters on page 14 of this proxy statement-prospectus, including by giving a written notice of revocation, signing and delivering a new later-dated proxy, or by attending the special meeting and voting in person. If your shares are held in the name of your broker, you will need additional documentation to vote in person at the meeting.

Q: Can I vote my shares in person?

A: Yes. You may attend the special meeting and vote your shares in person rather than signing and mailing your proxy card. If your shares are held in the name of your broker, you will need additional documentation to vote in person at the meeting.

Q: Can I change or revoke my cash election once I have mailed my signed form of election?

A: Yes. You can change or revoke your cash election in writing at any time prior to the election deadline of 5:00 p.m., Eastern Time, on June 28, 2004.

Q: Should I send in my stock certificates now?

A: No. Hold all of your stock certificates and send them in with the transmittal materials you will receive from the exchange agent after we complete the merger.

Q: Whom can I call with questions?

A: If you want additional copies of this document, or if you want to ask any questions about the merger, you should contact:

Joe P. Epton, Jr.

President and Chief Executive Officer

Coquina Bank

1020 West Granada Boulevard

Ormond Beach, Florida 32174

Telephone: (386) 677-6966

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SUMMARY

This summary highlights selected information from this proxy statement-prospectus. It may not contain all of the information that is important to you. You should carefully read this entire document and the other documents to which we refer. These will give you a more complete description of the transactions we are proposing. For more information about Alabama National, see Where You Can Find More Information (page 59). Each item in this summary refers to the pages where that subject is discussed more fully.

Parties to the Merger (Pages 54 and 55)

Alabama National BanCorporation

1927 First Avenue North

Birmingham, Alabama 35203

(205) 583-3600

Alabama National is a bank holding company headquartered in Birmingham, Alabama. Alabama National operates 78 banking offices through 14 bank subsidiaries in Alabama, Florida and Georgia. Through its subsidiary banks, Alabama National provides full banking services to individuals and small businesses. As of March 31, 2004, Alabama National had total assets of about $4.9 billion, total deposits of about $3.5 billion, and total shareholders equity of about $426.4 million.

Coquina Bank

1020 West Granada Boulevard

Ormond Beach, Florida 32174

(386) 677-6966

Coquina Bank is a Florida state bank headquartered in Ormond Beach, Florida. It provides commercial banking services through three branch offices in Ormond Beach and Port Orange, Florida. As of March 31, 2004, Coquina Bank had total assets of about $114.3 million, total deposits of about $95.0 million and total shareholders equity of about $11.4 million.

CQA Interim Bank

1020 West Granada Boulevard

Ormond Beach, Florida 32174

(386) 677-6966

CQA Interim Bank is a Florida state bank in organization and a wholly owned subsidiary of Alabama National. CQA Interim Bank is being formed for the purpose of effecting the merger with Coquina Bank. CQA Interim Bank will not engage in any business prior to the merger.

Shareholders Meeting to Approve Merger (Page 14)

We will hold the special meeting of Coquina Bank shareholders at 10:00 a.m. local time, on Tuesday, June 29, 2004, at Oceanside Country Club, 75 North Halifax Avenue, Ormond Beach, Florida 32176. At this important meeting, we will ask Coquina Bank s shareholders to (1) consider and vote upon approval of the merger agreement, and (2) act on any other matters that may be put to a vote at the Coquina Bank special meeting. You may vote at the special meeting if you owned Coquina Bank shares at the close of business on May 18, 2004. As of such date, there were 822,500 shares of Coquina Bank common stock issued and outstanding and entitled to be voted at the special meeting.

Approval of the Merger Agreement (Page 16)

Terms of the Merger (Page 16). The merger agreement is the document that governs the merger of Coquina Bank with CQA Interim Bank and the issuance of shares of Alabama National common stock and optional cash consideration to Coquina Bank s shareholders in connection with the merger. We encourage you to read the merger agreement that is attached to this proxy statement-prospectus as Appendix A. The merger agreement provides for the merger of Coquina Bank with CQA Interim Bank. Prior to the merger, Coquina Bank will pay a special cash dividend to its shareholders in an aggregate amount of $1.6 million (approximately $1.74 per fully diluted share). Coquina Bank will be the surviving entity following the merger, and it will be a wholly owned subsidiary of Alabama National. Shortly after the merger, Coquina Bank will be merged with Cypress Bank, another wholly owned subsidiary of Alabama National.

Merger Consideration (Page 16). The merger agreement provides that Coquina Bank shareholders who do not exercise their dissenters rights will receive either (1) 0.6326 shares of Alabama National common stock, subject to increase, or (2) optional cash as consideration in lieu of Alabama National common stock, subject to certain limitations, for each share of Coquina Bank common stock. These two options are described in more detail below.

Stock Consideration (Page 16).

Absent a cash election, each share of Coquina Bank common stock issued and outstanding at the effective time of the merger will be converted into and exchanged for 0.6326 shares of Alabama National common stock (the Exchange Ratio). The Exchange Ratio may be increased, however, depending upon the average trading price of Alabama National common stock prior to the Merger, as described below.

The price per share of Alabama National s common stock fluctuates from day-to-day. On the fifth business day prior to the effective time of the merger, an average price of Alabama National s stock price will be calculated based on the averages of the high and low sales prices of Alabama National s common stock reported on the Nasdaq Stock Market for the previous ten business days. If the average price is less than $48.00, then the Exchange Ratio will be increased as follows:

Average Price	Adjusted Exchange Ratio
Less than $48.00, and equal to or greater than $47.00	0.6357
Less than $47.00, and equal to or greater than $46.00	0.6388
Less than $46.00, and equal to or greater than $45.00	0.6419
Less than $45.00, and equal to or greater than $44.00	0.6450
Less than $44.00, and equal to or greater than $43.00	0.6481
Less than $43.00, and equal to or greater than $42.00	0.6512
Equal to or less than $42.00	0.6544

If the average price falls below $42.00 per share, the Coquina Bank board of directors has the option to terminate the merger agreement. Alabama National, however, may elect to cancel the termination by either (1) increasing the Exchange Ratio to an amount equal to the quotient of $27.48 divided by the average price, or (2) paying with respect to each share of Coquina Bank common stock additional cash consideration equal to the difference of (A) $27.48 minus (B) the product of the average price multiplied by 0.6544. For example, if the average price were $40.00, the Coquina Bank board of directors provided a notice of termination, and Alabama National elected to void such termination, Alabama National would be required to either increase the Exchange Ratio to at least 0.6870 (i.e., the quotient of $27.48 divided by $40.00) or make a cash payment of $1.30 (i.e., the difference in $27.48 and the product of $40.00 multiplied by 0.6544, or $26.18) for each share of Coquina Bank

common stock.

Election to Receive Cash Consideration In Lieu of Common Stock (Page 17).

A shareholder may elect to receive cash instead of the shares of Alabama National common stock that he or she would otherwise receive in exchange for some or all of his or her shares of Coquina Bank common stock. Any such cash election must be made in accordance with the election procedures described in this proxy statement-prospectus. See APPROVAL OF THE MERGER AGREEMENT Procedures for Making a Cash Election on page 17. The amount of cash that a Coquina Bank shareholder will receive under a cash election will be subject to the cash allocation procedures described below. In our discussion we may refer to the amount of cash to be received for each share of Coquina Bank common stock converted in connection with the cash election as the per share cash election consideration.

Shareholders who choose to receive cash consideration will receive an amount in cash for each share of Coquina Bank stock covered by the election equal to the product of (1) the average price of Alabama National common stock (calculated as described above) multiplied by (2) the Exchange Ratio.

Under the merger agreement, the maximum amount of cash consideration that Alabama National is required to pay in connection with the Merger is 10% of the aggregate merger consideration. If the number of shareholders who elect to receive cash instead of shares of Alabama National common stock would cause the total amount of cash to be paid by Alabama National to exceed the maximum cash amount, Alabama National is permitted to allocate and proportionately reduce the cash elections made by Coquina Bank shareholders. Alternatively, Alabama National, in its discretion, may increase the amount of cash consideration to an amount not to exceed 25% of the aggregate merger consideration. Coquina Bank shareholders who elect, but do not receive, cash for all or a portion of their shares will automatically receive Alabama National common stock. See APPROVAL OF THE MERGER AGREEMENT Procedures for Making a Cash Election on page 17.

Regulatory Approvals; Effective Time (Pages 34 and 20). We cannot complete the merger unless we obtain the approval of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Florida Office of Financial Regulation. While we do not know of any reason why we should not obtain the necessary regulatory approvals in a timely manner, we cannot be certain when or if we can obtain them.

The merger will become effective as of the date and at the time specified in a certificate of merger to be issued by the Director of the Florida Office of Financial Regulation. Prior to the effective time, the Office of Financial Regulation will file the merger agreement with the Florida Secretary of State. We will not request the Office of Financial Regulation to issue the certificate of merger and to file the merger agreement until all conditions contained in the merger agreement have been satisfied or waived.

Recommendation of Coquina Bank s Board of Directors; Opinion of The Carson Medlin Company (Pages 15 and 23). Coquina Bank s board of directors believes that the merger is fair to you and in your best interests, and recommends that you vote FOR the proposal to approve the merger and the merger agreement. In deciding to approve the merger, Coquina Bank s board of directors considered, among other things, the opinion of The Carson Medlin Company, that, as of the date of the opinion, the consideration to be received by Coquina Bank s shareholders, as provided for in the merger agreement, was fair from a financial point of view to Coquina Bank s shareholders. We have attached as Appendix C the written opinion of The Carson Medlin Company dated May 26, 2004, the most recent practicable date prior to the printing of this proxy statement-prospectus. You should read it and the disclosure entitled Opinion of The Carson Medlin Company beginning on page 23 carefully to understand the assumptions made, matters considered and limitations of the review undertaken by The Carson Medlin Company in providing its opinion.

Votes Required (Page 14). In order to approve the merger agreement, Coquina Bank s shareholders holding a majority of the outstanding shares of Coquina Bank common stock must vote for the merger agreement. The

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directors and executive officers of Coquina Bank beneficially owned, as of May 18, 2004, a total of 208,069 shares (25.3%) of Coquina Bank common stock. Each member of the board of directors of Coquina Bank has agreed, subject to certain conditions, to vote his or her shares of Coquina Bank common stock in favor of the merger agreement.

Surrender of Certificates (Page 19). Following the merger, holders of Coquina Bank stock certificates will need to exchange their certificates for new certificates of Alabama National common stock, or, if properly elected, for per share cash election consideration. You must surrender all of your Coquina Bank stock certificates before the exchange of your shares will be processed. Shortly after we complete the merger, Alabama National will send Coquina Bank s shareholders detailed instructions on how to exchange their shares. Please do not send us any stock certificates until you receive these instructions.

Conditions to Consummation of the Merger (Page 32). The completion of the merger depends on meeting a number of conditions, including the following: (1) Coquina Bank s shareholders must approve the merger agreement, (2) we must receive all required regulatory approvals and any waiting periods required by law must have passed, (3) we must receive consents of third parties necessary to the consummation of the merger, and (4) we must receive certain opinions of counsel.

Effect on Certain Employee Benefit Plans of Coquina Bank (Page 31).

401(k) Plan. Coquina Bank currently participates in a multi-employer 401(k) plan. Coquina Bank will cease to participate in this plan prior to the merger, and Alabama National will offer each eligible employee of Coquina Bank the opportunity to enroll in Alabama National s 401(k) plan.

Treatment of Coquina Bank Stock Options. At the time we complete the merger, all outstanding stock options granted by Coquina Bank under its stock option plans will be converted automatically into options to purchase Alabama National common stock. Alabama National will assume these options subject to their existing terms, including any acceleration in vesting that will occur as a consequence of the merger. The number of shares of Alabama National common stock that may be purchased upon exercise of each assumed option will be calculated according to an option exchange ratio established by the merger agreement.

Federal Income Tax Consequences (Page 39). We expect that you will not recognize gain for U.S. federal income tax purposes in the merger when you exchange all of your shares of Coquina Bank common stock for shares of Alabama National common stock, except in connection with any cash received instead of fractional shares. If you receive cash for all of your shares of Coquina Bank common stock by invoking a cash election, or if you receive all cash through the exercise of dissenters rights, you generally will recognize gain or loss measured by the difference between the amount of cash received and your adjusted basis in the Coquina Bank common stock surrendered. If you receive both cash and Alabama National common stock in exchange for your shares of Coquina Bank common stock, the gain, if any, realized in the exchange will be recognized, but not in an amount in excess of the cash received (other than fractional share payments). No loss, however, will be recognized if you receive both cash and shares of Alabama National common stock in the exchange. Coquina Bank and Alabama National have received a legal opinion that this will be the case. This legal opinion is filed as an exhibit to the Registration Statement of which this proxy statement-prospectus forms a part.

This tax treatment may not apply to some Coquina Bank shareholders. Determining the actual tax consequence of the merger to you as an individual taxpayer can be complicated. The tax treatment will depend on your specific situation and many variables not within our control. You should consult your own tax advisor for a full understanding of the tax consequences of this merger to you.

Management and Operations after the Merger (Page 38). As a result of the merger, Coquina Bank will become a subsidiary of Alabama National. Shortly after the merger, Coquina Bank will merge with Cypress

Bank, another subsidiary of Alabama National, and the combined company will operate under the name Cypress & Coquina Bank. During the interim period between the two mergers, the board of directors of Coquina Bank will consist of the 13 current directors of Coquina Bank plus an officer of Alabama National, and during that time Joe P. Epton, Jr. will continue to serve as President and Chief Executive Officer of Coquina Bank. Following the merger of Cypress Bank and Coquina Bank, the board of directors of the combined bank will consist of directors from each of Cypress Bank and Coquina Bank and at least one officer of Alabama National. The exact number and identity of the directors of Cypress & Coquina Bank will be determined in a mutually satisfactory manner prior to the closing of the Cypress Bank and Coquina Bank merger. The executive officers of Cypress & Coquina Bank will be John H. Holcomb, III, Chairman, Joe P. Epton, Jr., Vice Chairman, James E. Weite, Jr., Chief Executive Officer, Bruce E. Page, President and Chief Operating Officer and Mark O. Blanford, Executive Vice President and Senior Lending Officer. All current Alabama National officers and directors will continue to serve in their current positions after the completion of the merger.

Interests of Certain Persons in the Merger that are Different from Yours (Page 38). Certain directors and officers of Coquina Bank have interests in the merger that are different from your interests. Certain officers and directors of Coquina Bank will continue to serve as officers and directors of Coquina Bank following the merger. In addition, Joe P. Epton, Jr., President and Chief Executive Officer and Mark O. Blanford, Executive Vice President and Senior Lending Officer of Coquina Bank, will enter into new employment agreements with Coquina Bank upon the completion of the merger that will provide each of Mr. Epton and Mr. Blanford a salary of at least $135,000 per year for up to three years following the merger, plus the opportunity to earn annual bonuses.

Each of Messrs. Epton and Blanford and Ms. Stefanie Crosley, Senior Vice President and Chief Financial Officer of Coquina Bank, will receive a payment in the amount of $290,000, $290,000 and $190,360, respectively, in connection with his or her existing change in ownership agreement with Coquina Bank. These payments will be made upon the closing of the merger.

In addition, the directors and officers of Coquina Bank hold stock options that will be converted at the time we complete the merger into options to purchase Alabama National common stock. These options will be subject to immediate vesting because of the merger.

Accounting Treatment (Page 40). The merger will be accounted for as a purchase by Alabama National of Coquina Bank under generally accepted accounting principles. Under the purchase method of accounting, the assets and liabilities of the company deemed to be the acquired company for accounting purposes are, as of completion of the merger, recorded at their respective fair values and added to those of the company deemed to be the acquiring company for accounting purposes. To the extent the consideration paid exceeds the fair value of the net assets acquired, goodwill is recorded. Financial statements of the acquiring company issued after consummation of the merger reflect these values, but are not restated retroactively to reflect the historical financial position or results of operations of the acquired company.

Market Prices. The following table sets forth (1) the market value of Alabama National common stock, (2) the market value of Coquina Bank common stock and (3) the price to be paid for each share of Coquina Bank common stock on an equivalent per share basis determined as if the completion of the merger occurred on (A) March 30, 2004, the business day immediately preceding the announcement of the execution of the merger agreement and (B) May 25, 2004, the last day for which such information could be calculated prior to the printing and mailing of this proxy statement-prospectus:

	Alabama National Common Stock(1)	Coquina Bank Common Stock(2)	Equivalent Price Per Share of Coquina Bank(3)
March 30, 2004	$ 54.45	N/A	$ 34.45
May 25, 2004	$ 52.05	N/A	$ 32.93

(1) Determined on an historical basis with reference to the last sales price as reported on the Nasdaq Stock Market for each particular date.
(2) There is no established public trading market for the Coquina Bank common stock on which an historical market value could be based.
(3) Determined on an equivalent price per share basis by multiplying the Alabama National market value on each particular date by the Exchange Ratio of 0.6326.

Resales of Alabama National Stock (Page 41). The shares of Alabama National common stock issued to Coquina Bank s shareholders in the merger will be freely transferable under federal securities law, except for shares issued to any shareholder who may be deemed an affiliate of Coquina Bank for purposes of Rule 145 under the Securities Act (generally including directors, executive officers and beneficial owners of 10% of any class of capital stock). Affiliates will be subject to certain restrictions on resales of newly acquired Alabama National shares.

Waiver and Amendment; Termination (Page 37). Either Alabama National or Coquina Bank may waive or extend the time for performing the others obligations under the merger agreement. In addition, the boards of directors of each of Alabama National and Coquina Bank may mutually agree to amend the merger agreement. The merger agreement may be terminated at any time prior to completion of the merger by the agreement of Coquina Bank and Alabama National.

Either company can also terminate the merger agreement under the following circumstances:

(1) if any government body whose approval is necessary to complete the merger makes a final decision not to approve the merger;

(2) if we do not or cannot complete the merger by October 31, 2004;

(3) if Coquina Bank s shareholders do not approve the merger agreement;

(4) if Coquina Bank or Alabama National, as the case may be, materially violates any of its representations, warranties or obligations under the merger agreement; or

(5) if there is a material adverse change to the business of the other party.

Generally, the entity seeking to terminate the merger agreement cannot itself be in violation of the merger agreement so as to allow the other party to terminate the agreement.

Coquina Bank may terminate the merger agreement in certain circumstances if it decides to enter into a superior acquisition proposal with another potential business combination partner. Alabama National may terminate the merger agreement if (1) the board of directors of Coquina Bank withdraws, adversely modifies or fails upon request to reconfirm its recommendation of the merger, (2) the board of directors of Coquina

Bank recommends approval of another acquisition proposal to its shareholders, (3) the board of directors of Coquina Bank fails to call the special meeting of shareholders or (4) any person or entity becomes the beneficial owner of 50% or more of the outstanding shares of Coquina Bank common stock. In any such event, Coquina Bank has agreed to pay Alabama National a termination fee of $1.0 million.

Alabama National also can terminate the merger agreement if holders of more than 5% of the outstanding Coquina Bank shares have properly asserted dissenters rights under Florida law.

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In addition, Coquina Bank can terminate the merger agreement if the average of the high and low prices of Alabama National common stock quoted on the Nasdaq Stock Market during the ten day period ending on the fifth day prior to the closing of the merger is less than $42.00. In this event, however, Alabama National has the opportunity to void such termination by increasing the consideration payable to the Coquina Bank shareholders.

Effect of Merger on Rights of Shareholders (Page 48). As a Coquina Bank shareholder, your rights are currently governed by Coquina Bank s Articles of Incorporation and Bylaws and by Florida law. Upon completion of the merger, if you do not elect to receive cash for your shares of Coquina Bank common stock (or if you elect cash consideration where the limitation on the maximum cash consideration payable in the merger is exceeded), you will automatically become an Alabama National shareholder. Your rights as an Alabama National shareholder will be determined by Alabama National s Restated Certificate of Incorporation and Amended and Restated Bylaws and by the Delaware General Corporation Law. The rights of Alabama National s shareholders differ from the rights of Coquina Bank s shareholders in certain important respects.

Dissenters Rights (Page 19). As a Coquina Bank shareholder, you have the right to dissent from the merger and to receive cash in respect of the value of your shares of Coquina Bank common stock. To do this, you must follow certain procedures required by the Florida Statutes, including filing notices with us and/or **voting against** the merger. The procedures to be followed by dissenting shareholders are summarized under APPROVAL OF THE MERGER AGREEMENT-Dissenters Rights at page 19. A copy of the Florida Statutes statutory provisions regarding dissenters rights is set forth in Appendix B to this proxy statement-prospectus. **Failure to follow precisely such provisions may result in the loss of your dissenters rights.**

The merger agreement may be terminated by Alabama National if the holders of more than 5% of the outstanding shares of Coquina Bank common stock properly assert their dissenters rights. Further, dissent by holders of a significant number of shares of Coquina Bank common stock could cause the merger not to qualify as a tax-free reorganization for federal income tax purposes.

Alabama National Selected Consolidated Financial Data

The following table presents selected consolidated financial data and ratios on an historical basis for Alabama National. This information is based on the consolidated financial statements of Alabama National that it has presented in its filings with the Securities and Exchange Commission and should be read in conjunction with the information in such consolidated financial statements.

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ALABAMA NATIONAL BANCORPORATION SELECTED CONSOLIDATED FINANCIAL DATA

(HISTORICAL)

(Amounts in thousands, except ratios and per share data)

	Three Months Ended March 31,		Year Ended December 31,				
	2004	**2003**	**2003**	**2002**	**2001(1)**	**2000(1)**	**1999(1)**
Income Statement Data:							
Interest income	$ 49,130	$ 43,030	$ 178,631	$ 178,147	$ 179,537	$ 171,222	$ 133,106
Interest expense	14,460	15,043	57,668	65,313	90,393	90,987	62,307
Net interest income	34,670	27,987	120,963	112,834	89,144	80,235	70,799
Provision for loan and lease losses	1,228	1,091	5,931	7,956	3,946	2,506	2,107
Net interest income after provision for loan and lease losses	33,442	26,896	115,032	104,878	85,198	77,729	68,692
Net securities gains (losses)	(20)	5	46	35	246	(119)	196
Noninterest income	17,660	18,740	78,258	61,129	48,461	33,466	31,120
Noninterest expense	34,164	31,485	131,864	113,577	92,233	74,111	65,860
Income before income taxes	16,918	14,156	61,472	52,465	41,672	36,965	34,148
Provision for income taxes	5,604	4,625	20,398	16,735	13,232	11,421	10,817
Income before minority interest in earnings of consolidated subsidiary	11,314	9,531	41,074	35,730	28,440	25,544	23,331
Minority interest in earnings of consolidated subsidiary	7	6	28	28	25	26	25
Net income	$ 11,307	$ 9,525	$ 41,046	$ 35,702	$ 28,415	$ 25,518	$ 23,306
Balance Sheet Data:							
Total assets	$ 4,947,047	$ 3,575,147	$ 3,820,112	$ 3,316,168	$ 2,843,467	$ 2,358,285	$ 2,025,503
Earning assets	4,379,181	3,205,753	3,514,744	3,034,980	2,612,806	2,140,562	1,811,312
Securities	1,141,424	818,848	810,227	700,333	567,688	386,059	353,923
Loans held for sale	27,356	61,162	16,415	51,030	36,554	5,226	8,615
Loans and leases, net of unearned income	3,136,938	2,277,520	2,659,440	2,191,394	1,964,169	1,710,810	1,403,489
Allowance for loan and lease losses	42,392	33,247	36,562	32,704	28,519	22,368	19,111
Deposits	3,461,144	2,487,548	2,753,749	2,330,395	2,066,759	1,807,095	1,529,251
Short-term borrowings	67,743	95,200	36,150	152,100	68,350	91,439	24,389
Long-term debt	384,984	274,057	337,427	240,065	209,631	83,926	124,005
Stockholders equity	426,416	240,444	279,418	234,492	207,886	171,604	146,280
Weighted Average Shares Outstanding Diluted (2)	14,171	12,685	12,957	12,683	12,141	11,973	12,008
Per Common Share Data:							
Net income diluted	$ 0.80	$ 0.75	$ 3.17	$ 2.81	$ 2.34	$ 2.13	$ 1.94
Book value (period end)	27.76	19.44	21.76	18.95	16.84	14.56	12.40
Dividends declared	0.3125	0.285	1.14	1.00	0.92	0.84	0.72
Performance Ratios:							

Return on average assets	1.08%	1.16%	1.14%	1.18%	1.12%	1.17%	1.26%
Return on average equity	13.10	16.21	15.89	16.01	15.40	16.29	16.11
Net interest margin (3)	3.62	3.70	3.65	4.07	3.83	4.03	4.23
Net interest margin (taxable equivalent) (3)	3.66	3.73	3.68	4.11	3.88	4.08	4.30
Asset Quality Ratios:							
Allowance for loan and lease losses to period end loans (4)	1.35%	1.46%	1.37%	1.49%	1.45%	1.31%	1.36%
Allowance for loan and lease losses to period end nonperforming loans (5)	494.19	307.47	372.44	318.07	377.09	614.17	431.11
Net charge-offs to average loans and leases (4)	0.13	0.10	0.12	0.18	0.09	0.04	0.04
Nonperforming assets to period end loans and leases and foreclosed property (4)(5)	0.31	0.68	0.40	0.59	0.47	0.30	0.38
Capital and Liquidity Ratios:							
Average equity to average assets	8.28%	7.13%	7.17%	7.36%	7.28%	7.16%	7.80%
Leverage (4.00% required minimum)	8.17	7.31	7.73	7.52	7.61	6.83	7.23
Risk-based capital							
Tier 1 (4.00% required minimum)	9.52	9.35	10.47	10.00	9.92	8.86	9.46
Total (8.00% required minimum)	10.72	10.60	11.73	11.26	11.17	10.11	10.70
Average loans and leases to average deposits	95.67	94.88	94.38	96.44	97.74	94.04	89.00

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(1) On January 31, 2001, Peoples State Bank of Groveland (PSB) merged with a newly formed subsidiary of Alabama National, whereby PSB became a wholly owned subsidiary of Alabama National (the PSB Merger). Because the merger was accounted for as pooling-of-interests, the historical five-year summary of selected financial data for all periods have been restated to include the results of operations of PSB from the earliest period presented, except for dividends per common share.
(2) The weighted average common shares include those of PSB at the applicable exchange ratios.
(3) Net interest income divided by average earning assets.
(4) Does not include loans held for sale.
(5) Nonperforming loans and nonperforming assets include loans past due 90 days or more that are still accruing interest. It is Alabama National s policy to place all loans on nonaccrual status when over ninety days past due.

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RISK FACTORS

In addition to the other information included in this proxy statement-prospectus, shareholders of Coquina Bank are urged to consider carefully the following factors in determining whether to approve the merger agreement:

Combining our two companies may be more difficult, costly or time-consuming than we expect.

Alabama National and Coquina Bank have operated, and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company s ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the merger. As with any merger of banking institutions, there also may be disruptions that cause us to lose customers or cause customers to take their deposits out of our banks.

There can be no assurance as to the value of the merger consideration Coquina Bank shareholders may receive.

The value of shares of Alabama National common stock fluctuates on a daily basis, and the number of shares, or amount of cash, which Coquina Bank shareholders who do not exercise their dissenters rights will receive in the merger is based on such fluctuating prices. There can be no assurance as to the value that the shares of Alabama National common stock will have at the effective time of the merger, or the price at which they will trade after the effectiveness of the merger. There can be no assurance that the per share cash election consideration will, at the effective time of the merger, equal the value of the Alabama National common stock into which Coquina Bank shares are converted.

Certain directors and officers of Coquina Bank have interests in the transaction that differ from your interests.

Certain of the directors and officers of Coquina Bank (and certain of their family members and related interests) have personal interests in the merger that may present them with conflicts of interest in connection with the merger. The Boards of Directors of Alabama National and Coquina Bank are aware of this and have considered the personal interests disclosed in this proxy statement-prospectus in their evaluation of the merger. You should refer to APPROVAL OF THE MERGER AGREEMENT Background of and Reasons for the Merger at page 21 and APPROVAL OF THE MERGER AGREEMENT Interests of Certain Persons in the Merger at page 38, for a description of such potential conflicts of interest.

Competition in the banking industry is intense.

Competition in the banking and financial services industry is intense. In their primary market areas, Alabama National s subsidiary banks compete with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors have substantially greater resources and lending limits than Alabama National s subsidiary banks and may offer certain services that Alabama National s subsidiary banks do not or cannot provide. The profitability of Alabama National depends upon its subsidiary banks continued ability to compete effectively in their market areas.

Alabama National and its subsidiary banks operate in a heavily regulated environment.

The banking industry is heavily regulated. Subsequent to the merger, Alabama National and its subsidiary banks will be subject, in certain respects, to regulation by the Federal Reserve, the Federal Depository Insurance Corporation (the FDIC), the Office of the Comptroller of the Currency (the OCC), the Alabama State Banking Department, the Florida Office of Financial Regulation and the Georgia State Banking Department. The

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success of Alabama National depends not only on competitive factors but also on state and federal regulations affecting banks and bank holding companies. The regulations are primarily intended to protect depositors, not shareholders. The ultimate effect of recent and proposed changes to the regulation of the financial institution industry cannot be predicted. Regulations now affecting Alabama National and Coquina Bank may be modified at any time, and there is no assurance that such modification will not adversely affect the business of Alabama National and its subsidiary banks. See SUPERVISION AND REGULATION OF ALABAMA NATIONAL AND COQUINA BANK at page 44.

Alabama National cannot guarantee that it will pay dividends to shareholders in the future.

The principal business operations of Alabama National are conducted through its subsidiary banks. Cash available to pay dividends to shareholders of Alabama National is derived primarily, if not entirely, from dividends paid by the subsidiary banks. After the merger, the ability of the subsidiary banks to pay dividends to Alabama National, as well as Alabama National s ability to pay dividends to its shareholders, will continue to be subject to and limited by the results of operations of the subsidiary banks and by certain legal and regulatory restrictions. Further, any lenders making loans to Alabama National may impose financial covenants that may be more restrictive than regulatory requirements with respect to the payment of dividends by Alabama National. There can be no assurance of whether or when Alabama National may pay dividends to its shareholders after the merger.

Changes in the policies of monetary authorities could adversely affect Alabama National s profitability.

The results of operations of Alabama National and Coquina Bank are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open market operations in U.S. government securities, changes in the discount rate or the federal funds rate on bank borrowings and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, particularly in light of the continuing threat of terrorist attacks and the current military operations in Iraq, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of Alabama National and Coquina Bank. Furthermore, the actions of the United States government and other governments in responding to such terrorist attacks or the military operations in Iraq may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

Alabama National s success depends upon local economic conditions.

Alabama National s success depends to a certain extent on the general economic conditions of the geographic markets served by Alabama National s subsidiary banks in the states of Alabama, Georgia and Florida. The local economic conditions in these areas have a significant impact on Alabama National s subsidiary banks commercial, real estate and construction loans, the ability of borrowers to repay these loans and the value of the collateral securing these loans. Adverse changes in the economic conditions of the southeastern United States in general or any one or more of these local markets could negatively impact the financial results of Alabama National s banking operations and have a negative effect on its profitability.

Changes in the allowances for loan losses of Alabama National s subsidiary banks could affect the profitability of those banks and Alabama National.

Management of each of Alabama National s subsidiary banks and of Coquina Bank maintains an allowance for loan losses based upon, among other things, (1) historical experience, (2) an evaluation of local and national economic conditions, (3) regular reviews of delinquencies and loan portfolio quality, (4) current trends regarding the volume and severity of past due and problem loans, (5) the existence and effect of concentrations of credit and (6) results of regulatory examinations. Based upon such factors, management makes various assumptions and judgments about the ultimate collectibility of the respective loan portfolios. Although each of Alabama National and Coquina Bank believes that the allowance for loan losses at each of their companies is adequate, there can be

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no assurance that such allowances will prove sufficient to cover future losses. Future adjustments may be necessary if economic conditions differ or adverse developments arise with respect to non-performing or performing loans of Alabama National and Coquina Bank. Material additions to the allowance for loan losses of Alabama National and Coquina Bank would result in a material decrease in Alabama National s net income, and possibly its capital, and could result in its inability to pay dividends, among other adverse consequences.

Changes in interest rates could have an adverse effect on Alabama National s income.

Alabama National s profitability depends to a significant extent upon its net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Alabama National s net interest income will be adversely affected if market interest rates change such that the interest Alabama National pays on deposits and borrowings increases faster than the interest earned on loans and investments. Changes in interest rates could also adversely affect the income of certain of Alabama National s non-interest income businesses. For example, if mortgage interest rates increase, the demand for residential mortgage loans will likely decrease, and this would have an adverse effect on Alabama National s gain on the sale of mortgages.

Future acquisitions may disrupt Alabama National s business, dilute stockholder value and adversely affect its operating results.

Alabama National may grow by acquiring banks or branches of other banks that it believes provide a strategic fit with its business. To the extent that Alabama National grows through acquisitions, it cannot assure you that it will be able to adequately or profitably manage this growth. Acquiring other banks or branches involves risks commonly associated with acquisitions, including:

- potential exposure to unknown or contingent liabilities of acquired banks;
- exposure to potential asset quality issues of acquired banks;
- difficulty and expense of integrating the operations and personnel of acquired banks;
- potential disruption to Alabama National s business;
- possible loss of key employees and customers of acquired banks;
- potential short-term decrease in profitability; and
- potential diversion of management s time and attention.

Banks continually encounter technological change, and Alabama National may have fewer resources than its competition to continue to invest in technological improvements.

The banking and financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Alabama National s future success will depend, in part, upon its ability to address the needs of its customers by using technology to provide products and services that enhance customer convenience, as well as create additional efficiencies in operations. Many of Alabama National s competitors have greater resources to invest in technological improvements, and Alabama National may not be able to effectively implement new technology-driven products and services, which could reduce its ability to effectively compete.

Alabama National may issue additional securities, which could dilute your ownership percentage.

Alabama National may issue additional securities to raise additional capital or finance acquisitions or upon the exercise or conversion of outstanding options, and if it does, your ownership percentage of Alabama National common stock could be diluted. See CERTAIN INFORMATION CONCERNING ALABAMA NATIONAL Recent Developments on page 54.

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A WARNING ABOUT FORWARD-LOOKING STATEMENTS

This proxy statement-prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as may, will, expects, plans, anticipates, estimates, b predicts, future, potential, or continue or the negative thereof or other comparable terminology. There can be no assurance that such expectation or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. The future financial condition and results of operations of each of Alabama National and Coquina Bank and the combined company after the merger, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth above and those described elsewhere in this proxy statement-prospectus. You should carefully consider the risk factors disclosed in this proxy statement-prospectus when you vote on the merger. All forward-looking statements and reasons why results may differ included in this proxy statement-prospectus are made as of the date hereof, and we assume no obligation to update any such forward-looking statement or reason why actual results might differ.

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GENERAL INFORMATION

Meeting, Record Date and Votes Required

A special meeting of the shareholders of Coquina Bank will be held at 10:00 a.m. local time, on Tuesday, June 29, 2004 (the Special Meeting), at the Oceanside Country Club, 75 North Halifax Avenue, Ormond Beach, Florida 32176. The purpose of the meeting is to consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated March 30, 2004, between Coquina Bank, Alabama National and CQA Interim Bank, a Florida state bank in organization and wholly owned subsidiary of Alabama National (the Merger Agreement), which provides for, among other things, the merger of CQA Interim Bank with Coquina Bank (the Merger). Following the Merger, Coquina Bank will be a subsidiary of Alabama National. Only holders of record of Coquina Bank common stock at the close of business on May 18, 2004 (the Record Date), will be entitled to notice of and to vote at the Special Meeting. As of the Record Date, there were 822,500 shares of Coquina Bank common stock issued, outstanding and entitled to be voted. There were 261 Coquina Bank shareholders of record on the Record Date. Each share of Coquina Bank common stock will be entitled to one vote at the Special Meeting.

The presence, in person or by proxy, of holders of a majority of the issued and outstanding shares of Coquina Bank common stock entitled to vote at the Special Meeting is necessary to constitute a quorum at such meeting. A quorum must be present before a vote on the Merger can be taken at the Special Meeting. For these purposes, shares of Coquina Bank common stock that are present, or represented by proxy, at the Special Meeting will be counted for quorum purposes regardless of whether the holder of the shares or proxy fails to vote on the Merger Agreement for any reason, including broker nonvotes. Generally, a broker who holds shares of Coquina Bank common stock in street name on behalf of a beneficial owner lacks authority to vote such shares in the absence of specific voting instructions from the beneficial owner.

Approval of the Merger Agreement on behalf of Coquina Bank, under Florida law, will require the affirmative vote of the holders of a majority of the outstanding shares of Coquina Bank common stock entitled to be voted thereon. Failures to return proxy cards, broker nonvotes and abstentions will not be counted as votes for or against the proposal to approve the Merger Agreement, and, as a result, such nonvotes will have the same effect as votes cast against the proposal. Note, however, that such nonvotes will not be deemed to be votes against the Merger Agreement for purposes of determining a stockholder s dissenter s rights. See APPROVAL OF THE MERGER AGREEMENT Dissenters Rights on page 19.

Approval of any other matters that may be properly presented at the meeting will generally be determined by a majority of the votes cast.

In order to vote for the Merger Agreement, Coquina Bank s shareholders must vote for its approval on the enclosed proxy or attend the Special Meeting and vote for these proposals. As of the Record Date, 208,069 shares of Coquina Bank common stock, or 25.3% of the total shares of Coquina Bank common stock outstanding, were beneficially owned and entitled to be voted by the directors and executive officers of Coquina Bank. The directors have entered into agreements with Alabama National whereby they have agreed to vote in favor of the Merger Agreement, subject to certain conditions.

Dissenters rights may be demanded by Coquina Bank s shareholders who follow the procedures specified by Florida law. See APPROVAL OF THE MERGER AGREEMENT Dissenters Rights on page 19.

Proxies and Other Matters

The enclosed Coquina Bank proxies are solicited on behalf of the Board of Directors of Coquina Bank for use in connection with the Special Meeting and any adjournment or adjournments thereof. **Holders of Coquina Bank common stock are requested to complete, date and sign the accompanying proxy and return it promptly to Coquina Bank in the enclosed envelope. Coquina Bank s shareholders *should not* forward any stock certificates with their proxies.**

A Coquina Bank shareholder who has executed and delivered a proxy may revoke it at any time before such proxy is voted (a) by giving a later written proxy, (b) by giving written revocation to the Secretary of Coquina Bank, provided such later proxy or revocation is actually received by Coquina Bank before the vote of the shareholders, or (c) by voting in person at the Special Meeting. Any shareholder attending the Special Meeting may vote in person whether or not a proxy has been previously filed. Attendance at the Special Meeting will not, in itself, revoke a proxy. If your shares are held in the name of your broker, you will need additional documentation to vote in person at the Special Meeting. Please see the voting form provided by your recordholder for additional information regarding the voting of your shares.

The shares represented by all properly executed proxies received in time for the Special Meeting, unless said proxies are revoked, will be voted in accordance with the instructions therein. **If instructions are not given, properly executed proxies received will be voted FOR approval of the Merger Agreement.**

Coquina Bank will bear the costs of solicitation of proxies for the Special Meeting. Such solicitation will be made by mail but also may be made by telephone, facsimile or in person by the directors, officers and employees of Coquina Bank.

If a quorum is not obtained, or if fewer shares of Coquina Bank common stock are voted in favor of approval of the Merger Agreement than the number required for approval, it is expected that the Special Meeting will be postponed or adjourned for the purpose of allowing additional time for obtaining additional proxies or votes. At any subsequent reconvening of such Special Meeting, all proxies will be voted in the same manner as such proxies would have been voted at the original convening of the meeting (except for any proxies which have been effectively revoked), even though they might have been effectively voted on the same or any other matter at a previous meeting.

The management of Coquina Bank is not aware of any business to be acted upon at the Special Meeting other than the proposal to approve the Merger Agreement. If other matters are properly brought before the Special Meeting or any adjournment of such meeting, the enclosed proxy, if properly signed, dated and returned, will be voted in accordance with the recommendation of Coquina Bank s management or, if there is no such recommendation, in the discretion of the individuals named as proxies therein.

Recommendation of Board of Directors

The Board of Directors of Coquina Bank unanimously recommends that the shareholders of Coquina Bank vote FOR the proposal to approve the Merger Agreement. See APPROVAL OF THE MERGER AGREEMENT Background of and Reasons for the Merger.

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APPROVAL OF THE MERGER AGREEMENT

The following information concerning the Merger is qualified in its entirety by reference to the Agreement and Plan of Merger, which is attached hereto as Appendix A and incorporated herein by reference (the Merger Agreement). The information contained herein with respect to the opinion of the financial advisor to Coquina Bank is qualified in its entirety by reference to the opinion of such financial advisor, which is attached hereto as Appendix C and incorporated herein by reference.

Terms of the Merger

At the date and time when the Merger becomes effective (the Effective Time), Coquina Bank will merge with CQA interim Bank, a Florida state bank in organization and a wholly owned subsidiary of Alabama National, and Coquina Bank will be the surviving corporation. After the Merger, Coquina Bank will be a subsidiary of Alabama National. Prior to the Effective Time, Coquina Bank will pay a special cash dividend to its shareholders in an aggregate amount of $1.6 million (approximately $1.74 per fully diluted share).

If the Merger is consummated, assuming (1) no Coquina Bank shareholders dissent or elect to receive cash, (2) the Alabama National stock price used to determine the merger consideration is equal to or above $48.00 per share and (3) no Coquina Bank stock options are exercised after the date of this proxy statement-prospectus, Alabama National will issue a total of 525,375 shares of its common stock, and former holders of Coquina Bank stock options will own options to purchase an additional 55,037 shares of Alabama National common stock. Based on the foregoing, approximately 3.4% of the shares of Alabama National common stock outstanding after the Merger will be beneficially owned by former Coquina Bank shareholders.

The Merger Agreement provides that shortly following the Merger of Coquina Bank and CQA Interim Bank, Coquina Bank will merge with Cypress Bank. Cypress Bank is an existing subsidiary of Alabama National with headquarters in Palm Coast, Florida. The combined company will operate under the name Cypress & Coquina Bank. The merger of Coquina Bank with Cypress Bank will be effected pursuant to the terms of the Subsidiary Agreement and Plan of Merger, the form of which is included in this Proxy Statement-Prospectus as an exhibit to the Merger Agreement attached hereto as Appendix A.

Merger Consideration

The Merger Agreement provides that Coquina Bank shareholders who do not exercise their dissenters rights will receive either (1) 0.6326 shares of Alabama National common stock or (2) cash as consideration, subject to certain limitations, in exchange for each share of Coquina Bank common stock. These two options are described in more detail below.

Stock Consideration

Absent a cash election, each share of Coquina Bank common stock issued and outstanding at the effective time of the merger will be converted into and exchanged for 0.6326 shares of Alabama National common stock (the Exchange Ratio). The Exchange Ratio may be increased,

however, depending upon the average trading price of Alabama National common stock prior to the Merger, as described below.

The price per share of Alabama National s common stock fluctuates from day-to-day. On the fifth business day prior to the effective time of the merger, an average price of Alabama National s stock price will be calculated based on the averages of the high and low sales prices of Alabama National s common stock reported on the Nasdaq Stock Market for the previous ten business days. If the average price is less than $48.00, then the Exchange Ratio will be increased as follows:

Average Price	**Adjusted Exchange Ratio**
Less than $48.00, and equal to or greater than $47.00	0.6357
Less than $47.00, and equal to or greater than $46.00	0.6388
Less than $46.00, and equal to or greater than $45.00	0.6419
Less than $45.00, and equal to or greater than $44.00	0.6450
Less than $44.00, and equal to or greater than $43.00	0.6481
Less than $43.00, and equal to or greater than $42.00	0.6512
Equal to or less than $42.00	0.6544

If the average price falls below $42.00 per share, the Coquina Bank board of directors has the option to terminate the merger agreement. Alabama National, however, may elect to reverse any such termination by either (1) increasing the Exchange Ratio to an amount equal to the quotient of $27.48 divided by the average price, or (2) paying with respect to each share of Coquina Bank common stock additional cash consideration equal to the difference of (A) $27.48 minus (B) the product of the average price multiplied by 0.6544. For example, if the average price were $40.00, the Coquina Bank board of directors provided a notice of termination, and Alabama National elected to void such termination, Alabama National would be required to either increase the Exchange Ratio to at least 0.6870 (i.e., the quotient of $27.48 divided by $40.00) or make a cash payment of $1.30 (i.e., the difference in $27.48 and the product of $40.00 multiplied by 0.6544, or $26.18) for each share of Coquina Bank common stock.

Election to Receive Cash Consideration in Lieu of Common Stock

Instead of receiving Alabama National common stock as described above, Coquina Bank shareholders may elect to receive cash consideration in exchange for some or all of their shares of Coquina Bank common stock, in accordance with the election procedures described below. Shareholders who choose to receive cash consideration will receive an amount in cash equal to the product of (1) the average price of Alabama National common stock calculated as described above multiplied by (2) the Exchange Ratio for each share of Coquina Bank common stock that is converted. Coquina Bank shareholders may make the cash election with respect to all or any portion of their shares of Coquina Bank common stock, subject to the cash allocation procedures described below. In our discussion we may refer to the amount of cash to be received for each share of Coquina Bank common stock converted in connection with the cash election as the per share cash election consideration.

Alabama National will be required to pay cash consideration to Coquina Bank shareholders who elect to receive cash consideration. Note, however, that the maximum amount of cash consideration that Alabama National is required to pay in connection with the Merger cannot exceed 10% of the aggregate merger consideration. Therefore, if the number of shareholders who elect to receive cash instead of shares of Alabama National common stock would cause the total amount of cash to be paid by Alabama National to exceed the maximum cash amount, Alabama National is permitted to allocate and proportionately reduce the cash elections made by Coquina Bank shareholders as described below. Alternatively, Alabama National, in its discretion, may increase the amount of cash consideration to an amount not to exceed 25% of the aggregate merger consideration. See Procedures for Making a Cash Election .

No assurance can be given that the current fair market value of Alabama National common stock will be equivalent to the fair market value of Alabama National common stock on the date that stock is received by a Coquina Bank shareholder or at any other time. The fair market value of Alabama National common stock received by a Coquina Bank shareholder may be greater or less than the current fair market value of Alabama National common stock due to numerous market factors.

If Coquina Bank changes the number of shares of Coquina Bank common stock issued and outstanding prior to the Effective Time as a result of a stock split, stock dividend, recapitalization or otherwise, the Exchange Ratio will be proportionately adjusted. If Alabama National changes the number of shares of Alabama National common stock issued and outstanding prior to the Effective Time as a result of a stock split, stock dividend or similar recapitalization, appropriate adjustments will be made in the consideration payable to the Coquina Bank shareholders.

Procedures for Making a Cash Election

An election form is being delivered with this proxy statement-prospectus to each holder of record of Coquina Bank common stock. Each election form permits a holder (or the beneficial owner through appropriate and customary documentation and instructions) of Coquina Bank common stock to elect to receive cash with respect to all or a portion of such holder s Coquina Bank common stock, subject to the limitation of the

maximum cash amount of 10% of the aggregate merger consideration (the maximum cash amount).

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Any shares of Coquina Bank common stock with respect to which the holder has not made a valid cash election on or before 5:00 p.m. Eastern Time on June 28, 2004, the election deadline, will be converted at the Effective Time into shares of Alabama National common stock based on the Exchange Ratio.

A cash election will be properly made only if SunTrust Bank, acting in its capacity as exchange agent for Alabama National (the Exchange Agent), receives a properly completed election form by the election deadline. Any election form may be revoked or changed by the person submitting such election form at or prior to the election deadline. If an election form is revoked and a replacement election form is not submitted prior to the election deadline, the shares of Coquina Bank common stock represented by such election form will be treated like other shares of Coquina Bank common stock with respect to which no cash election has been made. Subject to the terms of the Merger Agreement and of the election form, the Exchange Agent will have reasonable discretion to determine whether any election, revocation or change has been properly or timely made and to disregard immaterial defects in the election forms, and any good faith decisions of the Exchange Agent regarding such matters will be binding and conclusive. Neither Alabama National nor the Exchange Agent will be under any obligation to notify any person of any defect in an election form.

If you wish to receive cash for any or all of your shares of Coquina Bank common stock, the Exchange Agent must RECEIVE your election form prior to the election deadline. Please do not send in your stock certificates with your cash election form. Please do not send your cash election form with your proxy card.

Within five business days after the election deadline, unless the Merger has not been completed, in which case as soon as practicable after the Merger is completed, Alabama National will cause the Exchange Agent to allocate the right to receive cash consideration among the holders of Coquina Bank common stock in accordance with the election forms as follows:

If the amount of cash that would be paid upon conversion in the Merger of Coquina Bank common stock covered by a cash election, is less than or equal to the maximum cash amount, then:

(1) all shares of Coquina Bank common stock with respect to which shareholders have elected to receive cash will be converted into the right to receive the per share cash election consideration; and

(2) all other shares of Coquina Bank common stock will be converted into the right to receive the shares of Alabama National common stock based on the Exchange Ratio.

If the amount of cash that would be paid upon conversion in the Merger of Coquina Bank common stock covered by a cash election, is greater than the maximum cash amount, then:

(1) the number of shares electing to receive cash will be automatically reduced on a pro rata basis, based on the total number of shares electing to receive cash, so that the amount of cash that will be issued in the Merger equals as closely as practicable the maximum cash amount,

(2) all shares of Coquina Bank common stock with respect to which shareholders have elected to receive cash remaining after adjustment described in paragraph (1) above will be converted into the right to receive the per share cash election consideration;

(3) the shares of Coquina Bank common stock that would have received cash, but for the adjustment described in paragraph (1) above will be converted into the right to receive shares of Alabama National common stock based on the Exchange Ratio; and

(4) all shares with respect to which no election to receive cash was made will be converted into the right to receive shares of Alabama National common stock based on the Exchange Ratio.

Surrender of Certificates

Promptly after the Effective Time, the Exchange Agent will mail to each former holder of record of Coquina Bank common stock a form letter of transmittal, together with instructions and a return mailing envelope (collectively, the Exchange Materials), for the exchange of such holders Coquina Bank common stock certificates for either certificates representing shares of Alabama National common stock and cash payable in lieu of fractional shares or cash consideration if so elected by such shareholder. **You should not send in your certificates until you receive the exchange materials from the Exchange Agent.**

Upon receipt of the Exchange Materials, former holders of Coquina Bank common stock should complete the letter of transmittal in accordance with the instructions and mail the letter of transmittal together with all stock certificates representing shares of Coquina Bank common stock to the Exchange Agent in the return envelope provided. Upon receipt of the certificates and related documentation, Alabama National will issue, and the Exchange Agent will mail, to such holder of Coquina Bank common stock a certificate representing the number of shares of Alabama National common stock to which such holder is entitled, and/or a check in the amount of cash payable to such shareholder and any cash payment in lieu of fractional shares of Alabama National common stock, all as described in the Merger Agreement. No certificates of Alabama National common stock and no cash payment will be delivered to a holder of Coquina Bank common stock unless and until such holder has delivered to the Exchange Agent all certificates representing the shares of Coquina Bank common stock owned by such holder and in respect of which such holder claims payment is due, or such documentation and security in respect of lost or stolen certificates as may be required by the Exchange Agent.

Former shareholders of record of Coquina Bank will be entitled to vote after the Effective Time at any meeting of Alabama National shareholders the number of whole shares of Alabama National common stock into which such holders respective shares of Coquina Bank common stock are converted, regardless of whether such holders have exchanged their certificates representing Coquina Bank common stock for certificates representing Alabama National common stock.

No dividend or other distribution payable after the Effective Time with respect to Alabama National common stock issued to replace Coquina Bank common stock will be paid to the holder of an unsurrendered Coquina Bank common stock certificate until the holder surrenders such certificate, at which time such holder will be entitled to receive all previously withheld dividends and distributions, without interest.

After the Effective Time, there will be no transfers on Coquina Bank s stock transfer books of shares of Coquina Bank common stock issued and outstanding at the Effective Time. If certificates representing shares of Coquina Bank common stock are presented for transfer after the Effective Time, they will be returned to the presenter together with a form of letter of transmittal and exchange instructions.

Neither Alabama National nor the Exchange Agent will be liable to a holder of Coquina Bank common stock for any amounts paid or properly delivered in good faith to a public official under any applicable abandoned property law.

No fractional shares of Alabama National common stock will be issued in respect to Coquina Bank common stock, and cash will be paid by Alabama National in lieu of issuance of such fractional shares. The amount paid in lieu of fractional shares will be calculated by multiplying such fractional part of a share of Alabama National common stock by the average price of Alabama National common stock as described above. No holder of Coquina Bank common stock who would otherwise have been entitled to a fractional share of Alabama National common stock will be entitled to dividends, voting rights or any right as holder with respect to such fractional shares.

Dissenters Rights

Under the Florida Statutes, each shareholder of Coquina Bank entitled to vote on the Merger who complies with the procedures set forth in Section 658.44 of the Florida Statutes relating to the rights of dissenting

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shareholders (the Dissent Provisions) is entitled to receive in cash the value of his or her shares of Coquina Bank common stock. **A Coquina Bank shareholder must comply strictly with the procedures set forth in the Dissent Provisions. Failure to follow any such procedures will result in a termination or waiver of his or her dissenters rights.**

To perfect dissenters rights, a holder of Coquina Bank common stock must vote against approval of the Merger Agreement or provide written notice to Coquina Bank at or prior to the Special Meeting indicating that such shareholder dissents from the Merger Agreement. Such written notification should be delivered either in person or by mail (certified mail, return receipt requested, being the recommended form of transmittal) to Coquina Bank, 1020 West Granada Boulevard, Ormond Beach, Florida 32174, Attention: Secretary. All such communications should be signed by or on behalf of the dissenting Coquina Bank shareholder in the form in which his or her shares are registered on the books of Coquina Bank. If a shareholder has not provided written notice of dissent at or prior to the Special Meeting and such shareholder does not vote against the Merger, the shareholder will be deemed to have waived his or her dissenter s rights. Note that a failure to return a proxy card, a broker nonvote and an abstention from voting at the Special Meeting will not be deemed to be a vote against the merger for purposes of determining a shareholder s dissenter s rights.

If the dissenting shareholder properly perfects his or her dissenter s rights and the Merger Agreement is adopted and approved by the shareholders of Coquina Bank, then such dissenting Coquina Bank shareholder shall have the following rights with respect to those shares. Under the Dissent Provisions, on or promptly after the effective date of the Merger, the surviving state bank may fix an amount that it will pay in cash to dissenting shareholders. If the surviving state bank fixes such an amount (which it is not legally required to do), it shall offer to pay such amount to the holders of all dissenting shares of Coquina Bank. The owners of dissenting shares who have accepted the offer will be entitled to receive the amount so offered upon surrender of their stock certificates at any time within 30 days after the effective date of the Merger. Those owners who have not accepted such an offer for their shares will have the value of their dissenting shares determined as of the effective date of the Merger by three appraisers; one to be selected by the owners of at least two-thirds of such dissenting shares, one to be selected by the board of directors for the surviving bank, and the third to be selected by the other two appraisers so chosen. The value agreed upon by any two of the three appraisers will control and be final and binding on all parties. If, within 90 days from the effective date of the Merger, for any reason one or more of the appraisers is not selected as required under the Florida Statutes, or the appraisers fail to determine the value of the dissenting shares, the Florida Office of Financial Regulation will cause an appraisal of the dissenting shares to be made, which will be final and binding on all parties. The expenses of appraisal will be paid for by the surviving state bank. Upon conclusion of the appraisal process, the value determined by the appraisal shall be paid to all dissenting shareholders in cash upon surrender of the stock certificates representing such shares within 30 days after the appraisal has been made.

The foregoing does not purport to be a complete statement of the provisions of the Florida Statutes relating to statutory dissenters rights and is qualified in its entirety by reference to the Dissent Provisions, which are reproduced in full in Appendix B to this Proxy Statement-Prospectus and which are incorporated herein by reference.

Effective Time

We will request that the Director of the Florida Office of Financial Regulation issue a Certificate of Merger as soon as practicable after all conditions contained in the Merger Agreement have been satisfied or lawfully waived, including receipt of all regulatory approvals, and expiration of all statutory waiting periods, and the approval of the Merger Agreement by the shareholders of Coquina Bank. The Effective Time of the Merger will be the date and time specified in the Certificate of Merger. Prior to the Effective Time, the Office of Financial Regulation will file the Merger Agreement with the Florida Secretary of State.

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Background of and Reasons for the Merger.

Background of the Merger. Coquina Bank began its relationship with Alabama National in 1998, through Alabama National s largest bank subsidiary, National Bank of Commerce of Birmingham (NBC). NBC s Investment Services division provides investment services to various financial institutions, as well as quarterly analyses of such entities balance sheets, income statements, interest rate risks and general asset/liability management processes. Over the past several years, the relationship included occasional visits from NBC staff to Coquina Bank, a visit to NBC by Coquina Bank s chief financial officer to attend NBC s bond school, and other business meetings.

In July 2003, Joe P. Epton, Jr., Coquina Bank s President and Chief Executive Officer, and Mark O. Blanford, its Executive Vice President and Senior Lending Officer, attended NBC s annual investment seminar. During the meetings, the Coquina Bank representatives met with additional Alabama National staff at which Alabama National s overall corporate culture, strategic direction, and approach to bank operations were discussed. In September 2003, Robert Adams, the Chairman of Coquina Bank, Arthur Simpson, Jr., the Vice Chairman of Coquina Bank and Mr. Epton attended a meeting in Orlando, Florida, hosted by Alabama National for its correspondent banks. At the meeting, these Coquina Bank officials had the opportunity to spend time with John H. Holcomb, III, the Chairman and Chief Executive Officer of Alabama National and other Alabama National officers and employees. During this meeting, Mr. Holcomb was invited to visit Ormond Beach, Florida and meet with other Coquina Bank board representatives.

On October 21 2003, Mr. Holcomb, along with two additional representatives from Alabama National, attended a meeting in Ormond Beach with several of Coquina Bank s directors. During this meeting, both parties discussed a possible business combination between Alabama National and Coquina Bank. The parties also discussed Alabama National s history, acquisition strategy, past performance, approach to merger transactions, and additional background information. Later that month, representatives of the two companies met again to discuss employment issues, leadership philosophies, and strategic objectives of both organizations. Following this meeting, the parties continued to have periodic discussions regarding Alabama National s interest in pursuing a possible acquisition transaction with Coquina Bank.

On December 18, 2003, Mr. Holcomb and other Alabama National management made a presentation to a meeting of the board of directors of Alabama National regarding a proposed acquisition of Coquina Bank. After discussion and deliberation of the proposal, the board of directors approved moving forward with discussions to acquire Coquina Bank within certain pricing parameters.

On January 14, 2004, Mr. Holcomb and other Alabama National representatives met with the Coquina Bank board of directors to discuss Alabama National s acquisition and management philosophy, as well as its interest in pursuing an acquisition of Coquina Bank assuming the parties could enter into an acceptable agreement. They also discussed the synergies and economies that might be realized by Alabama National in connection with its then pending acquisition of nearby Cypress Bank (which was acquired by Alabama National on February 20, 2004). Following the presentation by the Alabama National representatives, the Coquina Bank board authorized continued discussions with Alabama National regarding a possible acquisition transaction by Alabama National of Coquina Bank. The board also authorized Alabama National to conduct a due diligence review of Coquina Bank, and authorized management to engage counsel and The Carson Medlin Company to assist the board in connection with a possible merger transaction.

In late January 2004, Alabama National and Coquina Bank signed a confidentiality agreement. Thereafter, Alabama National conducted a due diligence review of Coquina Bank. During late January and throughout February 2004, the parties discussed and shared information relating to Alabama National and Coquina Bank. In February 2004, Coquina Bank engaged The Carson Medlin Company to assist the board in connection with a possible merger transaction.

At a meeting on February 18, 2004, the board of directors of Alabama National continued discussions regarding the possible acquisition of Coquina Bank. After further deliberation, the board of directors approved a

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resolution to acquire Coquina Bank within certain pricing parameters, subject to the negotiation of an acceptable merger agreement and certain other conditions. On February 24, 2004, representatives of Coquina Bank visited Alabama National to review its operations and continue discussions regarding a possible acquisition transaction.

During March 2004, representatives of Alabama National and representatives of Coquina Bank reviewed, discussed and negotiated the terms of the Merger Agreement. On March 26, 2004, the Coquina Bank board of directors reviewed the terms of the Merger Agreement. At the meeting, legal counsel reviewed generally for Coquina Bank directors the fiduciary obligations of directors in sales of financial institutions and also reviewed the merger agreement, the voting agreement to be entered into between Coquina Bank directors and Alabama National, and other issues. At the meeting, a representative of Carson Medlin rendered an oral opinion that the consideration to be received by Coquina Bank shareholders, as provided for in the Merger Agreement, was fair from a financial point of view, to the shareholders of Coquina Bank. Coquina Bank s board then unanimously approved the Merger Agreement and the transactions contemplated thereby. Coquina Bank s management also was authorized to sign the Merger Agreement, which was signed by Alabama National and Coquina Bank effective March 30, 2004.

Alabama National s Reasons for the Merger. In approving the Merger Agreement and the Merger, the Alabama National board of directors considered a number of factors concerning the benefits of the Merger. Without assigning any relative or specific weights to the factors, the Alabama National board of directors considered the following material factors:

(a) the information presented to the directors by the management of Alabama National concerning the business, operations, earnings, asset quality and financial condition of Coquina Bank, including the composition of the earning assets portfolio of Coquina Bank;

(b) the financial terms of the Merger, including the relationship of the value of the consideration issuable in the Merger to the market value, tangible book value and earnings per share of Coquina Bank;

(c) the non-financial terms of the Merger, including the treatment of the Merger as a tax-free reorganization under Section 368(a) of the Internal Revenue Code;

(d) the likelihood of the Merger being approved by applicable regulatory authorities without undue conditions or delay;

(e) the opportunity for increasing the noninterest income of the operations of Coquina Bank and the ability of the operations of Coquina Bank after the Effective Time to contribute to the earnings of Alabama National;

(f) the attractiveness of the Coquina Bank franchise, the management team of Coquina Bank, the market position of Coquina Bank in the markets in which it operates, and the compatibility of the franchise of Coquina Bank in Ormond Beach, Florida with the operations of Alabama National in its market areas, and, specifically, Coquina Bank s compatibility with the operations of Alabama National s subsidiary, Cypress Bank; and

(g) the compatibility of the management philosophies and community banking orientation of the operation of Coquina Bank to that of Alabama National and the subsidiary banks of Alabama National.

Coquina Bank s Reasons for the Merger. In approving the Merger Agreement and the Merger, the board of directors of Coquina Bank considered a number of factors and criteria regarding the potential benefits of the Merger. Without assigning relative or specific weights to those factors, the Coquina Bank board of directors considered the following material factors:

(a) the financial terms of the Merger, including, among other things, the opinion of The Carson Medlin Company as to the fairness from a financial point of view of the consideration to be received by Coquina Bank shareholders, as provided in the Merger Agreement;

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(b) the fact that Alabama National common stock has a more liquid trading market than Coquina Bank common stock;

(c) a comparison of Coquina Bank as an independent entity and combined with Alabama National after the Merger, particularly as to shareholder value, including, among other things, a consideration of the benefits that could reasonably be expected to accrue to Coquina Bank shareholders from the Merger;

(d) certain financial and other information concerning Alabama National, including, among other things, information with respect to the business, operations, condition and future prospects of Alabama National;

(e) the non-financial terms and structure of the Merger, in particular, the fact that the Merger qualifies as a tax-free reorganization for Coquina Bank shareholders except to the extent of any cash received by Coquina Bank shareholders;

(f) the likelihood of the Merger being approved by the appropriate regulatory authorities without undue conditions or delay;

(g) the limited adverse impact, generally, of the Merger on the various constituencies served by Coquina Bank, including its employees, customers and the community; and

(h) the compatibility of management and the business philosophies of Coquina Bank and Alabama National.

The Coquina Bank board of directors recommends that Coquina Bank shareholders vote FOR the approval of the Merger Agreement.

Opinion of The Carson Medlin Company

Coquina Bank engaged The Carson Medlin Company (Carson Medlin) to serve as its financial adviser and to render its opinion to the shareholders of Coquina Bank as to the fairness, from a financial point of view, of the consideration provided for in the Merger Agreement. Coquina Bank selected Carson Medlin as its financial adviser on the basis of its experience in advising community banks in similar transactions. Carson Medlin is an investment banking firm which specializes in the securities of financial institutions located in the southeastern and western United States. As part of its investment banking activities, Carson Medlin is regularly engaged in the valuation of financial institutions and transactions relating to their securities, including mergers and acquisitions. Neither Carson Medlin nor any of its affiliates has a material relationship with Coquina Bank or Alabama National or any material financial interest in Coquina Bank or Alabama National.

Carson Medlin provided analysis to Coquina Bank s board of directors at a meeting held on March 26, 2004, during which the terms of the transaction were discussed and the Merger Agreement was approved. At that meeting, Carson Medlin delivered its verbal opinion to the effect that the consideration provided for in the Merger Agreement is fair, from a financial point of view, to the shareholders of Coquina Bank. Carson Medlin issued its written opinion on March 31, 2004. Carson Medlin subsequently reconfirmed its March 31, 2004 written opinion by issuing a second written opinion dated as of May 26, 2004 the most recent practicable date prior to the printing of this proxy statement-prospectus and a copy of which is attached as Appendix C.

You should consider the following when reading the discussion of the Carson Medlin opinion in this document:

The summary of the opinion of Carson Medlin set forth in this proxy statement is qualified in its entirety by reference to the full text of the opinion that is attached as Appendix C to this document. You should read the opinion in its entirety for a full discussion of the procedures followed, assumptions made, matters considered and qualification and limitation on the review undertaken by Carson Medlin in connection with its opinion.

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Carson Medlin s opinion does not address the merits of the Merger relative to other business strategies, whether or not considered by Coquina Bank s board, nor does it address the decision by Coquina Bank s board to proceed with the Merger.

Carson Medlin s opinion to Coquina Bank s board of directors rendered in connection with the Merger does not constitute a recommendation to any Coquina Bank shareholder as to how he or she should vote at the special meeting.

No limitations were imposed by Coquina Bank s board of directors or its management upon Carson Medlin with respect to the investigations made or the procedures followed by Carson Medlin in rendering its opinion.

The preparation of a financial fairness opinion involves various determinations as to the most appropriate methods of financial analysis and the application of those methods to the particular circumstances. It is therefore not readily susceptible to partial analysis or summary description. In connection with rendering its opinion, Carson Medlin performed a variety of financial analyses. Carson Medlin believes that its analyses must be considered together as a whole and that selecting portions of its analyses and the facts considered in its analyses, without considering all other factors and analyses, could create an incomplete or inaccurate view of the analyses and the process underlying the rendering of Carson Medlin s opinion. Except as described below, none of the analyses performed by Carson Medlin was assigned a greater significance by Carson Medlin than any other. The relative importance or weight given to these analyses by Carson Medlin is not necessarily reflected by the order of presentation of the analyses herein (and the corresponding results). The summaries of financial analyses include information presented in tabular format. The tables, which alone do not constitute a complete description of the financial analyses, should be read together with the summaries of the financial analyses, including the methodologies and assumptions underlying the analyses.

In performing its analyses, Carson Medlin made numerous assumptions with respect to industry performance, business and economic conditions, and other matters, many of which are beyond the control of Coquina Bank and Alabama National and may not be realized. Any estimates contained in Carson Medlin s analyses are not necessarily predictive of future results or actual values, which may be significantly more or less favorable than the estimates. Estimates of values of companies do not purport to be appraisals or necessarily reflect the prices at which the companies or their securities may actually be sold, therefore these estimates are inherently subject to substantial uncertainty. In addition, the Carson Medlin opinion was among several factors taken into consideration by the Coquina Bank board of directors in making its determination to approve the Merger Agreement and the Merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the Coquina Bank board of directors or management with respect to the fairness of the consideration received.

Carson Medlin has relied, without independent verification, upon the accuracy and completeness of the financial and other information provided to or otherwise made available to Carson Medlin for the purpose of rendering its opinion. Carson Medlin did not undertake any independent evaluation or appraisal of the assets and liabilities of Coquina Bank or Alabama National, nor was it furnished with any appraisals. The projections furnished to Carson Medlin and used by it in certain of its analyses were prepared by Coquina Bank s senior management. Coquina Bank does not publicly disclose internal management projections of the type provided to Carson Medlin in connection with its review of the Merger. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections.

Carson Medlin is not an expert in the evaluation of loan portfolios, including under-performing or non-performing assets, charge-offs or the allowance for loan losses; it has not reviewed any individual credit files of Coquina Bank or Alabama National; and it has assumed that the allowances of Coquina Bank and Alabama National are in the aggregate adequate to cover potential losses. Carson Medlin s opinion is necessarily based on economic, market and other conditions existing on the date of its opinion, and on information as of various earlier dates made available to it which is not necessarily indicative of current market conditions.

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In rendering its opinion, Carson Medlin made the following assumptions:

- that the Merger will be accounted for as a purchase in accordance with generally accepted accounting principles;
- that all material governmental, regulatory and other consents and approvals necessary for the consummation of the Merger would be obtained without any adverse effect on Coquina Bank, Alabama National or on the anticipated benefits of the Merger;
- that Coquina Bank had provided it with all of the information prepared by Coquina Bank or its other representatives that might be material to Carson Medlin in its review; and
- that the financial projections it reviewed were reasonably prepared on a basis reflecting the best currently available estimates and judgement of the management of Coquina Bank as to the future operating and financial performance of Coquina Bank.

Carson Medlin s opinion is not an expression of an opinion as to the prices at which shares of Coquina Bank s common stock or shares of Alabama National common stock will trade following the announcement of the Merger or the actual value of the shares of common stock of the combined company when issued pursuant to the Merger, or the prices at which the shares of common stock of the combined company will trade following the completion of the Merger.

In connection with its opinion dated March 31, 2004, Carson Medlin reviewed:

- the Merger Agreement;
- the audited financial statements and annual reports of Alabama National for the five years ended December 31, 2003;
- the audited financial statements of Coquina Bank for the five years ended December 31, 2003; and
- certain financial and operating information with respect to the business, operations and prospects of Coquina Bank and Alabama National.

In addition, Carson Medlin:

- held discussions with members of management of Coquina Bank and Alabama National regarding the historical and current business operations, financial condition and future prospects of their respective companies;
- reviewed the historical market prices and trading activity for the common stock of Coquina Bank and Alabama National and compared them with those of certain publicly-traded companies which it deemed to be relevant;

compared the results of operations of Coquina Bank and Alabama National with those of certain banking companies which it deemed to be relevant;

compared the proposed financial terms of the Merger with the financial terms, to the extent publicly available, of certain other recent business combinations of commercial banking organizations;

analyzed the pro forma financial impact of the Merger on Alabama National; and

conducted such other studies, analyses, inquiries and examinations as Carson Medlin deemed appropriate.

Valuation Methodologies

The following is a summary of all material analyses performed by Carson Medlin in connection with its verbal opinion provided to Coquina Bank s board of directors on March 26, 2004. The summary does not purport to be a complete description of the analyses performed by Carson Medlin but summarizes the material analyses performed and presented in connection with such opinion.

Summary of Merger Terms

Carson Medlin reviewed the terms of the proposed Merger, including the form of consideration, the exchange ratio, the price per share of Alabama National s common stock and the resulting price paid to Coquina Bank s shareholders pursuant to the Merger Agreement. Under the terms of the Merger Agreement, assuming no Coquina Bank shareholders make a cash election, Alabama National will issue 0.6326 shares of Alabama National common stock for each of the outstanding shares of Coquina Bank stock. The exchange ratio will increase if Alabama National s average price at closing is between $42.00 and $48.00 per share, ranging from 0.6357 to 0.6544. In addition to the stock consideration, Coquina Bank will pay a one-time cash dividend of $1.6 million (approximately $1.74 per fully diluted share) to the Coquina Bank shareholders prior to the effective date of the Merger.

Carson Medlin calculated that the indicated cash and stock consideration received by Coquina Bank s shareholders represented:

$32.76 per share (based on Alabama National s 10-day average price as of March 25, 2004 of $51.78 per share) plus approximately $1.74 per share for the one time special cash dividend for a total of $34.50 per share;

256.3% of Coquina Bank s stated book value at December 31, 2003, and 315.4% of Coquina Bank s normalized book value (based on 8% capital levels) at December 31, 2003;

21.1 times Coquina Bank s earnings for the trailing 12 months ended December 31, 2003;

28.3% of Coquina Bank s total assets at December 31, 2003;

32.6% of Coquina Bank s total deposits at December 31, 2003; and

a 22.7% premium on Coquina Bank s core deposits at December 31, 2003 (representing the premium paid over stated equity divided by total deposits excluding CD s greater than $100,000).

Comparable Transaction Analysis

Carson Medlin reviewed certain information related to selected merger transactions involving all banks in the Southeast announced since January 1, 2002 with assets between $75 million and $150 million, the Southeastern peer group. This peer group included 19 transactions. Carson Medlin also reviewed certain information related to merger transactions involving banks in Florida with less than $200 million in total assets and announced since January 1, 2002, the Florida peer group, which included 14 transactions.

In evaluating these peer groups, Carson Medlin considered, among other factors, capital level, asset size and quality of assets of the acquired financial institutions. Carson Medlin compared the price to trailing twelve months earnings, price to book value, price to total assets, price to total deposits and core deposit premium for the two peer groups to the proposed Merger at the time it was announced. These comparisons are discussed below.

Comparable Transaction Analysis Southeastern Peer Group

Other Pricing Multiples	Coquina Indicator	Comparable Transactions		
		Median	High	Low
Purchase Price % of Stated Book Value	256.3%	226.0%	315.5%	105.5%
Purchase Price % of Normalized Book Value	315.4	229.9	351.4	63.7
Purchase Price as a Multiple of LTM Earnings	21.1	22.2	28.2	9.2
Purchase Price % of Total Assets	28.3%	18.8%	30.7%	5.4%
Purchase Price % of Total Deposits	32.6%	22.5%	36.3%	6.0%
Core Deposit Premium	22.7%	15.6%	35.1%	0.3%

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Comparable Transaction Analysis Florida Peer Group

	Coquina	Comparable Transactions		
Other Pricing Multiples	**Indicator**	**Median**	**High**	**Low**
Purchase Price % of Stated Book Value	256.3%	205.6%	380.8%	122.2%
Purchase Price % of Normalized Book Value	315.4	229.9	414.9	126.0
Purchase Price as a Multiple of LTM Earnings	21.1	23.8	26.4	9.8
Purchase Price % of Total Assets	28.3%	21.8%	35.6%	12.0%
Purchase Price % of Total Deposits	32.6%	26.2%	42.6%	14.5%
Core Deposit Premium	22.7%	16.0%	39.5%	4.6%

Based on this analysis, Carson Medlin observed that the consideration to be received by Coquina Bank s shareholders represented 256.3% of the stated book value of $13.46 per share, which exceeded the median indicator for both peer groups. On a price to earnings basis, Coquina Bank s indicator of 21.1 times trailing 12 months earnings of $1.63 per share was slightly below the median indicator for both peer groups. Based on Coquina Bank s total assets of $100.4 million, the indicated price to assets ratio was 28.3% which exceeded the median indicator for both peer groups. The price as a percentage of total deposits ($87.4 million) implied by the Merger is 32.6%, which exceeded the median indicator for both peer groups. The core deposit premium implied by the Merger is 22.7%, which exceeded the median indicator for both peer groups.

Carson Medlin also determined an implied value for Coquina Bank based on the median indicator for each of the peer groups as shown in the following table.

Value Per Share Indicated by Median Valuations in Comparable Transactions

	Book Value	Normalized Book Value	Trailing 12 Months EPS	Total Assets	Total Deposits	Core Deposit Premium	Average Price
Merger Consideration	$ 34.50	$ 34.50	$ 34.50	$ 34.50	$ 34.50	$ 34.50	$ 34.50
Indicated Pricing Multiple	256.3%	315.4%	21.1	28.3%	32.6%	22.7%	
Southeastern Peer Group	$ 30.42	$ 26.15	$ 36.25	$ 22.94	$ 23.84	$ 27.87	$ 27.91
Indicated Median Multiple	$ 226.0%	229.9%	22.2	18.8%	22.5%	15.6%	
Florida Peer Group	$ 27.68	$ 26.14	$ 38.82	$ 26.55	$ 27.72	$ 28.30	$ 29.20
Indicated Median Multiple	205.6%	229.8%	23.8	21.8%	26.2%	16.0%	

This analysis indicated that Coquina Bank s shares had a potential value from $22.94 per share to $36.25 per share, with an average of $27.91 per share, based on the median indicators for the Southeastern peer group. The indicated values range from $26.14 per share to $38.82 per share with an average of $29.20 per share based on the median indicators for the Florida peer group. The indicated value of the Coquina Bank purchase price was $34.50 per share (including the special cash dividend of approximately $1.74 per share), which exceeds the average for both peer groups.

No transaction used as a comparison in the above analysis is identical to Alabama National, Coquina Bank or the Merger. Accordingly, an analysis of these results is not purely mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the value of the companies to which they are being compared.

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Contribution Analysis

Carson Medlin analyzed the relative contribution of each of Coquina Bank and Alabama National to the pro forma balance sheet and income statement items as of December 31, 2003 to the pro forma combined entity, including assets, loans, net of unearned income, deposits, equity, and net income. This analysis excluded any purchase accounting adjustments and any adjustments for pending mergers. The pro forma ownership analysis assumed 100% of the aggregate deal value is in the form of Alabama National stock and was based on an exchange ratio of 0.6326. The results of Carson Medlin s analysis are set forth in the following table:

Category	Alabama National	Coquina Bank
Assets	97.4%	2.6%
Loans, net of unearned income	97.0%	3.0%
Deposits	96.9%	3.1%
Shareholders Equity	96.2%	3.8%
Latest Twelve Months Earnings (GAAP)	96.8%	3.2%
Estimated Pro Forma Ownership (fully diluted)	96.4%	3.6%

Present Value Analysis

Carson Medlin calculated the present value of Coquina Bank assuming that Coquina Bank remained an independent bank. For purposes of this analysis, Carson Medlin utilized certain projections of Coquina Bank s future growth of assets, earnings and dividends and assumed terminal values for Coquina Bank s stock at the end of the period by applying price to earnings multiples ranging from 18x to 22x and price to book value multiples ranging from 200% to 300%. Carson Medlin based their projections on Coquina Bank s historic growth rates, management estimates, as well as expected industry trends over the period analyzed with an expected average annual growth rate of approximately 12%. It was estimated that a modest and gradually increasing cash dividend would be paid over the period analyzed. The average return on assets (ROA) over the projected period is approximately 1.40% and is based on Coquina Bank s and Carson Medlin s estimates. The terminal multiples were based on Carson Medlin s experience in similar merger transactions over the past several years and those multiples observed in other transactions as exhibited by the comparable transactions described above. The values were then discounted to present value utilizing discount rates of 14% to 16%. These rates were selected because, in Carson Medlin s experience, they represent the rates that investors in securities such as Coquina Bank s common stock would demand in light of the potential appreciation and risks as observed in expected returns for alternative investments.

Price to Earnings Ratios

	18	19	20	21	22
14.0%	$ 26.81	$ 28.22	$ 29.63	$ 31.04	$ 32.45
15.0%	$ 25.69	$ 27.03	$ 28.38	$ 29.73	$ 31.08
16.0%	$ 24.62	$ 25.91	$ 27.20	$ 28.49	$ 29.78

On the basis of the terminal price to earning assumptions, Carson Medlin calculated that the present value of Coquina Bank as an independent bank ranged from $24.62 per share to $32.45 per share. The indicated stock consideration and special cash dividend to be paid to Coquina Bank s shareholders was $34.50 per share (based on Alabama National s 10-day average stock price of $51.78 per share on March 25, 2004) which is higher than the range indicated under this present value analysis.

Price to Book Value Ratios

	2.00	**2.25**	**2.50**	**2.75**	**3.00**
14.0%	$ 22.95	$ 25.64	$ 28.33	$ 31.02	$ 33.71
15.0%	$ 21.99	$ 24.56	$ 27.14	$ 29.71	$ 32.28
16.0%	$ 21.08	$ 23.54	$ 26.01	$ 28.47	$ 30.93

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On the basis of the terminal price to book value assumptions, Carson Medlin calculated that the present value of Coquina Bank as an independent bank ranged from $21.08 per share to $33.71 per share. The indicated stock consideration and special cash dividend to be paid to Coquina Bank s shareholders was $34.50 per share (based on Alabama National s 10-day average stock price of $51.78 per share on March 25, 2004), which is higher than the range indicated in this present value analysis.

The Carson Medlin Company noted that it included present value analysis because it is a widely used valuation methodology, but also noted that the results of this methodology are highly dependent upon the numerous assumptions that must be made, including assets and earnings growth rates, dividend payout rates, terminal values and discount rates. This analysis is one of several methods of financial analysis used in determining the fairness of the transaction and, therefore, this analysis cannot be considered without considering all other factors described in this section.

Industry Comparative Analysis

In connection with rendering its opinion, Carson Medlin compared selected operating results of Alabama National to a selected peer group of banks in the Southeast with assets from $1 billion to $5 billion. The Alabama National selected peer group consists of First Charter Corporation, United Community Banks, Inc., Main Street Banks, Inc., Capital City Bank Group, Inc., First Community Bancshares, Inc., Banc Corporation, First Bancorp, Seacoast Banking Corp. of Florida, SCBT Financial Corporation, Union Bankshares Corp., Virginia Financial Group, Inc., ABC Bancorp, and Fidelity Southern Corp. Carson Medlin compared, among other factors, profitability, capitalization, asset quality and operating efficiency of Alabama National to these financial institutions. Carson Medlin noted the following performance based on results at or for the twelve months ended December 31, 2003 (or most recent available) and stock prices as of March 24, 2004.

Selected Peer Group Financial Performance:

	Average	Low	High	Alabama National
Return on Average Equity	12.8%	4.6%	19.8%	15.9%
Return on Average Assets	1.15	0.35	1.57	1.14
Net Interest Margin	4.11	3.00	5.30	3.68
Efficiency Ratio	65.4	52.6	96.0	65.6
Equity / Assets	8.9	6.5	11.0	7.3
Non-Performing Assets / Assets	0.47	0.19	0.78	0.28

Selected Peer Group Market Performance:

	Average	Low	High	Alabama National
Price / Stated Book Value Per Share	214%	138%	263%	238%
Price / Trailing 12 Months EPS	16.7x	7.7x	22.4x	16.4x
Price / Assets	19.3%	11.2%	29.7%	20.7%

Dividend Yield	2.2%	0.0%	3.6%	2.4%

Carson Medlin also compared selected operating results of Coquina Bank to those of 63 publicly-traded community commercial banks in Alabama, Florida, Georgia, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia, which are listed as Established Banks in the *Southeastern Independent Bank Review*, a proprietary research publication prepared by Carson Medlin quarterly since 1991, the Established Bank peer group. The banks reviewed by Carson Medlin range in asset size from $104 million to

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$1.9 billion and in shareholders equity from approximately $9.0 million to $198.9 million. These banks have conducted operations for more than five years and have generally been able to establish recurring earnings and stable financial performance. We have compared Coquina Bank to the Established Bank peer group to illustrate Coquina Bank s progress in establishing the financial performance of a group of older, more established, community banking organizations. Carson Medlin compared, among other factors, profitability, capitalization, asset quality and operating efficiency of Coquina Bank to these financial institutions. Carson Medlin noted the following performance based on results at or for the nine months ended September 30, 2003:

Established Bank Peer Group

	Coquina Bank	Average for Peer Group
Return on Average Assets	1.39%	1.12%
Return on Average Equity	12.8%	12.0%
Net Interest Margin	4.99%	4.22%
Equity to Assets	11.0%	9.4%
Efficiency Ratio	50.9%	62.5%
Non-Performing Assets (defined as 90 days past due, nonaccrual loans and other real estate) to Total Loans, net of unearned income and other real estate	0.13%	0.94%

Carson Medlin also compared selected operating results of Coquina Bank to those of 15 community commercial banks in Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee, Virginia and West Virginia, which are listed in the *Southeastern Independent Bank Review* under De Novo Banks, the De Novo Bank peer group. The banks reviewed by Carson Medlin range in asset size from $59 million to $440 million and in shareholders equity from approximately $4.5 million to $24.5 million. These banks are all under five years old and experiencing the growth trends and financial performance of a newly established financial institution. Carson Medlin compared, among other factors, profitability, capitalization, margins and balance sheet structure of Coquina Bank to these financial institutions. Carson Medlin noted the following performance based on results at or for the three months ended September 30, 2003:

De Novo Bank Peer Group

	Coquina Bank	Average for Peer Group
Pre-Tax Return on Average Assets	2.07%	0.96%
Earning Asset Yield	6.09%	5.41%
Cost of Funds	1.14%	2.13%
Interest Spread	4.95%	3.28%
Loans to Deposits	91%	85%
Equity to Assets	11.0%	7.7%

No company used as a comparison in the above analysis is identical to Alabama National, Coquina Bank or the Merger. Accordingly, an analysis of these results is not purely mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the value of the companies to which they are being compared.

Historical Stock Trading Analysis

Carson Medlin reviewed and analyzed the historical trading price and volume of Alabama National common stock over recent periods. Alabama National s stock is listed on the Nasdaq s National Market System. In the

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past year, Alabama National s stock has traded from a low of $42.50 to a high of $55.00 per share. Alabama National s stock was trading at $54.45 per share one day prior to the Merger announcement. Alabama National s stock trading volume has been active with average daily volume of approximately 19,000 shares.

Carson Medlin compared recent trading prices of Alabama National s stock to the recent market values of the selected peer group of Southeastern banks with assets from $1 billion to $5 billion. This comparison shows that Alabama National s stock currently trades, and has generally traded over the three year period examined, at a premium based on book value multiples. Alabama National s stock currently trades at a discount based on earnings multiples to the selected peer group and has generally traded at a discount for most of the last three years. At March 24, 2004, Alabama National s common stock traded at 238% of book value compared to 214% for the selected peer group. On a price to trailing earnings basis, Alabama National s common stock traded at 16.4 times earnings compared to the 16.7 times earnings for the selected peer group.

Carson Medlin also analyzed the historical trading prices and volume of Coquina Bank s common stock. However, Coquina Bank s stock has not traded in volumes significant enough to be considered meaningful.

Other Analyses

Carson Medlin reviewed the relative financial performance of Alabama National and Coquina Bank since 1999 and reviewed recent research coverage for Alabama National.

The opinion expressed by Carson Medlin was based upon market, economic and other relevant considerations as they existed and could be evaluated as of the date of the opinion. Events occurring after the date of issuance of the opinion, including but not limited to, changes affecting the securities markets, the results of operations or material changes in the assets or liabilities of Alabama National or Coquina Bank, could materially affect the assumptions used in preparing the opinion.

In connection with its updated opinion, dated as of May 26, 2004, Carson Medlin confirmed the appropriateness of its reliance on the analyses used to render its March 31, 2004 opinion by performing procedures to update certain of such analyses and reviewing the assumptions on which its analyses were based and the factors considered in connection therewith. It was Carson Medlin s opinion, therefore, that the consideration to be received by Coquina Bank s shareholders, as provided for in the Merger Agreement, was fair from a financial point of view, to the shareholders of Coquina Bank.

Coquina Bank and Carson Medlin have entered into an agreement relating to the services to be provided by Carson Medlin in connection with the Merger. Coquina Bank has agreed to pay Carson Medlin a cash fee equal to $28,000. Under the Carson Medlin engagement agreement, Coquina Bank also agreed to reimburse Carson Medlin for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify Carson Medlin against certain liabilities, including liabilities under the federal securities laws.

Effect on Certain Employee Benefit Plans of Coquina Bank

401(k) Plan. Coquina Bank participates in a multi-employer 401(k) defined contribution plan for the benefit of its employees (the 401(k) Plan). Under the Merger Agreement, Coquina Bank will cease to participate in the 401(k) Plan prior to the Effective Time, and Alabama National will offer each eligible employee of Coquina Bank the opportunity to enroll in Alabama National s 401(k) defined contribution plan.

Treatment of Coquina Bank Stock Options. The Merger Agreement provides that at the time we complete the Merger, all outstanding stock options granted by Coquina Bank under its stock option plans will be converted automatically into options to purchase Alabama National common stock. Alabama National will assume these options subject to their existing terms (as proportionately adjusted to reflect the terms of the Merger), including any acceleration in vesting that will occur as a consequence of the Merger.

The number of shares of Alabama National common stock that may be purchased upon exercise of each assumed option will equal the product of (A) the number of shares of Coquina Bank common stock that were purchasable under the assumed option immediately before the Effective Time and (B) the Exchange Ratio, rounded to the nearest whole share. The per share exercise price for each assumed option will equal the quotient of (1) the per share exercise price of the assumed option in effect immediately before the Effective Time divided by (2) the Exchange Ratio, rounded to the nearest cent.

The officers and directors of Coquina Bank held in the aggregate options to purchase 87,000 shares of Coquina Bank common stock as of the date of this proxy statement-prospectus.

Severance Payments to Employees. The Merger Agreement also provides that if any employee of Coquina Bank is terminated within six months after the Effective Time by Alabama National solely as a result of the Merger (i.e., elimination of duplicative jobs, and the like), and not as a result of inadequate performance or other good cause, Alabama National will pay severance to each such employee in an amount equal to one week s pay for each six months of such employee s employment with Coquina Bank (provided that no such payment for any employee shall exceed $15,000 in the aggregate).

Conditions to Consummation of the Merger

The respective obligations of Alabama National and Coquina Bank to effect the Merger are subject to the satisfaction of the following conditions prior to the Effective Time:

(a) shareholder approval of Coquina Bank shall have been received;

(b) all regulatory approvals shall have been received and waiting periods shall have expired, and no such approval shall be conditioned or restricted in a manner which, in the opinion of the board of directors of Alabama National or Coquina Bank, materially adversely impacts the Merger so as to render it inadvisable;

(c) all consents necessary to consummate the Merger and avoid a material adverse effect on the relevant party shall have been obtained;

(d) no court or regulatory authority shall have taken any action that restricts, prohibits or makes illegal the transactions provided for in the Merger Agreement, and no action shall have been instituted seeking to restrain the Merger which, in the opinion of the board of directors of Alabama National or Coquina Bank, renders its consummation impossible or inadvisable; and

(e) the Registration Statement on Form S-4 shall have become effective under the Securities Act of 1933, and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceeding for that purpose shall have been commenced or threatened by the SEC.

The obligations of Alabama National to effect the Merger are further subject to the satisfaction or waiver of the following conditions:

(a) the representations and warranties of Coquina Bank in the Merger Agreement shall be true as if made at the Effective Time;

(b) the agreements and covenants of Coquina Bank in the Merger Agreement and agreements provided for therein shall have been performed and complied with by the Effective Time;

(c) Coquina Bank shall have delivered to Alabama National certain certificates of its corporate officers provided for in the Merger Agreement;

(d) Coquina Bank shall have delivered to Alabama National an opinion of its counsel as provided in the Merger Agreement;

(e) immediately prior to the Effective Time, Coquina Bank shall have a minimum net worth (as defined in the Merger Agreement) of $11.1 million;

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(f) Alabama National shall have received from Hacker, Johnson & Smith, P.A., certified public accountants, a comfort letter dated as of the Effective Time with respect to such matters relating to the financial condition of Coquina Bank as Alabama National may reasonably request;

(g) the charge offs, reserves and accruals as Alabama National shall reasonably request to conform Coquina Bank s accounting policies to Alabama National s accounting policies shall have been made;

(h) Alabama National shall be satisfied in its sole discretion that Coquina Bank has taken all reasonably necessary steps such that the Merger will not trigger any excess parachute payment (as defined in Section 280G of the Internal Revenue code), that could be disallowed as a deduction or result in the payment of excise taxes under Section 280G or 162(m) of the Code;

(i) the existing change in ownership agreements with Joe P. Epton, Jr. and Mark O. Blanford shall be terminated as of the Effective Time without any penalty, fee or cost to Alabama National or Coquina Bank (except as may be agreed to by the Parties), and Mr. Epton and Mr. Blanford shall have entered into new employment agreements with Coquina Bank as approved by Alabama National;

(j) effective immediately prior to the Effective Time, (1) the Client Service Agreement between Coquina Bank and Paychex Business Solutions, Inc. shall be terminated in full with no penalty; (2) each of the employees previously leased to Coquina Bank pursuant to that agreement shall have become a direct employee of Coquina Bank and (3) the assets of such employees in benefit plans maintained pursuant to the Paychex agreement shall be permitted to be transferred into benefit plans maintained by Alabama National;

(k) no regulatory authority shall have asserted that Coquina Bank or any of its subsidiaries is not in material compliance with such regulatory authority, revoked any material permits or issued any order or similar undertaking that restricts or impairs the conduct of Coquina Bank s or any of its subsidiaries business;

(l) there shall have been no determination by Alabama National that any fact, event or condition exists or has occurred that would have a material adverse effect on Coquina Bank or the Merger or that would render the Merger impractical;

(m) Coquina Bank shall have obtained the consent or approval of each person required to permit the succession by the surviving bank to any contract obligation, right or interest of Coquina Bank;

(n) there shall not be any action taken by any regulatory authority which imposes any material adverse requirement upon Alabama National unless it is customary in connection with the acquisition of banks under similar circumstances;

(o) Coquina Bank shall have delivered a certificate to Alabama National that Coquina Bank is not aware of any claims under its directors and officers insurance policy; and

(p) subsequent to the execution of the Merger Agreement, there shall not have been any material increase in overdue or classified loans of Coquina Bank or any increase in loans to directors and executive officers of Coquina Bank and to holders of 5% or more of Coquina Bank common stock.

The obligations of Coquina Bank to effect the Merger are further subject to the satisfaction or waiver of the following conditions:

(a) the representations and warranties of Alabama National in the Merger Agreement shall be true as if made at the Effective Time;

(b) the agreements and covenants of Alabama National in the Merger Agreement and agreements provided for therein shall have been performed and complied with by the Effective Time;

(c) Alabama National shall have delivered to Coquina Bank certain certificates of its corporate officers provided for in the Merger Agreement;

(d) Alabama National shall have delivered to Coquina Bank an opinion of its counsel as provided in the Merger Agreement;

(e) Coquina Bank shall have received from PricewaterhouseCoopers, LLP, certified public accountants, a comfort letter dated as of the Effective Time with respect to such matters relating to the financial condition of Alabama National as Coquina Bank may reasonably request;

(f) the opinion received by Coquina Bank from The Carson Medlin Company that the consideration to be received by the Coquina Bank shareholders is fair from a financial point of view shall not have been withdrawn as of the Effective Time;

(g) Alabama National common stock to be issued in the Merger shall have been qualified as a Nasdaq National Market System Security as defined by the SEC; and

(h) no regulatory authority shall have asserted that Alabama National or any of its subsidiaries is not in material compliance with such regulatory authority, revoked any material permits or issued any order or similar undertaking that restricts or impairs the conduct of Alabama National s or any of its subsidiaries business.

Regulatory Approvals

The Merger is conditioned upon receipt of the necessary regulatory approvals. Bank holding companies and banks are regulated extensively under both federal and state law. Alabama National is subject to regulation by the Federal Reserve. The Bank Holding Company Act requires a bank holding company to obtain the prior approval of the Federal Reserve before it may acquire substantially all of the assets of any bank or ownership or control of any voting shares of any bank if, after such acquisition, it would own or control, directly or indirectly, more than five percent of the voting shares of any such bank. Accordingly, on May 6, 2004, Alabama National filed an application with the Federal Reserve requesting approval of the Merger in accordance with Section 3 of the Bank Holding Company Act.

Coquina Bank is subject to regulation by the Florida Office of Financial Regulation. Under the requirements of Section 658.41 of the Florida Statutes, any proposed organization of an interim bank, and any proposed merger involving a Florida state bank, must be submitted to the Florida Office of Financial Regulation for prior approval. Alabama National and Coquina Bank submitted an application to the Florida Office of Financial Regulation on April 19, 2004 for permission to form CQA Interim Bank and to merge CQA Interim Bank and Coquina Bank.

The Merger is also subject to the approval of the FDIC under Section 18(c) and other provisions of the Federal Deposit Insurance Act. Alabama National submitted an application to the FDIC to obtain such approval on April 23, 2004.

As of the date of this proxy statement-prospectus, each of these required regulatory approvals is still pending. The Merger cannot be completed in the absence of the required regulatory approvals or waivers. We cannot assure you as to whether or when the required regulatory approvals will be obtained. Assuming the required regulatory approvals are obtained and the Merger is completed, the subsequent merger of Cypress Bank and Coquina Bank will also be subject to the approval by the FDIC and the Florida Office of Financial Regulation.

Conduct of Business Pending the Merger

The Merger Agreement requires that each of Coquina Bank and Alabama National shall preserve its business organization, goodwill, relationships with depositors, customers and employees, and assets and maintain

its rights and franchises and take no action that would adversely affect its ability to perform under the Merger Agreement. In addition, Coquina Bank has agreed that, without the consent of Alabama National, it will not:

(a) amend its Articles of Incorporation, Bylaws or other governing instruments or those of any of its subsidiaries;

(b) incur additional debt obligations except in the ordinary course of business consistent with past practices or allow any lien to exist on any share of the stock held by itself or any of its subsidiaries;

(c) repurchase, redeem or otherwise acquire or exchange any shares, or any securities convertible into any shares of the stock of itself or any of its subsidiaries or declare or pay any dividend, except for a special cash dividend in an aggregate amount of $1.6 million, or make any other distribution in respect of its capital stock;

(d) except as provided in the Merger Agreement and as required upon exercise of any Coquina Bank stock options, issue, sell, pledge, encumber or enter into any contract to issue, sell, pledge or encumber, or authorize any of the foregoing, any additional shares of Coquina Bank common stock or any other capital stock of Coquina Bank or any subsidiary, or any stock appreciation rights, options, warrants, conversion or other rights to acquire any such stock;

(e) adjust, split, combine or reclassify any of its capital stock or that of any of its subsidiaries, issue or authorize the issuance of any other securities or sell, lease, mortgage or otherwise encumber any shares of any of its subsidiaries or other asset other than in the ordinary course of business for reasonable and adequate consideration;

(f) acquire any direct or indirect equity interest in any entities, other than in connection with foreclosures in the ordinary course of business;

(g) grant any increase in compensation or benefits of the employees or officers of Coquina Bank or any of its subsidiaries, except in accordance with past practices with respect to employees; pay any bonus, except in accordance with past practices and pursuant to the provisions of an existing program or plan; enter into or amend severance agreements or grant any material increases in fees or other compensation to officers and directors;

(h) enter into or amend any employment contract without an unconditional right to terminate without liability;

(i) adopt any new employee benefit plans or make any material changes to any existing employee benefit plans other than as required by law or that is necessary or advisable to maintain the tax qualified status of any such plan;

(j) make any material change in any accounting methods or systems of internal accounting controls, except as appropriate to conform to changes in regulatory accounting requirements or generally accepted accounting principles;

(k) commence any litigation other than in accordance with past practice, settle any litigation involving any liability for material monetary damages or restrictions on the operations of Coquina Bank or any of its subsidiaries or, except in the ordinary course of business, modify, amend or terminate any material contract or waive, release, compromise or assign any material rights or claims;

(l) operate its business otherwise than in the ordinary course, or in a manner not consistent with safe and sound banking practices or applicable law;

(m) fail to file timely any report required to be filed with any regulatory authorities;

(n) make any loan or advance to any holder of 5% or more of Coquina Bank common stock, director or officer of Coquina Bank or any of its subsidiaries, or any of the members of their immediate families, except for unfunded loan commitments or renewals of existing loans in existence on the date of the Merger Agreement;

(o) cancel without payment in full, or modify any contract relating to, any loan or other obligation receivable from any holder of 5% or more of Coquina Bank common stock, director or officer of Coquina Bank or any of its subsidiaries or any members of their immediate families;

(p) enter into any contract for services or otherwise with any of the holders of 5% or more of Coquina Bank common stock, or the directors, officers or employees of Coquina Bank or any of its subsidiaries or any members of their immediate families;

(q) modify, amend or terminate any material contract or waive, release, compromise or assign any material rights or claims, except in the ordinary course of business and for fair consideration;

(r) file any application to relocate or terminate the operations of any of its banking offices or any of its subsidiaries;

(s) except in accordance with applicable law, change its or any of its subsidiaries lending, investment, liability management and other material banking policies in any material respect;

(t) intentionally take any action reasonably expected to jeopardize or delay the receipt of any regulatory approval required to consummate the Merger;

(u) take any action that would cause the transactions provided for in the Merger Agreement to be subject to requirements imposed by any anti-takeover laws, and Coquina Bank shall take all necessary steps within its control to exempt (or ensure the continued exemption of) the transactions provided for in the Merger Agreement from any anti-takeover law;

(v) make or renew any loan to any person or entity who or that owes, or would as a result of such loan or renewal owe, Coquina Bank or any of its subsidiaries more than $300,000 of secured indebtedness or $50,000 of unsecured indebtedness;

(w) increase or decrease the rate of interest paid on time deposits or on certificates of deposit, except as consistent with past policies;

(x) acquire any investment securities or asset-backed securities (with certain exceptions as described in the Merger Agreement);

(y) dispose of any real property or interests therein having a book value in excess of or in exchange for consideration in excess of $50,000 (with certain exceptions as described in the Merger Agreement); or

(z) make any capital expenditures individually in excess of $50,000, or in the aggregate in excess of $100,000.

Alabama National has agreed that, without the consent of Coquina Bank, it will not:

(a) fail to file timely any report required to be filed with any regulatory authorities, including the SEC; or

(b) take any action that would cause Alabama National common stock to cease to be traded on the Nasdaq Stock Market, except for certain exceptions specified in the Merger Agreement.

Each party has also agreed to give written notice to the other promptly upon becoming aware of the occurrence of any event which is likely to constitute a Material Adverse Effect within the meaning given to such term in the Merger Agreement or constitute a material breach of any of its representations, warranties or covenants contained in the Merger Agreement and to use its reasonable efforts to remedy any such condition or breach.

Coquina Bank has also agreed to not solicit, initiate, discuss or knowingly encourage any acquisition proposal involving Coquina Bank and any third party acquiror. Notwithstanding the foregoing Coquina Bank

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may discuss an acquisition proposal with a third party if the Coquina Bank board of directors determines in good faith that such acquisition proposal is a superior proposal, as compared to the terms of the Merger. A superior proposal is generally described as a bona fide written acquisition proposal that the board of directors concludes in good faith to be more favorable from a financial point of view to the Coquina shareholders than the Merger.

Waiver and Amendment; Termination; Termination Fee

Prior to the Effective Time, either Alabama National or Coquina Bank may waive any default in performance of any term of the Merger Agreement, waive or extend the time for the compliance or fulfillment by the other of any and all of its obligations under the Merger Agreement, waive any or all of the conditions precedent and may, to the extent permitted by law, amend the Merger Agreement in writing with the approval of the Board of Directors of each of Coquina Bank and Alabama National.

The Merger Agreement may be terminated at any time prior to the Effective Time, as follows:

(a) by mutual consent of Alabama National and Coquina Bank;

(b) in the event of a breach of a representation, warranty, covenant or agreement by the non-breaching party under certain circumstances;

(c) by either party (provided that such terminating party is not in material breach of any material obligation in the Merger Agreement), in the event any required regulatory approval is denied or not obtained or the shareholders of Coquina Bank fail to approve the Merger;

(d) by either party, in the event there is a material adverse effect on the business, operations or financial condition of the other party that is not remedied;

(e) by either party, in the event any of the conditions precedent to the Merger cannot be satisfied or fulfilled or the Merger is not consummated by October 31, 2004, and such failure was not the fault of the terminating party;

(f) by Alabama National, if the holders of greater than 5% of the outstanding shares of Coquina Bank common stock properly assert their dissenters rights under the Florida Dissent Provisions;

(g) by Alabama National, if (1) the board of directors of Coquina Bank withdraws, adversely modifies or fails upon request to reconfirm its recommendation of the Merger, (2) the board of directors of Coquina Bank recommends approval of another acquisition proposal to the shareholders, (3) the board of directors of Coquina Bank fails to call the special meeting of shareholders, or (4) any person or entity becomes the beneficial owner of 50% or more of the outstanding shares of Coquina Bank stock;

(h) by Coquina Bank, if the board of directors of Coquina Bank shall have authorized an agreement with respect to an acquisition or merger transaction proposal which it considers to be superior to the Merger, and after written notice to Alabama National, Alabama National does not make an offer that the Coquina Bank board determines is as favorable as the third-party proposal;

or

(i) by Coquina Bank, if the average of the high and low prices of Alabama National common stock quoted on the Nasdaq Stock Market during the ten day period ending on the fifth day prior to the closing of the Merger is less than $42.00. In this event, however, Alabama National shall have the opportunity to void such termination by increasing the consideration payable to the Coquina Bank shareholders.

In the event of the termination of the Merger Agreement, the Merger Agreement will become void and have no effect, except that the confidentiality requirements, miscellaneous provisions, and provisions regarding expenses will survive such termination and such termination will not relieve a breaching party from liability for an uncured willful breach of the representation, warranty, covenant or agreement giving rise to the termination. Also, a termination under paragraphs (g) or (h) will require Coquina Bank to pay to Alabama National a termination fee of $1.0 million.

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Management and Operations After the Merger

From and after the Effective Time, the Alabama National board of directors will consist of the then current directors of Alabama National. Upon the consummation of the Merger, Coquina Bank will be a wholly owned subsidiary of Alabama National. Immediately following the Merger, the Board of Directors of Coquina Bank will consist of the 13 current directors of Coquina Bank plus one officer of Alabama National. Also immediately following the Merger, Joe P. Epton, Jr. will continue to serve as President and Chief Executive Officer and Mark O. Blanford will continue to serve as Executive Vice President and Senior Lending Officer of Coquina Bank.

The Merger Agreement provides that shortly following the Merger, Coquina Bank will merge with Cypress Bank, another subsidiary of Alabama National, and the combined company will operate under the name Cypress & Coquina Bank. The Board of Directors of Cypress & Coquina Bank will consist of directors from each of Cypress Bank and Coquina Bank and at least one officer of Alabama National. The exact number and identity of the directors of Cypress & Coquina Bank will be determined in a mutually satisfactory manner prior to the closing of the Cypress Bank and Coquina Bank merger. The executive officers of Cypress & Coquina Bank will be John H. Holcomb, III, Chairman, Joe P. Epton, Jr., Vice Chairman, James E. Weite, Jr., Chief Executive Officer, Bruce E. Page, President and Chief Operating Officer and Mark O. Blanford, Executive Vice President and Senior Lending Officer.

All current Alabama National officers will continue to serve Alabama National in accordance with the bylaws of Alabama National after the Effective Time. Other than the changes with respect to Cypress Bank, as described above, all directors and officers of each of the subsidiaries of Alabama National after the Effective Time will continue to serve in accordance with the terms of the bylaws of each such subsidiary.

Interests of Certain Persons in the Merger

No director or executive officer of Alabama National has any material direct or indirect financial interest in Coquina Bank or the Merger, except as a director, executive officer or shareholder of Alabama National or its subsidiaries. Certain officers and directors of Coquina Bank will continue to serve as officers and directors of Coquina Bank following the Merger.

A condition precedent to the Merger is that Joe P. Epton, Jr. will enter into a new employment agreement whereby Mr. Epton will agree, among other things, to serve as President and Chief Executive Officer of Coquina Bank prior to the merger with Cypress Bank and as Vice Chairman of Cypress & Coquina Bank after the merger. Another condition precedent to the Merger is that Mark O. Blanford will enter into a new employment agreement whereby Mr. Blanford will agree, among other things, to serve as Executive Vice President and Senior Lending Officer of Coquina Bank immediately following the Merger, and of Cypress & Coquina Bank thereafter. Each of Mr. Epton and Mr. Blanford will receive a payment in the amount of $10,000 as additional consideration for the non-compete restrictions of his new employment agreement.

The Employment Agreement for each of Mr. Epton and Mr. Blanford will have a term of three years, unless earlier terminated under the terms of the employment agreements. Under their respective employment agreements, each of Mr. Epton and Mr. Blanford will receive an annual salary of at least $135,000 for the term of his employment agreement. Each of Mr. Epton and Mr. Blanford will also be eligible to receive annual bonuses and be entitled to receive certain other fringe benefits in addition to his base salary, as described in the applicable employment agreement. In addition, if either officer is terminated other than for cause, or if he terminates his employment because of a material breach by Coquina Bank, then he is entitled to receive his base salary through the third anniversary of the effective date of his employment agreement. The form of the employment agreement for Mr. Epton and Mr. Blanford is included as an exhibit to the Merger Agreement, which is attached to this document as Appendix A.

Each of Messrs. Epton and Blanford and Ms. Stefanie Crosley, Senior Vice President and Chief Financial Officer of Coquina Bank, have existing change in ownership agreements with Coquina Bank. These agreements

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Percentage
Change

Acquisition-related expenses
$
215

$
536

*
As a percentage of total revenue
—
%

—
%

Acquisition-related expenses in fiscal years 2012 and 2011 are transaction-related costs, primarily professional services fees, employee severance and facility closing costs associated with the acquisition of Corticon.

Income from Operations

(In thousands)	Fiscal Year Ended November 30, 2012	November 30, 2011	Percentage Change
Income from operations	$49,440	$101,241	(51)%
As a percentage of total revenue	15 %	28 %	

Income from operations decreased $51.8 million in fiscal year 2012 as compared to fiscal year 2011, and decreased as a percentage of total revenue from 28% to 15%. As discussed above, the decrease was primarily the result of lower revenues and higher operating expenses in fiscal year 2012 as compared to fiscal year 2011.

Income from Operations by Segment

(In thousands)	Fiscal Year Ended November 30, 2012	November 30, 2011	Percentage Change
Core segment	$111,276	$161,900	(31)%
As a percentage of total revenue	33 %	45 %	

Non-Core segment	$(27,030)	$(32,306)	16%
As a percentage of total revenue	(8)%	(9)%	
Unallocated items	$(34,806)	$(28,353)	(23)%
As a percentage of total revenue	(10)%	(8)%	

On a segment basis, income from operations of our Core segment decreased $50.6 million in fiscal year 2012 as compared to fiscal year 2011. The decrease is primarily the result of lower revenues in fiscal year 2012 and the impact of the fiscal year 2010 restructuring efforts to fiscal year 2011 operating expenses. The operating loss of our non-Core segment represents indirect expenses required to operate the non-Core segment, and which are not directly related to any of the product lines within the non-Core segment which would qualify for discontinued operations classification. The decrease in these costs in fiscal year 2012 is the result of costs savings and cost control measures related to the Plan. For an understanding of how our internal measure of segment income from operations is determined, see Note 17 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report.

Other Income (Expense)

(In thousands)	Fiscal Year Ended November 30, 2012	November 30, 2011	Percentage Change
Interest income and other	$2,574	$1,999	29 %
Foreign currency loss	(2,378)	(2,518)	6
Total other income (expense), net	$196	$(519)	138 %
As a percentage of total revenue	— %	— %	

Other income (expense) increased $0.7 million in fiscal year 2012 as compared to fiscal year 2011. The increase was due to an increase in miscellaneous income and the decreases in foreign currency losses.

Provision for Income Taxes

(In thousands)	Fiscal Year Ended November 30, 2012	November 30, 2011	Percentage Change
Provision for income taxes	$17,032	$34,380	(50)%
As a percentage of total revenue	5 %	10 %	

Our effective tax rate remained flat at 34% in fiscal years 2012 and 2011. Fiscal year 2011 benefited from a reinstatement of the research and development credit in the tax code in December 2010 with a retroactive effective date to January 1, 2010 that allowed us to benefit from the credit in fiscal year 2011 for the period of January to November 2010. Fiscal year 2012 benefited from a reduction in state tax due to a partial release of valuation allowances on state tax credit carryforwards, which will be utilized to offset certain gains on our dispositions, and due to a lower effective tax rate on foreign earnings.

Net Income

(In thousands)	Fiscal Year Ended November 30, 2012	November 30, 2011	Percentage Change
Income from continuing operations	$32,604	$ 66,342	(51)%
Income (loss) from discontinued operations	14,840	(6,713)	321
Net income	$47,444	$ 59,629	(20)%

Income (loss) from discontinued operations includes the revenues and direct expenses of the product lines included in our non-Core segment, all of which qualify for treatment as discontinued operations at November 30, 2012. In fiscal year 2012, it also includes the gains on sales of our FuseSource and Shadow product lines of $19.8 million and $25.3 million, respectively. In addition, we recorded an impairment loss of $8.6 million related to our Artix, Orbacus and Orbix assets, which are classified as held for sale in our consolidated balance sheet at November 30, 2012. The impairment loss represents the write down of the assets to fair value. See Note 7 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report for additional information related to our discontinued product lines.

Fiscal 2011 Compared to Fiscal 2010

Revenue

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change As Reported	Constant Currency
Revenue	$360,704	$351,610	3%	—%

Total revenue increased $9.1 million in fiscal year 2011 as compared to fiscal year 2010, principally due to increased revenue from maintenance. Changes in prices from fiscal year 2011 to fiscal year 2010 did not have a significant impact on our revenue.

License Revenue

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change As Reported	Constant Currency
License	$125,966	$125,680	—%	(2)%
As a percentage of total revenue	35%	36%		

Software license revenue remained relatively stable in fiscal year 2011 as compared to fiscal year 2010. Software license revenue would have decreased by 2% if exchange rates had been constant in fiscal year 2011 as compared to exchange rates in effect in fiscal year 2010. Excluding the impact of changes in exchange rates, software license revenue from direct end-users decreased in fiscal year 2011 as compared to fiscal year 2010, but increased from indirect channels, primarily from OpenEdge application partners.

Maintenance and Services Revenue

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change As Reported	Constant Currency
Maintenance	$217,372	$209,073	4%	1%
As a percentage of total revenue	60%	59%		
Professional services	$17,366	$16,857	3%	—%
As a percentage of total revenue	5%	5%		
Total maintenance and services revenue	$234,738	$225,930	4%	1%
As a percentage of total revenue	65%	64%		

Maintenance and services revenue increased $8.8 million in fiscal year 2011 as compared to fiscal year 2010. Maintenance and services revenue would have increased by 1% if exchange rates had been constant in fiscal year 2011 as compared to exchange rates in effect in fiscal year 2010. Excluding the impact of changes in exchange rates, the increase in maintenance and services revenue was primarily the result of an increase in our installed customer base for maintenance renewals. Our maintenance renewal rate in fiscal year 2011 was approximately 90%.

Revenue by Segment

(In thousands)	Fiscal Year Ended November 30, 2011	Fiscal Year Ended November 30, 2010	Percentage Change As Reported	Percentage Change Constant Currency
Core segment	$360,704	$351,610	3 %	— %
As a percentage of total revenue	100 %	100 %		
Non-Core segment	$—	$—	— %	— %
As a percentage of total revenue	— %	— %		

Revenue from our Core segment is representative of revenue from our continuing operations, since the results of all non-Core product lines are included in discontinued operations. See discussion of fluctuations in our Core and continuing operations revenue in this Results of Operations section. For an understanding of how our internal measure of segment revenue is determined, see Note 17 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report.

Revenue by Region

(In thousands)	Fiscal Year Ended November 30, 2011	Fiscal Year Ended November 30, 2010	Percentage Change As Reported	Percentage Change Constant Currency
North America	$146,572	$142,046	3 %	3 %
As a percentage of total revenue	41 %	40 %		
EMEA	$153,206	$146,643	4 %	— %
As a percentage of total revenue	42 %	42 %		
Latin America	$34,349	$36,302	(5)%	(10)%
As a percentage of total revenue	10 %	10 %		
Asia Pacific	$26,577	$26,619	— %	(10)%
As a percentage of total revenue	7 %	8 %		

Total revenue generated in North America increased $4.5 million, and total revenue generated outside North America increased $4.6 million, in fiscal year 2011 as compared to fiscal year 2010. Total revenue generated in markets outside North America represented 59% of total revenue in fiscal year 2011 compared to 60% of total revenue in fiscal year 2010. Total revenue generated in markets outside North America would have represented 58% of total revenue if exchange rates had been constant in fiscal year 2011 as compared to the exchange rates in effect in fiscal 2010.

Cost of Software Licenses

(In thousands)	Fiscal Year Ended November 30, 2011	Fiscal Year Ended November 30, 2010	Percentage Change
Cost of software licenses	$5,430	$5,229	4 %
As a percentage of software license revenue	4 %	4 %	
As a percentage of total revenue	2 %	1 %	

Cost of software licenses consists primarily of costs of royalties, electronic software distribution costs, duplication and packaging. Cost of software licenses increased $0.2 million in fiscal year 2011 as compared to fiscal year 2010, and remained flat as a percentage of software license revenue at 4%. The dollar increase was primarily due to higher royalty expense for products and technologies licensed or resold from third parties due to higher license revenues.

Cost of software licenses as a percentage of software license revenue varies from period to period depending upon the relative product mix.

Cost of Maintenance and Services

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change
Cost of maintenance and services	$37,238	$30,144	24 %
As a percentage of maintenance and services revenue	16 %	13 %	
As a percentage of total revenue	10 %	9 %	

Cost of maintenance and services consists primarily of costs of providing customer support, education and consulting. Cost of maintenance and services increased $7.1 million in fiscal year 2011 as compared to fiscal year 2010 and increased as a percentage of maintenance and services revenue from 13% to 16%. The total dollar amount of expense in fiscal year 2011 increased due to higher professional services costs associated with increased investment in the infrastructure of our professional services organization and fixed term services contracts with early adopters of the Progress RPM technology.

Amortization of Acquired Intangibles

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change
Amortization of acquired intangibles	$2,600	$5,780	(55)%
As a percentage of total revenue	1 %	2 %	

Amortization of acquired intangibles included in costs of revenue primarily represents the amortization of the value assigned to intangible assets for technology obtained in business combinations. Amortization of acquired intangibles decreased $3.2 million in fiscal year 2011 as compared to fiscal year 2010. The decrease was due to the completion of amortization of certain intangible assets acquired in prior years.

Gross Profit

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change
Gross profit	$315,436	$310,457	2 %
As a percentage of total revenue	87 %	88 %	

Our gross profit increased $5.0 million in fiscal year 2011 as compared to fiscal year 2010, and our gross profit as a percentage of total revenue decreased from 88% to 87%. The dollar increase in our gross profit was primarily due to the increase in total revenue and decrease in amortization of acquired intangibles, as discussed above.

Sales and Marketing

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change
Sales and marketing	$102,618	$91,974	12 %
As a percentage of total revenue	28 %	26 %	

Sales and marketing expenses increased $10.6 million in fiscal year 2011 as compared to fiscal year 2010, and increased as a percentage of total revenue from 26% to 28%. The increase in sales and marketing expenses was due to higher headcount related expenses, additional marketing programs and costs associated with investments in the field organization in support of the industry vertical and solutions focus in fiscal year 2011.

Product Development

(In thousands)	Fiscal Year Ended November 30, 2011	Fiscal Year Ended November 30, 2010	Percentage Change
Product development	$44,876	$50,080	(10)%
As a percentage of total revenue	12 %	14 %	

Product development expenses decreased $5.2 million in fiscal year 2011 as compared to fiscal year 2010, and decreased as a percentage of revenue from 14% to 12%. The decrease in product development expenses is due to headcount related savings from the restructuring and off-shoring activities that occurred in fiscal year 2010.

General and Administrative

(In thousands)	Fiscal Year Ended November 30, 2011	Fiscal Year Ended November 30, 2010	Percentage Change
General and administrative	$61,816	$51,413	20 %
As a percentage of total revenue	17 %	15 %	

General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses increased $10.4 million in fiscal year 2011 as compared to fiscal year 2010, and increased as a percentage of revenue from 15% to 17%. The increase was primarily due to increased litigation costs and $7.1 million of employee separation costs related to the amended separation arrangements we entered into with Richard D. Reidy, our former President and Chief Executive Officer, in July 2011. The separation costs included a charge of $4.6 million of stock-based compensation and $2.5 million of future cash payments.

Amortization of Acquired Intangibles

(In thousands)	Fiscal Year Ended November 30, 2011	Fiscal Year Ended November 30, 2010	Percentage Change
Amortization of acquired intangibles	$966	$2,803	(66)%
As a percentage of total revenue	1 %	1 %	

Amortization of acquired intangibles included in operating expenses primarily represents the amortization of value assigned to intangible assets obtained in business combinations other than assets identified as purchased technology. Amortization of these acquired intangibles decreased $1.8 million in fiscal year 2011 as compared to fiscal year 2010. The decrease was due to the completion of amortization of certain intangible assets acquired in prior years.

Restructuring Expenses

(In thousands)	Fiscal Year Ended November 30, 2011	Fiscal Year Ended November 30, 2010	Percentage Change
Restructuring expenses	$3,383	$22,711	*
As a percentage of total revenue	1 %	6 %	

We incurred restructuring expenses of $3.4 million in fiscal year 2011 as compared to $22.7 million in fiscal year 2010. Restructuring expenses in fiscal year 2011 included ongoing costs related to the decisions from our restructuring activities in the third quarter of fiscal year 2010. Restructuring expenses in fiscal year 2010 included employee severance costs, excess facilities costs for unused space and termination costs of automobile leases for terminated employees in connection with the large workforce reductions undertaken in fiscal year 2010.

Acquisition-Related Expenses

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change
Acquisition-related expenses	$536	$—	*
As a percentage of total revenue	— %	— %	

Acquisition-related expenses in fiscal year 2011 are transaction-related costs, primarily professional services fees, employee severance and facility closing costs associated with the acquisition of Corticon.

Income from Operations

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change
Income from operations	$101,241	$91,476	11 %
As a percentage of total revenue	28 %	26 %	

Income from operations increased $9.8 million in fiscal year 2011 as compared to fiscal year 2010, and increased as a percentage of total revenue from 26% to 28%. The increase in fiscal year 2011 was primarily the result of higher revenue and costs savings associated with our restructuring activities, partially offset by the restructuring charges that occurred in the first and third quarters of fiscal year 2010.

Income from Operations by Segment

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change
Core segment	$161,900	$173,662	(7)%
As a percentage of total revenue	45 %	49 %	
Non-Core segment	$(32,306)	$(39,149)	17 %
As a percentage of total revenue	(9)%	(11)%	
Unallocated items	$(28,353)	$(43,037)	34 %
As a percentage of total revenue	(8)%	(12)%	

On a segment basis, income from operations of our Core segment decreased $11.8 million in fiscal year 2011 as compared to fiscal year 2010. The decrease is the result of the various programs implemented in fiscal year 2011, which caused expenses to increase as a percentage of revenue, and are partially offset by the savings from the restructuring efforts in fiscal year 2010. The operating loss of our non-Core segment represents indirect expenses required to operate the non-Core segment, and which are not directly related to any of the product lines within the non-Core segment which would qualify for discontinued operations classification. The decrease in these costs in fiscal year 2011 are the result of costs savings from our restructuring efforts in fiscal year 2010. For an understanding of how our internal measure of segment income from operations is determined, see Note 17 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report.

Other (Expense) Income

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change
Interest income and other	$1,999	$3,132	(36)%
Foreign currency (loss) gain	(2,518)	626	(502)
Total other (expense) income, net	$(519)	$3,758	(114)%
As a percentage of total revenue	— %	1 %	

Other (expense) income decreased $4.3 million in fiscal year 2011 as compared to fiscal year 2010. The income in fiscal year 2010 was primarily attributable to an increase in the value of our foreign currency average rate option contracts, which do not qualify for hedge accounting treatment and are marked-to-market each period, and an insurance settlement gain related to a pre-acquisition matter.

Provision for Income Taxes

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change
Provision for income taxes	$34,380	$32,666	5 %
As a percentage of total revenue	10 %	9 %	

Our effective tax rate remained flat at 34% in fiscal years 2011 and 2010. Fiscal year 2010 benefited from a non-recurring change in estimate of our foreign earnings and profits utilized to determine the tax characteristics of certain international cash repatriation, partially offset by resolution of certain of our uncertain tax positions. Fiscal year 2011 benefited from a reinstatement of the research and development credit in the tax code in December 2010 with a retroactive effective date of January 1, 2010 that allowed us to benefit from the credit in fiscal year 2011 for the period of January to November 2010.

Net Income

(In thousands)	Fiscal Year Ended November 30, 2011	November 30, 2010	Percentage Change
Income from continuing operations	$66,342	$62,568	6 %
Loss from discontinued operations	(6,713)	(14,470)	54
Net income	$59,629	$48,098	24 %

Loss from discontinued operations includes the revenues and direct expenses of the product lines included in our non-Core segment, all of which qualify for treatment as discontinued operations at November 30, 2012. Any gains and losses on the sales of the product lines are recorded in the periods in fiscal year 2012 or the first quarter of fiscal year 2013, in which the sales closed. See Note 7 of the Consolidated Financial Statements appearing in Item 8 this Annual Report for additional information related to our discontinued product lines.

Liquidity and Capital Resources

Cash, Cash Equivalents and Short-Term Investments

(In thousands)	November 30, 2012	November 30, 2011
Cash and cash equivalents	$301,792	$161,095
Short-term investments	53,425	100,321
Total cash, cash equivalents and short-term investments	$355,217	$261,416

The increase in cash, cash equivalents and short-term investments of $93.8 million since the end of fiscal year 2011 was primarily due to cash generated from operations, proceeds from the sales of our FuseSource and Shadow product lines and issuances of common stock upon exercise of stock options. The increase was partially offset by repurchases of our common stock. Except as described below, there are no limitations on our ability to access our cash, cash equivalents and short-term investments.

Cash, cash equivalents and short-term investments held by our foreign subsidiaries was $138.2 million at November 30, 2012 and 2011. At November 30, 2012, $33.2 million relates to the net undistributed earnings of our foreign subsidiaries which are considered to be permanently reinvested, and as such, they are not available to fund our domestic operations. If we were to repatriate the earnings, they would be subject to taxation in the U.S., but would be offset by foreign tax credits. We do not believe this has a material impact on our liquidity.

Share Repurchase Program

During the second quarter of fiscal year 2012, as part of the Plan, the Board of Directors authorized a $350.0 million return of capital to shareholders in the form of a share repurchase through fiscal year 2013. In October 2012, we announced the adoption of a 10b5-1 plan, under the Board of Directors previous authorization, to repurchase up to $250.0 million of our common stock through June 30, 2013, or earlier. We have repurchased 4.5 million shares of our common stock for $88.4 million through November 30, 2012 and 7.6 million shares for $155.3 million through January 22, 2013.

Divestiture of Non-Core Product Lines

As part of the Plan, we announced our intention to divest our ten non-Core product lines before the end of fiscal year 2013. As of November 30, 2012, we have completed the divestiture of two of the product lines for net proceeds of $46.6 million. We expect proceeds from the sales of the remaining divestitures to be received in the first quarter of fiscal year 2013. Total consideration for the sales of our Actional, DataXtend, ObjectStore, Savvion and Sonic product lines in the first quarter of fiscal year 2013 was $60.5 million, which is offset by direct transaction costs incurred. Total consideration for the sale of the remaining product lines of Artix, Orbacus and Orbix is expected to be $15.0 million, which is also partially offset by direct transaction costs incurred.

The cash flows of our continuing and discontinued operations have not been segregated in our statements of cash flows. The divestitures of these product lines will impact our cash flows in future periods, including our operating cash flows, due to the loss of revenue and elimination of direct expenses. We cannot be certain that the impact will be positive, as indirect expenses of these divestitures (e.g. general and administrative costs) will remain in our continuing cash flows until our remaining product lines can absorb those costs or until these costs are otherwise reduced.

Restructuring Activities

In the second quarter of fiscal year 2012, as part of the Plan, our management approved, committed to and initiated certain operational restructuring initiatives to reduce annual costs, including the simplification of our organizational structure and the consolidation of facilities.

The total costs of the restructuring primarily relate to employee costs, including severance, health benefits, outplacement services and transition divestiture incentives, but excluding stock-based compensation. Facilities costs include fees to terminate lease agreements and costs for unused space, net of sublease assumptions. Other costs include costs to terminate automobile leases of employees included in the workforce reduction, asset impairment charges for assets no longer deployed as

part of cost reduction strategies, costs for unused software licenses as part of the workforce reduction and other costs directly associated with the restructuring actions taken.

As part of the 2012 restructuring, we incurred expenses in fiscal year 2012 totaling $19.0 million, of which $2.6 million represents excess facilities and other costs and $16.4 million represents employee severances and related benefits. We expect to incur additional costs through the first half of fiscal year 2013 of approximately $2.9 million. The total cost of the 2012 restructuring is expected to be approximately $5.1 million for excess facilities and other costs and approximately $16.8 million for employee severance and related benefits. As of November 30, 2012, $7.0 million of the $19.0 million expensed in fiscal year 2012 remains unpaid. We expect to pay the majority of the remaining liability in the next twelve months, including the additional expenses not yet recorded in the consolidated financial statements.

During the first and third quarters of 2010, we also undertook restructuring activities to improve efficiencies in our operations. As of November 30, 2012, $0.3 million of the restructuring charges remain unpaid. We expect to pay the remaining liability in fiscal year 2013.

Revolving Credit Facility

On August 15, 2011, we entered into a credit agreement (the "Credit Agreement") for an unsecured credit facility with J.P. Morgan and other lenders that matures on August 15, 2016, at which time all amounts outstanding must be repaid. The credit facility provides for a revolving line of credit in the amount of $150.0 million, with a sublimit for the issuance of standby letters of credit in a face amount up to $25.0 million and swing line loans up to $20.0 million. The credit facility also permits us to increase the revolving line of credit by up to an additional $75.0 million subject to receiving further commitments from lenders and certain other conditions. We intend to utilize the line of credit for general corporate purposes, including acquisitions, stock repurchases and working capital.

Revolving loans accrue interest at a per annum rate based on our choice of either (i) the LIBOR rate plus a margin ranging from 1.25% to 1.75% or (ii) the base rate plus a margin ranging from 0.25% to 0.75%, both depending on our consolidated leverage ratio. The base rate is defined as the highest of (i) the administrative agent's prime rate (ii) the federal funds rate plus 1/2 of 1.00%, and (iii) the LIBOR rate for a one month interest period plus a margin equal to 1.00%. A quarterly commitment fee on the undrawn portion of the revolving credit facility is required, at a per annum rate ranging from 0.25% to 0.35%, depending on our consolidated leverage ratio. The loan origination fee and issuance costs incurred upon consummation of the Credit Agreement are being amortized through interest expense using the effective interest rate method, over the five-year term of the facility. Other customary fees and letter of credit fees may be charged and will be expensed as they are incurred.

Accrued interest on the loans is payable quarterly in arrears with respect to base rate loans and at the end of each interest rate period (or at each three month interval in the case of loans with interest periods greater than three months) with respect to LIBOR rate loans. We may prepay, terminate or reduce the loan commitments in whole or in part at any time, without premium or penalty, subject to certain conditions and reimbursement of certain costs in the case of LIBOR rate loans.

The Credit Agreement contains customary affirmative and negative covenants, including a requirement to maintain a balance of at least $100.0 million in cash and cash equivalents while repurchasing shares of our common stock or making other restricted equity-related payments (e.g. cash dividend distributions). We are also required to maintain compliance with a consolidated leverage ratio of no greater than 3.00 to 1.00 and a consolidated interest coverage ratio of at least 3.00 to 1.00. As of November 30, 2012, there were no amounts outstanding under the revolving line and $0.3 million of letters of credit outstanding. We are in compliance with our covenants by a significant margin.

Auction Rate Securities

In addition to the $355.2 million of cash, cash equivalents and short-term investments, we had investments with a fair value of $26.3 million related to auction rate securities (ARS). These ARS are floating rate securities with longer-term maturities that were marketed by financial institutions with auction reset dates at primarily 28 or 35 day intervals to provide short-term liquidity. The remaining contractual maturities of these securities range from 11 to 30 years. The underlying collateral of the ARS consist of municipal bonds, which are insured by monoline insurance companies, and student loans, which are supported by the federal government as part of the Federal Family Education Loan Program (FFELP) and by the monoline insurance companies.

Beginning in February 2008, auctions for these securities began to fail, and the interest rates for these ARS reset to the maximum rate per the applicable investment offering document. As of November 30, 2012, our ARS investments totaled $30.7 million at par value. These ARS are classified as available-for-sale securities.

For each of the ARS classified as available-for-sales, we evaluated the risks related to the structure, collateral and liquidity of the investment, and forecasted the probability of issuer default, auction failure and a successful auction at par or a redemption at par for each future auction period. The weighted average cash flow for each period was then discounted back to present value for each security. Based on this methodology, we determined that the fair value of our ARS investments is $26.3 million at November 30, 2012, and we have recorded a temporary impairment charge in accumulated other comprehensive income of $4.4 million to reduce the value of our available-for-sale ARS investments.

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

Based on our cash and short-term investments balance of $355.2 million, expected operating cash flows and the availability of funds under our revolving credit facility, we do not anticipate the lack of liquidity associated with these ARS to adversely affect our ability to conduct business and believe we have the ability to hold the affected securities throughout the currently estimated recovery period. Therefore, the impairment on these securities is considered only temporary in nature. If the credit rating of either the security issuer or the third-party insurer underlying the investments deteriorates significantly, we may be required to adjust the carrying value of the ARS through an impairment charge.

Cash Flows from Operating Activities

(In thousands)	Fiscal Year Ended November 30, 2012	November 30, 2011	November 30, 2010
Net income	$47,444	$59,629	$48,098
Non-cash reconciling items included in net income	23,561	65,549	65,319
Changes in operating assets and liabilities	33,110	1,116	(17,216)
Net cash flows from operating activities	$104,115	$126,294	$96,201

The decrease in cash generated from operations in fiscal year 2012 as compared to fiscal year 2011 was primarily due to lower profitability, and the increase from fiscal year 2011 to fiscal year 2010 was primarily due to higher profitability.

Our gross accounts receivable as of November 30, 2012 decreased by $43.8 million from the end of fiscal year 2011, which primarily related to the receivables sold or transferred to assets held for sale as part of the divestitures of our non-Core products lines (see Note 7 to the Consolidated Financial Statements included in Item 8 of this Annual Report). Gross accounts receivable also decreased due to lower days sales outstanding (DSO) and the write-off of receivables that had been previously reserved. DSO in accounts receivable from continuing operations was 70 days at the end of fiscal year 2012. DSO as previously reported was 73 days and 74 days at the end of fiscal years 2011 and 2010, respectively, for our consolidated results prior to discontinued operations. We target a DSO range of 60 to 80 days.

Cash Flows from Investing Activities

(In thousands)	Fiscal Year Ended

	November 30, 2012	November 30, 2011	November 30, 2010
Net investment activity	$55,096	$(61,917)	$13,661
Purchases of property and equipment	(7,735)	(17,047)	(9,664)
Payments for acquisitions, net of cash acquired	—	(22,900)	(49,186)
Proceeds from divestitures	46,590	—	—
Other investing activities	189	(433)	26
Net cash flows from investing activities	$94,140	$(102,297)	$(45,163)

Net cash inflows and outflows of our net investment activity is primarily a result of the timing of our purchases and maturities of securities which are classified as cash equivalents or short-term investments. We purchased $7.7 million of property and equipment in fiscal year 2012 as compared to $17.0 million in the fiscal year 2011 and $9.7 million in fiscal year 2010.

Spending slowed in fiscal year 2012 as we near the implementation of the upgrades to our order management system. Overall purchases consisted primarily of computer equipment and software and building and leasehold improvements.

In fiscal year 2011, we acquired all of the equity interest in Corticon, a privately held business enterprise software company for $23.0 million. In fiscal year 2010, we acquired Savvion, Inc. (Savvion), a privately-held company, for an aggregate purchase price of $49.2 million.

In fiscal year 2012, we divested two of our non-Core product lines. The FuseSource product line was sold to Red Hat, Inc. for $21.3 million in September 2012. The Shadow product line was sold to Rocket Software, Inc. for $31.9 million in October 2012.

Cash Flows from Financing Activities

(In thousands)	Fiscal Year Ended November 30, 2012	November 30, 2011	November 30, 2010
Proceeds from stock-based compensation plans	$29,208	$49,672	$93,670
Repurchases of common stock	(81,316)	(200,009)	(29,336)
Other financing activities	(2,920)	2,349	3,830
Net cash flows from financing activities	$(55,028)	$(147,988)	$68,164

We received $29.2 million in fiscal year 2012 from the exercise of stock options and the issuance of shares under our employee stock purchase plan as compared to $49.7 million in fiscal year 2011 and $93.7 million is fiscal year 2010. In fiscal year 2012, we repurchased $81.3 million, net of unsettled trades, of our common stock under our $350.0 million stock repurchase plan, which was approved by the Board of Directors in April 2012. In fiscal years 2011 and 2010, we repurchased $200.0 million and $29.3 million, respectively, of our common stock under a previously announced share repurchase plan, which was completed in fiscal year 2011.

Indemnification Obligations

We include standard intellectual property indemnification provisions in our licensing agreements in the ordinary course of business. Pursuant to our product license agreements, we will indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally business partners or customers, in connection with certain patent, copyright or other intellectual property infringement claims by third parties with respect to our products. Other agreements with our customers provide indemnification for claims relating to property damage or personal injury resulting from the performance of services by us or our subcontractors. Historically, our costs to defend lawsuits or settle claims relating to such indemnity agreements have been insignificant. Accordingly, the estimated fair value of these indemnification provisions is immaterial.

Liquidity Outlook

We believe that existing cash balances, together with funds generated from operations, amounts available under the Credit Agreement and proceeds from our divestitures, will be sufficient to finance our operations and meet our foreseeable cash requirements through at least the next twelve months, and does not contemplate a need for any foreign repatriation of the earnings which we have deemed permanently reinvested. Our foreseeable cash needs include our planned capital expenditures and share repurchases, lease commitments, restructuring obligations and other long-term obligations.

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Revenue Backlog

(In thousands)	November 30, 2012	November 30, 2011
Deferred revenue, primarily related to unexpired maintenance and support contracts [1]	$110,391	$152,346
Multi-year licensing arrangements [2]	21,554	14,484
Open software license orders received but not shipped [2]	11,913	9,355
Total revenue backlog	$143,858	$176,185

(1) Deferred revenue as of November 30, 2012 excludes the deferred revenue that has been included in net assets sold or is held for sale as part of our non-Core product line divestitures, and includes $3.6 million of contractual maintenance which has not been invoiced or included on our balance sheet. There is $26.3 million of deferred revenue included on our balance sheet as liabilities held for sale as of November 30, 2012. The contractual maintenance which has not been invoiced relates to a customer who changed its invoicing schedule and if excluded, amounts would not be comparable to the prior period presented.

(2) Our backlog of orders not included on the balance sheet is not subject to our normal accounting controls for information that is either reported in or derived from our basic financial statements.

We typically fulfill most of our software license orders within 30 days of acceptance of a purchase order. Assuming all other revenue recognition criteria have been met, we recognize software license revenue upon shipment of the product, or if delivered electronically, when the customer has the right to access the software. Because there are many elements governing when revenue is recognized, including when orders are shipped, credit approval obtained, completion of internal control processes over revenue recognition and other factors, management has some control in determining the period in which certain revenue is recognized. We frequently have open software license orders at the end of a quarter which have not shipped or have otherwise not met all the required criteria for revenue recognition. Although the amount of open software license orders may vary at any time, we generally do not believe that the amount, if any, of such software license orders at the end of a particular
quarter is a reliable indicator of future performance. In addition, there is no industry standard for the definition of backlog and there may be an element of estimation in determining the amount. As such, direct comparisons with other companies may be difficult or potentially misleading.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Contractual Obligations

The following table details our contractual obligations as of November 30, 2012 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	$21,467	$8,045	$8,324	$2,862	$2,236
Unrecognized tax benefits [1]	2,192	—	—	—	—
Total	$23,659	$8,045	$8,324	$2,862	$2,236

(1) The liability is not subject to fixed payment terms and the amount and timing of payments, if any, which we will make related to this liability are not known. See Note 15 of the Consolidated Financial Statements appearing in

Item 8 of this Annual Report for additional information.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements which have been prepared in accordance with GAAP. We make estimates and assumptions in the preparation of our consolidated financial statements that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates.

We have identified the following critical accounting policies that require the use of significant judgments and estimates in the preparation of our consolidated financial statements. This listing is not a comprehensive list of all of our accounting policies.

For further information regarding the application of these and other accounting policies, see Note 1 of the Consolidated Financial Statements appearing in Item 8 of this Annual Report.

Revenue Recognition

We derive our revenue from software licenses and maintenance and services. Our revenue arrangements generally contain multiple elements. The primary judgments used in evaluating revenue recognized in each period involve: determining whether collection is probable, assessing whether the fee is fixed or determinable, and determining the fair value of the maintenance and services elements included in multiple-element software arrangements. Our revenue recognition policy is significant because revenue is a key component affecting results of operations. In determining when to recognize revenue from a customer arrangement, we are often required to exercise judgment regarding the application of our accounting policies to a particular arrangement.

In making an assessment of collectability, we consider customer credit-worthiness, a customer's historical payment experience, economic conditions in the customer's industry and geographic location and general economic conditions. In assessing whether the fee is fixed or determinable, we consider the payment terms of the transaction, including transactions that extend beyond our customary payment terms.

We generally use the residual method to recognize revenue from software arrangements that include one or more elements to be delivered at a future date when evidence of fair value of all undelivered elements exists. Vendor-specific objective evidence (VSOE) of fair value of maintenance and services is determined based on our recent pricing for those services when sold
separately, or based on a substantive maintenance renewal clause within a customer contract. We consider maintenance rates in excess of 12% of license value to be substantive based on our analysis of the cost to provide post-contract support. Substantially all license arrangements indicate the renewal rate for which customers may, at their option, renew their maintenance agreement. We review services sold separately on a periodic basis and update, when appropriate, our VSOE of fair value for such maintenance and services to ensure that it reflects our recent pricing experience.

Such judgments can materially impact the amount of revenue that we record in a given period. While we follow specific and detailed rules and guidelines related to revenue recognition, we make and use significant management judgments and estimates in connection with the revenue recognized in any reporting period, particularly in the areas described above. If management made different estimates or judgments, material differences in the timing of the recognition of revenue could occur.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. We establish this allowance using estimates that we make based on factors such as the composition of the accounts receivable aging, historical bad debts, changes in payment patterns, changes to customer creditworthiness and current economic trends. Historically, our actual losses have been consistent with the allowances recorded. However, if we used different estimates, or if the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, we would require additional provisions for doubtful accounts that would increase bad debt expense.

Goodwill and Intangible Asset Impairment

We have goodwill and net intangible assets of $231.2 million at November 30, 2012. We assess the impairment of goodwill on an annual basis and whenever events or changes in circumstances indicate that the carrying value of the

asset may not be recoverable. We assess our amortizing intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

We would record an impairment charge if such an assessment were to indicate that the fair value of such assets was less than the carrying value. When we evaluate potential impairments outside of our annual measurement date, judgment is required in determining whether an event has occurred that may impair the value of goodwill or intangible assets. Factors that could indicate that an impairment may exist include significant underperformance relative to plan or long-term projections, significant changes in business strategy, significant negative industry or economic trends or a significant decline in our stock price or in the value of one of our reporting units for a sustained period of time. We utilize either discounted cash flow models or other valuation models, such as comparative transactions and market multiples, to determine the fair value of our reporting units. We must make assumptions about future cash flows, future operating plans, discount rates, comparable companies, market multiples, purchase price premiums and other factors in those models. Different assumptions and judgment determinations could yield different conclusions that would result in an impairment charge to income in the period that such change or determination was made.

The determination of reporting units also requires management judgment. We consider whether a reporting unit exists within a reportable segment based on the availability of discrete financial information that is regularly reviewed by segment management.

During the second quarter of fiscal year 2012, as a result of continued declines in the performance of certain of our old reporting units and in connection with the announcement of the Plan, we determined an impairment triggering event occurred that required us to perform an interim goodwill impairment test. The test indicated that our old reporting units had an estimated fair value that was in excess of their carrying values. However, the difference between the carrying value and fair value of our old Enterprise Business Solutions reporting unit had decreased since the December 15, 2011 annual test as a result of updates to our internal forecasts and projected cash flows.

During the third quarter of fiscal year 2012, in furtherance of the Plan, we changed the structure of our internal organization and the way we manage our business. As a result, our reportable segment information has been restated to reflect the current structure. Our evaluation of reporting units has also been reassessed and changed to reflect the current structure and operations. Under our new structure, our reportable segments are also our reporting units for goodwill impairment testing purposes. We have not aggregated any reporting units. During the third quarter of fiscal year 2012, we reassigned goodwill to the new reporting units and reportable segments based on the relative fair values of the reporting units.

In connection with the reassignment of goodwill to our new reporting units, we determined an impairment triggering event occurred that required us to perform an interim goodwill impairment test. We performed the test for both our old and new reporting units to ensure no impairment existed prior to the reassignment of goodwill or resulted after the reassignment of goodwill. The tests indicated that our reporting units under our old and new structures had estimated fair values that were in excess of their carrying values, and thus, no impairment was present. The fair values of our reporting units under our new segment structure are substantially in excess of their carrying values. As the organization continues to evolve under the Plan, we may have a change in reporting units in future periods, which could trigger additional interim impairment tests.

At the time of our filing of this Annual Report on Form 10-K, we have completed our annual goodwill impairment test for fiscal year 2013. At the testing date, the only goodwill remaining was that of our Core segment and reporting unit. The test indicated the reporting unit had an estimated fair value that was substantially in excess of the carrying value.

Income Tax Accounting

We have a net deferred tax asset of $41.8 million at November 30, 2012. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. We consider scheduled reversals of temporary differences, projected future taxable income, ongoing tax planning strategies and other matters in assessing the need for and the amount of a valuation allowance. If we were to change our assumptions or otherwise determine that we were unable to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period that such change or determination was made.

Management judgment is also required in evaluating whether a tax position taken or expected to be taken in a tax return, based on the weight of available evidence, indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. Management judgment is also required in measuring the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. If management made different estimates or judgments, material differences in the amount accrued for uncertain tax positions would occur.

Stock-Based Compensation

We recognize stock-based compensation based on the fair value of stock-based awards measured at the date of grant. Stock-based compensation is recognized over the requisite service period, which is generally the vesting period of the award, and is adjusted each period for anticipated forfeitures.

We estimate the fair value of each stock-based award on the measurement date using either the current market price or the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to the expected stock price volatility, the expected term of the option, a risk-free interest rate and a dividend yield. The expected volatility is based on the historical volatility of our stock price. The expected term is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free interest rate is based on the yield of zero-coupon U.S. Treasury securities for the period that is commensurate with the expected option term at the time of grant. The expected

dividend yield is based on our historical behavior and future expectations of dividend declarations. Many of these assumptions are highly subjective and require the exercise of management judgment. If management made different estimates or judgments, material differences in the amount of stock-based compensation may occur.

Investments in Debt Securities

We have approximately $26.3 million at fair value (par value of $30.7 million) in investments related to ARS, all of which are classified as noncurrent at November 30, 2012. For each of our ARS, we evaluate the risks related to the structure, collateral and liquidity of the investment, and forecast the probability of issuer default, auction failure and a successful auction at par, or a redemption at par, for each future auction period. Based on the results of this assessment, we record either a mark-to-market adjustment in accumulated other comprehensive income or an other-than-temporary impairment charge in other income in our consolidated statements of income. If we use different assumptions or the credit rating of either the security issuer or the third-party insurer underlying the investments deteriorates, we may be required to adjust the carrying value of our available-for-sale ARS through an other-than-temporary impairment charge in current period earnings.

Restructuring Charges

We periodically record restructuring charges resulting from restructuring our operations (including consolidations and/or relocations of operations), changes to our strategic plan, or managerial responses to declines in demand, increasing costs, or other market factors. The determination of restructuring charges requires management judgment and may include costs related to employee benefits, such as costs of severance and termination benefits, and estimates of costs for future lease commitments on excess facilities, net of estimated future sublease income. In determining the amount of the facilities charge, we are required to estimate such factors as future vacancy rates, the time required to sublet properties and sublease rates. These estimates are reviewed quarterly based on known real estate market conditions and the credit-worthiness of subtenants, and may result in revisions to established facility reserves.

Business Combinations

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The estimates used to value the net assets acquired are based in part on historical experience and information obtained from the management of the acquired company. We generally value the identifiable intangible assets acquired using a discounted cash flow model. The significant estimates used in valuing certain of the intangible assets include, but are not limited to: future expected cash flows of the asset, discount rates to determine the present value of the future cash flows, attrition rates of customers, and expected technology life cycles. We also estimate the useful lives of the intangible assets based on the expected period over which we anticipate generating economic benefit from the asset.

Our estimates of fair value are based on assumptions believed to be reasonable at that time. If management made different estimates or judgments, material differences in the fair values of the net assets acquired may result.

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-08, Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment (ASU 2011-08), to allow entities to use a qualitative approach to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If after performing the qualitative assessment an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to

perform the first step of the two-step goodwill impairment test. ASU 2011-08 is effective for us in fiscal year 2013. We adopted ASU 2011-08 for our fiscal year 2013 annual impairment test, which occurs in our first quarter and was completed prior to the filing of this Annual Report. The adoption did not have any impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) — Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05 (ASU 2011-12), which defers the effective date of only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. ASU 2011-05 is effective for us in our

first quarter of fiscal year 2013 and should be applied retrospectively. The adoption of ASU 2011-05 and ASU 2011-12 is not anticipated to have any impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. We adopted ASU 2011-04 in our second quarter of fiscal year 2012 and have applied the provisions prospectively. The adoption of ASU 2011-04 did not have any impact on our financial position, results of operations or cash flows, but increased the disclosures included in the notes to the consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of risks, including changes in interest rates affecting the return on our investments and foreign currency fluctuations. We have established policies and procedures to manage our exposure to fluctuations in interest rates and foreign currency exchange rates.

Exposure to market rate risk for changes in interest rates relates to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. We place our investments with high-quality issuers and have policies limiting, among other things, the amount of credit exposure to any one issuer. We seek to limit default risk by purchasing only investment-grade securities. Our investments have an average remaining maturity of less than two years or interest-rate resets of less than 60 days and are primarily fixed-rate instruments. In addition, we have classified the majority of our debt securities as available-for-sale. The available-for-sale classification reduces the consolidated statements of income exposure to interest rate risk if such investments are held until their maturity date because changes in fair value due to market changes in interest rates are recorded on the consolidated balance sheet in accumulated other comprehensive income. Based on a hypothetical 10% adverse movement in interest rates, the potential losses in future earnings, fair value of risk-sensitive instruments and cash flows are immaterial. Additionally, see further discussion regarding market risks with our investments in auction rate securities under Liquidity and Capital Resources in Item 7 of this Annual Report.

We generally use foreign currency option contracts that are not designated as hedging instruments to hedge economically a portion of forecasted international cash flows for up to one year in the future. Principal currencies hedged include the euro, British pound, Brazilian real, Japanese yen and Australian dollar. We do not enter into derivative instruments for speculative purposes. During fiscal year 2012, we did not hold any foreign currency option contracts.

We also use forward contracts that are not designated as hedging instruments to hedge economically the impact of the variability in exchange rates on accounts receivable and collections denominated in certain foreign currencies. We generally do not hedge the net assets of our international subsidiaries. All forward contracts are recorded at fair value in other current assets on the consolidated balance sheets at the end of each reporting period and expire within 90 days. In fiscal year 2012, realized and unrealized losses of $0.2 million from our forward contracts were recognized in other income in the consolidated statement of income. These losses were substantially offset by realized and unrealized gains on the offsetting positions.

Foreign currency translation exposure from a 10% movement of currency exchange rates would have a material impact on our reported revenue and net income. Based on a hypothetical 10% adverse movement in all foreign currency exchange rates, our revenue would be adversely affected by approximately 5% and our net income would be adversely affected by approximately 10% (excluding any offsetting positive impact from our ongoing hedging

programs), although the actual effects may differ materially from the hypothetical analysis.

The table below details outstanding foreign currency forward and option contracts at November 30, 2012 and 2011 where the notional amount is determined using contract exchange rates (in thousands):

	November 30, 2012		November 30, 2011	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	$6,453	$4	$2,180	$(54)
Forward contracts to purchase U.S. dollars	31,465	(190)	36,275	106
Total	$37,918	$(186)	$38,455	$52

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Progress Software Corporation
Bedford, Massachusetts

We have audited the accompanying consolidated balance sheets of Progress Software Corporation and subsidiaries (the "Company") as of November 30, 2012 and 2011, and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for each of the three years in the period ended November 30, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Progress Software Corporation and subsidiaries as of November 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, the Company is divesting the product lines within it non-core segment. The operating results as well as any gains or losses on sales are included in income (loss) from discontinued operations, net in the accompanying financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of November 30, 2012, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 29, 2013 expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
January 29, 2013

Consolidated Financial Statements

Consolidated Balance Sheets

(In thousands, except share data)	November 30, 2012	November 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$301,792	$161,095
Short-term investments	53,425	100,321
Total cash, cash equivalents and short-term investments	355,217	261,416
Accounts receivable (less allowances of $3,024 in 2012 and $6,683 in 2011)	70,793	110,927
Other current assets	16,478	22,110
Deferred tax assets	16,301	13,458
Assets held for sale	68,029	—
Total current assets	526,818	407,911
Property and equipment, net	63,071	66,206
Intangible assets, net	5,119	64,408
Goodwill	226,110	256,211
Deferred tax assets	26,565	30,361
Investments in auction rate securities	26,321	33,539
Other assets	10,973	5,627
Total assets	$884,977	$864,263
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt	$—	$357
Accounts payable	10,477	7,039
Accrued compensation and related taxes	39,105	31,245
Income taxes payable	21,486	6,048
Other accrued liabilities	39,876	35,728
Short-term deferred revenue	103,925	145,727
Liabilities held for sale	25,285	—
Total current liabilities	240,154	226,144
Long-term deferred revenue	2,817	6,619
Deferred tax liabilities	1,032	1,533
Other noncurrent liabilities	2,575	4,857
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, $.01 par value; authorized, 1,000,000 shares; issued, none	—	—
Common stock, $.01 par value; authorized, 200,000,000 shares; issued and outstanding, 59,594,961 in 2012 and 61,788,629 in 2011	596	619
Additional paid-in capital	299,737	308,602
Retained earnings	348,830	327,542
Accumulated other comprehensive loss	(10,764)	(11,653)
Total shareholders' equity	638,399	625,110
Total liabilities and shareholders' equity	$884,977	$864,263

See notes to consolidated financial statements.

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Consolidated Statements of Income

(In thousands, except per share data)	Fiscal Year Ended November 30, 2012	November 30, 2011	November 30, 2010
Revenue:			
Software licenses	$113,270	$125,966	$125,680
Maintenance and services	221,935	234,738	225,930
Total revenue	335,205	360,704	351,610
Costs of revenue:			
Cost of software licenses	6,112	5,430	5,229
Cost of maintenance and services	36,192	37,238	30,144
Amortization of acquired intangibles	1,259	2,600	5,780
Total costs of revenue	43,563	45,268	41,153
Gross profit	291,642	315,436	310,457
Operating expenses:			
Sales and marketing	117,855	102,618	91,974
Product development	53,017	44,876	50,080
General and administrative	62,053	61,816	51,413
Amortization of acquired intangibles	962	966	2,803
Restructuring expenses	8,100	3,383	22,711
Acquisition-related expenses	215	536	—
Total operating expenses	242,202	214,195	218,981
Income from operations	49,440	101,241	91,476
Other income (expense):			
Interest income and other	2,574	1,999	3,132
Foreign currency (loss) gain	(2,378)	(2,518)	626
Total other income (expense), net	196	(519)	3,758
Income from continuing operations before income taxes	49,636	100,722	95,234
Provision for income taxes	17,032	34,380	32,666
Income from continuing operations	32,604	66,342	62,568
Income (loss) from discontinued operations, net	14,840	(6,713)	(14,470)
Net income	$47,444	$59,629	$48,098
Earnings per share:			
Basic:			
Continuing operations	$0.52	$1.01	$0.98
Discontinued operations	0.24	(0.10)	(0.23)
Net income per share	$0.75	$0.91	$0.75
Diluted:			
Continuing operations	$0.51	$0.98	$0.94
Discontinued operations	0.23	(0.10)	(0.22)
Net income per share	$0.74	$0.88	$0.73
Weighted average shares outstanding:			
Basic	62,881	65,705	63,957
Diluted	63,741	67,540	66,212

See notes to consolidated financial statements.

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Consolidated Statements of Shareholders' Equity and Comprehensive Income

(in thousands)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Comprehensive Income
Balance, December 1, 2009	60,906	$609	$246,656	$312,588	$ (1,986)	$ 557,867	
Issuance of stock under employee stock purchase plan	604	6	6,203	—	—	6,209	
Exercise of stock options	6,291	63	87,398	—	—	87,461	
Issuance of shares to Board of Directors	24	—	—	—	—	—	
Vesting of restricted stock units	285	3	—	—	—	3	
Withholding tax payments related to net issuance of restricted stock units	(86)	(1)	(1,858)	—	—	(1,859)	
Tax benefit arising from employee stock purchase plan, stock options and restricted share activity	—	—	9,463	—	—	9,463	
Stock-based compensation	—	—	18,121	—	—	18,121	
Treasury stock repurchases and retirements	(1,496)	(15)	(19,045)	(10,277)	—	(29,337)	
Unrealized loss on investments, net of tax of $294	—	—	—	—	(207)	(207)	$ (207)
Net income	—	—	—	48,098	—	48,098	48,098
Translation adjustment	—	—	—	—	(5,546)	(5,546)	(5,546)
Balance, November 30, 2010	66,528	665	346,938	350,409	(7,739)	690,273	42,345
Issuance of stock under employee stock purchase plan	594	6	6,838	—	—	6,844	
Exercise of stock options	2,755	28	42,800	—	—	42,828	
Issuance of shares to Board of Directors	31	—	—	—	—	—	
Vesting of restricted stock units	386	4	—	—	—	4	
Withholding tax payments related to net issuance of restricted stock units	(114)	(1)	(2,705)	—	—	(2,706)	
Tax benefit arising from employee stock purchase plan, stock options and restricted share activity	—	—	6,162	—	—	6,162	
Stock-based compensation	—		25,999	—	—	25,999	
	(8,391)	(84)	(117,429)	(82,496)	—	(200,009)	

Treasury stock repurchases and retirements							
Unrealized gain on investments, net of tax of $76	—	—	—	—	354	354	354
Net income	—	—	—	59,629	—	59,629	59,629
Translation adjustment	—	—	—	—	(4,268)	(4,268)	(4,268)
Balance, November 30, 2011	61,789	618	308,603	327,542	(11,653)	625,110	55,715

Issuance of stock under employee stock purchase plan	376	4	5,650	—	—	5,654	
Exercise of stock options	1,488	15	23,420	—	—	23,435	
Vesting of restricted stock units	625	6	—	—	—	6	
Withholding tax payments related to net issuance of restricted stock units	(189)	(2)	(4,153)	—	—	(4,155)	
Tax benefit arising from employee stock purchase plan, stock options and restricted share activity	—	—	167	—	—	167	
Stock-based compensation	—	—	28,233	—	—	28,233	
Treasury stock repurchases and retirements	(4,494)	(45)	(62,183)	(26,156)	—	(88,384)	
Unrealized gain on investments, net of tax of $527	—	—	—	—	1,527	1,527	1,527
Net income	—	—	—	47,444	—	47,444	47,444
Translation adjustment	—	—	—	—	(638)	(638)	(638)
Balance, November 30, 2012	59,595	$596	$299,737	$348,830	$(10,764)	$638,399	$48,333

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

(In thousands)	Fiscal Year Ended November 30, 2012	November 30, 2011	November 30, 2010
Cash flows from operating activities:			
Net income	$47,444	$59,629	$48,098
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	9,305	8,832	10,859
Amortization of acquired intangibles and other	21,660	26,246	30,558
Stock-based compensation	28,233	25,999	18,121
Gain on sale of dispositions	(45,105)	—	—
Impairment loss on assets held for sale	8,601	—	—
Loss on sale of auction rate security	270	—	—
Loss on disposal of property and equipment	—	114	—
Asset impairment	898	—	—
Deferred income taxes	(22)	2,468	3,762
Tax benefit from stock plans	171	6,165	9,465
Excess tax benefits from stock plans	(1,590)	(6,238)	(6,046)
Allowances for accounts receivable	1,140	1,963	(1,400)
Changes in operating assets and liabilities:			
Accounts receivable	14,373	8,053	(18,971)
Other assets	1,547	2,709	(3,159)
Accounts payable and accrued liabilities	7,484	(24,679)	12,469
Income taxes payable and uncertain tax positions	17,617	9,640	(6,632)
Deferred revenue	(7,911)	5,393	(923)
Net cash flows from operating activities	104,115	126,294	96,201
Cash flows from investing activities:			
Purchases of investments	(27,924)	(152,658)	(38,632)
Sales and maturities of investments	74,065	84,441	33,318
Redemptions and sales of auction rate securities - available-for-sale	8,955	6,300	1,235
Redemptions of auction rate securities - trading	—	—	17,740
Purchases of property and equipment	(7,735)	(17,047)	(9,664)
Payments for acquisitions, net of cash acquired	—	(22,900)	(49,186)
Proceeds from divestitures, net	46,590	—	—
Decrease (increase) in other noncurrent assets	189	(433)	26
Net cash flows from investing activities	94,140	(102,297)	(45,163)
Cash flows from financing activities:			
Proceeds from stock-based compensation plans	29,208	49,672	93,670
Purchase of common stock related to withholding taxes from issuance of restricted stock units	(4,153)	(2,706)	(1,858)
Repurchase of common stock	(81,316)	(200,009)	(29,336)
Excess tax benefit from stock plans	1,590	6,238	6,046
Payment of long-term debt	(357)	(388)	(358)
Payment of issuance costs for line of credit	—	(795)	—
Net cash flows from financing activities	(55,028)	(147,988)	68,164
Effect of exchange rate changes on cash	(2,530)	(1,473)	(8,516)
Net increase (decrease) in cash and equivalents	140,697	(125,464)	110,686

Cash and equivalents, beginning of year	161,095	286,559	175,873
Cash and equivalents, end of year	$301,792	$161,095	$286,559

Supplemental disclosure:			
Cash paid for income taxes, net of refunds of $1,987 in 2012, $9,183 in 2011 and $2,127 in 2010	$15,337	$9,545	$15,911
Non-cash financing activity:			
Total fair value of restricted stock awards, restricted stock units and deferred stock units on date vested	$13,886	$9,160	$6,333
Unsettled repurchases of common stock	$7,068	$—	$—

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

Note 1: Nature of Business and Summary of Significant Accounting Policies

The Company

We are a global software company that simplifies and enables the development, deployment and management of business applications on-premise or on any Cloud, on any platform and on any device with minimal IT complexity and low total cost of ownership. Our products are generally sold as perpetual licenses, but certain products and business activities also use term or subscription licensing models. We also provide product maintenance, consulting, training, and customer support services.

During the second quarter of fiscal year 2012, we announced a new strategic plan (the "Plan"). Under the Plan, we have begun to combine our OpenEdge, DataDirect and Decision Analytics (comprised of Apama, Corticon and the Progress Control Tower) product lines (the "Core" product lines) into a single, cohesive offering. Under the Plan, we have also largely completed the process of divesting our ten non-Core product lines: Actional, Artix, DataXtend, FuseSource, ObjectStore, Orbacus, Orbix, Savvion, Shadow and Sonic.

Accounting Principles

We prepare our consolidated financial statements and accompanying notes in conformity with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Basis of Consolidation

The consolidated financial statements include our accounts and those of our subsidiaries (all of which are wholly-owned). We eliminate all intercompany balances and transactions.

Foreign Currency Translation

The functional currency of most of our foreign subsidiaries is the local currency in which the subsidiary operates. For foreign operations where the local currency is considered to be the functional currency, we translate assets and liabilities into U.S. dollars at the exchange rate on the balance sheet date. We translate income and expense items at average rates of exchange prevailing during each period. We accumulate translation adjustments in accumulated other comprehensive loss, a component of shareholders’ equity.

For foreign operations where the U.S. dollar is considered to be the functional currency, we translate monetary assets and liabilities into U.S. dollars at the exchange rate on the balance sheet date. We re-measure non-monetary assets and liabilities into U.S. dollars at historical exchange rates. We translate income and expense items at average rates of exchange prevailing during each period. We recognize translation adjustments currently as a component of foreign currency (loss) gain in the statements of income.

Immaterial Correction of Prior Period Amounts

In the third quarter of fiscal 2012, in connection with the filing of our Federal income tax return, we undertook a review of our income taxes payable. As part of the review, we identified errors relating to prior fiscal year financial statements. The errors relate to improper entries to income taxes payable as part of accounting for uncertain tax positions, purchase accounting, accounting for deferred tax assets and return to provision adjustments and had the cumulative impact of overstating income taxes payable, goodwill, deferred tax assets and the provision for income taxes in prior periods.

The errors are immaterial to all annual and quarterly periods previously presented. However, because the cumulative impact of the errors would have been significant to the current period consolidated statement of income if corrected in the current period, we have corrected the prior period financial statements to reflect the corrections in the periods they occurred (see "Adjustment" column in the tables below).

The effect of the corrections to the consolidated balance sheet as of November 30, 2011, is as follows (in thousands):

	As Previously Reported	Impact of Purchase Accounting Measurement Period Adjustments	Adjustment	As Corrected
Assets:				
Other current assets	$21,143	—	$967	$22,110
Deferred tax assets	14,291	—	(833)	13,458
Total current assets	407,777	—	134	407,911
Goodwill	263,239	(5,415)	(1,613)	256,211
Total assets	865,310	432	(1,479)	864,263
Liabilities and shareholders' equity:				
Income taxes payable	11,412	—	(5,364)	6,048
Total current liabilities	231,508	—	(5,364)	226,144
Other noncurrent liabilities	3,350	432	1,075	4,857
Retained earnings	326,135	—	1,407	327,542
Accumulated other comprehensive loss	(13,056)	—	1,403	(11,653)
Total shareholders' equity	622,300	—	2,810	625,110
Total liabilities and shareholders' equity	865,310	432	(1,479)	864,263

The effect of the corrections to the consolidated statement of income for the year ended November 30, 2011, is as follows (in thousands, except per share data; per share data may not foot due to rounding):

	As Previously Reported	Impact of Discontinued Operations	Adjustment	As Corrected
Provision for income taxes	$28,943	$6,305	$(868)	$34,380
Income from continuing operations	—	65,474	868	66,342
Net income	58,761	—	868	59,629
Earnings per share:				
Basic:				
Continuing operations	—	1.00	0.01	1.01
Net income per share	0.89	—	0.01	0.91
Diluted:				
Continuing operations	—	0.97	0.01	0.98
Net income per share	0.87	—	0.01	0.88

The effect of the corrections to the consolidated statement of income for the year ended November 30, 2010, is as follows (in thousands, except per share data; per share data may not foot due to rounding):

	As Previously Reported	Impact of Discontinued Operations	Adjustment	As Corrected
Provision for income taxes	$22,857	$9,565	$244	$32,666
Income from continuing operations	—	62,812	(244)	62,568
Loss from discontinued operations	—	(14,241)	(229)	(14,470)
Net income	48,571	—	(473)	48,098
Earnings per share:				
Basic:				
Continuing operations	—	0.98	—	0.98
Discontinued operations	—	(0.22)	—	(0.23)
Net income per share	0.76	—	(0.01)	0.75
Diluted:				
Continuing operations	—	0.95	—	0.94
Discontinued operations	—	(0.22)	—	(0.22)
Net income per share	0.73	—	(0.01)	0.73

The effect of the corrections to the consolidated statements of shareholders' equity for the years ended November 30, 2011 and 2010, is as follows (in thousands):

	Fiscal Year Ended 2011			Fiscal Year Ended 2010		
	As Previously Reported	Adjustment	As Corrected	As Previously Reported	Adjustment	As Corrected
Total stockholders' equity, beginning of period	$688,331	$1,942	$690,273	$555,452	$2,415	$557,867
Retained earnings:						
Retained earnings, beginning of year	349,870	539	350,409	311,576	1,012	312,588
Net income	58,761	868	59,629	48,571	(473)	48,098
Retained earnings, end of year	326,135	1,407	327,542	349,870	539	350,409
Accumulated other comprehensive loss:						
Accumulated other comprehensive loss, beginning of year	(9,142)	1,403	(7,739)	(3,389)	1,403	(1,986)
Accumulated other comprehensive loss, end of year	(13,056)	1,403	(11,653)	(9,142)	1,403	(7,739)
Total stockholders' equity, end of period	622,300	2,810	625,110	688,331	1,942	690,273

The effect of the corrections to the consolidated statements of cash flows for the years ended November 30, 2011 and 2010, is as follows (in thousands):

	Fiscal Year Ended 2011			Fiscal Year Ended 2010		
	As Previously Reported	Adjustment	As Corrected	As Previously Reported	Adjustment	As Corrected
Cash flows from operating activities:						
Net income	$58,761	$868	$59,629	$48,571	$(473)	$48,098
Adjustments to reconcile net income to net cash provided by operating activities:						
Deferred income taxes	1,869	599	2,468	4,004	(242)	3,762
Changes in operating assets and liabilities:						
Income taxes payable and uncertain tax positions	11,107	(1,467)	9,640	(7,347)	715	(6,632)

Cash Equivalents and Investments

Cash equivalents include short-term, highly liquid investments purchased with remaining maturities of three months or less. We classify investments, which consist of auction rate securities (ARS), state and municipal bond obligations, U.S. government securities, certificates of deposit and corporate bonds and notes, as investments available-for-sale, which are stated at fair value. We include aggregate unrealized holding gains and losses, net of taxes, on available-for-sale securities as a component of accumulated other comprehensive loss in shareholders' equity. We classify investments in mutual funds where the underlying securities are predominantly Brazilian government bonds as trading securities, which are stated at fair value. We include realized and unrealized gains and losses on trading securities in other (expense) income on the consolidated statements of income.

During fiscal year 2011, we determined certain highly-liquid bond obligations and Brazilian mutual funds, which had previously been classified as cash equivalents, did not meet the definition of a cash equivalent. At November 30, 2011 we have classified these securities as short-term investments. At November 30, 2010, $9.0 million was classified as cash equivalents but should have been classified as short-term investments. This amount was also reflected in our cash and equivalents balance in our consolidated statements of cash flows for the year ended November 30, 2010, but should have been reflected in our cash flows from investing activities. We evaluated the error and do not believe the amount is material to our consolidated financial statements for any prior period. We have not restated our previously issued consolidated financial statements, or revised any prior period amounts within these financial statements as a result of this item.

We monitor our investment portfolio for impairment on a periodic basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other than temporary, an impairment charge is recorded and a new cost basis for the investment is established.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. We establish this allowance using estimates that we make based on factors such as the composition of the accounts receivable aging, historical bad debts, changes in payment patterns, changes to customer

creditworthiness and current economic trends.

A summary of activity in the allowances for doubtful accounts is as follows (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Beginning balance	$6,683	$4,980	$7,650
Charge (benefit) to costs and expenses	1,140	1,963	(1,400)
Write-offs and other	(5,094)	(117)	(981)
Translation adjustments	295	(143)	(289)
Ending balance	$3,024	$6,683	$4,980

In fiscal year 2012, we wrote-off significantly aged receivables which had been previously allowed for. Our net accounts receivable balance and bad debt expense were not impacted, but our gross accounts receivable and allowance for doubtful accounts balances decreased.

Concentrations of Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments, derivative instruments and trade receivables. We have cash investment policies which, among other things, limit investments to investment-grade securities. We hold our cash and cash equivalents, investments and derivative instrument contracts with high quality financial institutions and we monitor the credit ratings of those institutions. We perform ongoing credit evaluations of our customers, and the risk with respect to trade receivables is further mitigated by the diversity, both by geography and by industry, of the customer base. No single customer represented more than 10% of consolidated accounts receivable or revenue in fiscal years 2012, 2011 or 2010.

Fair Value of Financial Instruments

The carrying amount of our cash and cash equivalents, accounts receivable and accounts payable approximates fair value due to the short-term nature of these items. We base the fair value of short-term investments on quoted market prices at the balance sheet date. The fair value of ARS is based on a valuation methodology utilizing discounted cash flow models (Note 2) due to the absence of quoted market prices. We measure and record derivative financial instruments at fair value (Note 3). We elect fair value measurement for certain financial assets on a case-by-case basis.

Derivative Instruments

We record all derivatives, whether designated in hedging relationships or not, on the consolidated balance sheets at fair value. We use derivative instruments to manage exposures to fluctuations in the value of foreign currencies, which exist as part of our ongoing business operations. Certain assets and forecasted transactions are exposed to foreign currency risk. Our objective for holding derivatives is to eliminate or reduce the impact of these exposures. We periodically monitor our foreign currency exposures to enhance the overall economical effectiveness of our foreign currency hedge positions. Principal currencies hedged include the euro, British pound, Brazilian real, Japanese yen and Australian dollar. We do not enter into derivative instruments for speculative purposes, nor do we hold or issue any derivative instruments for trading purposes.

We enter into certain derivative instruments that do not qualify for hedge accounting and are not designated as hedges. Although these derivatives do not qualify for hedge accounting, we believe that such instruments are closely correlated with the underlying exposure, thus managing the associated risk. The gains or losses from changes in the fair value of such derivative instruments that are not accounted for as hedges are recognized in earnings in other

income (expense) in the consolidated statements of income.

Property and Equipment

We record property and equipment at cost. We record property and equipment purchased in business combinations at fair values which are then treated as the cost. We provide for depreciation and amortization on the straight-line method over the estimated useful lives of the related assets or the remaining initial or current terms of leases, whichever is shorter. Useful lives by major asset class are as follows: computer equipment and software, three to seven years; buildings and improvements, five to thirty-nine years; and furniture and fixtures, five to seven years.

Goodwill, Intangible Assets and Long-Lived Assets

Goodwill is the amount by which the cost of acquired net assets in a business combination exceeded the fair value of net identifiable assets on the date of purchase. We evaluate goodwill and other intangible assets with indefinite useful lives, if any, for impairment annually on December 15 or on an interim basis when events and circumstances arise that indicate impairment may have occurred. To conduct these impairment tests of goodwill, we compare the fair value of a reporting unit to its carrying value. If the reporting unit's carrying value exceeds its fair value, we record an impairment loss to the extent that the carrying value of goodwill exceeds its implied fair value. We estimate the fair values of our reporting units using discounted cash flow models or other valuation models, such as comparative transactions and market multiples.

We periodically review long-lived assets (primarily property and equipment) and intangible assets with finite lives (purchased technology, capitalized software and customer-related intangibles, which we amortize using the pattern in which the economic benefit will be realized or using the straight-line method if a pattern cannot be reliably determined) for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of those assets are no longer appropriate. We base each impairment test on a comparison of the undiscounted cash flows to the carrying value of the asset. If impairment is indicated, we write down the asset to its estimated fair value based on a discounted cash flow analysis. We recorded no impairment losses in fiscal years 2011 and 2010. In fiscal year 2012 we recorded an impairment loss of $0.9 million related to assets no longer deployed as part of cost reduction strategies associated with our restructuring action.

Comprehensive Loss

The components of comprehensive loss include, in addition to net income, unrealized gains and losses on investments and foreign currency translation adjustments.

Accumulated other comprehensive loss is comprised of the following components (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Accumulated unrealized losses on investments	$(2,581)	$(4,108)	$(4,462)
Cumulative translation adjustment	(8,183)	(7,545)	(3,277)
Total accumulated comprehensive loss, net of tax	$(10,764)	$(11,653)	$(7,739)

The tax effect on accumulated unrealized losses on investments was $1.5 million, $2.0 million and $2.1 million at November 30, 2012, 2011 and 2010, respectively.

Revenue Recognition

We recognize software license revenue upon shipment of the product or, if delivered electronically, when the customer has the right to access the software, provided that the license fee is fixed or determinable, persuasive evidence of an arrangement exists and collection is probable. We do not license our software with a right of return and generally do not license our software with conditions of acceptance. If an arrangement does contain conditions of acceptance, we defer recognition of the revenue until the acceptance criteria are met or the period of acceptance has passed. If software licenses are sold on a subscription basis, we recognize the license fee ratably over the subscription period. We generally recognize revenue for products distributed through application partners and distributors when sold through to the end-user.

We generally sell our software licenses with maintenance services and, in some cases, also with consulting services. For the undelivered elements, we determine vendor-specific objective evidence (VSOE) of fair value to be the price charged when the undelivered element is sold separately. We determine VSOE for maintenance sold in connection with a software license based on the amount that will be separately charged for the maintenance renewal period. We determine VSOE for consulting services by reference to the amount charged for similar engagements when a software license sale is not involved.

We generally recognize revenue from software licenses sold together with maintenance and/or consulting services upon shipment using the residual method, provided that the above criteria have been met. If VSOE of fair value for the undelivered elements cannot be established, we defer all revenue from the arrangement until the earlier of the point at which such sufficient VSOE does exist or all elements of the arrangement have been delivered, or if the only undelivered element is maintenance,

then we recognize the entire fee ratably over the maintenance period. If payment of the software license fees is dependent upon the performance of consulting services or the consulting services are essential to the functionality of the licensed software, then we recognize both the software license and consulting fees using the completed contract method. We recognize maintenance revenue ratably over the term of the applicable agreement. We generally recognize revenue from services, primarily consulting and customer education, as the related services are performed.

Product Development Costs

We expense product development costs as incurred. We did not capitalize any software development costs related to product development in fiscal years 2012, 2011 or 2010.

Advertising Costs

Advertising costs are expensed as incurred and were $1.5 million, $2.9 million and $2.5 million in fiscal years 2012, 2011 and 2010, respectively.

Warranty Costs

We make periodic provisions for expected warranty costs. Historically, warranty costs have been insignificant.

Stock-Based Compensation

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

Restructuring Charges

Our restructuring charges are comprised primarily of costs related to property abandonment, including future lease commitments, net of any sublease income, and associated leasehold improvements; and employee termination costs related to headcount reductions. We recognize and measure restructuring liabilities initially at fair value when the liability is incurred.

Income Taxes

We provide for deferred income taxes resulting from temporary differences between financial and taxable income. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized.

We recognize and measure uncertain tax positions taken or expected to be taken in a tax return utilizing a two-step approach. We first determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is that we measure the tax benefit as the largest amount that is more likely than not to be realized upon ultimate settlement. We recognize interest and penalties related to uncertain tax positions in our provision for income taxes on our consolidated statements of income.

Recent Accounting Pronouncements

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

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

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. We adopted ASU 2011-04 in our second quarter of fiscal year 2012 and have applied the provisions prospectively. The adoption of ASU 2011-04 did not have any impact on our financial position, results of operations or cash flows, but increased the disclosures included in the notes to the consolidated financial statements.

Note 2: Cash, Cash Equivalents and Investments

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

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses		Fair Value
Cash	$176,201	$—	$—		$176,201
Money market funds	125,591	—	—		125,591
State and municipal bond obligations	50,565	255	(2	)	50,818
Auction rate securities – municipal bonds	27,175	—	(3,755	)	23,420
Auction rate securities – student loans	3,500	—	(599	)	2,901
Corporate bonds	2,608	—	(1	)	2,607
Total	$385,640	$255	$(4,357	)	$381,538

A summary of our cash, cash equivalents and trading and available-for-sale investments at November 30, 2011 is as follows (in thousands):

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses		Fair Value
Cash	$134,890	$—	$—		$134,890
Money market funds	24,220	—	—		24,220
State and municipal bond obligations	84,193	221	(16	)	84,398
Brazilian mutual funds	15,346	—	—		15,346
Auction rate securities – municipal bonds	27,200	—	(4,269	)	22,931
Auction rate securities – student loans	12,700	—	(2,092	)	10,608
Corporate bonds	2,562	—	—		2,562
Total	$301,111	$221	$(6,377	)	$294,955

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

	November 30, 2012			November 30, 2011		
	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	$176,201	$—	$—	$134,890	$—	$—
Money market funds	125,591	—	—	24,220	—	—
State and municipal bond obligations	—	50,818	—	1,985	82,413	—
Brazilian mutual funds	—	—	—	—	15,346	—
Auction rate securities – municipal bonds	—	—	23,420	—	—	22,931
Auction rate securities – student loans	—	—	2,901	—	—	10,608
Corporate bonds	—	2,607	—	—	2,562	—
Total	$301,792	$53,425	$26,321	$161,095	$100,321	$33,539

For each of the ARS, we evaluated the risks related to the structure, collateral and liquidity of the investment, and forecasted the probability of issuer default, auction failure and a successful auction at par or a redemption at par for each future auction period. The weighted average cash flow for each period was then discounted back to present value for each security. Based on this methodology, we determined that the fair value of our ARS investments is $26.3 million and $33.5 million at November 30, 2012 and 2011, respectively. The temporary impairment recorded in accumulated other comprehensive loss to reduce the value of our available-for-sale ARS investments was $4.4 million and $6.4 million at November 30, 2012 and 2011, respectively.

We will not be able to access the funds associated with our ARS investments until a future auction for these ARS is successful, we sell the securities in a secondary market, or they are redeemed by the issuer. As such, these remaining investments currently lack short-term liquidity and are therefore classified as long-term investments on the consolidated balance sheets at November 30, 2012 and 2011.

Based on our cash, cash equivalents and short-term investments balance of $355.2 million, expected operating cash flows and the availability of funds under our revolving credit facility, we do not anticipate that the lack of liquidity associated with our ARS will adversely affect our ability to conduct business and believe we have the ability to hold the affected securities throughout the currently estimated recovery period. Therefore, the impairment of these securities is considered only temporary in nature. If the credit rating of either the security issuer or the third-party insurer underlying the investments deteriorates significantly, we may be required to adjust the carrying value of the ARS through an other-than-temporary impairment charge to earnings.

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

	November 30, 2012	November 30, 2011
Due in one year or less [(1)]	$55,001	$104,620
Due after one year	24,745	31,225
Total	$79,746	$135,845

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

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

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

Investments with continuous unrealized losses and their related fair values are as follows at November 30, 2011 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipal bond obligations	$24,585	$(16)	$—	$—	$24,585	$(16)
Auction rate securities – municipal bonds	—	—	22,931	(4,269)	22,931	(4,269)
Auction rate securities – student loans	—	—	10,608	(2,092)	10,608	(2,092)
Total	$24,585	$(16)	$33,539	$(6,361)	$58,124	$(6,377)

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

Note 3: Derivative Instruments

We generally use foreign currency option contracts that are not designated as hedging instruments to hedge economically a portion of forecasted international cash flows for up to one year in the future. All foreign currency option contracts are recorded at fair value in other current assets on the consolidated balance sheets at the end of each reporting period and expire within one year. In fiscal years 2011 and 2010, mark-to-market (losses) gains of $(0.5) million and $3.1 million, respectively, on foreign currency option contracts were recorded in other income (expense) in the consolidated statements of income. We did not hold any option contracts during fiscal year 2012.

We also use forward contracts that are not designated as hedging instruments to hedge economically the impact of the variability in exchange rates on accounts receivable and collections denominated in certain foreign currencies. We generally do not hedge the net assets of our international subsidiaries. All forward contracts are recorded at fair value in other current assets on the consolidated balance sheets at the end of each reporting period and expire within 90 days. In fiscal years 2012, 2011 and 2010, realized and unrealized losses of $0.2 million, $1.2 million, and $7.2 million, respectively, from our forward contracts were recognized in other income (expense) in the consolidated

statements of income. These losses were substantially offset by realized and unrealized gains on the offsetting positions.

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

	November 30, 2012		November 30, 2011	
	Notional Value	Fair Value	Notional Value	Fair Value
Forward contracts to sell U.S. dollars	$6,453	$4	$2,180	$(54)
Forward contracts to purchase U.S. dollars	31,465	(190)	36,275	106
Total	$37,918	$(186)	$38,455	$52

Note 4: Fair Value Measurements

Recurring Fair Value Measurements

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

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

The following table details the fair value measurements within the fair value hierarchy of our financial assets at November 30, 2011 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value	Level 1	Level 2	Level 3
Money market funds	$24,220	$24,220	$—	$—
State and municipal bond obligations	84,398	—	84,398	—
Brazilian mutual funds	15,346	15,346	—	—
Auction rate securities – municipal bonds	22,931	—	—	22,931
Auction rate securities – student loans	10,608	—	—	10,608
Corporate bonds	2,562	—	2,562	—
Foreign exchange derivatives	52	—	52	—

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

The valuation technique used to measure fair value for our Level 3 assets, which consists of our ARS, is an income approach, where the expected weighted average future cash flows are discounted back to present value for each asset. The significant unobservable inputs used in the fair value measurement of our ARS are the probability of earning the maximum rate until maturity, the probability of principal return prior to maturity, the probability of default, the liquidity risk premium and the

recovery rate in default. Changes in the underlying assumptions used to value the ARS could significantly impact the fair value estimates recorded in the consolidated balance sheets.

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

	November 30, 2012	November 30, 2011
Balance, beginning of period	$33,539	$39,643
Redemptions and sales	(6,255)	(6,300)
Transfer to Level 2 fair value measurement	(2,700)	—
Realized losses included in earnings	(270)	—
Unrealized gains included in accumulated other comprehensive loss	2,007	196
Balance, end of period	$26,321	$33,539

During the second quarter of fiscal year 2012, we received a redemption notice for one of our ARS at par value. We transferred the ARS to a Level 2 fair value measurement, as the value at the end of the second quarter was based on observable inputs. The ARS was redeemed in the third quarter of fiscal year 2012. During the fourth quarter of fiscal year 2012, we received a notice to tender one of our ARS, which we executed and recorded a realized loss in other income (expense) in the consolidated statement of income.

Nonrecurring Fair Value Measurements

The following table details our nonrecurring fair value measurements during fiscal year 2012 (in thousands):

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

The disposal group includes the assets and liabilities held for sale of the Artix, Orbacus and Orbix product lines, which has a fair value of $16.5 million (Note 7). The carrying value of $25.1 million was written down to fair value, less costs to sell, resulting in a loss of $8.6 million. The loss was recorded in income (loss) from discontinued operations.

We evaluate all of our assets held for sale using undiscounted cash flow models or other valuation models, such as comparative transactions and market multiples, to determine their fair values. However, a market approach was more heavily used to value the assets held for sale related to the divestitures of our non-Core product lines as part of the Plan. As bid and transaction values become apparent as we move through the marketing and divestiture process, the fair values of the assets held for sale is established. The impairment loss recorded for the Artix, Orbacus and Orbix product lines was primarily based on our expectations of a sale price as compared to our estimation of the net assets to be sold at closing. All other non-Core product lines have been sold at a gain in fiscal year 2012 or the first quarter of fiscal year 2013 (Note 7).

Note 5: Property and Equipment

Property and equipment consists of the following (in thousands):

	November 30, 2012	November 30, 2011
Computer equipment and software	$58,447	$60,797
Land, buildings and leasehold improvements	60,282	58,957
Furniture and fixtures	8,718	9,480
Property and equipment, gross	127,447	129,234
Less accumulated depreciation and amortization	(64,376)	(63,028)
Property and equipment, net	$63,071	$66,206

Note 6: Intangible Assets and Goodwill

Intangible Assets

Intangible assets are comprised of the following significant classes at November 30, 2012 and 2011 (in thousands):

	November 30, 2012			November 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	$42,520	$(40,066)	$2,454	$138,470	$(96,759)	$41,711
Customer-related and other	26,477	(23,812)	2,665	77,609	(54,912)	22,697
Total	$68,997	$(63,878)	$5,119	$216,079	$(151,671)	$64,408

The decrease in the gross carrying amount of our intangible assets, and associated accumulated amortization and net book value, is due to the divestitures that occurred in fiscal year 2012 and the intangible assets held for sale as of November 30, 2012 (Note 7).

We amortize intangible assets assuming no expected residual value. The weighted average amortization period for all intangible assets is 6.5 years, including 6.4 years for purchased technology and 6.6 years for customer-related and other intangible assets. Amortization expense related to these intangible assets was $2.2 million, $3.6 million and $8.6 million in fiscal years 2012, 2011 and 2010, respectively.

Future amortization expense for intangible assets as of November 30, 2012, is as follows (in thousands):

2013	$2,023
2014	1,245
2015	849
2016	345
2017	345
Thereafter	312
Total	$5,119

Goodwill

Changes in the carrying amount of goodwill for fiscal years 2012 and 2011, are as follows (in thousands):

	November 30, 2012	November 30, 2011
Balance, beginning of year	$256,211	$236,730
Additions	—	19,427
Disposals	(11,440)	—
Goodwill transfered to assets held for sale	(18,581)	—
Translation adjustments	(80)	54
Balance, end of year	$226,110	$256,211

During the third quarter of fiscal year 2012, in furtherance of the Plan, we changed the structure of our internal organization and the way we manage our business. As a result, our reportable segment information has been restated to reflect the current structure (Note 17). Our evaluation of reporting units was also reassessed and changed to reflect the current structure and operations. During the third quarter of fiscal year 2012, we reassigned goodwill to the new reporting units and reportable segments based on the relative fair values of the reporting units. This resulted in goodwill of $225.9 million being assigned to our Core segment and $30.0 million being assigned to our non-Core segment. As of November 30, 2012, all of the remaining goodwill is attributed to our Core segment. Changes in goodwill of our Core segment are the result of translation adjustments. Changes in goodwill of our non-Core segment are the result of the disposals and transfers to assets held for sale and translation adjustments.

The addition to goodwill during fiscal year 2011 is related to the acquisition of Corticon Technologies, Inc. (Corticon) in October 2011 (Note 8). The disposal of goodwill during fiscal year 2012 is related to the sales of our FuseSource and Shadow product lines (Note 7). The transfer of goodwill to assets held for sale is related to our Actional, Artix, DataXtend, ObjectStore, Orbacus, Orbix, Savvion and Sonic product lines (Note 7).

During fiscal year 2012, we tested goodwill for impairment at three different dates: our December 15 annual testing date and in the second and third quarters. The testing outside our annual date was based on our assessment that triggering events had occurred.

During the second quarter of fiscal year 2012, as a result of continued declines in the performance of certain of our old reporting units and in connection with the announcement of the Plan, we determined an impairment triggering event occurred that required us to perform an interim goodwill impairment test. The test indicated the our old reporting units had an estimated fair value that was in excess of their carrying values. However, the difference between the carrying value and fair value of our old Enterprise Business Solutions reporting unit had decreased since the December 15 annual test as a result of updates to our internal forecasts and projected cash flows.

During the third quarter of fiscal year 2012, in connection with the reassignment of goodwill to our new reporting units, we determined an impairment triggering event occurred that required us to perform an interim goodwill impairment test. We performed the test for both our old and new reporting units to ensure no impairment existed prior to the reassignment of goodwill or resulted after the reassignment of goodwill. The tests indicated that our reporting units under our old and new structures had estimated fair values that were in excess of their carrying values.

At the time of our filing of this Annual Report on Form 10-K, we have completed our annual goodwill impairment test for fiscal year 2013. At the testing date, the only goodwill remaining was that of our Core segment and reporting unit. The test indicated the reporting unit had an estimated fair value that was in excess of the carrying value.

We recorded no impairment losses in fiscal years 2012, 2011 or 2010.

Note 7: Divestitures

Shadow

In the fourth quarter of fiscal year 2012, we entered into a definitive purchase and sale agreement to divest our Shadow product line to Rocket Software, Inc. The divestiture of the Shadow product line was part of the Plan. The sale closed in October 2012, for total consideration of $33.0 million. Of the total consideration, $3.3 million is held in escrow to secure indemnification claims, if any, for up to 15 months. As of November 30, 2012, the escrow is included in other assets on the consolidated balance sheet.

Revenues and direct expenses of the Shadow product line have been reclassified as discontinued operations for all periods presented. The components included in discontinued operations on the consolidated statements of income are as follows (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Revenue	$12,518	$16,267	$15,561
Income (loss) before income taxes	4,882	4,067	(4,215)
Income tax provision (benefit)	164	1,079	(1,447)
Gain on sale, net of tax	12,692	—	—
Income (loss) from discontinued operations, net	$17,410	$2,988	$(2,768)

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

Purchase price	$31,903
Less: transaction costs	1,264
Less: net assets sold	
Accounts receivables	1,592
Goodwill and intangible assets	10,540
Other assets	103
Deferred revenue	(6,859)
Gain on sale	$25,263
Tax provision	12,571
Gain on sale, net of tax	$12,692

The total purchase price was reduced by $1.1 million, the amount of consideration received as part of the total $33.0 million of consideration from Rocket Software, Inc., for a three year distributor license agreement for one of our DataDirect products. The distributor license agreement does not constitute direct cash flows or significant continuing involvement of the Shadow product line, and thus does not preclude us from discontinued operations treatment.

FuseSource

In the third quarter of fiscal year 2012, we entered into a definitive purchase and sale agreement to divest our FuseSource product line to Red Hat, Inc. The divestiture of the FuseSource product line was part of the Plan. The sale closed in September 2012, for total consideration of $21.3 million. Of the total consideration, $2.1 million is held in escrow to secure indemnification claims, if any, for up to 15 months. As of November 30, 2012, the escrow is included in other assets on the consolidated balance sheet.

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Revenues and direct expenses of the FuseSource product line have been reclassified as discontinued operations for all periods presented. The components included in discontinued operations on the consolidated statements of income are as follows (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Revenue	$14,484	$14,820	$12,491
Loss before income taxes	(7,118)	(2,840)	(211)
Income tax benefit	(3,000)	(915)	(85)
Gain on sale, net of tax	11,187	—	—
Income (loss) from discontinued operations, net	$7,069	$(1,925)	$(126)

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

Purchase price	$21,300
Less: net assets sold	
Accounts receivables	2,749
Goodwill and intangible assets	3,690
Other assets	167
Deferred revenue	(5,148)
Gain on sale	$19,842
Tax provision	8,655
Gain on sale, net of tax	$11,187

Artix, Orbacus and Orbix

In the first quarter of fiscal year 2013, we entered into a definitive purchase and sale agreement to divest our Artix, Orbacus and Orbix product lines to a subsidiary of Micro Focus International plc (Micro Focus). The divestiture of these product lines was part of the Plan. The sale is expected to close in the first quarter of fiscal year 2013, subsequent to our fiscal year end, for total consideration of $15.0 million. As of November 30, 2012, we met the requirements to classify the sale of these product lines as both held for sale and discontinued operations in the consolidated financial statements.

The assets and liabilities being sold to Micro Focus are classified as assets and liabilities held for sale on the consolidated balance sheet as of November 30, 2012 and are recorded at the lower of their carrying values or fair values less costs to sell, and are no longer being depreciated or amortized. The major categories of the assets and liabilities held for sale are as follows (in thousands):

Assets:	
Accounts receivable	$6,046
Goodwill and intangible assets	24,325
Other long-term assets	4
Impairment reserve	(8,601)
Total assets held for sale	$21,774
Liabilities:	
Deferred revenue	$5,287
Total liabilities held for sale	$5,287

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Revenues and direct expenses of these product lines have been reclassified as discontinued operations for all periods presented. The components included in discontinued operations on the consolidated statements of income are as follows (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Revenue	$28,942	$33,983	$38,281
Income before income taxes	6,003	13,237	10,719
Income tax provision	3,562	3,596	2,273
Income from discontinued operations, net	$2,441	$9,641	$8,446

In the fourth quarter of fiscal year 2012, we recorded an impairment loss of $8.6 million related to the assets held for sale of the Artix, Orbacus and Orbix product lines. The impairment loss in included in income (loss) from discontinued operations.

Actional, DataXtend, ObjectStore, Savvion and Sonic

In the fourth quarter of fiscal year 2012, we entered into a definitive purchase and sale agreement to divest our Actional, DataXtend, Savvion and Sonic product lines to the investment arm of Trilogy Enterprises (Trilogy). In December 2012, the agreement was amended to include the sale of our ObjectStore product line. The divestiture of these product lines was part of the Plan. The sale closed in December 2012, subsequent to our fiscal year end, for total consideration of $60.5 million. As of November 30, 2012, we met the requirements to classify the sale of these product lines as both held for sale and discontinued operations in the consolidated financial statements.

The assets and liabilities being sold to Trilogy are classified as assets and liabilities held for sale on the consolidated balance sheet as of November 30, 2012 and are recorded at the lower of their carrying values or fair values less costs to sell, and are no longer being depreciated or amortized. The major categories of the assets and liabilities held for sale are as follows (in thousands):

Assets:	
Accounts receivable	$13,691
Other current assets	412
Goodwill and intangible assets	31,693
Other long-term assets	459
Total assets held for sale	$46,255
Liabilities:	
Deferred revenue	$19,998
Total liabilities held for sale	$19,998

Revenues and direct expenses of these product lines have been reclassified as discontinued operations for all periods presented. The components included in discontinued operations on the consolidated statements of income are as follows (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Revenue	$81,576	$107,821	$111,177
Loss before income taxes	(18,314)	(27,484)	(30,099)

Income tax benefit	(6,234)	(10,067)	(10,077)
Loss from discontinued operations, net	$(12,080)	$(17,417)	$(20,022)

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Note 8: Business Combinations

Corticon Acquisition

On October 26, 2011, we acquired all of the equity interests in Corticon, a privately held business enterprise software company based in Redwood City, California, for $23.0 million. Corticon is a business rules management system vendor that enables organizations to make better, faster decisions by automating business rules. The Corticon products became part of our Enterprise Business Solutions segment and are now included in our Core segment. The purpose of the acquisition was to expand the product offerings within the Enterprise Business Solutions segment. The acquisition was accounted for as a purchase, and accordingly, the results of operations of Corticon are included in our operating results from the date of acquisition. We paid the purchase price in cash from available funds.

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

	Preliminary Allocation	Final Allocation	Life
Accounts receivable	$835	$835	
Property and equipment	112	112	
Other assets	125	125	
Deferred taxes	(1,814)	4,033	
Acquired intangible assets	4,910	4,910	3 to 7 years
Goodwill	24,842	19,427	
Accounts payable and other liabilities	(2,471)	(2,903)	
Deferred revenue	(3,639)	(3,639)	
Net cash paid	$22,900	$22,900	

We recorded the excess of the purchase price over the identified tangible and intangible assets as goodwill. We believe that the investment value of the future enhancement of our product and solution offerings created as a result of this acquisition has principally contributed to a purchase price that resulted in the recognition of $19.4 million of goodwill, which is not deductible for tax purposes. The allocation of the purchase price was completed in the second quarter of fiscal year 2012, upon the finalization of our valuation of acquired deferred tax assets and liabilities.

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

Savvion Acquisition

On January 8, 2010, we acquired all of the equity interests in Savvion, Inc. (Savvion), a privately-held company, through a merger of Savvion with a wholly-owned subsidiary for an aggregate purchase price of $49.2 million. Savvion is a provider of business process management software. The purpose of the acquisition was to expand the product offerings within our old Enterprise Business Solutions segment. The acquisition was accounted for as a purchase, and accordingly, the results of operations of Savvion are included in our operating results from the date of acquisition. We paid the purchase price in cash from available funds.

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

	Total	Life
Accounts receivable	$5,120	
Deferred tax assets	2,927	
Other assets	854	
Acquired intangible assets	28,000	7 to 9 years
Goodwill	19,705	
Accounts payable and other liabilities	(4,413)	
Liabilities assumed, net of other assets	(3,007)	
Net cash paid	$49,186	

We recorded the excess of the purchase price over the identified tangible and intangible assets as goodwill. We believe that the investment value of the future enhancement of our product and solution offerings, has principally contributed to a purchase price that resulted in the recognition of $19.7 million of goodwill, which is not deductible for tax purposes.

We have not included pro forma financial information for Savvion as the historical operations were not significant to our consolidated financial statements. All of the revenues and expenses of Savvion have been included in discontinued operations. In fiscal years 2012, 2011 and 2010, revenues from Savvion were $18.1 million, $26.4 million and $18.5 million, respectively. In fiscal years 2012, 2011 and 2010, the net losses from Savvion included in our earnings were $10.5 million, $12.5 million and $8.6 million, respectively.

Note 9: Line of Credit

On August 15, 2011, we entered into a credit agreement (the "Credit Agreement") for an unsecured credit facility with J.P. Morgan and other lenders that matures on August 15, 2016, at which time all amounts outstanding must be repaid. The credit facility provides for a revolving line of credit in the amount of $150.0 million, with a sublimit for the issuance of standby letters of credit in a face amount up to $25.0 million and swing line loans up to $20.0 million. The credit facility also permits us to increase the revolving line of credit by up to an additional $75.0 million subject to receiving further commitments from lenders and certain other conditions. We intend to utilize the line of credit for general corporate purposes, including acquisitions, stock repurchases and working capital.

Revolving loans accrue interest at a per annum rate based on our choice of either (i) the LIBOR rate plus a margin ranging from 1.25% to 1.75% or (ii) the base rate plus a margin ranging from 0.25% to 0.75%, both depending on our consolidated leverage ratio. The base rate is defined as the highest of (i) the administrative agent’s prime rate (ii) the federal funds rate plus 0.50%, and (iii) the LIBOR rate for a one month interest period plus a margin equal to 1.00%. A quarterly commitment fee on the undrawn portion of the revolving credit facility is required, at a per annum rate ranging from 0.25% to 0.35%, depending on our consolidated leverage ratio. The loan origination fee and issuance costs incurred upon consummation of the Credit Agreement are being amortized through interest expense using the effective interest rate method, over the five year term of the facility. Other customary fees and letter of credit fees may be charged and will be expensed as they are incurred.

Accrued interest on the loans is payable quarterly in arrears with respect to base rate loans and at the end of each interest rate period (or at each three month interval in the case of loans with interest periods greater than three months) with respect to LIBOR rate loans. We may prepay, terminate or reduce the loan commitments in whole or in part at any time, without premium or penalty, subject to certain conditions and reimbursement of certain costs in the case of LIBOR rate loans. The Credit Agreement contains customary affirmative and negative covenants. We are also required to maintain compliance with a consolidated leverage ratio of no greater than 3.00 to 1.00 and a consolidated

interest coverage ratio of at least 3.00 to 1.00. As of November 30, 2012, there were no amounts outstanding under the revolving line and $0.3 million of letters of credit outstanding.

Note 10: Commitments and Contingencies

Leasing Arrangements

We lease certain facilities and equipment under non-cancelable operating lease arrangements. Future minimum rental payments under these leases are as follows at November 30, 2012 (in thousands):

2013	$8,045
2014	4,771
2015	3,553
2016	1,709
2017	1,153
Thereafter	2,236
Total	$21,467

Our operating lease arrangements are subject to customary renewal and base rental fee escalation clauses. Total rent expense, net of sublease income which is insignificant, under operating lease arrangements was approximately $9.4 million, $10.6 million and $8.9 million in fiscal years 2012, 2011 and 2010, respectively.

Guarantees and Indemnification Obligations

We include standard intellectual property indemnification provisions in our licensing agreements in the ordinary course of business. Pursuant to our product license agreements, we will indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally business partners or customers, in connection with certain patent, copyright or other intellectual property infringement claims by third parties with respect to our products. Other agreements with our customers provide indemnification for claims relating to property damage or personal injury resulting from the performance of services by us or our subcontractors. Historically, our costs to defend lawsuits or settle claims relating to such indemnity agreements have been insignificant. Accordingly, the estimated fair value of these indemnification provisions is immaterial.

Legal Proceedings

We are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these other legal matters will have a material effect on our financial position, results of operations or cash flows.

On January 21, 2010, JuxtaComm-Texas Software, LLC (JuxtaComm) filed a complaint in the Eastern District of Texas against Progress Software, 2 of our subsidiaries and 19 other defendants, alleging infringement of JuxtaComm's U.S. patent 6,195,662 ("System for Transforming and Exchanging Data Between Distributed Heterogeneous Computer Systems"). In its amended complaint, JuxtaComm alleged that certain of the products within our Sonic, FuseSource, DataDirect Connect and DataServices product sets infringe JuxtaComm's patent. In its complaint, JuxtaComm sought unspecified monetary damages and permanent injunctive relief.

In May 2010, we filed a response to this complaint in which we denied all claims. The discovery phase of this litigation was completed in November 2011 and trial was scheduled to begin on January 9, 2012. However, on December 2, 2011, the court issued a so-called Markman ruling, in which certain disputes were resolved regarding interpretations of the patent. In this ruling, the court agreed with us on a key issue which we believed would severely impair the plaintiff's claims. On December 8, 2011, the court issued an order staying the case until February 1, 2012

and gave JuxtaComm until February 1, 2012 to articulate an alternative theory and postponed the trial to an unspecified future date to fall in the second or third quarter of fiscal year 2012.

In February 2012, we began settlement discussions with JuxtaComm and, in March 2012, the matter was settled upon our payment of $0.9 million. The Company received a release and discharge of any past damages related to potential infringement of the subject patent and a non-exclusive, non-transferable, fully paid, worldwide, perpetual license covering all future uses of the subject patent within our products. We recorded the settlement in the first quarter of fiscal year 2012 as general and administrative expense in the consolidated statement of income.

Note 11: Shareholders' Equity

Preferred Stock

Our Board of Directors is authorized to establish one or more series of preferred stock and to fix and determine the number and conditions of preferred shares, including dividend rates, redemption and/or conversion provisions, if any, preferences and voting rights. As of November 30, 2012, there was no preferred stock issued or outstanding.

Common Stock

We have 200,000,000 shares of authorized common stock, $0.01 par value per share, of which 59,595,000 were issued and outstanding at November 30, 2012.

We issued 31,000 and 24,000 shares of common stock in fiscal years 2011 and 2010, respectively, with a fair value of $0.7 million and $0.5 million, respectively, to members of the Board the Directors as a component of the annual compensation paid to non-employee directors.

Restricted stock totaling 7,500 shares with a fair value of $0.1 million vested during fiscal year 2010. All outstanding restricted stock vested as of November 30, 2010.

There were 74,900 deferred stock units (DSUs) outstanding at November 30, 2012. Each DSU represents one share of our common stock and all DSU grants have been made to non-employee members of our Board of Directors. The DSUs granted prior to fiscal year 2011 were fully vested on the date of grant and do not have voting rights and can only be converted into common stock when the recipient ceases being a member of the Board of Directors. There were 21,700 DSUs granted in fiscal year 2011, of which 7,400 were vested as of November 30, 2012.

Common Stock Repurchases

During the second quarter of fiscal year 2012, in conjunction with the Plan, the Board of Directors authorized a $350.0 million return of capital to shareholders in the form of a share repurchase through fiscal year 2013. In fiscal year 2012, we repurchased and retired 4,494,000 shares of our common stock for $88.4 million.

In fiscal years 2011 and 2010, we repurchased and retired 8,391,000 shares and 1,496,000 shares, respectively, of our common stock for $200.0 million and $29.3 million, respectively. The shares repurchased and retired in fiscal years 2011 and 2010 were repurchased as part of previously announced share repurchase programs, which were completed in fiscal year 2011.

Note 12: Stock-Based Compensation

We currently have one shareholder-approved stock plan from which we can issue stock-based awards, which was approved by our shareholders in fiscal year 2008 (2008 Plan). The 2008 Plan replaced the 1992 Incentive and Nonqualified Stock Option Plan, the 1994 Stock Incentive Plan and the 1997 Stock Incentive Plan (collectively, the "Previous Plans"). The Previous Plans solely exist to satisfy outstanding options previously granted under those plans. The 2008 Plan permits the granting of stock awards to officers, members of the Board of Directors, employees and consultants. Awards under the 2008 Plan may include nonqualified stock options, incentive stock options, grants of conditioned or restricted stock, unrestricted grants of stock, grants of stock contingent upon the attainment of performance goals, deferred stock units and stock appreciation rights. A total of 47,010,000 shares are issuable under these plans, of which 4,600,000 shares were available for grant as of November 30, 2012.

We have adopted two stock plans for which the approval of shareholders was not required: the 2002 Nonqualified Stock Plan (2002 Plan) and the 2004 Inducement Stock Plan (2004 Plan). The 2002 Plan permits the granting of stock awards to non-executive officer employees and consultants. Executive officers and members of the Board of Directors are not eligible for awards under the 2002 Plan. Awards under the 2002 Plan may include nonqualified stock options, grants of conditioned or restricted stock, unrestricted grants of stock, grants of stock contingent upon the attainment of performance goals and stock appreciation rights. A total of 9,750,000 shares are issuable under the 2002 Plan, of which 510,000 shares were available for grant as of November 30, 2012.

The 2004 Plan is reserved for persons to whom we may issue securities as an inducement to become employed by us pursuant to the rules and regulations of the NASDAQ Stock Market. Awards under the 2004 Plan may include nonqualified stock options, grants of conditioned or restricted stock, unrestricted grants of stock, grants of stock contingent upon the attainment of

performance goals and stock appreciation rights. A total of 1,500,000 shares are issuable under the 2004 Plan, of which 578,000 shares were available for grant as of November 30, 2012.

Under all of our plans, the options granted prior to fiscal year 2005 generally vest over five years and have terms of ten years. The options granted from fiscal year 2005 through fiscal year 2010 generally vest over five years and have terms of seven years, and the options granted in fiscal year 2011 and 2012 vest over four years and have a term of seven years.

A summary of stock option activity under all the plans is as follows:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value [(1)] (in thousands)
Options outstanding, December 1, 2011	7,743	$19.77		
Granted	1,026	20.87		
Exercised	(1,488)	15.75		
Canceled	(2,077)	22.63		
Options outstanding, November 30, 2012	5,204	$19.99	2.38	$8,975
Exercisable, November 30, 2012	4,123	$19.47	1.88	$7,866
Vested or expected to vest, November 30, 2012	5,204	$19.99	2.38	$8,975

(1) The aggregate intrinsic value was calculated based on the difference between the closing price of our stock on November 30, 2012 of $20.11 and the exercise prices for all in-the-money options outstanding.

A summary of the status of our restricted stock units as of November 30, 2012 is as follows (in thousands, except per share data):

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock units outstanding, December 1, 2011	786	$23.51
Granted	1,120	19.90
Issued	(625)	21.89
Canceled	(297)	22.94
Restricted stock units outstanding, November 30, 2012	984	$20.60

Each restricted stock unit represents one share of common stock. The restricted stock units generally vest semi-annually over a three year period.

The fair value of outright stock awards, restricted stock awards, restricted stock units and DSUs is equal to the closing price of our common stock on the date of grant.

The 1991 Employee Stock Purchase Plan (ESPP) permits eligible employees to purchase up to an aggregate of 8,650,000 shares of our common stock through accumulated payroll deductions. The ESPP has a 27 month offering period comprised of nine three month purchase periods. The purchase price of the stock is equal to 85% of the lesser

of the market value of such shares at the beginning of a 27 month offering period or the end of each three month segment within such offering period. If the market price at any of the nine purchase periods is less than the market price on the first date of the 27 month offering period, subsequent to the purchase, the offering period is canceled and the employee is entered into a new 27 month offering period with the then current market price as the new base price. We issued 376,000 shares, 594,000 shares and 604,000 shares with weighted average purchase prices of $15.04, $11.52 and $10.28 per share, respectively, in fiscal years 2012, 2011 and 2010, respectively. At November 30, 2012, approximately 1,211,000 shares were available and reserved for issuance under the ESPP.

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We estimated the fair value of stock options and ESPP awards granted in fiscal years 2012, 2011 and 2010 on the measurement dates using the Black-Scholes option valuation model with the following weighted average assumptions:

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Stock options:			
Expected volatility	30.0 %	27.3 %	27.2 %
Risk-free interest rate	0.8 %	1.7 %	2.2 %
Expected life (in years)	4.8	4.8	4.8
Expected dividend yield	—	—	—
Employee stock purchase plan:			
Expected volatility	34.1 %	25.8 %	27.7 %
Risk-free interest rate	0.2 %	0.4 %	0.6 %
Expected life (in years)	1.5	1.6	1.5
Expected dividend yield	—	—	—

For each stock option award, the expected life in years is based on historical exercise patterns and post-vesting termination behavior. Expected volatility is based on historical volatility of our stock, and the risk-free interest rate is based on the U.S. Treasury yield curve for the period that is commensurate with the expected life at the time of grant. We currently do not pay cash dividends on our common stock and do not anticipate doing so for the foreseeable future. Accordingly, our expected dividend yield is zero.

For each ESPP award, the expected life in years is based on the period of time between the beginning of the offering period and the date of purchase, plus an additional holding period of three months. Expected volatility is based on historical volatility of the our stock, and the risk-free interest rate is based on the U.S. Treasury yield curve in effect at each purchase period.

Based on the above assumptions, the weighted average estimated fair value of stock options granted in fiscal years 2012, 2011 and 2010 was $5.66, $7.31 and $5.84 per share, respectively. We amortize the estimated fair value of stock options to expense over the vesting period using the straight-line method. The weighted average estimated fair value for shares issued under our ESPP in fiscal years 2012, 2011 and 2010 was $6.53, $6.44 and $5.97 per share, respectively. We amortize the estimated fair value of shares issued under the ESPP to expense over the vesting period using a graded vesting model.

Other reasonable assumptions about these factors could provide different estimates of fair value. Future changes in stock price volatility, life of options, interest rates and dividend practices, if any, may require changes in our assumptions, which could materially affect the calculation of fair value.

Total unrecognized stock-based compensation expense, net of expected forfeitures, related to unvested stock options and unvested restricted stock awards amounted to $20.4 million at November 30, 2012. These costs are expected to be recognized over a weighted average period of 2.2 years.

The following additional activity occurred under our plans (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Total intrinsic value of stock options on date exercised	$9,601	$31,566	$47,395

Total fair value of deferred stock units on date vested	114	40	—
Total fair value of restricted stock awards on date vested	—	—	131
Total fair value of restricted stock units on date vested	13,772	9,120	6,202

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

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Cost of software licenses	$9	$9	$16
Cost of maintenance and services	889	751	507
Sales and marketing	4,280	3,258	2,909
Product development	3,950	3,202	2,341
General and administrative	10,983	12,888	6,948
Restructuring	—	—	535
Stock-based compensation from continuing operations	20,111	20,108	13,256
Loss from discontinued operations	8,122	5,891	4,865
Total stock-based compensation	$28,233	$25,999	$18,121
Income tax benefit included in the provision for income taxes from continuing operations	$5,309	$5,319	$3,560

Separation and Divestiture Arrangements

During fiscal year 2011, we entered into an amendment to the existing severance agreement with Richard D. Reidy, our former President and Chief Executive Officer. The amendment was entered into in connection with the announcement that Mr. Reidy would terminate employment when his successor was named. Mr. Reidy continued as our President and Chief Executive Officer until his successor commenced employment on December 5, 2011.

The amendment entitled Mr. Reidy to severance and acceleration of vesting of Mr. Reidy’s unvested equity to the extent such equity would have vested during the twenty-four months following termination of employment. The amendment also provided for an extension of the period of time during which Mr. Reidy may exercise his vested stock options following his termination from three months to a total of fifteen months.

We recognized $4.6 million of stock-based compensation expense in fiscal year 2011 as a result of this arrangement. The expense was recorded in general and administrative expense on the consolidated statement of income.

During fiscal year 2012, the employment of three of our executives terminated, including our former Chief Financial Officer, Charles F. Wagner, Jr. As part of the separation agreements, the executives were entitled to accelerated vesting of certain stock-based awards. Due to the separation and accelerated vesting, we recognized additional stock-based compensation of $1.8 million, of which $0.9 million was recorded as general and administrative expense and $0.9 million was recorded as sales and marketing expense, in the consolidated statement of income.

During fiscal year 2012, we entered into transition agreements with certain employees of our non-Core product lines. As part of the transition agreements, the employees are entitled to accelerated vesting of stock-based awards if the employees remain employees of the company through the date their non-Core product line is divested. We recognized additional stock-based compensation of $1.3 million in the consolidated statement of income as a result of these agreements.

Note 13: Retirement Plan

We maintain a retirement plan covering all U.S. employees under Section 401(k) of the Internal Revenue Code. Company contributions to the plan are at the discretion of the Board of Directors and totaled approximately $2.9

million, $2.4 million and $4.6 million for fiscal years 2012, 2011 and 2010, respectively.

Note 14: Restructuring

2012 Restructuring

In the second quarter of fiscal 2012, as part of the Plan, our management approved, committed to and initiated certain operational restructuring initiatives to reduce annual costs, including the simplification of our organizational structure and the consolidation of facilities. In addition, as part of the Plan, we are divesting our non-Core product lines. Our restructuring actions include both our cost reduction efforts and qualifying costs associated with our divestitures.

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

As part of the 2012 restructuring, we incurred expenses in the fiscal year 2012 totaling $19.0 million, of which $2.6 million represents excess facilities and other costs and $16.4 million represents employee severances and related benefits. We have recorded $8.1 million as restructuring expenses and $10.9 million as income (loss) from discontinued operations in the consolidated statement of income. We expect to incur additional costs through the first half of fiscal year 2013. The total cost of the 2012 restructuring is expected to be approximately $5.1 million for excess facilities and other costs and approximately $16.8 million for employee severance and related benefits.

A summary of activity for the 2012 restructuring actions is as follows (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2011	$—	$—	$—
Costs incurred	2,644	16,367	19,011
Cash disbursements	(1,136)	(9,997)	(11,133)
Asset impairment	(898)	—	(898)
Translation adjustments and other	(7)	59	52
Balance, November 30, 2012	$603	$6,429	$7,032

Cash disbursements under the 2012 restructuring are expected to be made through the first three quarters of fiscal year 2013. The short-term portion of the restructuring reserve of $6.9 million is included in other accrued liabilities and the long-term portion of $0.1 million is included in other noncurrent liabilities on the consolidated balance sheet at November 30, 2012.

2010 Restructuring

During the first and third quarters of fiscal year 2010, our management approved, committed to and initiated plans to restructure and improve efficiencies in our operations as a result of certain management and organizational changes and acquisitions. We reduced our global workforce primarily within the development, sales and administrative organizations. This workforce reduction was conducted across all geographies and also resulted in a consolidation of offices in certain locations. The total costs of the fiscal year 2010 restructurings primarily relate to employee severance and excess facilities expenses. The excess facilities and other costs represent facilities costs for unused space and termination costs for automobile leases of employees included in the workforce reduction.

As part of the 2010 restructuring activities, we recorded cumulative expenses totaling $43.3 million, of which $8.0 million represents excess facilities and other costs and $35.3 million represents employee severances and related benefits. We do not expect to incur additional expenses related to these activities. The expenses are recorded as restructuring expense in the consolidated statements of income, with the exception of those costs related to our discontinued operations, which are included in income (loss) from discontinued operations.

A summary of activity for the 2010 restructuring actions is as follows (in thousands):

	Excess Facilities and Other Costs	Employee Severance and Related Benefits	Total
Balance, December 1, 2011	$4,913	$698	$5,611
Costs incurred	(1,269)	—	(1,269)
Cash disbursements	(3,878)	(412)	(4,290)
Translation adjustments and other	234	(11)	223
Balance, November 30, 2012	$—	$275	$275

Cash disbursements for excess facilities costs are presented net of proceeds received from sublease agreements. In fiscal year 2012, we entered into an agreement with the landlord to terminate a lease we had restructured. The termination payment was less than our estimated costs of future rent, less our sublease assumptions, and resulted in a reversal of restructuring expenses of $1.3 million, which is included in income (loss) from discontinued operations.

The balance of the employee severance and related benefits is expected to be paid over a period of time ending in June 2013. The restructuring reserve of $0.3 million is included in other accrued liabilities on the consolidated balance sheet at November 30, 2012.

Note 15: Income Taxes

The components of income from continuing operations before income taxes are as follows (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
U.S.	$31,469	$84,218	$82,575
Foreign	18,167	16,504	12,659
Total	$49,636	$100,722	$95,234

The provision for income taxes from continuing operations is comprised of the following (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Current:			
Federal	$5,779	$20,283	$17,080
State	883	2,017	2,452
Foreign	5,970	5,131	5,392
Total current	12,632	27,431	24,924
Deferred:			
Federal	5,047	6,116	8,329
State	45	277	274
Foreign	(692)	556	(861)
Total deferred	4,400	6,949	7,742
Total	$17,032	$34,380	$32,666

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A reconciliation of the U.S. Federal statutory rate to the effective tax rate from continuing operations is as follows:

	Fiscal Year Ended November 30, 2012	November 30, 2011	November 30, 2010
Tax at U.S. Federal statutory rate	35.0 %	35.0 %	35.0 %
Foreign rate differences	(1.3)	1.1	(0.7)
State income taxes, net	(0.2)	1.6	2.5
Research credits	(0.1)	(1.4)	(0.2)
Domestic production activities deduction	(2.1)	(2.0)	(1.5)
Tax-exempt interest	(0.4)	(0.2)	(0.2)
Nondeductible stock-based compensation	4.5	1.7	1.8
Nonrecurring benefit from change in estimate from earnings and profits	—	—	(3.5)
Other	(1.1)	(1.6)	1.0
Total	34.3 %	34.2 %	34.2 %

The components of deferred tax assets and liabilities are as follows (in thousands):

	November 30, 2012	November 30, 2011
Deferred tax assets:		
Accounts receivable	$768	$1,230
Other current assets	786	780
Capitalized research costs	231	1,360
Accrued compensation	4,657	3,258
Accrued liabilities and other	10,527	9,018
Deferred revenue	129	1,540
Stock-based compensation	8,122	8,908
Depreciation and amortization	5,533	—
Tax credit and loss carryforwards	39,216	54,350
Gross deferred tax assets	69,969	80,444
Valuation allowance	(14,316)	(23,734)
Total deferred tax assets	55,653	56,710
Deferred tax liabilities:		
Goodwill	(13,819)	(10,629)
Depreciation and amortization	—	(3,795)
Total deferred tax liabilities	(13,819)	(14,424)
Total	$41,834	$42,286

The valuation allowance primarily applies to net operating loss carryforwards and unutilized tax credits in jurisdictions or under conditions where realization is not assured. The $9.4 million decrease in the valuation allowance during fiscal year 2012 primarily relates to the partial release of valuation allowances on state credit carryforwards, which will be utilized to offset certain gains on our dispositions.

At November 30, 2012, we have net operating loss carryforwards of $75.1 million expiring on various dates through 2029 and $16.2 million that may be carried forward indefinitely. At November 30, 2012, we have tax credit carryforwards of approximately $12.5 million expiring on various dates through 2031 and $0.2 million that may be carried forward indefinitely.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions across our global operations. We recognize and record potential tax liabilities for anticipated tax audit issues in various tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. We adjust these reserves in light of changing facts and circumstances; however, due to the complexity of some of these

uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. If our estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in income tax benefits being recognized in the period when we determine the liabilities are no longer necessary.

A reconciliation of the balance of our unrecognized tax benefits is as follows (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Balance, beginning of year	$2,631	$2,294	$3,914
Tax positions related to current year	79	445	442
Settlements with tax authorities	—	—	(1,736)
Tax positions acquired	—	—	200
Lapses due to expiration of the statute of limitations	(518)	(108)	(526)
Balance, end of year	$2,192	$2,631	$2,294

We recognize interest and penalties related to uncertain tax positions as a component of our provision for income taxes. In fiscal year 2012 there was no estimated interest and penalties recorded in the provision for income taxes. In fiscal years 2011 and 2010 there was $0.1 million and $0.1 million, respectively, of estimated interest and penalties in the provision for income taxes. We have accrued $0.3 million of estimated interest and penalties at November 30, 2012 and 2011. We expect unrecognized tax benefits to change over the next 12 months if certain tax matters ultimately settle with the applicable taxing jurisdiction during this time frame, or if the applicable statute of limitations lapses. The impact to our previously recorded unrecognized tax benefits could range from $0.2 million to $1.3 million as a result of these matters.

We have not provided for U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries, as these earnings have been permanently reinvested. The cumulative undistributed foreign earnings were approximately $33.2 million at November 30, 2012. There is no unrecognized deferred tax liability for temporary differences related to these earnings at November 30, 2012 due to foreign tax credits available to offset the liability.

The Internal Revenue Service is currently examining our U.S. Federal income tax returns for fiscal years 2009 and 2010. Our U.S. Federal income tax returns have been examined or are closed by statute for all years prior to fiscal year 2009, and we are no longer subject to audit for those periods. State taxing authorities are currently examining our income tax returns for years through fiscal year 2010. Our state income tax returns have been examined or are closed by statute for all years prior to fiscal year 2005, and we are no longer subject to audit for those periods.

Tax authorities for certain non-U.S. jurisdictions are also examining returns affecting unrecognized tax benefits, none of which are material to our consolidated balance sheets, cash flows or statements of income. With some exceptions, we are generally no longer subject to tax examinations in non-U.S. jurisdictions for years prior to fiscal year 2007.

Note 16: Earnings Per Share

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

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Income from continuing operations	$32,604	$66,342	$62,568
Weighted average shares outstanding	62,881	65,705	63,957
Dilutive impact from common stock equivalents	860	1,835	2,255
Diluted weighted average shares outstanding	63,741	67,540	66,212
Basic earnings per share from continuing operations	$0.52	$1.01	$0.98
Diluted earnings per share from continuing operations	$0.51	$0.98	$0.94

We excluded stock awards representing approximately 4,115,000 shares, 2,208,000 shares, and 3,870,000 shares of common stock from the calculation of diluted earnings per share in the fiscal years ended November 30, 2012, 2011 and 2010, respectively, because these awards were anti-dilutive.

Note 17: Business Segments and International Operations

Operating segments, as defined under GAAP, are components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and assess performance. We internally report results to our chief operating decision maker on both a product group basis and a functional basis. Our product groups represent our reportable segments for financial reporting purposes. We assign dedicated costs and expenses directly to each segment and utilize an allocation methodology to assign all other costs and expenses, primarily general and administrative, to each segment. We do not manage our assets or capital expenditures by segment or assign other income and income taxes to segments. We manage and report such items on a consolidated company basis. Our chief operating decision maker is our Chief Executive Officer.

In the third quarter of fiscal year 2012, as part of the Plan, we changed the structure of our internal organization and the way we manage our business. As a result of the change, our internal reporting was organized into the following segments, each of which meet the criteria of a reportable segment: (1) the Core segment, which includes the OpenEdge, DataDirect Connect and Decision Analytics (comprised of Apama, Corticon and the Progress Control Tower) product lines; and (2) the non-Core segment, which includes the Actional, Artix, DataXtend, FuseSource, ObjectStore, Orbacus, Orbix, Savvion, Shadow and Sonic product lines. The segment information for the prior periods presented has been restated to reflect the change in our reportable segments.

As of November 30, 2012, all of the non-Core product lines are included in discontinued operations (Note 7). As a result, the revenue and direct expenses of the non-Core product lines have been presented in income (loss) from discontinued operations and excluded from our segment results presented in the tables below. The indirect expenses required to operate the non-Core segment, which are not directly related to any of the product lines within the non-Core segment and therefore would not qualify for discontinued operations classification, continue to be presented in the non-Core segment. The indirect expenses of the non-Core segment will be absorbed by the Core segment or otherwise reduced as we complete our divestitures.

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The following table provides revenue and income from operations for our reportable segments (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Revenue:			
Core segment	$335,205	$360,704	$351,610
Non-Core segment	—	—	—
Total revenue	$335,205	$360,704	$351,610
Income (loss) from operations:			
Core segment	$111,276	$161,900	$173,662
Non-Core segment	(27,030)	(32,306)	(39,149)
Unallocated items:			
Amortization of acquired intangibles	(2,221)	(3,566)	(8,583)
Stock-based compensation	(20,111)	(20,108)	(12,721)
Transition expenses	—	(760)	(352)
Restructuring expenses	(8,100)	(3,383)	(22,711)
Acquisition-related expenses	(215)	(536)	—
Stock option investigation expense	—	—	1,330
Litigation settlement	(900)	—	—
Proxy contest-related costs	(3,259)	—	—
Total income from operations	$49,440	$101,241	$91,476

Unallocated items are excluded from segment income from operations, as such amounts are not deducted from internal measurements of income from operations and are not allocated to our reportable segments.

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

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Software licenses	$113,270	$125,966	$125,680
Maintenance	208,846	217,372	209,073
Professional services	13,089	17,366	16,857
Total	$335,205	$360,704	$351,610

In the following table, revenue attributed to North America includes sales to customers in the U.S. and Canada and licensing to certain multinational organizations, substantially all of which is invoiced from the U.S. Revenue from Europe, the Middle East and Africa (EMEA), Latin America and the Asia Pacific region includes shipments to customers in each region, not including certain multinational organizations, plus export shipments into each region that are billed from the U.S. Information relating to revenue from external customers from different geographical areas is as follows (in thousands):

	Fiscal Year Ended		
	November 30, 2012	November 30, 2011	November 30, 2010
North America	$146,374	$146,572	$142,046

EMEA	131,151	153,206	146,643
Latin America	31,407	34,349	36,302
Asia Pacific	26,273	26,577	26,619
Total	$335,205	$360,704	$351,610

Revenue from the United Kingdom totaled $35.7 million, $43.4 million and $39.7 million for fiscal years 2012, 2011 and 2010, respectively. No other country outside of the U.S. accounted for more than 10% of our consolidated revenue in any year presented. Long-lived assets totaled $57.9 million, $59.6 million and $54.7 million in the U.S. and $5.2 million, $6.6 million and $7.8 million outside of the U.S. at the end of fiscal years 2012, 2011 and 2010, respectively. No individual country outside of the U.S. accounted for more than 10% of our consolidated long-lived assets.

Note 18: Selected Quarterly Financial Data (unaudited)

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal year 2012:				
Revenue	$87,213	$78,404	$78,317	$91,271
Gross profit	76,562	67,804	67,092	80,184
Income from operations	19,221	6,122	8,405	15,692
Income from continuing operations	11,949	4,527	5,353	10,775
Net income (loss)	7,489	(1,908)	5,838	36,025
Basic earnings per share from continuing operations	0.19	0.07	0.08	0.17
Diluted earnings per share from continuing operations	0.19	0.07	0.08	0.17
Fiscal year 2011:				
Revenue	$87,524	$90,955	$88,681	$93,544
Gross profit	76,656	79,207	77,037	82,536
Income from operations	23,823	27,566	21,430	28,422
Income from continuing operations	16,263	18,432	14,426	17,221
Net income	20,476	17,919	9,059	12,175
Basic earnings per share from continuing operations	0.24	0.28	0.22	0.27
Diluted earnings per share from continuing operations	0.23	0.27	0.21	0.27

In the third quarter of fiscal 2012, in connection with the filing of our Federal income tax return, we undertook a review of our income taxes payable. As part of the review, we identified errors relating to prior fiscal year financial statements. The errors relate to improper entries to income taxes payable as part of accounting for uncertain tax positions, purchase accounting, accounting for deferred tax assets and return to provision adjustments and had the cumulative impact of overstating income taxes payable, goodwill, deferred tax assets and the provision for income taxes in prior periods.

The errors are immaterial to all annual and quarterly periods previously presented. However, because the cumulative impact of the errors would have been significant to the current period consolidated statement of income if corrected in the current period, we have corrected the prior period financial statements to reflect the corrections in the periods they occurred (see "Adjustment" in the tables below).

The effect of the corrections on the selected quarterly financial data for the year ended November 30, 2011, is as follows (in thousands, except per share data; per share data may not foot due to rounding):

	Income from continuing operations	Net income	Basic earnings per shares from continuing operations	Diluted earnings per share from continuing operations
First quarter:				
As previously reported	$—	$20,521	$—	$—
Impact of discontinued operations	16,308	—	0.24	0.23
Adjustment	(45)	(45)	—	—
As corrected	$16,263	$20,476	$0.24	$0.23
Second quarter:				
As previously reported	$—	$17,960	$—	$—
Impact of discontinued operations	18,473	—	0.28	0.27
Adjustment	(41)	(41)	—	—
As corrected	$18,432	$17,919	$0.28	$0.27
Third quarter:				
As previously reported	$—	$8,601	$—	$—
Impact of discontinued operations	13,968	—	0.21	0.21
Adjustment	458	458	0.01	0.01
As corrected	$14,426	$9,059	$0.22	$0.21
Fourth quarter:				
As previously reported	$—	$11,679	$—	$—
Impact of discontinued operations	16,725	—	0.27	0.26
Adjustment	496	496	0.01	0.01
As corrected	$17,221	$12,175	$0.27	$0.27

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Our management maintains disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), as appropriate, to allow for timely decisions regarding required disclosure.

Our management, including the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective to ensure that the information required to be disclosed in the reports filed or submitted by us under the Securities Exchange Act of 1934 was recorded, processed, summarized and reported within the requisite time periods and that such information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure. As discussed below, we determined we had a material weakness in our internal control over financial reporting because we failed to maintain effective controls necessary to ensure all terms and conditions being agreed to by our sales personnel with our customers and partners were properly documented within our contractual arrangements with such customers and partners.

(b) Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of November 30, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on our assessment we believe that as of November 30, 2012, our internal control over financial reporting was not effective based on those criteria.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Based on this definition, management concluded that the following material weakness existed:

At November 30, 2012, we determined that we had not designed and implemented the controls necessary to ensure that all terms and conditions being agreed to by our sales personnel with our customers and partners were properly

documented within our contractual arrangements with such customers and partners, resulting in improper recognition of revenue. Specifically, our sales organizations in our Asia Pacific and Central EMEA regions did not take sufficient steps to ensure that all details of agreements with our customers and partners were provided to those individuals making revenue recognition decisions. We determined that as a result of this deficiency, the timing of revenue recognized was improper on certain transactions that were immaterial to our financial statements. We believe the foregoing deficiency has resulted in more than a reasonable possibility that a material misstatement of our interim or annual financial statements would not have been prevented or detected.

Specific remediation actions taken by management in fiscal year 2012 regarding the foregoing material weakness in internal control over financial reporting include the following:

- The employment with the company of the sales representatives and the former regional sales directors involved in the above described transactions has terminated; and
- The implementation of a formalized and centralized deal review process in Asia Pacific and EMEA to which individuals within our sales, finance, revenue operations, credit and collections and legal functions participate.

Deloitte & Touche LLP, our independent registered public accounting firm, which audited our consolidated financial statements, has issued an attestation report on our internal control over financial reporting, which is included in this Item 9A below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Progress Software Corporation
Bedford, Massachusetts

We have audited Progress Software Corporation's and subsidiaries' (the "Company's") internal control over financial reporting as of November 30, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or

detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment:

The Company did not design and implement the controls necessary to ensure that all terms and conditions being agreed to by sales personnel with customers and partners were properly documented within the contractual arrangements with such customers and partners, resulting in the improper recognition of revenue.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended November 30, 2012, of the Company and this report does not affect our report on such financial statements.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of November 30, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended November 30, 2012, of the Company and our report dated January 29, 2013 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding discontinued operations.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
January 29, 2013

(c) Changes in internal control over financial reporting

Except as noted above, there were no changes in our internal control over financial reporting during the quarter ended November 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(d) Planned remediation efforts

Planned remediation efforts regarding the material weakness described above include the following:

- Expansion of the existing sales employee certification process and the withholding of commission payments to sales employees until all certifications have been received;
- Deal-specific certifications from sales employees;
- Directed and more frequent communication from senior management regarding inappropriate business arrangements and grounds for termination;
- Improved training for sales and other employees, with a focus on revenue recognition; and
- Improved communication within the sales organization to reinforce adherence to our policies and procedures.

Management is committed to the remediation efforts identified above, and will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate. The results of the remediation activities and new controls will be tested as part of our review of internal control over financial reporting for fiscal year 2013.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item 10 with respect to our directors and executive officers, including the qualifications of the members of the Audit Committee of our Board of Directors, may be found in the sections captioned, “Proposal 1—Election of Directors,” “Committees of the Board,” “Certain Relationships” and “Section 16(a) Beneficial Ownership Reporting Compliance” appearing in our definitive Proxy Statement for the 2013 Annual Meeting of Shareholders. This information is incorporated herein by reference.

Executive and Other Key Officers of the Registrant

The following table sets forth certain information regarding our executive and other key officers.

Name	Age	Position
Joseph A. Andrews	56	Senior Vice President, Human Resources
Antonio J. Aquilina	45	Senior Vice President, Strategy and Corporate Development
John Bates	42	Chief Technology Officer and Decision Analytics Business Line Leader
Michael Benedict	40	Vice President, Data Connectivity Business Line Leader
David A. Benson	53	Executive Vice President and Chief Information Officer
Melissa H. Cruz*	50	Senior Vice President, Finance and Administration and Chief Financial Officer
Stephen H. Faberman	43	Vice President, General Counsel
John P. Goodson	48	Senior Vice President, Product Engineering
Karen Padir	44	Senior Vice President, Application Development Business Line Leader
Philip M. Pead*	60	President and Chief Executive Officer
Jennifer Smith	37	Vice President, Chief Marketing Officer
Andy Zupsic*	50	Senior Vice President, Global Field Operations

* Denotes Executive Officer

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

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

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

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

Mr. Benson became Executive Vice President and Chief Information Officer in April 2010. Mr. Benson joined us in June 2009 as Senior Vice President and Chief Information Officer. Prior to joining us, Mr. Benson served as Senior Vice President, Chief Information Officer for News Corporation, a diversified media and entertainment company, from May 2003 to August 2008.

Ms. Cruz became Senior Vice President, Finance and Administration and Chief Financial Officer in July 2012. Prior to joining us, from January 2007 to August 2010, Ms. Cruz was Executive Vice President and Chief Financial Officer of Picis, Inc., which was acquired by United Health Group. Ms. Cruz remained with United Heath Group as the Chief Financial Officer of the Picis business unit until July 2011. From September 2005 to January 2007, Ms. Cruz was Senior Vice President and Chief Financial Officer of BladeLogic, Inc. In December 2012, Ms. Cruz informed us that

she intended to retire as Senior Vice President, Finance and Administration and Chief Financial Officer in 2013, upon the appointment of her successor. In January 2013, we announced that Chris Perkins would be appointed Senior Vice President, Finance and Administration and Chief Financial Officer in February 2013.

Mr. Faberman became Vice President, General Counsel in December 2012. Prior to that, from October 2012 to December 2012, Mr. Faberman was Vice President, Acting General Counsel, and from January 2012 to October 2012, Mr. Faberman was Vice President, Deputy General Counsel. Mr. Faberman joined us in May 2008 as Associate General Counsel and was promoted to Deputy General Counsel in September 2010. Prior to joining us, from November 2007 to May 2008, Mr.

Faberman was Of Counsel at Greenberg Traurig. From October 2003 to March 2007, Mr. Faberman was Vice President, Corporate Counsel at Heritage Property Investment Trust.

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

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

Mr. Pead became President and Chief Executive Officer in December 2012. Prior to that, from November 2012 to December 2012, Mr. Pead was Executive Chairman and Interim Chief Executive Officer. Prior to that, Mr. Pead had been a director since July 2011. Mr. Pead was formerly the Chairman of the Board of Directors of Allscripts Heath Solutions, which merged with Eclipsys Corporation in August 2010, where Mr. Pead was the President and Chief Executive Officer. From March 2007 to May 2009, Mr. Pead served as the Managing Partner of Beacon Point Partners LLC. Mr. Pead served as President and Chief Executive Officer of Per-Se Technologies Inc. from November 2000 until its acquisition by McKesson Corporation in January 2007.

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

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

Board of Directors

The following information is provided with respect to the members of our Board of Directors:

Barry N. Bycoff
Former Executive Chairman
Progress Software Corporation

John R. Egan
Non-Executive Chairman
Managing Partner
Egan-Managed Capital

Ram Gupta
Former President and Chief Executive Officer
CAST Iron Systems, Inc.

Charles F. Kane
Strategic Advisor and Director
One Laptop per Child

David A. Krall
Former President and Chief Executive Officer
Avid Technology, Inc.

Michael L. Mark
Director
Progress Software Corporation

Philip M. Pead
President and Chief Executive Officer
Progress Software Corporation

Code of Conduct

We have adopted a Code of Conduct that applies to all employees and directors. A copy of the Code of Conduct is publicly available on our website at www.progress.com. If we make any substantive amendments to the Code of Conduct or grant any waiver, including any implicit waiver, from the Code of Conduct to our executive officers or directors, we will disclose the nature of such amendment or waiver in a Current Report on Form 8-K.

Item 11. Executive Compensation

The information required by this Item 11 with respect to director and executive compensation may be found under the headings captioned “Director Compensation,” “Compensation Discussion and Analysis” and “Executive Compensation” in our definitive Proxy Statement for the 2013 Annual Meeting of Shareholders. This information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item 12 with respect to security ownership and our equity compensation plans may be found under the headings captioned “Information About Progress Software Common Stock Ownership” and “Equity Compensation Plan Information” in our definitive Proxy Statement for the 2013 Annual Meeting of Shareholders. This information is incorporated herein by reference.

Information related to securities authorized for issuance under equity compensation plans as of November 30, 2012 is as follows (in thousands, except per share data):

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights		Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance	
Equity compensation plans approved by shareholders [1]	3,908	(2)	$19.57	5,811	(3)
Equity compensation plans not approved by shareholders [4]	1,296		21.26	1,088	
Total	5,204		$19.99	6,899	

(1) Consists of the 1992 Incentive and Nonqualified Stock Option Plan, 1994 Stock Incentive Plan, 1997 Stock Incentive Plan, 2008 Stock Option and Incentive Plan and 1991 Employee Stock Purchase Plan (ESPP).

(2) Does not include purchase rights accruing under the ESPP because the purchase price (and therefore the number of shares to be purchased) will not be determined until the end of the purchase period.

(3) Includes 1,211,000 shares available for future issuance under the ESPP.
(4) Consists of the 2002 Nonqualified Stock Plan and the 2004 Inducement Plan described below.

We have adopted two equity compensation plans, the 2002 Nonqualified Stock Plan (2002 Plan) and the 2004 Inducement Stock Plan (2004 Plan), for which the approval of shareholders was not required. We intend that the 2004 Plan be reserved for persons to whom we may issue securities as an inducement to become employed by us pursuant to the rules and regulations of NASDAQ. Executive officers and members of the Board of Directors are not eligible for awards under the 2002 Plan. An executive officer would be eligible to receive an award under the 2004 Plan only as an inducement to join us. Awards under the 2002 Plan and the 2004 Plan may include nonqualified stock options, grants of conditioned stock, unrestricted grants of stock, grants of stock contingent upon the attainment of performance goals and stock appreciation rights. A total of 11,250,000 shares are issuable under the two plans, of which, 1,088,000 shares are available for future issuance.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 may be found under the headings “Independence,” “Review of Transactions with Related Persons” and “Transactions with Related Persons” in our definitive Proxy Statement for the 2013 Annual Meeting of Shareholders. This information is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this Item 14 may be found under the heading “Information About Our Independent Registered Public Accounting Firm” in our definitive Proxy Statement for the 2013 Annual Meeting of Shareholders. This information is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents Filed as Part of this Annual Report on Form 10-K

1. Financial Statements (included in Item 8 of this Annual Report on Form 10-K):

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of November 30, 2012 and 2011
- Consolidated Statements of Income for the years ended November 30, 2012, 2011 and 2010
- Consolidated Statements of Shareholders’ Equity for the years ended November 30, 2012, 2011 and 2010
- Consolidated Statements of Cash Flows for the years ended November 30, 2012, 2011 and 2010
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Financial statement schedules are omitted as they are either not required or the information is otherwise included in the consolidated financial statements.

(b) Exhibits

Documents listed below, except for documents followed by parenthetical numbers, are being filed as exhibits. Documents followed by parenthetical numbers are not being filed herewith and, pursuant to Rule 12b-32 of the General Rules and Regulations promulgated by the SEC under the Securities Exchange Act of 1934 (the Act), reference is made to such documents as previously filed as exhibits with the SEC. Our file number under the Act is 0-19417.

3.1	Restated Articles of Organization, as amended (1)
3.2	By-Laws, as amended and restated (2)
4.1	Specimen certificate for the Common Stock (3)
10.1*	1992 Incentive and Nonqualified Stock Option Plan (4)
10.2*	1994 Stock Incentive Plan (5)
10.3*	1997 Stock Incentive Plan, as amended and restated
10.4*	Employee Retention and Motivation Agreement as amended and restated, executed by each of the Executive Officers (other than the Chief Executive Officer) (6)
10.5*	2002 Nonqualified Stock Plan, as amended and restated (7)

10.6*	2004 Inducement Stock Plan, as amended and restated (8)
10.7*	Progress Software Corporation 1991 Employee Stock Purchase Plan, as amended and restated (9)
10.8*	Progress Software Corporation 2008 Stock Option and Incentive Plan, as amended and restated (10)
10.9*	Form of Notice of Grant of Stock Options and Grant Agreement under the Progress Software Corporation 2008 Stock Option and Incentive Plan (11)
10.10*	Progress Software Corporation Corporate Executive Bonus Plan
10.11*	Progress Software Corporation 2012 Fiscal Year Non-Employee Directors Compensation Program

10.12*	Form of Deferred Stock Unit Agreement under the Progress Software Corporation 2008 Stock Option and Incentive Plan (12)
10.13*	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under the Progress Software Corporation 2008 Stock Option and Incentive Plan (Initial Grant) (13)
10.14*	Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under the Progress Software Corporation 2008 Stock Option and Incentive Plan (Annual Grant) (14)
10.15.1*	Employment Letter Agreement, dated May 12, 2009, by and between Progress Software Corporation and Barry N. Bycoff regarding the terms of Mr. Bycoff's employment as Executive Chairman of the Board of Directors of Progress Software Corporation (15)
10.15.2*	Letter Agreement, dated January 15, 2010, by and between Progress Software Corporation and Barry N. Bycoff regarding the extension of Mr. Bycoff's employment as Executive Chairman of the Board of Directors of Progress Software Corporation (16)
10.16*	Employment Letter, dated as of May 12, 2009, between Progress Software Corporation and Richard D. Reidy (17)
10.17*	Amended and Restated Employee Retention and Motivation Agreement, dated as of October 13, 2009, by and between Progress Software Corporation and Richard D. Reidy (18)
10.18*	Severance Agreement, dated as of October 13, 2009, between Progress Software Corporation and Richard D. Reidy (19)
10.18.1*	Letter Agreement, dated July 31, 2011, amending Separation Agreement, dated as of October 13, 2009, between Progress Software Corporation and Richard D. Reidy (20)
10.19*	Separation Agreement, dated as of June 30, 2009, between Progress Software Corporation and Joseph W. Alsop (21)
10.20*	Form of Restricted Stock Unit Agreement under the Progress Software Corporation 2008 Stock Option and Incentive Plan (22)
10.21*	Separation Agreement, dated as of March 31, 2010, between Progress Software Corporation and Jeffrey Stamen (23)
10.22*	Employment Letter, dated as of October 15, 2010, by and between Progress Software Corporation and Charles F. Wagner, Jr. (24)
10.23*	Letter Agreement, dated November 12, 2010, by and between Progress Software Corporation and Norman R. Robertson (25)
10.24*	Employment Agreement, dated as of December 5, 2011, by and between Progress Software Corporation and Jay H. Bhatt (26)
10.25*	Employee Retention and Motivation Agreement, dated as of December 5, 2011, by and between Progress Software Corporation and Jay H. Bhatt (27)
10.26*	Form of Executive Severance Agreement, executed by each of the Executive Officers other than the Chief Executive Officer (28)
10.27*	Credit Agreement, dated as of August 15, 2011, by and among Progress Software Corporation, each of the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, N.A. and RBS Citizens, N.A., as Syndication Agents, and J.P. Morgan Securities LLC, as Sole Bookrunner and Sole Lead Arranger (29)
10.28*	Separation Agreement, dated March 22, 2012, between Progress Software Corporation and Charles F. Wagner, Jr. (30)
10.29*	Employment Agreement, dated July 10, 2012, by and between Progress Software Corporation and Melissa H. Cruz (31)
10.30*	Employment Agreement, dated December 7, 2012, by and between Progress Software Corporation and Philip M. Pead (32)
10.31*	Employee Retention and Motivation Agreement, dated as of December 7, 2012, by and between Progress Software Corporation and Philip M. Pead (33)
10.32*	

	Employment Agreement, dated January 1, 2013, by and between Progress Software Corporation and Chris E. Perkins (34)
21.1	List of Subsidiaries of the Registrant
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Philip M. Pead
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Melissa H. Cruz
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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101**	The following materials from Progress Software Corporation's Annual Report on Form 10-K for the year ended November 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of November 30, 2012 and 2011, (ii) Consolidated Statements of Income for the years ended November 30, 2012, 2011 and 2010, (iii) Consolidated Statements of Shareholders' Equity for the years ended November 30, 2012, 2011 and 2010, and (iv) Consolidated Statements of Cash Flows for the years ended November 30, 2012, 2011 and 2010.

(1) Incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K for the year ended November 30, 2011.
(2) Incorporated by reference to Exhibit 3.1 of Form 8-K filed September 22, 2008.
(3) Incorporated by reference to Exhibit 4.1 of our Annual Report on Form 10-K for the year ended November 30, 2011.
(4) Incorporated by reference to Exhibit 10.1 of our Annual Report on Form 10-K for the year ended November 30, 2009.
(5) Incorporated by reference to Exhibit 10.2 of our Annual Report on Form 10-K for the year ended November 30, 2009.
(6) Incorporated by reference to Exhibit 10.1 of Form 8-K filed January 6, 2009.
(7) Incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended February 28, 2010.
(8) Incorporated by reference to Exhibit 10.3 of our Quarterly Report on Form 10-Q for the quarter ended February 28, 2010.
(9) Incorporated by reference to Annex B to our definitive Proxy Statement filed April 20, 2012.
(10) Incorporated by reference to Annex A to our definitive Proxy Statement filed March 26, 2010.
(11) Incorporated by reference to Exhibit 10.2 of Form 8-K filed on April 28, 2008.
(12) Incorporated by reference to Exhibit 10.5 of Form 8-K filed on April 28, 2008
(13) Incorporated by reference to Exhibit 10.3 of Form 8-K filed on April 28, 2008.
(14) Incorporated by reference to Exhibit 10.4 of Form 8-K filed on April 28, 2008.
(15) Incorporated by reference to Exhibit 10.21 to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2009.
(16) Incorporated by reference to Exhibit 10.16.2 to our Annual Report on Form 10-K for the year ended November 30, 2009.
(17) Incorporated by reference to Exhibit 10.22 to our Quarterly Report on Form 10-Q for the quarter ended May 31, 2009.
(18) Incorporated by reference to Exhibit 10.2 of Form 8-K/A filed on October 19, 2009.
(19) Incorporated by reference to Exhibit 10.1 of Form 8-K/A filed on October 19, 2009.
(20) Incorporated by reference to Exhibit 10.2 of Form 8-K filed on August 1, 2011.
(21) Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended August 30, 2009.
(22) Incorporated by reference to Exhibit 10.21 to our Annual Report on Form 10-K for the year ended November 30, 2009
(23) Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended February 28, 2010.
(24) Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 12, 2010.
(25) Incorporated by reference to Exhibit 10.3 to Form 8-K filed on November 12, 2010.
(26) Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 28, 2011.
(27)

Incorporated by reference to Exhibit 10.2 to Form 8-K filed on November 28, 2011.

(28) Incorporated by reference to Exhibit 10.1 to Form 8-K filed on December 8, 2011.
(29) Incorporated by reference to Exhibit 10.1 to Form 8-K filed on August 18, 2011.
(30) Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended February 29, 2012.
(31) Incorporated by reference to Exhibit 10.1 to Form 8-K filed on July 20, 2012.
(32) Incorporated by reference to Exhibit 10.1 to Form 8-K filed on December 13, 2012.
(33) Incorporate by reference to Exhibit 10.2 to Form 8-K filed on December 13, 2012
(34) Incorporated by reference to Exhibit 10.1 to Form 8-K filed on January 8, 2013.

* Management contract or compensatory plan or arrangement in which an executive officer or director of Progress Software participates.

** Pursuant to Rule 406T of Regulations S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(c) Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown on the financial statements or notes hereto.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 29th day of January, 2013.

PROGRESS SOFTWARE CORPORATION

By: /s/ PHILIP M. PEAD
Philip M. Pead
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ PHILIP M. PEAD Philip M. Pead	President and Chief Executive Officer (Principal Executive Officer)	January 29, 2013
/s/ MELISSA H. CRUZ Melissa H. Cruz	Senior Vice President, Finance and Administration and Chief Financial Officer (Principal Financial Officer)	January 29, 2013
/s/ PAUL A. JALBERT Paul A. Jalbert	Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)	January 29, 2013
/s/ BARRY N. BYCOFF Barry N. Bycoff	Director	January 29, 2013
/s/ JOHN R. EGAN John R. Egan	Non-Executive Chairman	January 29, 2013
/s/ RAM GUPTA Ram Gupta	Director	January 29, 2013
/s/ CHARLES F. KANE Charles F. Kane	Director	January 29, 2013
/s/ DAVID A. KRALL David A. Krall	Director	January 29, 2013
/s/ MICHAEL L. MARK Michael L. Mark	Director	January 29, 2013

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